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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2023**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

Commission file number 001-41633

**Burke & Herbert Financial Services Corp.**

(Exact name of registrant as specified in its charter)

**Virginia**  
(State or other jurisdiction of incorporation or organization)

**100 S. Fairfax Street, Alexandria, Virginia**  
(Address of principal executive offices)

**92-0289417**  
(I.R.S. Employer Identification No.)

**22314**  
(Zip Code)

**703-666-3555**  
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading symbol	Name of Exchange on which registered
Common Stock, par value \$0.50 per share	BHRB	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 9, 2023, there were 7,428,710 shares of the registrant's common stock outstanding.

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**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I - Financial Information</u></b>	<b><u>1</u></b>
<a href="#">Item 1. Financial Statements</a>	<a href="#">1</a>
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">43</a>
<a href="#">Item 3. Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">68</a>
<a href="#">Item 4. Controls and Procedures</a>	<a href="#">70</a>
<b><u>Part II - Other Information</u></b>	<b><u>71</u></b>
<a href="#">Item 1. Legal Proceedings</a>	<a href="#">71</a>
<a href="#">Item 1A. Risk Factors</a>	<a href="#">71</a>
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">76</a>
<a href="#">Item 3. Defaults Upon Senior Securities</a>	<a href="#">76</a>
<a href="#">Item 4. Mine Safety Disclosures</a>	<a href="#">76</a>
<a href="#">Item 5. Other Information</a>	<a href="#">76</a>
<a href="#">Item 6. Exhibits</a>	<a href="#">77</a>
<a href="#">Signatures</a>	<a href="#">78</a>

**Part I - Financial Information**

**Item 1. Financial Statements**

Burke & Herbert Financial Services Corp. Consolidated Financial Statements:

	<b>Page</b>
<a href="#">Consolidated Balance Sheets as of September 30, 2023 (Unaudited), and December 31, 2022</a>	<a href="#">2</a>
<a href="#">Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2023, and September 30, 2022 (Unaudited)</a>	<a href="#">3</a>
<a href="#">Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2023, and September 30, 2022 (Unaudited)</a>	<a href="#">4</a>
<a href="#">Consolidated Statements of Changes in Shareholders' Equity for the Three and Nine Months Ended September 30, 2023, and September 30, 2022 (Unaudited)</a>	<a href="#">5</a>
<a href="#">Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2023, and September 30, 2022 (Unaudited)</a>	<a href="#">7</a>
<a href="#">Notes to the Consolidated Financial Statements (Unaudited)</a>	<a href="#">9</a>

**Burke & Herbert Financial Services Corp.**  
**Consolidated Balance Sheets**  
(In thousands, except share and per share data)

	September 30, 2023 (Unaudited)	December 31, 2022 (Audited)
<b>Assets</b>		
Cash and due from banks	\$ 9,063	\$ 9,124
Interest-earning deposits with banks	32,801	41,171
Cash and cash equivalents	41,864	50,295
Securities available-for-sale, at fair value	1,224,395	1,371,757
Restricted stock, at cost	7,247	16,443
Loans held-for-sale, at fair value	3,011	—
Loans	2,070,616	1,887,221
Allowance for credit losses	(26,111)	(21,039)
Net loans	2,044,505	1,866,182
Premises and equipment, net	57,514	53,170
Accrued interest receivable	15,597	15,481
Company-owned life insurance	94,213	92,487
Other assets	96,842	97,083
<b>Total Assets</b>	<b>\$ 3,585,188</b>	<b>\$ 3,562,898</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Non-interest-bearing deposits	\$ 853,385	\$ 960,692
Interest-bearing deposits	2,132,233	1,959,708
Total deposits	2,985,618	2,920,400
Borrowed funds	299,000	343,100
Accrued interest and other liabilities	29,751	25,945
<b>Total Liabilities</b>	<b>3,314,369</b>	<b>3,289,445</b>
Commitments and contingent liabilities (see Note 10)		
<b>Shareholders' Equity</b>		
Preferred Stock, \$1.00 par value per share; 2,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock	4,000	4,000
\$0.50 par value; 20,000,000 shares authorized and 8,000,000 issued at September 30, 2023, and December 31, 2022; 7,428,710 shares outstanding at September 30, 2023, and 7,425,760 shares outstanding at December 31, 2022		
Additional paid-in capital	13,818	12,282
Retained earnings	426,744	424,391
Accumulated other comprehensive income (loss)	(146,159)	(139,495)
Treasury stock	(27,584)	(27,725)
571,290 shares, at cost, at September 30, 2023, and 574,240 shares, at cost, at December 31, 2022		
<b>Total Shareholders' Equity</b>	<b>270,819</b>	<b>273,453</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,585,188</b>	<b>\$ 3,562,898</b>

See Notes to Consolidated Financial Statements.

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Income**  
(In thousands, except share and per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Interest income</b>				
Loans, including fees	\$ 26,425	\$ 18,618	\$ 74,485	\$ 52,486
Taxable securities	8,909	8,171	28,130	20,101
Tax-exempt securities	1,376	2,334	4,243	7,224
Other interest income	562	142	1,858	248
<b>Total interest income</b>	<b>37,272</b>	<b>29,265</b>	<b>108,716</b>	<b>80,059</b>
<b>Interest expense</b>				
Deposits	11,277	954	26,708	1,723
Borrowed funds	3,078	1,614	10,495	2,506
Other interest expense	28	17	58	48
<b>Total interest expense</b>	<b>14,383</b>	<b>2,585</b>	<b>37,261</b>	<b>4,277</b>
<b>Net interest income</b>	<b>22,889</b>	<b>26,680</b>	<b>71,455</b>	<b>75,782</b>
Provision for (recapture of) credit losses	235	(2,388)	964	(7,564)
<b>Net interest income after credit loss expense</b>	<b>22,654</b>	<b>29,068</b>	<b>70,491</b>	<b>83,346</b>
<b>Non-interest income</b>				
Fiduciary and wealth management	1,354	1,328	3,996	3,995
Service charges and fees	1,583	1,736	4,959	5,130
Net gains (losses) on securities	(1)	(41)	(112)	63
Income from company-owned life insurance	589	555	1,720	1,634
Other non-interest income	764	683	2,565	2,050
<b>Total non-interest income</b>	<b>4,289</b>	<b>4,261</b>	<b>13,128</b>	<b>12,872</b>
<b>Non-interest expense</b>				
Salaries and wages	9,867	10,094	29,283	29,240
Pensions and other employee benefits	2,242	2,017	7,116	5,957
Occupancy	1,462	1,151	4,464	4,306
Equipment rentals, depreciation and maintenance	1,435	1,534	4,231	4,296
Other operating	7,417	5,156	19,042	15,686
<b>Total non-interest expense</b>	<b>22,423</b>	<b>19,952</b>	<b>64,136</b>	<b>59,485</b>
Income before income taxes	4,520	13,377	19,483	36,733
Income tax expense	464	2,240	1,869	6,073
<b>Net income</b>	<b>\$ 4,056</b>	<b>\$ 11,137</b>	<b>\$ 17,614</b>	<b>\$ 30,660</b>
Earnings per common share:				
Basic	\$ 0.55	\$ 1.50	\$ 2.37	\$ 4.13
Diluted	0.55	1.49	2.35	4.11

See Notes to Consolidated Financial Statements.

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(In thousands, except share and per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Net income</b>	\$ 4,056	\$ 11,137	\$ 17,614	\$ 30,660
Other comprehensive income (loss), net of tax:				
<u>Unrealized gains (losses) on securities:</u>				
Unrealized gain (loss) arising during period, net of tax of \$5,392 and \$11,375 for the three months ended September 30, 2023, and September 30, 2022, respectively, net of tax of \$2,212 and \$40,638 for the nine months ended September 30, 2023, and September 30, 2022, respectively	(20,285)	(42,793)	(8,322)	(152,878)
Reclassification adjustment for loss (gain) on securities, net of tax of \$— and (\$9) for the three months ended September 30, 2023, and September 30, 2022, respectively, net of tax of (\$23) and \$13 for the nine months ended September 30, 2023 and September 30, 2022, respectively	—	33	88	(49)
Reclassification adjustment for loss (gain) on fair value hedge, net of tax of \$9 and \$— for the three months ended September 30, 2023, and September 30, 2022, respectively, net of tax of (\$224) and \$— for the nine months ended September 30, 2023, and September 30, 2022, respectively	(32)	—	842	—
<u>Unrealized gain (loss) on cash flow hedge:</u>				
Unrealized holding gain (loss) on cash flow hedge, net of tax of \$10 and \$174 for the three months ended September 30, 2023, and September 30, 2022, respectively, net of tax of \$71 and \$404 for the nine months ended September 30, 2023, and September 30, 2022, respectively	(38)	(654)	(267)	(1,519)
Reclassification adjustment for losses (gains) included in net income, net of tax (\$99) and (\$15) for the three months ended September 30, 2023, and September 30, 2022, respectively, net of tax of (\$264) and \$23 for the nine months ended September 30, 2023, and September 30, 2022, respectively	373	58	995	(86)
Total other comprehensive income (loss)	(19,982)	(43,356)	(6,664)	(154,532)
<b>Comprehensive income (loss)</b>	<b>\$ (15,926)</b>	<b>\$ (32,219)</b>	<b>\$ 10,950</b>	<b>\$ (123,872)</b>

See Notes to Consolidated Financial Statements.

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Three Months Ended September 30, 2023 and 2022**  
(In thousands, except share and per share data)  
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity
	Shares Outstanding	Amount					
<b>Balance June 30, 2023</b>	7,428,710	\$ 4,000	\$ 13,208	\$ 426,625	\$ (126,177)	\$ (27,584)	\$ 290,072
Net income				4,056			4,056
Other comprehensive income (loss)					(19,982)		(19,982)
(Purchase) sale of treasury stock, net							—
Cash dividends, declared				(3,937)			(3,937)
Share-based compensation expense, net			610				610
<b>Balance September 30, 2023</b>	<u>7,428,710</u>	<u>\$ 4,000</u>	<u>\$ 13,818</u>	<u>\$ 426,744</u>	<u>\$ (146,159)</u>	<u>\$ (27,584)</u>	<u>\$ 270,819</u>
<b>Balance June 30, 2022</b>	7,425,760	\$ 4,000	\$ 11,313	\$ 407,772	\$ (104,221)	\$ (27,726)	\$ 291,138
Net income				11,137			11,137
Other comprehensive income (loss)					(43,356)		(43,356)
(Purchase) sale of treasury stock, net							—
Cash dividends, declared				(3,936)			(3,936)
Share-based compensation expense, net			488				488
<b>Balance September 30, 2022</b>	<u>7,425,760</u>	<u>\$ 4,000</u>	<u>\$ 11,801</u>	<u>\$ 414,973</u>	<u>\$ (147,577)</u>	<u>\$ (27,726)</u>	<u>\$ 255,471</u>

See Notes to Consolidated Financial Statements.

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Nine Months Ended September 30, 2023 and 2022**  
**(In thousands, except share and per share data)**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Shareholders' Equity
	Shares Outstanding	Amount					
<b>Balance December 31, 2022</b>	7,425,760	\$ 4,000	\$ 12,282	\$ 424,391	\$ (139,495)	\$ (27,725)	\$ 273,453
Cumulative effect adjustment due to the adoption of CECL, net of tax				(3,439)			(3,439)
Net income				17,614			17,614
Other comprehensive income (loss)					(6,664)		(6,664)
(Purchase) sale of treasury stock, net	2,950					141	141
Cash dividends, declared				(11,809)			(11,809)
Share-based compensation expense, net			1,536	(13)			1,523
<b>Balance September 30, 2023</b>	7,428,710	\$ 4,000	\$ 13,818	\$ 426,744	\$ (146,159)	\$ (27,584)	\$ 270,819
<b>Balance December 31, 2021</b>	7,423,760	\$ 4,000	\$ 10,374	\$ 396,120	\$ 6,955	\$ (27,822)	\$ 389,627
Net income				30,660			30,660
Other comprehensive income (loss)					(154,532)		(154,532)
(Purchase) sale of treasury stock, net	2,000					96	96
Cash dividends, declared				(11,807)			(11,807)
Share-based compensation expense, net			1,427				1,427
<b>Balance September 30, 2022</b>	7,425,760	\$ 4,000	\$ 11,801	\$ 414,973	\$ (147,577)	\$ (27,726)	\$ 255,471

See Notes to Consolidated Financial Statements.

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Cash Flows**  
(In thousands, except share and per share data)  
(Unaudited)

	Nine Months Ended September 30,	
	2023	2022
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 17,614	\$ 30,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	2,050	2,259
Amortization of housing tax credits	4,194	4,610
Realized loss (gain) on sales of available-for-sale securities	112	(63)
Provision for (recapture of) credit losses	964	(7,564)
Income from company-owned life insurance	(1,720)	(1,634)
Deferred tax (benefit)	(2,101)	755
Loss on disposal of fixed assets	—	24
Accretion of securities	(1,210)	(1,099)
Amortization of securities	6,922	8,646
Share-based compensation expense	1,798	1,492
Repayment of operating lease liabilities	(2,393)	(1,700)
(Gain) on loans held-for-sale	(79)	(58)
Proceeds from sale of loans held-for-sale	7,243	9,526
Change in fair value of loans held-for-sale	6	23
Originations of loans held-for-sale	(10,181)	(2,300)
(Increase) in accrued interest receivable	(117)	(78)
Decrease in other assets	2,904	2,022
Increase in accrued interest payable and other liabilities	6,329	3,129
Net cash flows provided by operating activities	\$ 32,335	\$ 48,650
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturities, prepayments, and calls of securities available-for-sale, net	76,053	164,574
Proceeds from sale of securities available-for-sale, net	77,780	142,475
Purchases of securities available-for-sale, net	(23,321)	(355,542)
Sales of restricted stock	27,447	15,038
Purchases of restricted stock	(18,250)	(13,932)
Purchases of property and equipment, net of disposals	(6,394)	(21,965)
(Purchase of) company-owned life insurance	(6)	(6)
(Increase) in loans made to customers, net	(183,395)	(15,958)
Net cash flows (used in) investing activities	\$ (50,086)	\$ (85,316)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in non-interest-bearing accounts	(107,307)	49,867
Net increase (decrease) in interest-bearing accounts	172,525	(5,624)
(Decrease) in other short-term borrowings	(44,100)	(32,000)
Repayment of finance lease liabilities	(130)	(113)
Cash dividends paid	(11,809)	(11,807)
Sale of treasury stock	141	96
Net cash flows provided by financing activities	\$ 9,320	\$ 419
Increase in cash and cash equivalents	(8,431)	(36,247)
Cash and cash equivalents		
Beginning of period	50,295	77,363
End of period	\$ 41,864	\$ 41,116

**Burke & Herbert Financial Services Corp.**  
**Consolidated Statements of Cash Flows**  
**(In thousands, except share and per share data)**  
**(Unaudited)**

**Supplemental Disclosures of Cash Flow Information**

Cash payments for:			
Interest paid to depositors	\$	25,454	\$ 1,480
Interest paid on other borrowed funds		6,860	1,995
Interest paid on finance lease		58	48
Income taxes		445	550
Change in unrealized gains on available-for-sale securities		(10,422)	(193,580)
Lease liability arising from obtaining right-of-use assets		1,214	758
Transfers from portfolio loans to loans held-for-sale		—	19,594
Financing of sale from loan held-for-sale		—	9,000

**See Notes to Consolidated Financial Statements.**

## **Note 1— Nature of Business Activities and Significant Accounting Policies**

### **Nature of operations**

Burke & Herbert Financial Services Corp. (“Burke & Herbert”) was organized as a Virginia corporation on September 14, 2022, to serve as the holding company for Burke & Herbert Bank & Trust Company (“the Bank”), together referred to as the “Company”. The Company commenced operations as a bank holding company on October 1, 2022, following a reorganization transaction in which it became the Bank’s holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of the Company. In September 2023, the Company elected to be a financial holding company. As a financial holding company, the Company is subject to regulation and supervision by the Federal Reserve. The Company has no material operations and owns 100% of the Bank. The Bank is a Virginia chartered commercial bank that commenced operations in 1852. The Bank is supervised and regulated by the Federal Deposit Insurance Corporation (the “FDIC”) and the Bureau of Financial Institutions of the Virginia State Corporation Commission (the “Virginia BFI”).

The Bank’s primary market area includes northern Virginia, and it has 23 branches throughout the Northern Virginia region and commercial loan offices in Fredericksburg, Loudoun County, and Richmond, Virginia, and in Bethesda, Maryland. The Company’s branch locations accept business and consumer deposits from a diverse customer base. The Company’s deposit products include checking, savings, and term certificate accounts. The Company’s loan portfolio includes commercial and consumer loans, a substantial portion of which are secured by real estate.

### **Pending Merger with Summit Financial Group, Inc.**

On August 24, 2023, the Company and Summit Financial Group, Inc. (“Summit”), entered into an Agreement and Plan of Reorganization and Plan of Merger pursuant to which Summit will merge with and into Burke & Herbert, with Burke & Herbert as the continuing corporation (the “merger”). Immediately following the merger, Summit Community Bank, Inc., a West Virginia banking corporation (“SCB”) and a wholly-owned direct subsidiary of Summit, will merge with and into Burke & Herbert Bank & Trust Company, a Virginia banking corporation and a wholly-owned direct subsidiary of Burke & Herbert, with the Bank as the continuing bank (the “bank merger,” and together with the merger, the “mergers”). In the merger, Summit shareholders will receive 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they own (the “exchange ratio”), subject to the payment of cash in lieu of fractional shares. In addition, each share of Summit series 2021 preferred stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive one share of a newly created series of Burke & Herbert preferred stock having rights, preferences, privileges and voting powers and limitations and restrictions thereof that are not materially less or more favorable to the holders of the Summit series 2021 preferred stock. Completion of the mergers is subject to receipt of the requisite approvals of the Company’s and Summit’s stockholders, receipt of all required regulatory approvals, and fulfillment of other customary closing conditions.

### **Basis of Presentation**

The accompanying consolidated financial statements include Burke & Herbert Financial Services Corp. and its wholly owned subsidiary Burke & Herbert Bank & Trust Company and have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial reporting and with applicable quarterly reporting regulations of the U.S. Securities and Exchange Commission (“SEC”). The accounting and reporting policies of the Company conform to GAAP and reflect practices of the banking industry. They do not include all of the information and notes required by GAAP for complete financial statements. As such, these unaudited financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ending December 31, 2022, included in the Company’s Registration Statement on Form 10 filed with the SEC on February 28, 2023, as amended on April 4, 2023, April 20, 2023, and April 21, 2023, and as declared as effective by the SEC on April 21, 2023.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions between the Company and the Bank have been eliminated. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the

**Note 1— Nature of Business Activities and Significant Accounting Policies (continued)**

reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results to be expected for any other interim period or for the full year. All amounts and disclosures included in this quarterly report as of December 31, 2022, were derived from the Company's audited consolidated financial statements. Certain items in the prior period have been reclassified to conform to the current presentation. These reclassifications had no effect on prior year net income or on shareholders' equity.

**Adoption of new accounting standards**

Derivatives and Hedging

On March 28, 2022, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2022-01, Derivatives and Hedging (Topic 815): *Fair Value Hedging - Portfolio Layer Method*. The purpose of this updated guidance is to further align risk management objectives with hedge accounting results on the application of the last-of-layer method, which was first introduced in ASU 2017-02, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2022-01 is effective for public business entities for fiscal years beginning after December 15, 2022. ASU 2022-01 requires a modified retrospective transition method for basis adjustments in which the entity will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company adopted this ASU on January 1, 2023; therefore, there was no impact to the consolidated financial statements.

Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASC 326"), as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The CECL methodology requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, as well as future forecasts including reasonable and supportable forecasts and other forecast periods. CECL generally applies to financial assets measured at amortized cost and some off-balance sheet credit exposures, such as unfunded commitments to extend credit. Financial assets measured at amortized cost are presented as the net amount expected to be collected.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of the new CECL standard resulted in a cumulative-effect adjustment that increased the allowance for credit losses for loans by \$4.1 million and increased the allowance for unfunded commitments by \$274.8 thousand. Retained earnings, net of deferred taxes, decreased by \$3.4 million. Results for reporting periods beginning after January 1, 2023,

**Note 1— Nature of Business Activities and Significant Accounting Policies (continued)**

are presented under ASU 2016-13, while prior period amounts continue to be reported in accordance with the incurred loss model under the previously applicable GAAP.

The following table illustrates the impact of the adoption of CECL, and the transition away from the incurred loss method, on January 1, 2023. The impact to the allowance for credit losses (“ACL”) is presented at the loan segment level (in thousands):

	January 1, 2023		
	Reserves under Incurred Loss Model	Reserves under CECL Model	Impact of CECL Adoption
<b>Financial Assets:</b>			
Commercial real estate	\$ 15,477	\$ 18,163	\$ 2,686
Owner-occupied commercial real estate	635	629	(6)
Acquisition, construction & development	2,082	1,442	(640)
Commercial & industrial	438	675	237
Single family residential (1-4 units)	2,379	4,040	1,661
Consumer non-real estate and other	28	215	187
Unallocated reserve	—	—	—
Allowance for credit losses on loans	\$ 21,039	\$ 25,164	\$ 4,125
<b>Financial Liabilities:</b>			
Allowance for credit losses on off-balance sheet credit exposure	\$ —	\$ 275	\$ 275

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. The Company did not record an ACL for securities upon adoption.

The Company elected not to measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on non-accrual status, which generally occurs when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

On January 1, 2023, the Company adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326), *Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 addresses areas identified by the FASB as part of its implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings (“TDRs”) by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, the amendments require that the Company disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted the standard prospectively, and it did not have a material impact on the financial statements.

**Allowance for credit losses - available-for-sale debt securities**

Management evaluates all available-for-sale (“AFS”) debt securities in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. The Company first assesses whether it intends to sell or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income.

For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If

**Note 1— Nature of Business Activities and Significant Accounting Policies (continued)**

the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as credit loss expense (or recapture). Losses are charged against the allowance when management believes the uncollectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At September 30, 2023, there was no ACL related to the AFS security portfolio. Refer to [Note 2 - Securities](#) in Notes to the Consolidated Financial Statements.

**Allowance for credit losses - loans**

The ACL represents an amount, which, in management's judgment, reflects expected credit losses in the loan portfolio at the balance sheet date. The estimate for expected credit losses is based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions, and prepayment experience as related to credit contractual term information. The ACL is measured and recorded upon the initial recognition of a financial asset. The ACL is reduced by charge-offs, net of recoveries of previous losses, and is increased or decreased by a provision for (or recapture of) credit losses, which is recorded in the Consolidated Statements of Income.

The ACL for expected credit losses is determined based on a quantitative assessment of two categories of loans: collectively evaluated loans and individually evaluated loans. In addition, the ACL also includes a qualitative component which adjusts the CECL model for risk factors that are not considered within the CECL model, but are relevant in assessing the expected credit losses within the loan portfolio.

The Company is using a remaining useful life or weighted average remaining maturity ("WARM") methodology to estimate its current expected credit losses. For purposes of calculating reserves in collectively evaluated loans, the ACL calculation segments the Company's loan portfolio using federal call codes to group loans which share similar risk characteristics. In order to generate reasonable and supportable forecasts of loss rates over a two-year period, the ACL calculation utilizes macroeconomic variable loss drivers, which may include aggregate macroeconomic indicators pertaining to such items as equity market conditions or interest rates, as well as other variables that are portfolio-specific, such as those that pertain to the commercial real estate or residential loan portfolios. A straight-line reversion technique is used for the following four quarters, and in following quarters, the ACL calculation reverts to historical average loss rates.

Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond information used to calculate reasonable and supportable, reversion and post-reversion period forecasts on collectively evaluated loans. As the reasonable and supportable and reversion period forecasts reflect the use of the macroeconomic variable loss drivers, management may consider that an additional or reduced reserve is warranted through qualitative risk factors based on current and expected conditions, including those that utilize supplemental information relative to the macroeconomic variable loss drivers. Qualitative risk factors considered by management include the following:

- Nature and volume of loans;
- Concentrations of credit;
- Delinquency trends;
- Experience, ability, and depth of management and lending staff; and
- Quality of loan review system.

Loans that do not share similar risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation for the ACL. Loans identified to be individually evaluated under CECL include loans on non-accrual status and may include accruing loans that do not share similar risk characteristics to other accruing loans collectively evaluated. A specific reserve analysis is applied to the individually evaluated loans, which considers collateral value, an observable

**Note 1— Nature of Business Activities and Significant Accounting Policies (continued)**

market price, or the present value of the expected future cash flows. A specific reserve may be assigned if the measured value of the loan using one of the before mentioned methods is less than the current carrying value of the loan.

Under CECL, for collateral-dependent loans, the Company has adopted the practical expedient to measure the ACL based on the fair value of the collateral. A loan is considered collateral-dependent when the Company determines foreclosure is probable or the borrower is experiencing financial difficulty and the Company expects repayment to be provided substantially through the operation or sale of the collateral. Collateral could be in the form of real estate, equipment, or business assets. An ACL may result for a collateral-dependent loan if the fair value of the underlying collateral, as of the reporting date, adjusted for expected costs to repair or sell, was less than the amortized cost basis of the loan. If repayment of the loan is instead dependent only on the operation, rather than the sale of the collateral, the measure of the ACL does not incorporate estimated costs to sell. For loans analyzed on the basis of projected future principal and interest cash flows, the Company will discount the expected cash flows at the effective interest rate of the loan, and an ACL would result if the present value of the expected cash flows was less than the amortized cost basis of the loan. When the discounted cash flow method is used to determine the ACL, management does not adjust the effective interest rate used to discount cash flows to incorporate expected prepayments.

**Allowance for credit losses on off-balance sheet credit exposures**

On a quarterly basis, the Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is adjusted through the provision for credit losses on the Consolidated Statements of Income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life by loan segment at each balance sheet date under the CECL model using the same methodology as the loan portfolio. The ACL for unfunded commitments is included in accrued interest and other liabilities on the Company's Consolidated Balance Sheets.

**Accrued Interest Receivable**

The Company has elected to exclude accrued interest from the amortized cost basis in its determination of the ACL and elected the policy to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable totaled \$8.3 million on loans and totaled \$7.6 million on AFS securities at September 30, 2023, and is included in accrued interest receivable on the Company's Consolidated Balance Sheets.

**Note 2— Securities**

The carrying amount of AFS securities and their approximate fair values at September 30, 2023, and December 31, 2022, are summarized as follows (in thousands):

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. Treasuries and government agencies	\$ 197,310	\$ —	\$ 24,328	\$ 172,982
Obligations of states and municipalities	536,885	7	107,413	429,479
Residential mortgage backed - agency	47,494	—	5,658	41,836
Residential mortgage backed - non-agency	307,763	4	25,659	282,108
Commercial mortgage backed - agency	36,874	20	1,355	35,539
Commercial mortgage backed - non-agency	181,844	—	8,500	173,344
Asset-backed	82,811	11	1,650	81,172
Other	9,500	—	1,565	7,935
<b>Total</b>	<b>\$ 1,400,481</b>	<b>\$ 42</b>	<b>\$ 176,128</b>	<b>\$ 1,224,395</b>

**Note 2— Securities (continued)**

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. Treasuries and government agencies	\$ 198,154	\$ —	\$ 23,161	\$ 174,993
Obligations of states and municipalities	550,590	12	96,695	453,907
Residential mortgage backed - agency	57,883	14	4,836	53,061
Residential mortgage backed - non-agency	365,983	2	26,690	339,295
Commercial mortgage backed - agency	61,810	75	1,952	59,933
Commercial mortgage backed - non-agency	191,709	10	8,420	183,299
Asset-backed	101,791	49	3,214	98,626
Other	9,500	—	857	8,643
<b>Total</b>	<b>\$ 1,537,420</b>	<b>\$ 162</b>	<b>\$ 165,825</b>	<b>\$ 1,371,757</b>

At September 30, 2023, and December 31, 2022, AFS securities with amortized costs of \$831.0 million and \$637.1 million, respectively, and with estimated fair values of \$709.3 million and \$552.5 million, respectively, were pledged to serve as collateral for secured borrowings, derivative exposures, or to secure public deposits as required or permitted by law.

The gross realized gains, realized losses, and proceeds from the sales of securities for the nine months ended September 30, 2023, and September 30, 2022, were as follows (in thousands):

	September 30, 2023	September 30, 2022
Gross realized gains	\$ 772	\$ 1,117
Gross realized losses	(884)	(1,054)
Proceeds from sales of securities	77,780	142,475

The tax benefit (provision) related to these net realized gains and losses for September 30, 2023, and September 30, 2022, was \$23.5 thousand, and (\$13.2) thousand, respectively.

The maturities of AFS securities at September 30, 2023, were as follows (in thousands): (Expected maturities of securities not due at a single maturity date are based on average life at estimated prepayment speed. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay some obligations with or without call or prepayment penalties).

	September 30, 2023				
	Amortized Cost				Total
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	
<b>Securities Available-for-Sale</b>					
U.S. Treasuries and government agencies	\$ 29,802	\$ 78,123	\$ 89,385	\$ —	\$ 197,310
Obligations of states and municipalities	370	15,989	234,600	285,926	536,885
Residential mortgage backed - agency	42	808	46,644	—	47,494
Residential mortgage backed - non-agency	72,280	137,888	95,182	2,413	307,763
Commercial mortgage backed - agency	165	19,531	17,178	—	36,874
Commercial mortgage backed - non-agency	13,613	163,088	5,143	—	181,844
Asset-backed	8,247	41,248	33,316	—	82,811
Other	—	—	9,500	—	9,500
<b>Total</b>	<b>\$ 124,519</b>	<b>\$ 456,675</b>	<b>\$ 530,948</b>	<b>\$ 288,339</b>	<b>\$ 1,400,481</b>

**Note 2— Securities (continued)**

	September 30, 2023				
	Fair Value				
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
<b>Securities Available-for-Sale</b>					
U.S. Treasuries and government agencies	\$ 29,203	\$ 67,674	\$ 76,105	\$ —	\$ 172,982
Obligations of states and municipalities	370	14,290	195,558	219,261	429,479
Residential mortgage backed - agency	42	778	41,016	—	41,836
Residential mortgage backed - non-agency	69,814	129,486	80,461	2,347	282,108
Commercial mortgage backed - agency	165	18,990	16,384	—	35,539
Commercial mortgage backed - non-agency	13,220	156,187	3,937	—	173,344
Asset-backed	8,178	40,695	32,299	—	81,172
Other	—	—	7,935	—	7,935
<b>Total</b>	<b>\$ 120,992</b>	<b>\$ 428,100</b>	<b>\$ 453,695</b>	<b>\$ 221,608</b>	<b>\$ 1,224,395</b>

At September 30, 2023, and December 31, 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of shareholders' equity.

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2023, and December 31, 2022.

AFS securities in a continuous unrealized loss position for less than twelve months and more than twelve months are as follows (in thousands):

	September 30, 2023				
	Less Than Twelve Months		More Than Twelve Months		Total Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>Securities Available-for-Sale</b>					
U.S. Treasuries and government agencies	\$ —	\$ —	\$ 172,982	\$ 24,328	\$ 24,328
Obligations of states and municipalities	1,708	125	424,139	107,288	107,413
Residential mortgage backed - agency	37	1	41,798	5,657	5,658
Residential mortgage backed - non-agency	12,875	542	268,477	25,117	25,659
Commercial mortgage backed - agency	249	2	34,725	1,353	1,355
Commercial mortgage backed - non-agency	13,671	103	158,968	8,397	8,500
Asset-backed	13,080	47	58,198	1,603	1,650
Other	6,252	1,249	1,683	316	1,565
<b>Total</b>	<b>\$ 47,872</b>	<b>\$ 2,069</b>	<b>\$ 1,160,970</b>	<b>\$ 174,059</b>	<b>\$ 176,128</b>

**Note 2— Securities (continued)**

	December 31, 2022				
	Less Than Twelve Months		More Than Twelve Months		Total Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
<b>Securities Available-for-Sale</b>					
U.S. Treasuries and government agencies	\$ 28,399	\$ 1,131	\$ 146,594	\$ 22,030	\$ 23,161
Obligations of states and municipalities	128,373	12,378	320,287	84,317	96,695
Residential mortgage backed - agency	7,258	26	41,975	4,810	4,836
Residential mortgage backed - non-agency	204,866	11,822	134,056	14,868	26,690
Commercial mortgage backed - agency	23,026	562	34,847	1,390	1,952
Commercial mortgage backed - non-agency	144,193	6,171	23,374	2,249	8,420
Asset-backed	43,472	815	50,088	2,399	3,214
Other	6,877	623	1,766	234	857
<b>Total</b>	<b>\$ 586,464</b>	<b>\$ 33,528</b>	<b>\$ 752,987</b>	<b>\$ 132,297</b>	<b>\$ 165,825</b>

The Company is required to conduct an impairment evaluation on AFS securities to determine whether the Company has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Company to reduce the security's amortized cost basis down to its fair value through earnings. The Company also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor.

This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost, an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under the CECL standard, and declines due to non-credit factors are recorded in accumulated other comprehensive income ("AOCI"), net of taxes. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in accumulated other comprehensive income, net of taxes, in the consolidated statements of financial condition. Prior to implementation of the CECL standard, unrealized losses caused by a credit event would require the direct write-down of the AFS security through the other-than-temporary impairment approach.

The Company did not record an ACL on the AFS securities at September 30, 2023. The Company considers the unrealized losses on the AFS securities to be related to fluctuations in market conditions, primarily interest rates, and not reflective of deterioration in credit. The Company had 403 securities in an unrealized loss position as of September 30, 2023. The Company has evaluated AFS securities in an unrealized loss position for credit-related impairment at September 30, 2023, and concluded no impairment existed based on a combination of factors, which included: (1) the securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) the contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the par value of each investment, (4) issuers continue to make timely principal and interest payments, and (5) the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis. As such, there was no ACL on AFS securities at September 30, 2023.

**Securities of U.S. Treasury and Federal Agencies and Federal Agency Mortgage (Residential and Commercial) Backed Securities**

At September 30, 2023, the unrealized losses associated with 12 U.S. Treasuries and Government Agency securities, 16 Residential Mortgage Backed – Agency securities, and 17 Commercial Mortgage Backed – Agency securities were generally driven by changes in interest rates and not due to credit losses given the explicit or implicit guarantees provided

**Note 2— Securities (continued)**

by the U.S. government. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2023.

**Securities of U.S. States and Municipalities**

At September 30, 2023, the unrealized losses associated with 203 State and Municipal securities were primarily caused by changes in interest rates and not the credit quality of the securities. These securities are investment grade and were generally underwritten in accordance with our own investment standards prior to the decision to purchase, without relying on a bond insurer's guarantee in making the investment decision. These securities will continue to be monitored as part of our ongoing impairment analysis but are expected to perform, even if the rating agencies reduce the credit rating of the bond insurers. As a result, we expect to recover the entire amortized cost basis of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2023.

**Residential & Commercial Mortgage Backed – Non-Agency Securities**

At September 30, 2023, the unrealized losses associated with 96 Residential Mortgage Backed – Non-Agency securities and 33 Commercial Mortgage Backed – Non-Agency securities were generally driven by changes in interest rates, credit spreads, and projected collateral losses. We assess for credit impairment by estimating the present value of expected cash flows. The key assumptions for determining expected cash flows include default rates, loss severities, and/or prepayment rates. Based on our assessment of the expected credit losses and the credit enhancement level of the securities, we expect to recover the entire amortized cost of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2023.

**Asset-Backed Securities**

At September 30, 2023, the unrealized losses associated with 23 Asset-Backed securities were generally driven by changes in interest rates, credit spreads, and projected collateral losses. We assess for credit impairment by estimating the present value of expected cash flows. The key assumptions for determining expected cash flows include default rates, loss severities, and/or prepayment rates. Based on our assessment of the expected credit losses and the credit enhancement level of the securities, we expect to recover the entire amortized cost of these securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2023.

**Other Securities**

At September 30, 2023, the unrealized losses associated with 3 securities were primarily driven by interest rates and not the credit quality of the securities. These investments were underwritten in accordance with our own investment standards prior to the decision to purchase, without relying on a bond insurer's guarantee in making the investment decision. Based on our assessment of the expected credit losses, we expect to recover the entire amortized cost basis of the securities. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at September 30, 2023.

***Restricted stock, at cost***

The Company's investment in Federal Home Loan Bank ("FHLB") stock totaled \$7.2 million and \$16.4 million at September 30, 2023, and December 31, 2022, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider this investment to be impaired at September 30, 2023, and no impairment has been recognized. FHLB stock is included in a separate line item Restricted stock, at cost on the Consolidated Balance Sheets and is not part of the Company's AFS securities portfolio. The Company's Restricted stock line item on the Consolidated Balance Sheets also includes an investment in Community Bankers' Bank, totaling \$50 thousand at both September 30, 2023, and December 31, 2022, which is carried at cost and is not impaired at September 30, 2023.

**Note 3— Loans**

The Company's loan portfolio segments, as reported in the tables below, include (i) commercial real estate (ii) owner-occupied commercial real estate (iii) acquisition, construction & development (iv) commercial & industrial (v) single family residential (1-4 units) and (vi) consumer non-real estate and other. The risks associated with lending activities differ

**Note 3— Loans (continued)**

among the various loan segments and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions.

- Commercial real estate loans carry risk associated with either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral. Other risk factors include the credit-worthiness of the sponsor and the value of the collateral.
- Owner-occupied commercial real estate loans carry risk associated with the operations of the business that occupies the property and the value of the collateral.
- Acquisition, construction & development loans carry risk associated with the credit-worthiness of the borrower, project completion within budget, sale after completion, and the value of the collateral.
- Commercial & industrial loans carry the risk associated with the operations of the business and the value of the collateral, if any.
- Single family residential (1-4 units) loans for consumer purposes carry risk associated with the continued credit-worthiness of the borrower and the value of the collateral. Single family residential (1-4 units) loans for investment purpose carry risk associated with the continued credit-worthiness of the borrower, the value of the collateral, and either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral.
- Consumer non-real estate and other loans carry risk associated with the credit-worthiness of the borrower and the value of the collateral, if any.

Loan balances at September 30, 2023, and December 31, 2022, by portfolio segment were as follows (in thousands):

	September 30, 2023	December 31, 2022
Commercial real estate	\$ 1,260,653	\$ 1,109,315
Owner-occupied commercial real estate	123,496	127,114
Acquisition, construction & development	96,535	94,450
Commercial & industrial	61,571	53,514
Single family residential (1-4 units)	525,558	499,362
Consumer non-real estate and other	2,803	3,466
Loans, gross	2,070,616	1,887,221
Allowance for credit losses	(26,111)	(21,039)
Loans, net	\$ 2,044,505	\$ 1,866,182

Net deferred loan fees included in the above loan categories totaled \$3.5 million and \$3.3 million at September 30, 2023, and December 31, 2022, respectively. The Company holds \$3.8 million and \$7.9 million in Paycheck Protection Program loans, net of deferred fees and costs as of September 30, 2023, and December 31, 2022, respectively.

**Note 4— Allowance for Credit Losses**

On January 1, 2023, the Company adopted the CECL methodology as required under ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion on the Company's accounting policies and policy elections related to the accounting standards update refer to [Note 1 - Nature of Business Activities and Significant Accounting Policies](#) in these Notes to Consolidated Financial Statements. All information presented as of September 30, 2023, is in accordance with ASC 326. All other information presented prior to January 1, 2023, is in accordance with previous applicable GAAP.

The Company's ACL is calculated quarterly, with any adjustment recorded to the provision for credit losses in the Consolidated Statement of Income. Management calculates the quantitative portion of collectively evaluated loans for all

**Note 4— Allowance for Credit Losses (continued)**

loan categories using the WARM method. For purposes of estimating the Company's ACL, management generally evaluates collectively evaluated loans by federal call code in order to group loans with similar risk characteristics.

Loans that do not share similar risk characteristics are evaluated on an individual loan basis and are excluded from the collective evaluation for the ACL. Loans identified to be individually evaluated under CECL include loans on non-accrual status and may include accruing loans that do not share similar risk characteristics to other accruing loans that are collectively evaluated on a loan pool basis. A specific reserve analysis may be applied to the individually evaluated loans, which considers collateral value, an observable market price, or the present value of the expected future cash flows. A specific reserve is assigned if the measured value of the loan using one of the before mentioned methods is less than the carrying value of the loan.

Based on management's analysis, adjustments may be applied for additional factors impacting the risk of loss in the loan portfolio beyond the information that is used to calculate a reasonable and supportable forecast and a reversion period forecast on collectively evaluated loans. Management may consider an additional or reduced reserve as warranted through qualitative risk factors based on the current and expected conditions, as measured in supplemental information relative to the macroeconomic variable loss drivers used to calculate a reasonable and supportable forecast and a reversion period forecast. These qualitative risk factors considered by management are largely comparable to legacy factors prior to the adoption of CECL.

**Note 4— Allowance for Credit Losses (continued)**

The following tables presents the activity in the ACL, including the impact of the adoption of CECL, for the three months and nine months ended September 30, 2023, and the activity for the allowance for loan losses for the three months and nine months ended September 30, 2022 (in thousands).

	Commercial real estate	Owner-occupied commercial real estate	Acquisition, construction & development	Commercial & industrial	Single family residential (1-4 units)	Consumer non-real estate and other	Unallocated	Total
<b>Three months ended</b>								
<b>September 30, 2023</b>								
Balance, beginning of period	\$ 18,639	\$ 719	\$ 1,319	\$ 612	\$ 4,520	\$ 110	\$ —	\$ 25,919
Provision for (recapture of) credit losses	969	66	446	(95)	(1,135)	(51)	—	200
Charge-offs	—	—	—	—	—	(13)	—	(13)
Recoveries	4	—	—	—	1	—	—	5
Balance, end of period	\$ 19,612	\$ 785	\$ 1,765	\$ 517	\$ 3,386	\$ 46	\$ —	\$ 26,111
<b>September 30, 2022</b>								
Balance, beginning of period	\$ 15,548	\$ 724	\$ 3,607	\$ 214	\$ 1,519	\$ 19	\$ 1,731	\$ 23,362
Provision for (recapture of) loan losses	(1,782)	(111)	830	82	264	60	(1,731)	(2,388)
Charge-offs	—	—	—	—	—	(54)	—	(54)
Recoveries	27	—	—	—	2	4	—	33
Balance, end of period	\$ 13,793	\$ 613	\$ 4,437	\$ 296	\$ 1,785	\$ 29	\$ —	\$ 20,953
<b>Nine months ended</b>								
<b>September 30, 2023</b>								
Beginning balance, prior to adoption of CECL	\$ 15,477	\$ 635	\$ 2,082	\$ 438	\$ 2,379	\$ 28	\$ —	\$ 21,039
Impact of the adoption of CECL	2,686	(6)	(640)	237	1,661	187	—	4,125
Provision for (recapture of) credit losses	1,414	156	323	(129)	(661)	(70)	—	1,033
Charge-offs	—	—	—	(29)	—	(105)	—	(134)
Recoveries	35	—	—	—	7	6	—	48
Balance, end of period	\$ 19,612	\$ 785	\$ 1,765	\$ 517	\$ 3,386	\$ 46	\$ —	\$ 26,111
<b>September 30, 2022</b>								
Balance, beginning of period	\$ 25,112	\$ 611	\$ 2,189	\$ 165	\$ 2,434	\$ 18	\$ 1,180	\$ 31,709
Provision for (recapture of) loan losses	(8,071)	2	2,248	151	(815)	101	(1,180)	(7,564)
Charge-offs	(3,282)	—	—	(20)	—	(109)	—	(3,411)
Recoveries	34	—	—	—	166	19	—	219
Balance, end of period	\$ 13,793	\$ 613	\$ 4,437	\$ 296	\$ 1,785	\$ 29	\$ —	\$ 20,953

**Note 4— Allowance for Credit Losses (continued)**

The information presented in the table below is not required for periods after the adoption of CECL. The following table summarizes the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method (individually or collectively evaluated for impairment) as of December 31, 2022 (in thousands):

	Commercial real estate	Owner-occupied commercial real estate	Acquisition, construction & development	Commercial & industrial	Single family residential (1-4 units)	Consumer non-real estate and other	Unallocated	Total
<b>December 31, 2022</b>								
Allowance for loan losses								
Individually evaluated for impairment	\$ 41	\$ 102	\$ —	\$ —	\$ 96	\$ —	\$ —	\$ 239
Collectively evaluated for impairment	15,436	533	2,082	438	2,283	28	—	20,800
Total ending allowance balance	\$ 15,477	\$ 635	\$ 2,082	\$ 438	\$ 2,379	\$ 28	\$ —	\$ 21,039
Loan balance:								
Individually evaluated for impairment	\$ 331	\$ 2,580	\$ —	\$ —	\$ 6,158	\$ —	\$ —	\$ 9,069
Collectively evaluated for impairment	1,108,984	124,534	94,450	53,514	493,204	3,466	—	1,878,152
Total ending loan balance	\$ 1,109,315	\$ 127,114	\$ 94,450	\$ 53,514	\$ 499,362	\$ 3,466	\$ —	\$ 1,887,221

Prior to the adoption of CECL, loans were considered impaired when, based on current information and events as of the measurement date, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans included loans on non-accrual status and accruing TDRs. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of the global cash flow sufficient to pay all debt obligations, and an evaluation of secondary sources of repayment, such as guarantor support and collateral value.

The following table presents information related to impaired loans (in thousands) by portfolio segment as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized <sup>(1)</sup>
<b>December 31, 2022</b>					
With no related allowance recorded:					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —
Owner-occupied commercial real estate	1,184	1,394	—	1,291	97
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	5,151	5,576	—	5,131	213
Consumer non-real estate and other	—	—	—	—	—
Subtotal	\$ 6,335	\$ 6,970	\$ —	\$ 6,422	\$ 310
With an allowance recorded:					
Commercial real estate	\$ 331	\$ 331	\$ 41	\$ 350	\$ 23
Owner-occupied commercial real estate	1,397	1,397	102	1,420	74
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	1,007	1,141	96	1,033	57
Consumer non-real estate and other	—	—	—	—	—
Subtotal	\$ 2,735	\$ 2,869	\$ 239	\$ 2,803	\$ 154

(1) Cash basis interest income recognized approximates interest income recognized shown as of the twelve months ended December 31, 2022.

**Note 4— Allowance for Credit Losses (continued)**

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. The following table presents the aging of the recorded investment in past due loans as of September 30, 2023, and December 31, 2022, by portfolio segment (in thousands):

September 30, 2023									
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days Past Due & Still Accruing	Non-accrual loans	
Commercial real estate	\$ —	\$ —	\$ 6	\$ 6	\$ 1,260,647	\$ 1,260,653	\$ —	\$ —	
Owner-occupied commercial real estate	—	—	667	667	122,829	123,496	—	1,028	
Acquisition, construction & development	—	—	—	—	96,535	96,535	—	—	
Commercial & industrial	—	—	—	—	61,571	61,571	—	—	
Single family residential (1-4 units)	—	39	59	98	525,460	525,558	—	1,828	
Consumer non-real estate and other	3	3	—	6	2,797	2,803	—	—	
Total	\$ 3	\$ 42	\$ 732	\$ 777	\$ 2,069,839	\$ 2,070,616	\$ —	\$ 2,856	

  

December 31, 2022									
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	90 Days Past Due & Still Accruing	Non-accrual loans	
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ 1,109,315	\$ 1,109,315	\$ —	\$ —	
Owner-occupied commercial real estate	—	—	—	—	127,114	127,114	—	1,184	
Acquisition, construction & development	—	—	—	—	94,450	94,450	—	—	
Commercial & industrial	—	—	—	—	53,514	53,514	—	—	
Single family residential (1-4 units)	1,403	154	546	2,103	497,259	499,362	—	4,313	
Consumer non-real estate and other	—	4	—	4	3,462	3,466	—	—	
Total	\$ 1,403	\$ 158	\$ 546	\$ 2,107	\$ 1,885,114	\$ 1,887,221	\$ —	\$ 5,497	

**Credit Quality Indicators**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic information, and other factors. The Company analyzes loans individually by classifying the loans by credit risk. The Company internally grades all commercial loans at the time of origination. In addition, the Company performs an annual review on the top twenty-five non-homogenous commercial loan relationships as measured by total Company exposure to each borrower. The Company uses the following definitions for credit risk classifications:

**Pass:** These include satisfactory loans that have acceptable levels of risk.

**Special Mention:** Loans classified as special mention have a potential credit weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard:** Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of debt. Loans classified as substandard are inadequately protected by sound net worth, payment capacity of the borrower, or of the collateral pledged. If weaknesses go uncorrected, there is potential for partial loss of principal and/or interest.

**Doubtful:** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and unlikely.

**Loss:** Loans classified as a loss are considered to be uncollectible and cannot be justified to continue as viable assets. While there may be the possibility of some recovery in the future, it is not practical or desirable to defer writing off these loans at the present time.

**Note 4— Allowance for Credit Losses (continued)**

The Company has a portfolio of smaller homogenous loans that are not individually risk rated that are included within the single family residential and consumer non-real estate and other loan classes. Generally, these loan classes are rated as “Pass” unless these loans are on non-accrual and are then classified as substandard.

The following table presents the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of September 30, 2023 (in thousands):

	Term Loans					Prior	Revolving Loans	Total
	2023	2022	2021	2020	2019			
<b>Commercial real estate</b>								
Pass	\$ 156,332	\$ 256,044	\$ 166,943	\$ 23,638	\$ 70,916	\$ 412,169	\$ 34,974	\$ 1,121,016
Special Mention	—	12,235	35,449	—	10,431	1,830	—	59,945
Substandard	—	15,480	12,847	—	1,716	49,649	—	79,692
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 156,332</b>	<b>\$ 283,759</b>	<b>\$ 215,239</b>	<b>\$ 23,638</b>	<b>\$ 83,063</b>	<b>\$ 463,648</b>	<b>\$ 34,974</b>	<b>\$ 1,260,653</b>
Year to date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Owner-occupied commercial real estate</b>								
Pass	\$ 4,688	\$ 29,017	\$ 9,516	\$ 14,340	\$ 12,848	\$ 43,182	\$ 4,585	\$ 118,176
Special Mention	—	—	—	—	—	331	—	331
Substandard	—	536	—	—	—	4,453	—	4,989
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 4,688</b>	<b>\$ 29,553</b>	<b>\$ 9,516</b>	<b>\$ 14,340</b>	<b>\$ 12,848</b>	<b>\$ 47,966</b>	<b>\$ 4,585</b>	<b>\$ 123,496</b>
Year to date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Acquisition, construction &amp; development</b>								
Pass	\$ 4,871	\$ 27,645	\$ 15,510	\$ —	\$ 760	\$ 23,951	\$ 1,705	\$ 74,442
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	22,093	—	22,093
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 4,871</b>	<b>\$ 27,645</b>	<b>\$ 15,510</b>	<b>\$ —</b>	<b>\$ 760</b>	<b>\$ 46,044</b>	<b>\$ 1,705</b>	<b>\$ 96,535</b>
Year to date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Commercial &amp; industrial</b>								
Pass	\$ 23,329	\$ 16,379	\$ 5,068	\$ 466	\$ 24	\$ 1,467	\$ 13,948	\$ 60,681
Special Mention	—	—	890	—	—	—	—	890
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 23,329</b>	<b>\$ 16,379</b>	<b>\$ 5,958</b>	<b>\$ 466</b>	<b>\$ 24</b>	<b>\$ 1,467</b>	<b>\$ 13,948</b>	<b>\$ 61,571</b>
Year to date gross charge-offs	\$ —	\$ —	\$ —	\$ 29	\$ —	\$ —	\$ —	\$ 29
<b>Single family residential (1-4 units)</b>								
Pass	\$ 69,336	\$ 123,047	\$ 60,748	\$ 32,408	\$ 41,256	\$ 142,985	\$ 53,951	\$ 523,731
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	291	246	—	1,290	—	1,827
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
<b>Total</b>	<b>\$ 69,336</b>	<b>\$ 123,047</b>	<b>\$ 61,039</b>	<b>\$ 32,654</b>	<b>\$ 41,256</b>	<b>\$ 144,275</b>	<b>\$ 53,951</b>	<b>\$ 525,558</b>
Year to date gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

**Note 4— Allowance for Credit Losses (continued)**

<b>Consumer non-real estate and other</b>																
Pass	\$	425	\$	247	\$	145	\$	190	\$	411	\$	337	\$	1,048	\$	2,803
Special Mention		—		—		—		—		—		—		—		—
Substandard		—		—		—		—		—		—		—		—
Doubtful		—		—		—		—		—		—		—		—
Loss		—		—		—		—		—		—		—		—
<b>Total</b>	<b>\$</b>	<b>425</b>	<b>\$</b>	<b>247</b>	<b>\$</b>	<b>145</b>	<b>\$</b>	<b>190</b>	<b>\$</b>	<b>411</b>	<b>\$</b>	<b>337</b>	<b>\$</b>	<b>1,048</b>	<b>\$</b>	<b>2,803</b>
Year to date gross charge-offs	\$	105	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	105

The value of outstanding loans by credit quality indicators as of December 31, 2022 were as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
<b>December 31, 2022</b>						
Commercial real estate	\$ 1,011,025	\$ 62,907	\$ 35,383	\$ —	\$ —	\$ 1,109,315
Owner-occupied commercial real estate	121,621	1,963	3,530	—	—	127,114
Acquisition, construction & development	68,220	836	25,394	—	—	94,450
Commercial & industrial	53,273	—	241	—	—	53,514
Single family residential (1-4 units)	494,994	55	4,313	—	—	499,362
Consumer non-real estate and other	3,466	—	—	—	—	3,466
<b>Total</b>	<b>\$ 1,752,599</b>	<b>\$ 65,761</b>	<b>\$ 68,861</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,887,221</b>

The following tables present information about collateral-dependent loans that were individually evaluated for purposes of determining the ACL as of September 30, 2023 (in thousands):

	Collateral-Dependent Loans				
	With Allowance		With No Related Allowance		Total
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
<b>September 30, 2023</b>					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —
Owner-occupied commercial real estate	—	—	1,028	1,028	—
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	—	—	2,631	2,631	—
Consumer non-real estate and other	—	—	—	—	—
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,659</b>	<b>\$ 3,659</b>	<b>\$ —</b>

On January 1, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty, and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables — Nonrefundable Fees and Other Costs, and subjects entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the Company loans classified as TDRs were individually evaluated for the ACL, and the measurement was done either using the collateral-dependent or the discounted cash flow method.

The Company may modify loans to borrowers experiencing financial difficulty by providing principal forgiveness, term extension, interest rate reduction, or an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL. The Company may also provide multiple types of modifications on an individual loan. For the three and nine months ended September 30, 2023, the Company did not extend any

**Note 4— Allowance for Credit Losses (continued)**

modifications to borrowers experiencing financial difficulty that had a more-than-insignificant direct change in the contractual cash flows of the loan.

The Company did not extend any modifications that were defined as TDRs during the year ended December 31, 2022.

**Note 5— Deposits**

The aggregate amount of time deposits, each with a minimum denomination of \$250,000, was approximately \$65.5 million and \$32.6 million on September 30, 2023, and December 31, 2022, respectively. Brokered time deposits totaled \$389.0 million and \$100.3 million as of September 30, 2023, and December 31, 2022, respectively. Time deposits through the Certificate of Deposit Account Registry Service program totaled \$21.8 million at September 30, 2023, compared to \$11.7 million at December 31, 2022.

At September 30, 2023, the scheduled maturities of time deposits for the remaining three months ending December 31, 2023 and the following five years were as follows (in thousands):

**As of September 30, 2023**

Remaining three months ending, December 31, 2023	\$	59,683
2024		269,103
2025		135,389
2026		83,185
2027		49,432
2028		78,046
Total	\$	674,838

At September 30, 2023, and December 31, 2022, amounts included in time deposits for individual retirement accounts totaled \$30.9 million and \$36.9 million, respectively.

Overdrafts of \$197 thousand and \$503 thousand were reclassified to loans as of September 30, 2023, and the year ended December 31, 2022, respectively.

**Note 6— Advances and Other Borrowings**

The Company had borrowings of \$299.0 million and \$343.1 million at September 30, 2023, and December 31, 2022, respectively. At September 30, 2023, the interest rate on this debt ranged from 4.38% to 5.57%. At December 31, 2022, the interest rate on this debt ranged from 4.13% to 4.57%. The average balance outstanding during the nine months ending September 30, 2023, and the year ending December 31, 2022, was \$302.1 million and \$269.5 million, respectively. The Company's short-term borrowings from time to time may consist of advances from the FHLB of Atlanta, unsecured lines from Correspondent Banks, and secured lines from the Federal Reserve Discount Window.

The Company has available lines of credit with the FHLB of Atlanta and unsecured federal funds lines of credit from correspondent banking relationships. Through these sources, the Company has unused capacity of \$883.5 million in remaining borrowing capacity as of September 30, 2023. The advances on credit lines are secured by both securities and loans. The lendable collateral value of securities and loans pledged against available lines of credit as of September 30, 2023, and December 31, 2022, was \$778.0 million and \$698.1 million, respectively. As of September 30, 2023, all of the Company's borrowings will mature within one calendar year.

The contractual maturities of these borrowings as of September 30, 2023, are as follows (in thousands):

Due in 2023	\$	49,000
Due in 2024		250,000
Total	\$	299,000

**Note 7— Leased Property***Lessor Arrangements*

The Company enters into operating leases with customers to lease vacant space in certain owned premises that is not being used by the Company. These operating leases are typically payable in monthly installments with terms ranging from around two years to around twelve years and may contain renewal options.

The components of lease income, which was included in non-interest expense on the Consolidated Statements of Income, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease income	\$ 576	\$ 233	\$ 1,726	\$ 319
Total lease income	\$ 576	\$ 233	\$ 1,726	\$ 319

The remaining maturities of operating lease receivables as of September 30, 2023, are as follows (in thousands):

	Operating Leases
Remaining three months ending December 31, 2023	\$ 575
2024	2,302
2025	2,265
2026	1,657
2027	1,356
Thereafter	3,783
Total lease receivables	\$ 11,938

*Lessee Arrangements*

The Company has entered into leases for branches and office space. The leases are evaluated for whether the lease will be classified as either a finance or operating lease. Certain leases offer the option to extend the lease term, and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. Including renewal options, the terms of the Company's leases range from less than one year to around thirteen years. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. These cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

**Note 7— Leased Property (continued)**

Right-of-use assets and liabilities by lease type, and the associated balance sheet classifications are as follows (in thousands):

	Balance Sheet Classification	September 30, 2023	December 31, 2022
<b>Right-of-use assets:</b>			
Operating leases	Other assets	\$ 4,846	\$ 7,255
Finance leases	Other assets	3,661	2,620
Total right-of-use assets		\$ 8,507	\$ 9,875
<b>Lease liabilities:</b>			
Operating leases	Other liabilities	\$ 5,075	\$ 7,592
Finance leases	Other liabilities	3,829	2,745
Total lease liabilities		\$ 8,904	\$ 10,337

The components of total lease cost were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Finance lease cost</b>				
Right-of-use asset amortization	\$ 71	\$ 51	\$ 173	\$ 153
Interest expense	28	16	58	48
Operating lease cost	770	638	2,437	1,833
Total lease cost	\$ 869	\$ 705	\$ 2,668	\$ 2,034

The Company's future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of September 30, 2023, are as follows (in thousands):

	Operating Leases	Finance Leases
Remaining three months ending December 31, 2023	\$ 785	\$ 81
2024	2,305	327
2025	849	334
2026	415	341
2027	366	347
Thereafter	626	3,347
Total undiscounted lease payments	5,346	4,777
Less: discount	(271)	(948)
Net lease liabilities	\$ 5,075	\$ 3,829

**Note 7— Leased Property (continued)**

The following table presents additional information about the Company’s leases as of September 30, 2023, and December 31, 2022.

<i>Supplemental lease information (dollars in thousands)</i>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Finance lease weighted average remaining lease term (years)	12.87	12.76
Finance lease weighted average discount rate	2.93 %	2.22 %
Operating lease weighted average remaining lease term (years)	3.12	3.26
Operating lease weighted average discount rate	3.02 %	3.19 %
	<b>Nine Months Ended September 30,</b>	
<b>Cash paid for amounts included in the measurement of lease liabilities</b>	<b>2023</b>	<b>2022</b>
Operating cash flows from operating leases	\$ 2,545	\$ 1,871
Operating cash flows from finance leases	58	48
Financing cash flows from finance leases	130	113
Right-of-use assets obtained in exchange for new finance lease liabilities	1,214	—
Right-of-use assets obtained in exchange for new operating lease liabilities	—	502

**Note 8— Regulatory Capital Matters**

Banks and financial holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, “prompt corrective action” regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Under the Basel Committee on Banking Supervision’s capital guidelines for U.S. Banks (“Basel III rules”), an entity must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on AFS securities is not included in computing regulatory capital. Management believes as of September 30, 2023, the Company and the Bank meet all capital adequacy requirements to which they are subject.

“Prompt corrective action” regulations provide five classifications: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized”, and “critically undercapitalized”, although these terms are not used to represent overall financial condition. If “adequately capitalized”, regulatory approval is required to accept brokered deposits. If “undercapitalized”, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of September 30, 2023, and December 31, 2022, the most recent notification from the FDIC categorized the Bank as “well capitalized” under the regulatory framework for “prompt corrective action”.

The following table presents the actual and required capital amounts and ratios for the Company and the Bank at September 30, 2023, and December 31, 2022 (in thousands except for ratios).

**Note 8— Regulatory Capital Matters (continued)**

	Actual		Minimum Required for Capital Adequacy Purposes (includes applicable Capital Conservation Buffer)		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2023</b>						
Total Capital to risk weighted assets						
Consolidated	\$ 443,293	17.48 %	\$ 266,306	≥ 10.5%	\$ 253,625	≥ 10.0%
Burke & Herbert Bank & Trust	441,597	17.39	266,587	≥ 10.5	253,893	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	416,977	16.44	215,581	≥ 8.5	202,900	≥ 8.0
Burke & Herbert Bank & Trust	415,281	16.36	215,809	≥ 8.5	203,114	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	416,977	16.44	177,537	≥ 7.0	164,856	≥ 6.5
Burke & Herbert Bank & Trust	415,281	16.36	177,725	≥ 7.0	165,030	≥ 6.5
Tier 1 (Core) Capital to average assets						
Consolidated	416,977	11.32	147,333	≥ 4.0	184,166	≥ 5.0
Burke & Herbert Bank & Trust	415,281	11.27	147,417	≥ 4.0	184,271	≥ 5.0
<b>As of December 31, 2022</b>						
Total Capital to risk weighted assets						
Consolidated	\$ 433,958	18.88 %	\$ 241,325	≥ 10.5%	\$ 229,834	≥ 10.0%
Burke & Herbert Bank & Trust	432,290	18.81	241,368	≥ 10.5	229,874	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	412,946	17.97	195,358	≥ 8.5	186,867	≥ 8.0
Burke & Herbert Bank & Trust	411,251	17.89	195,393	≥ 8.5	183,900	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	412,946	17.97	160,883	≥ 7.0	149,392	≥ 6.5
Burke & Herbert Bank & Trust	411,251	17.89	160,912	≥ 7.0	149,418	≥ 6.5
Tier 1 (Core) Capital to average assets						
Consolidated	412,946	11.34	145,605	≥ 4.0	182,007	≥ 5.0
Burke & Herbert Bank & Trust	411,251	11.30	145,605	≥ 4.0	182,007	≥ 5.0

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of September 30, 2023, approximately \$175.0 million of retained earnings was available for dividend declaration without regulatory approval.

**Note 9— Derivatives**

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

**Cash flow hedges of interest rate risk**

The Company's objective in using interest rate derivatives is to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and floors as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up-front premium. During 2023, such derivatives were used to hedge the variable cash flows associated with variable-rate assets.

**Note 9— Derivatives (continued)**

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest income in the same period(s) during which the hedged transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate asset. During the next 12 months, the Company estimates that an additional \$1.1 million will be reclassified as a reduction to interest income.

**Derivatives not designated as hedges**

The Company enters into interest rate swaps with its loan customers to facilitate their financing requests. Upon entering into swaps with our loan customers, the Company will enter into corresponding offsetting derivatives with third parties. These derivatives represent economic hedges and do not qualify as hedges for accounting. These back-to-back interest rate swaps are reported at fair value in "other assets" and "other liabilities" in the Company's Consolidated Balance Sheets. Changes in the fair value of interest rate swaps are recorded in other non-interest expense and sum to zero because of offsetting terms of swaps with borrowers and swaps with dealer counterparties.

The table below presents the fair value of the Company's derivative financial instruments, which includes accrued interest, as well as their classification on the Consolidated Balance Sheets as of September 30, 2023, and December 31, 2022 (in thousands):

	September 30, 2023		
	Balance Sheet Location	Notional Amount	Fair Value
<b>Derivatives designated as hedges:</b>			
Interest rate swaps related to cash flow hedges	Other liabilities	\$ 50,000	\$ 1,446
<b>Derivatives not designated as hedges:</b>			
Interest rate swaps related to customer loans	Other assets	\$ 72,836	\$ 2,732
Interest rate swaps related to customer loans	Other liabilities	72,836	2,732
	December 31, 2022		
	Balance Sheet Location	Notional Amount	Fair Value
<b>Derivatives designated as hedges:</b>			
Interest rate swaps related to cash flow hedges	Other liabilities	\$ 50,000	\$ 2,254
<b>Derivatives not designated as hedges:</b>			
Interest rate swaps related to customer loans	Other assets	\$ 34,674	\$ 1,311
Interest rate swaps related to customer loans	Other liabilities	34,674	1,311

The table below presents the effect of cash flow hedge accounting on AOCI for the three months ended September 30, 2023, and September 30, 2022, as follows (in thousands):

	September 30, 2023				September 30, 2023			
	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component	
<b>Derivatives in Cash Flow Hedging Relationships</b>								
Interest Rate Products	\$ (48)	\$ (48)	\$ —	Interest Income	\$ (473)	\$ (473)	\$ —	
Total	\$ (48)	\$ (48)	\$ —		\$ (473)	\$ (473)	\$ —	

**Note 9— Derivatives (continued)**

Derivatives in Cash Flow Hedging Relationships	September 30, 2022			Location of Gain or (Loss) Reclassified from AOCI into Income	September 30, 2022		
	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component		Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	\$ (828)	\$ (828)	\$ —	Interest Income	\$ (74)	\$ (74)	\$ —
Total	\$ (828)	\$ (828)	\$ —		\$ (74)	\$ (74)	\$ —

The table below presents the effect of cash flow hedge accounting on AOCI for the nine months ended September 30, 2023, and September 30, 2022, as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	September 30, 2023			Location of Gain or (Loss) Reclassified from AOCI into Income	September 30, 2023		
	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component		Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	\$ (337)	\$ (337)	\$ —	Interest Income	\$ (1,259)	\$ (1,259)	\$ —
Total	\$ (337)	\$ (337)	\$ —		\$ (1,259)	\$ (1,259)	\$ —

Derivatives in Cash Flow Hedging Relationships	September 30, 2022			Location of Gain or (Loss) Reclassified from AOCI into Income	September 30, 2022		
	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component		Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
Interest Rate Products	\$ (1,924)	\$ (1,924)	\$ —	Interest Income	\$ 108	\$ 108	\$ —
Total	\$ (1,924)	\$ (1,924)	\$ —		\$ 108	\$ 108	\$ —

The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the three and nine months ended September 30, 2023, and September 30, 2022.

**Note 9— Derivatives (continued)**

	<b>Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships</b>			
	<b>Three months ended</b>			
	<b>September 30, 2023</b>		<b>September 30, 2022</b>	
	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Interest Income</b>	<b>Interest Expense</b>
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded.	\$ (433)	\$ —	\$ (74)	\$ —
<b>The effects of fair value and cash flow hedging:</b>				
<b>Gain or (loss) on fair value hedging relationships in Subtopic 815-20</b>				
<u>Interest contracts</u>				
Hedged items <sup>(1)</sup>	40	—	—	—
Derivatives designated as hedging instruments	—	—	—	—
<b>Gain or (loss) on cash flow hedging relationships in Subtopic 815-20</b>				
<u>Interest contracts</u>				
Amount of gain or (loss) reclassified from AOCI into income	(473)	—	(74)	—
Amount of gain or (loss) reclassified from AOCI into income as a result that a forecasted transaction is no longer probable of occurring	—	—	—	—
Amount of gain or (loss) reclassified from AOCI into income - included component	(473)	—	(74)	—
Amount of gain or (loss) reclassified from AOCI into income - excluded component	—	—	—	—

	<b>Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships</b>			
	<b>Nine months ended</b>			
	<b>September 30, 2023</b>		<b>September 30, 2022</b>	
	<b>Interest Income</b>	<b>Interest Expense</b>	<b>Interest Income</b>	<b>Interest Expense</b>
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded.	\$ (1,549)	\$ —	\$ 108	\$ —
<b>The effects of fair value and cash flow hedging:</b>				
<b>Gain or (loss) on fair value hedging relationships in Subtopic 815-20</b>				
<u>Interest contracts</u>				
Hedged items <sup>(1)</sup>	(1,066)	—	—	—
Derivatives designated as hedging instruments	776	—	—	—
<b>Gain or (loss) on cash flow hedging relationships in Subtopic 815-20</b>				
<u>Interest contracts</u>				
Amount of gain or (loss) reclassified from AOCI into income	(1,259)	—	108	—
Amount of gain or (loss) reclassified from AOCI into income as a result that a forecasted transaction is no longer probable of occurring	—	—	—	—
Amount of gain or (loss) reclassified from AOCI into income - included component	(1,259)	—	108	—
Amount of gain or (loss) reclassified from AOCI into income - excluded component	—	—	—	—

(1) The Company voluntarily discontinued a fair value hedging relationship and these amounts include the gain or (loss) and the hedging adjustment on a voluntary discontinued hedging relationship. The Company has allocated the basis adjustment to the remaining individual assets in the closed portfolio and will amortize the basis adjustment over a period consistent with amortization of other discounts or premiums on the assets.

**Note 9— Derivatives (continued)****Credit-risk-related Contingent Features**

As of September 30, 2023, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk related to these agreements, was \$1.4 million. As of September 30, 2023, the Company has posted the full amount of collateral related to these agreements.

**Note 10— Commitments and Contingencies****Interest rate lock commitments**

Commitments to fund consumer mortgage loans (interest rate lock commitments) to be sold into the secondary market are defined as derivatives under GAAP. The Company enters into best effort forward commitments for the future delivery of mortgage loans to third-party investors. The Company has elected the fair value option (“FVO”) on both the best-efforts forward commitments and the consumer mortgage loans held-for-sale in order to economically hedge the effect of changes in interest rates resulting from the commitment to fund the loans.

Interest Rate lock commitments are not designated as hedging instruments, and therefore, changes in the fair value of these free-standing derivative instruments are reported as non-interest income.

**Credit extension commitments**

The Company’s financial statements do not reflect various financial instruments which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These financial instruments include commitments to extend credit, commercial letters of credit, and revolving lines of credit.

Many of our lending relationships contain both funded and unfunded elements. The funded portion is reflected on our balance sheet. The unfunded portion of these commitments is not recorded on our balance sheet until a draw is made under the loan facility. Since many of our commitments to extend credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash flow requirements.

A summary of the contractual amounts of the Company’s financial instruments outstanding at September 30, 2023, and December 31, 2022, is as follows (in thousands):

	September 30, 2023	December 31, 2022
Commitments to extend credit	\$ 269,097	\$ 291,265
Commercial letters of credit	10,443	8,539

Commitments to extend credit and commercial letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company’s credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Consolidated Balance Sheets. Many of these instruments have fixed maturity dates, and many of them will expire without being drawn upon; accordingly, they do not generally present any significant liquidity risk to the Company.

*Allowance for credit losses - off-balance-sheet credit exposures*

The Company recorded a provision for credit losses on unfunded commitments of \$35.0 thousand for the three months ended September 30, 2023, and a recapture of credit losses on unfunded commitments of \$69.8 thousand for the nine months ended September 30, 2023. The ACL on off-balance-sheet credit totaled \$205.0 thousand at September 30, 2023, and is included in accrued interest and other liabilities on the accompanying Consolidated Balance Sheets.

**Litigation**

The Company is a party to litigation, claims, and proceedings arising in the normal course of business that are ordinary and routine to the nature of the Company’s business and operations. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from any currently pending or threatened litigation, claims, or proceedings will not be material to the Company’s financial position.

## **Note 11— Fair Value Measurements**

### **Determination of Fair Value**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1* – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2* – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* – Significant unobservable inputs that reflect our own assumptions that market participants would use in pricing an asset or liability.

In instances in which multiple levels of inputs are used to measure fair value, hierarchy classification is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

### **Investment securities**

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

### **Derivatives**

The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The Company has contracted with a third-party vendor to provide valuations for interest rate swaps using standard swap valuation techniques. The Company has considered counterparty credit risk in the valuation of its interest rate swap assets and has considered its own credit risk in the valuation of its interest rate swap liabilities. The Company recognizes interest rate lock commitments at fair value. Fair value of interest rate lock commitments is based on the price of underlying loans obtained from an investor for loans that will be delivered on a best effort basis (Level 2).

### **Loans held-for-sale, at fair value**

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2). These loans currently consist of one-to-four family residential loans originated for sale in the secondary market.

**Note 11— Fair Value Measurements (continued)**

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

Fair Value Measurements at September 30, 2023 Using:				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
<b>Financial assets</b>				
Investment Securities				
U.S. Treasuries and government agencies	\$ 172,982	\$ —	\$ —	\$ 172,982
Obligations of states and municipalities	—	429,479	—	429,479
Residential mortgage backed - agency	—	41,836	—	41,836
Residential mortgage backed - non-agency	—	282,108	—	282,108
Commercial mortgage backed - agency	—	35,539	—	35,539
Commercial mortgage backed - non-agency	—	173,344	—	173,344
Asset-backed	—	81,172	—	81,172
Other	—	7,935	—	7,935
Total investment securities available-for-sale	\$ 172,982	\$ 1,051,413	\$ —	\$ 1,224,395
Loans held-for-sale, at fair value	\$ —	\$ 3,011	\$ —	\$ 3,011
Derivatives	\$ —	\$ 2,732	\$ —	\$ 2,732
<b>Financial liabilities</b>				
Derivatives	\$ —	\$ 4,178	\$ —	\$ 4,178
Fair Value Measurements at December 31, 2022 Using:				
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
<b>Financial assets</b>				
Investment Securities				
U.S. Treasuries and government agencies	\$ 174,993	\$ —	\$ —	\$ 174,993
Obligations of states and municipalities	—	453,907	—	453,907
Residential mortgage backed - agency	—	53,061	—	53,061
Residential mortgage backed - non-agency	—	339,295	—	339,295
Commercial mortgage backed - agency	—	59,933	—	59,933
Commercial mortgage backed - non-agency	—	183,299	—	183,299
Asset-backed	—	98,626	—	98,626
Other	—	8,643	—	8,643
Total investment securities available-for-sale	\$ 174,993	\$ 1,196,764	\$ —	\$ 1,371,757
Loans held-for-sale, at fair value	\$ —	\$ —	\$ —	\$ —
Derivatives	\$ —	\$ 1,311	\$ —	\$ 1,311
<b>Financial liabilities</b>				
Derivatives	\$ —	\$ 3,565	\$ —	\$ 3,565

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a non-recurring basis in the financial statements:

**Individually evaluated loans**

Upon the adoption of CECL, loans individually evaluated for credit expected losses included non-accrual loans and other loans that do not share similar risk characteristics to loans in the CECL loan pools and have been classified as Level 3. Individually evaluated loans with an allocation to the ACL are measured at fair value on a non-recurring basis. Any fair

**Note 11— Fair Value Measurements (continued)**

value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income. Prior to adoption of CECL and ASU 2022-02, which eliminated the TDR accounting model, loans were designated as impaired when, in the judgment of management and based on current information and events, it was probable that all amounts due, according to the contractual terms of the loan agreement, would not be collected.

The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the present value of the expected future cash flows, or the fair value of the collateral. Generally, the fair value of impaired loans will be determined by the present value of the expected future cash flows or if collateral-dependent based on recent real estate appraisals. For collateral-dependent, the fair value is measured based on the value of the collateral securing the loans, less estimated costs of disposal. Collateral may be in the form of real estate or business assets, including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income and will result in a Level 3 fair value classification. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification.

**Other real estate owned**

Assets acquired through foreclosure or other proceedings are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals, which are updated no less frequently than annually. Any fair value adjustments are recorded in the period incurred and expensed against current earnings.

Assets that were measured at fair value on a non-recurring basis during the period are summarized below (in thousands):

	Fair Value Measurements at September 30, 2023 Using:			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Individually evaluated loans:				
Commercial real estate	\$ —	\$ —	\$ 301	\$ 301
Owner-occupied commercial real estate	—	—	1,337	1,337
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Single family residential	—	—	1,838	1,838
Consumer non-real estate and other	—	—	—	—
Other real estate owned	—	—	—	—

**Note 11— Fair Value Measurements (continued)**

Fair Value Measurements at December 31, 2022 Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Individually evaluated loans:</b>				
Commercial real estate	\$ —	\$ —	\$ 290	\$ 290
Owner-occupied commercial real estate	—	—	1,295	1,295
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Single family residential	—	—	911	911
Consumer non-real estate and other	—	—	—	—
Other real estate owned	—	—	—	—

The following table presents quantitative information about Level 3 Fair Value Measurements for assets measured at fair value on a non-recurring basis at September 30, 2023, and December 31, 2022 (in thousands except for percentages):

Description	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
<b>September 30, 2023</b>					
Impaired loans	\$ 3,476	Discounted cash flow analysis	Market rate for borrower	3.6% - 8.5%	5.3%
<b>December 31, 2022</b>					
Impaired loans	\$ 2,496	Discounted cash flow analysis	Market rate for borrower	4.5% - 6.0%	5.2%

**Fair value of financial instruments**

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at September 30, 2023, and December 31, 2022, were as follows (in thousands):

Fair Value Measurements at September 30, 2023 Using:						
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	
<b>Financial Assets</b>						
Cash and due from banks	\$ 9,063	\$ 9,063	\$ —	\$ —	\$	9,063
Interest-earning deposits with banks	32,801	32,801	—	—	—	32,801
Loans, net	2,044,505	—	—	1,882,989	—	1,882,989
Accrued interest	15,597	—	15,597	—	—	15,597
<b>Financial Liabilities</b>						
Non-interest-bearing	\$ 853,385	\$ —	\$ 853,385	\$ —	\$	853,385
Interest-bearing	2,132,233	—	2,132,233	—	—	2,132,233
Other borrowed funds	299,000	—	298,133	—	—	298,133
Accrued interest	6,348	—	6,348	—	—	6,348

**Note 11— Fair Value Measurements (continued)**

Fair Value Measurements at December 31, 2022 Using:					
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
		(Level 1)	(Level 2)	(Level 3)	
<b>Financial Assets</b>					
Cash and due from banks	\$ 9,124	\$ 9,124	\$ —	\$ —	\$ 9,124
Interest-bearing deposits with banks	41,171	41,171	—	—	41,171
Loans, net	1,866,182	—	—	1,768,903	1,768,903
Accrued interest	15,481	—	15,481	—	15,481
<b>Financial Liabilities</b>					
Non-interest-bearing	\$ 960,692	\$ —	\$ 960,692	\$ —	\$ 960,692
Interest-bearing	1,959,708	—	1,951,227	—	1,951,227
Other borrowed funds	343,100	—	342,904	—	342,904
Accrued interest	1,452	—	1,452	—	1,452

**Note 12— Accumulated Other Comprehensive Income (Loss)**

The following table presents changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and nine months ended September 30, 2023, and September 30, 2022 (in thousands):

	Three months ended September 30, 2023			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	\$ (1,196)	\$ (117,950)	\$ (7,031)	\$ (126,177)
Net unrealized gains (losses)	(38)	(20,285)	—	(20,323)
Less: net realized (gains) losses reclassified to earnings	373	(32)	—	341
Net change in pension plan benefits	—	—	—	—
Ending Balance	\$ (861)	\$ (138,267)	\$ (7,031)	\$ (146,159)
	Three months ended September 30, 2022			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	\$ (1,009)	\$ (97,192)	\$ (6,020)	\$ (104,221)
Net unrealized gains (losses)	(654)	(42,793)	—	(43,447)
Less: net realized (gains) losses reclassified to earnings	58	33	—	91
Net change in pension plan benefits	—	—	—	—
Ending Balance	\$ (1,605)	\$ (139,952)	\$ (6,020)	\$ (147,577)

**Note 12— Accumulated Other Comprehensive Income (Loss) (continued)**

	Nine months ended September 30, 2023			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	\$ (1,589)	\$ (130,875)	\$ (7,031)	\$ (139,495)
Net unrealized gains (losses)	(267)	(8,322)	—	(8,589)
Less: net realized (gains) losses reclassified to earnings	995	930	—	1,925
Net change in pension plan benefits	—	—	—	—
Ending Balance	\$ (861)	\$ (138,267)	\$ (7,031)	\$ (146,159)

  

	Nine months ended September 30, 2022			
	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Accumulated Other Comprehensive Income
Beginning Balance	\$ —	\$ 12,975	\$ (6,020)	\$ 6,955
Net unrealized gains (losses)	(1,519)	(152,878)	—	(154,397)
Less: net realized (gains) losses reclassified to earnings	(86)	(49)	—	(135)
Net change in pension plan benefits	—	—	—	—
Ending Balance	\$ (1,605)	\$ (139,952)	\$ (6,020)	\$ (147,577)

The following table presents amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2023, and September 30, 2022 (in thousands).

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income				Affected Line Item in the Statements of Income
	Three months ended		Nine months ended		
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	
Cash flow hedges:					
Interest rate contracts	\$ (472)	\$ (73)	\$ (1,259)	\$ 109	Interest income
Tax effect	99	15	264	(23)	Income tax expense (benefit)
Net of tax	\$ (373)	\$ (58)	\$ (995)	\$ 86	
Available-for-sale securities:					
Realized gains (losses) on securities	\$ —	\$ (42)	\$ (111)	\$ 62	Net gains/(losses) on securities
Realized gains (losses) on basis adjustment for fair value hedges	40	—	(1,066)	—	Interest income
Tax effect	(8)	9	247	(13)	Income tax expense (benefit)
Net of tax	\$ 32	\$ (33)	\$ (930)	\$ 49	
Total reclassifications, net of tax	\$ (341)	\$ (91)	\$ (1,925)	\$ 135	Net income

**Note 13— Other Operating Expense**

Other operating expense from the Consolidated Statements of Income for the three and nine months ended September 30, 2023, and September 30, 2022, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
FDIC assessment	\$ 463	\$ 294	\$ 1,496	\$ 974
Historic tax credit amortization	632	632	1,895	1,895
IT related	532	562	1,489	1,478
Consultant fees	1,322	216	2,300	726
Network expense	474	456	1,386	1,268
Directors' fees	556	453	1,400	1,490
Audit expense	167	244	687	511
Legal expense	920	(3)	1,553	584
Virginia franchise tax	671	637	1,931	1,837
Marketing expense	116	230	454	864
Other	1,564	1,435	4,451	4,059
Total	\$ 7,417	\$ 5,156	\$ 19,042	\$ 15,686

The Company incurred merger-related expenses of \$1.7 million for the nine months ended September 30, 2023 including \$1.6 million which were incurred during the three months ended September 30, 2023. These expenses are included in the consultant fees and legal expense line items detailed in other operating expenses.

**Note 14— Share-Based Compensation**

The Company has a share-based incentive plan described below that allows it to offer a variety of equity compensation awards subject to approval. Total compensation cost that has been charged against income for the share-based awards granted was \$610.1 thousand and \$492.7 thousand for the three months ended September 30, 2023, and September 30, 2022, respectively. The total income tax benefit was \$128.1 thousand and \$103.5 thousand for the three months ended September 30, 2023, and September 30, 2022, respectively.

Total compensation cost that has been charged against income for the share-based awards granted was \$1.8 million and \$1.5 million for the nine months ended September 30, 2023, and September 30, 2022, respectively. The total income tax benefit was \$377.6 thousand and \$313.3 thousand for the nine months ended September 30, 2023, and September 30, 2022, respectively.

**2019 Stock Incentive Plan**

In 2019, the Company's Stock Incentive Plan ("2019 SIP") was approved by the Bank's Board of Directors. The 2019 SIP provides for the issuance of share-based awards to directors and employees of the Company. The 2019 SIP authorized 240,000 units to be issued, and the Company has a practice of using shares held as treasury stock to satisfy these share-based awards. Each unit represents a contingent right to receive one common share or an equivalent amount of cash, or a combination of the two, at the discretion of the Company. Currently, we have a sufficient number of treasury shares to satisfy outstanding equity awards.

Under the 2019 SIP, the Company has issued restricted stock unit ("RSU") awards that are both time-based and performance-based. Each RSU award will indicate the number of shares, the conditions (e.g., service, performance, and/or a combination), and the grant date. Compensation expense is recognized over the vesting period of the awards based on the fair value of the award at grant date. A total of 24,705 and 13,160 shares were issued during the nine months ended September 30, 2023, and September 30, 2022, respectively.

For time-based RSUs, the fair value was determined by using the closing stock price on the date prior to the grant date. These RSUs vest over three to five years.

**Note 14— Share-Based Compensation (continued)**

The Board, from time to time, approves performance-based RSU awards that may be earned between a three to five year performance period. Whether units are earned at the end of the performance period will be determined based on the achievement of a market capitalization target over the performance period. If the condition is not achieved, the grant recipient will receive 50% of the units upon fulfilling the required service time. If the performance condition is achieved, the grant recipient will receive 100% of the units granted. The market capitalization target will be determined by the Board.

The fair value for performance-based RSU awards was determined by using a Monte Carlo simulation analysis to estimate the achievement of the market capitalization target determined by the Board. The Monte Carlo simulation analysis required the following inputs: (1) expected term, (2) expected volatility, (3) risk-free rate, and (4) dividend yield. The expected term was based on the stated performance period. Management used the expected volatility from a peer group. The risk-free interest rate is based on the U.S. Treasury yield curve over the performance period. The dividend yield assumption was based on historical and anticipated dividend payouts.

The following is a summary of the Company's RSU awards:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2022	122,440	\$ 48.00
Granted	24,705	67.81
Vested	(4,560)	54.07
Forfeited	—	—
Non-vested at September 30, 2023	142,585	\$ 51.24

As of September 30, 2023, there was \$3.5 million of total unrecognized compensation costs related to non-vested shares granted under the 2019 SIP. The cost is expected to be recognized over a weighted average period of 1.63 years.

**2023 Stock Incentive Plan**

In 2023, a new stock incentive plan ("2023 SIP") was approved by the Board of directors and shareholders. Upon the plan's shareholder approval date of March 30, 2023, no further share-based awards will be issued under the 2019 SIP. The plan provides for the issuance of share-based awards to directors and employees of the Company. The 2023 SIP authorized the issuance of 250,000 shares, subject to an annual increase in available shares. As of September 30, 2023, no share-based awards have been issued under the 2023 SIP.

**Note 15— Earnings Per Share**

Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential impact of contingently issuable shares.

The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares dilutive potential Common Stock. Dilutive potential Common Stock has no effect on income available to common shareholders.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (in thousands)	\$ 4,056	\$ 11,137	\$ 17,614	\$ 30,660
Weighted average number of shares	7,428,710	7,425,760	7,427,817	7,424,862
Options effect of dilutive shares	70,568	41,933	78,692	33,707
Weighted average dilutive shares	7,499,278	7,467,693	7,506,509	7,458,569
Basic EPS	\$ 0.55	\$ 1.50	\$ 2.37	\$ 4.13
Diluted EPS	0.55	1.49	2.35	4.11

**Note 15— Earnings Per Share (continued)**

Stock awards equivalent to 1,368 and zero shares of Common Stock were not considered in computing diluted earnings per common share for the three months ended September 30, 2023, and September 30, 2022, respectively, because they were antidilutive. Stock awards equivalent to zero and zero shares of Common Stock were not considered in computing diluted earnings per share for the nine months ended September 30, 2023, and September 30, 2022, respectively, because they were antidilutive.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our consolidated financial condition and results of operations of the Company should be read in conjunction with the preceding consolidated financial statements and notes presented in [Item 1. Financial Statements](#) of this Form 10-Q, as well as with the audited consolidated financial statements and notes for the year ended December 31, 2022, included in our Registration Statement on Form 10 filed with the SEC on February 28, 2023, as amended on April 4, 2023, April 20, 2023, and April 21, 2023, and as declared as effective by the SEC on April 21, 2023 (the "Registration Statement"). Historical results of operations and the percentage relationships among any amounts included and any trends that may appear may not indicate trends in operations or results of operations for any future periods. We are a financial holding company, and we conduct all of our material business operations through the Bank. As a result, the discussion and analysis below primarily relate to activities conducted at the Bank.

### **Disclosure Regarding Forward-Looking Statements**

This Form 10-Q contains statements that we believe are, or may be considered to be, "forward-looking statements". Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on current beliefs, expectations, or assumptions regarding the future of the business, future plans and strategies, operational results, and other future conditions of the Company. All statements other than statements of historical fact included in this Form 10-Q regarding the prospects of our industry or our prospects, plans, financial position, or business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "plans," "expects" or "does not expect," "is expected," "look forward to," "budget," "scheduled," "estimates," "forecasts," "will continue," "intends," "the intent of," "have the potential," "anticipates," "does not anticipate," "believes," "should," "should not," or variations of such words and phrases that indicate that certain actions, events, or results "may," "could," "would," "might," or "will," "be taken," "occur," or "be achieved," or the negative of these terms or variations of them or similar terms. Furthermore, forward-looking statements may be included in various filings that we make with the SEC or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections, and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates, and intentions expressed in such forward-looking statements. Important risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company, as applicable, to be materially different from any expected future results, performance, or achievements expressed or implied by such forward-looking information and statements include, but are not limited to, the risks described in Item 1A, under the caption "Risk Factors" in our Registration Statement, and in [Part II, Item 1A. Risk Factors](#) in this Form 10-Q.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this Form 10-Q, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Form 10-Q.

We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements.

### **Overview**

Burke & Herbert Financial Services Corp. was organized as a Virginia corporation on September 14, 2022, to serve as the holding company for the Bank. The Company commenced operations as a bank holding company on October 1, 2022, following a reorganization transaction in which it became the Bank's holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of the Company. In September 2023, the Company elected to become a financial holding company. As a financial holding company, the Company is subject to

regulation and supervision by the Federal Reserve. The Company has no material operations and owns 100% of the Bank. The Bank is a Virginia chartered commercial bank that commenced operations in 1852. The Bank is supervised and regulated by the FDIC and the Virginia BFI.

The Bank offers a full range of business and personal financial solutions designed to meet customers' banking, borrowing, and investment needs and has over 20 branches throughout the Northern Virginia region and commercial loan offices in Fredericksburg, Loudoun County, and Richmond, Virginia, and in Bethesda, Maryland.

The Bank derives a significant portion of its income from interest received on loans and investments. The Bank's primary source of funding is deposits, both interest-bearing and non-interest-bearing. In order to maximize the Bank's net interest income, or the difference between the income on interest-earning assets and the expense of interest-bearing liabilities, the Bank must not only manage the volume of these balance sheet items, but also the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To account for credit risk inherent in all loans, the Bank maintains an ACL to absorb expected credit losses on existing loans that may become uncollectible. The Bank establishes and maintains this ACL by charging a provision for credit losses against operating earnings. In order to maintain its operations and branch locations, the Bank incurs various operating expenses which are further described within the "Results of Operations" later in this section.

As of September 30, 2023, we had total consolidated assets of \$3.6 billion, gross loans of \$2.1 billion, total deposits of \$3.0 billion, and total shareholders' equity of \$270.8 million. As of September 30, 2023, we had 404 full-time employees. None of our employees are covered by a collective bargaining agreement.

#### ***Pending Merger with Summit Financial Group, Inc.***

On August 24, 2023, the Company and Summit Financial Group, Inc. ("Summit"), entered into an Agreement and Plan of Reorganization and Plan of Merger pursuant to which Summit will merge with and into Burke & Herbert, with Burke & Herbert as the continuing corporation (the "merger"). Immediately following the merger, Summit Community Bank, Inc., a West Virginia banking corporation ("SCB") and a wholly-owned direct subsidiary of Summit, will merge with and into Burke & Herbert Bank & Trust Company, a Virginia banking corporation and a wholly-owned direct subsidiary of Burke & Herbert, with the Bank as the continuing bank (the "bank merger," and together with the merger, the "mergers"). In the merger, Summit shareholders will receive 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they own (the "exchange ratio"), subject to the payment of cash in lieu of fractional shares. In addition, each share of Summit series 2021 preferred stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive one share of a newly created series of Burke & Herbert preferred stock having rights, preferences, privileges and voting powers and limitations and restrictions thereof that are not materially less or more favorable to the holders of the Summit series 2021 preferred stock. Completion of the mergers is subject to receipt of the requisite approvals of the Company's and Summit's stockholders, receipt of all required regulatory approvals, and fulfillment of other customary closing conditions.

#### ***Recent Events in the Financial Services Industry***

In response to the bank failures that occurred during March and May 2023 and the attendant stress on economic agents, including various financial stock markets, the Company took multiple proactive measures to mitigate any potential financial and operational impacts. Such measures included, but were not limited to:

- dissemination of internal communication to inform the Board and employees of current events and the Company's condition and desired market response;
- testing of available liquidity sources;
- real-time analysis of our deposit composition and deposit concentrations;
- assessment of our investment securities portfolio; and
- stress testing of liquidity and capital metrics based on observed financial conditions with particular emphasis on the causes of such risk events.

For further discussion see Item 1A, under the caption “Risk Factors” in our Registration Statement. The measures taken followed meetings convened by a subcommittee provided for in our Asset/Liability policy more fully described in [Item 3.- Quantitative and Qualitative Disclosures About Market Risk – Market Risk](#).

The Company’s key inputs and certain assumptions of the stress testing included, but were not limited to, uninsured deposits, deposit composition and deposit flows, borrowings and borrowing capacity, interest rate movements and sensitivity, unrealized losses in the investment securities portfolio, loan balances and loan demand, credit risks, and current allowances for credit losses. Results of the stress tests indicated capital levels that remained above the well-capitalized regulatory ratios and liquidity metrics remained within internal policy guidelines. For additional information related to capital, see Notes to the Consolidated Financial Statements – [Note 8. Regulatory Capital Matters](#). The Company intends to continue conducting such stress tests on an interim basis.

### ***Critical Accounting Policies and Estimates***

Our accounting and reporting policies are in accordance with GAAP and follow accounting and reporting guidelines prescribed by bank regulatory and general practices within the financial services industry. Our financial position and results of operations are affected by management’s application of accounting policies, including estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments affect the amounts reported in the financial statements and accompanying notes and are based on information available as of the date of the financial statements, and, as this information changes, actual results could differ from the estimates, assumptions, and judgments reflected in the financial statements. In particular, management has identified several accounting policies that, due to the estimates, assumptions, and judgments inherent in those policies, are critical in understanding our financial statements. The more critical accounting estimates include accounting for credit losses and valuation methodologies. Additional disclosures regarding the effects of new pronouncements, ASU 2016-13 and ASU 2022-02, are included in this report in [Note 1, Nature of Business Activities and Significant Accounting Policies](#), to the consolidated financial statements under [Part 1, Item 1, “Financial Information.”](#)

### ***Liquidity Management***

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Company’s ability to meet the day-to-day cash flow requirements of its customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the needs of the communities it serves.

The Company assesses the need for liquidity in a variety of scenarios. Those scenarios may include projected growth, credit deterioration, deposit decay, interest rate changes, and a variety of other economic scenarios that can impact the liquidity position of the Company. These analyses are performed on a quarterly basis in conjunction with the Company’s Asset/Liability meetings, and findings are reported to the Asset/Liability Committee (the “ALCO”) and to the Board. From time to time, management may change the frequency of such testing or update certain inputs as a result of abnormal market conditions.

Findings as a result of the Company’s prudent liquidity modeling may result in the change of certain products offered to customers or adjust the way the Company manages its balance sheet. Such changes could include adjusting interest rates offered on certain deposit products, changes to interest rates charged in lending activities, or the suspension of certain products and activities altogether. Times of significant economic stress may cause the mix of funding to shift and increase the likelihood of changes to certain products in order to manage the Company’s overall liquidity and capital position.

The asset portion of the balance sheet provides liquidity primarily through unencumbered securities available-for-sale, loan principal and interest payments, maturities and prepayments of investment securities, and, to a lesser extent, sales of investment securities available-for-sale. Other short-term investments available to the Company that could act as potential sources of liquidity are federal funds sold, securities purchased under agreements to resell, and maturing interest-bearing deposits with other banks.

The liability portion of the balance sheet provides liquidity through interest-bearing and non-interest-bearing deposit accounts and through FHLB and other borrowings. Brokered deposits, federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings are additional sources of liquidity and basically represent the Company’s incremental borrowing capacity. These sources of liquidity are used as necessary to fund asset growth and meet short-term liquidity needs.

In addition to the Company's financial performance and condition, liquidity may be impacted by the Company's structure as a financial holding company that is a separate legal entity from the Bank. The Company requires cash for various operating needs that could include payment of dividends to its shareholders, the servicing of debt, and the payment of general corporate expenses. The primary source of liquidity for the Company is dividends paid by the Bank. Applicable federal and state statutes and regulations impose restrictions on the amount of dividends that may be paid by the Bank. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits, and other such items. Any future dividends must be set forth in the Company's capital plans before any dividends can be paid.

Management believes that the current sources of liquidity are adequate to meet the Company's requirements and plans for continued growth. See [Note 6 - Advances and Other Borrowings](#) and [Note 10 - Commitments and Contingencies](#), in Notes to Consolidated Financial Statements for additional information regarding outstanding balances of sources of liquidity and contractual commitments and obligations.

### **Capital**

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

In July 2013, the Federal Reserve published the final rules that established a new comprehensive capital framework for banking organizations, commonly referred to as Basel III. These final rules substantially revised the risk-based capital requirements applicable to financial holding companies and depository institutions. The final rule became effective January 1, 2015, for smaller, non-complex banking organizations with full implementation by January 1, 2019.

The Basel III Capital Rules require the Holding Company and the Bank to maintain minimum Common Equity Tier 1 ("CET 1"), Tier 1, and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and counter-cyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "counter-cyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Holding Company or the Bank.

Under capital adequacy guidelines and the regulatory framework for "prompt corrective action", the Holding Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Additionally, federal banking laws require regulatory authorities to take "prompt corrective action" with respect to depository institutions that do not satisfy minimum capital requirements. The extent of these powers depends upon whether the institution in question is "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", or "critically undercapitalized", as such terms are defined under federal banking agency regulations. Depository institutions that do not meet minimum capital requirements will face constraints on payment of dividends, equity repurchases, and compensation based on the amount of shortfall. A depository institution that is not "well capitalized" is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, may be subject to asset growth limitations, and may be required to submit capital restoration plans.

As of September 30, 2023, and December 31, 2022, the Bank complied with all regulatory capital standards and qualifies as "well capitalized". [Note 8 - Regulatory Capital Matters](#) in Notes to Consolidated Financial Statements contains additional discussion and analysis regarding the Company and the Bank's regulatory capital requirements.

### **Effects of Inflation**

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories that are greatly impacted by inflation. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to

maintain an appropriate equity-to-assets ratio. Inflation also affects other expenses that tend to rise during periods of general inflation.

Management believes the most significant potential impact of inflation on financial results is a direct result of the Company's ability to manage the impact of changes in interest rates. Management attempts to maintain a balanced position between rate-sensitive assets and liabilities over an economic cycle in order to minimize the impact of interest rate fluctuations on net interest income. However, this goal can be difficult to completely achieve in times of rapidly changing interest rates and is one of many factors considered in determining the Company's interest rate positioning.

### ***Key Factors Affecting Financial Performance***

We face a variety of risks that may impact various aspects of our financial performance from time to time. The extent of such impacts may vary depending on factors such as the current business and economic conditions, political and regulatory environment, and operational challenges. Many of these risks and our risk management strategies are described in more detail elsewhere in this Report as well as with the audited consolidated financial statements and notes for the year ended December 31, 2022, included in our Registration Statement.

Our success will depend upon, among other things, the following factors that we manage or control:

- Effectively managing capital and liquidity, including:
  - Continuing to maintain and, over time, grow our deposit base as a low-cost stable funding source,
  - Prudent liquidity and capital management to meet evolving regulatory capital, capital planning, stress testing, and liquidity standards, and
  - Actions we take within the capital and other financial markets,
- Our ability to manage any material costs related to the execution of our strategic priorities, including increased employees, infrastructure, compliance, and other costs in a profitable manner over the long term,
- Management of credit risk and interest rate risk in our portfolio,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- The impact of legal and regulatory-related contingencies,
- The appropriateness of critical accounting estimates and related contingencies,
- Our ability to manage operational risks related to new products and services, changes in processes and procedures, or the implementation of new technology,
- The ability to make investments to promote compliance with existing and evolving regulatory requirements that will increase as the Company grows and will result in increased administrative expenses that we did not previously incur, which costs may materially increase our general and administrative expenses, and
- The ability to execute our strategic objectives while satisfying the obligations associated with being a public company that will require significant resources and management attention and may divert management's attention from our business operations.

Our financial performance is also substantially affected by a number of external factors outside of our control, including the following:

- Economic conditions, including the length and extent of the economic impacts of a pandemic, and the actions taken to mitigate and manage it,
- The effect of climate change on our business and performance, including indirectly through impacts on our customers,
- The actions by the Federal Reserve, U.S. Treasury, and other government agencies, including those that impact money supply and market interest rates and inflation,

- The level of, and direction, timing, and magnitude of movement in interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in U.S. and global financial markets, including capital markets,
- The impact of tariffs and other trade policies of the U.S. and its global trading partners,
- Changes in the competitive landscape,
- Impacts of changes in federal, state, and local governmental policy, including on the regulatory landscape, capital markets, taxes, infrastructure spending, and social programs,
- The impact of market credit spreads on asset valuations,
- The ability of customers, counterparties, and issuers to perform in accordance with contractual terms, and the resulting impact on our asset quality,
- Loan demand, utilization of credit commitments, and standby letters of credit,
- The impact on customers and changes in customer behavior due to changing business and economic conditions or regulatory or legislative initiatives,
- The possibility that the Summit merger will not close when expected or at all because required shareholder, regulatory or other approvals are not received or other conditions to the closing are not satisfied on a timely basis or at all, and
- Our ability to eventually and successfully integrate into our operations Summit's assets, liabilities or systems we acquired, as well as new management personnel or customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto.

The impact of these items, where material, is discussed in the applicable sections of this Management's Discussion and Analysis of Financial Condition and Results of Operation. For additional information on the risks we face, see [Part II, Item 1A. - Risk Factors](#).

## Selected Financial Data

The following table contains selected historical consolidated financial data as of the dates and for the periods shown. The selected balance sheet data as of September 30, 2023, and September 30, 2022, and the selected income statement data for the three months and nine months ended September 30, 2023, and September 30, 2022, have been derived from our consolidated financial statements included elsewhere in this Form 10-Q and should be read in conjunction with the other information contained in this Form 10-Q.

(In thousands, except ratios, share and per share data)	As of the Three Months Ended September 30,		As of the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Selected Financial Condition Data:</b>				
Total assets	\$ 3,585,188	\$ 3,501,145	\$ 3,585,188	\$ 3,501,145
Total cash and cash equivalents	41,864	41,116	41,864	41,116
Total investment securities, at fair value	1,224,395	1,453,104	1,224,395	1,453,104
Net loans	2,044,505	1,730,874	2,044,505	1,730,874
Company-owned life insurance	94,213	92,703	94,213	92,703
Premises and equipment, net	57,514	56,558	57,514	56,558
Total deposits	2,985,618	2,977,660	2,985,618	2,977,660
Advances and other borrowings	299,000	243,000	299,000	243,000
Total shareholders' equity	270,819	255,471	270,819	255,471
<b>Selected Operating Data:</b>				
	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest income	\$ 37,272	\$ 29,265	\$ 108,716	\$ 80,059
Interest expense	14,383	2,585	37,261	4,277
Net interest income	22,889	26,680	71,455	75,782
Provision for (recapture of) credit losses	235	(2,388)	964	(7,564)
Total non-interest income	4,289	4,261	13,128	12,872
Total non-interest expenses	22,423	19,952	64,136	59,485
Income before income taxes	4,520	13,377	19,483	36,733
Income tax expense	464	2,240	1,869	6,073
Net income	4,056	11,137	17,614	30,660
<b>Per Share Data:</b>				
Average shares of Common Stock outstanding, basic	7,428,710	7,425,760	7,427,817	7,424,862
Average shares of Common Stock outstanding, diluted	7,499,278	7,467,693	7,506,509	7,458,569
Total shares of Common Stock outstanding	7,428,710	7,425,760	7,428,710	7,425,760
Basic net income per share	\$ 0.55	\$ 1.50	\$ 2.37	\$ 4.13
Diluted net income per share	0.55	1.49	2.35	4.11
Dividends declared per share	0.53	0.53	1.59	1.59
Dividend payout ratio <sup>(1)</sup>	96.36 %	35.57 %	67.66 %	38.69 %
Book value (at period end)	\$ 36.46	\$ 34.40	\$ 36.46	\$ 34.40

	As of or for the Three Months Ended September 30,		As of or for the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Performance Ratios:</b>				
Return on average assets	0.45 %	1.23 %	0.65 %	1.15 %
Return on average equity	5.60	14.99	8.22	12.59
Interest rate spread <sup>(2)</sup>	2.10	3.11	2.30	3.02
Net interest margin <sup>(3)</sup>	2.76	3.25	2.90	3.10
Efficiency ratio <sup>(4)</sup>	82.50	64.48	75.83	67.10
<b>Capital Ratios:</b>				
Common equity tier 1 (CET 1) capital to risk-weighted assets <sup>(5)</sup>	16.44 %	18.23 %	16.44 %	18.23 %
Total risk-based capital to risk-weighted assets <sup>(5)</sup>	17.48	19.18	17.48	19.18
Tier 1 capital to risk-weighted assets <sup>(5)</sup>	16.44	18.23	16.44	18.23
Tier 1 capital to average assets <sup>(5)</sup>	11.32	11.03	11.32	11.03
Average equity to average assets <sup>(5)</sup>	8.02	8.23	7.96	9.10
<b>Asset Quality Ratios:</b>				
Allowance coverage ratio	1.26 %	1.20 %	1.26 %	1.20 %
Allowance for credit losses as a percentage of non-performing loans	914.25	374.29	914.25	374.29
Net charge-offs to average outstanding loans during the period	0.00	0.00	0.00	0.18
Non-performing loans as a percentage of total loans	0.14	0.32	0.14	0.32
Non-performing assets as a percentage of total assets	0.08	0.16	0.08	0.16
<b>Other Data:</b>				
Number of full-service branches	23	24	23	24
Number of full-time equivalent employees	404	399	404	399

(1) The dividend payout ratio represents per share dividends declared divided by diluted earnings per share.

(2) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

(3) The net interest margin represents fully taxable-equivalent net interest income as a percent of average interest-earning assets for the period.

(4) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income and non-interest income.

(5) The 2023 capital ratios are for Burke & Herbert Financial Services Corp. and the 2022 capital ratios are for Burke & Herbert Bank & Trust Company.

## Results of Operations

### Results of Operations for the Nine Months Ended September 30, 2023, and 2022

#### General

Consolidated net income for the nine months ended September 30, 2023, was \$17.6 million compared to \$30.7 million for the nine months ended September 30, 2022. The \$13.0 million, or 42.6%, decrease in net income was primarily the result of a large recapture of provision expense in the first half of 2022 along with a decrease in net interest income and an increase in non-interest expense for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Net interest income decreased by \$4.3 million to \$71.5 million for the nine months ended September 30, 2023, compared to \$75.8 million for the nine months ended September 30, 2022. The main driver for this decrease was higher deposit and borrowing interest expense, partially offset by higher interest income from growth in loans in addition to increases in interest rates on loans and securities.

For the nine months ended September 30, 2023, the Company recorded credit provision expense of \$1.0 million compared to a recapture of provision of \$7.6 million for the nine months ended September 30, 2022. For the nine months ended

September 30, 2022, the Company was able to recapture a provision related to the initial uncertainty of the COVID-19 pandemic and the sale of a non-performing loan note. This non-performing loan had a specific reserve prior to the sale of the note. For the current period, the adoption of CECL (which requires the Company to estimate provision of credit losses using an expected life-time loss approach versus an incurred model), along with increased loan portfolio balances resulted in a higher credit expense for the nine months ended September 30, 2023, compared to the nine months ended, September 30, 2022.

Non-interest income increased by \$0.3 million, or 2.0%, to \$13.1 million for the nine months ended September 30, 2023, as compared to \$12.9 million for the nine months ended September 30, 2022. The increase in non-interest income was primarily due to increases in other non-interest income, including dividend income from FHLB stock that increased by \$236 thousand and income from loan swap fees of \$414 thousand, which were partially offset by a decrease in other non-interest income items of \$301 thousand and a decrease in service charges and fees of \$171 thousand for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Non-interest expense increased by \$4.7 million, or 7.8%, to \$64.1 million for the nine months ended September 30, 2023, as compared to \$59.5 million for the nine months ended September 30, 2022. The increase was primarily due to higher employee benefit costs and higher legal, consulting, and audit fees related to the filing of our initial Registration Statement, and merger-related filings. For the nine months ended September 30, 2023, the Company incurred \$1.7 million of legal, consulting and audit fees related to the announced merger with Summit Financial Group, Inc.

### **Net Interest Income and Net Interest Margin**

Net interest income is the principal component of the Company's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Net interest margin, stated as a percentage, is the yield obtained by dividing the difference between interest income generated on earning assets and the interest expense paid on all funding sources by average earning assets.

Fluctuations in interest rates as well as changes in the volume and mix of earnings assets and interest-bearing liabilities can impact net interest income and net interest margin. Management closely monitors both total net interest income and the net interest margin and seeks to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities.

Net interest income totaled \$71.5 million for the nine months ended September 30, 2023, compared to \$75.8 million for the nine months ended September 30, 2022. The decrease in net interest income was primarily driven by higher interest rates and slightly higher average balances on interest-bearing liabilities, mostly offset by higher interest rates on interest-earning assets. A significant increase in cost of funds for both interest-bearing deposits and borrowed funds was the primary driver of the substantial increase in interest expense. Interest income from loans and securities increased substantially as well for the nine months ended September 30, 2023, driven primarily by higher interest rates and an increase in the volume of loans. However, this increase in interest income did not completely offset the increase in interest expense, which has increased due to the increased pace of rate hikes from the Federal Reserve resulting in higher deposit rates to retain depositors and increased the cost of borrowings from the FHLB and the Federal Reserve.

The tax-adjusted net interest margin was 2.90% for the nine months ended September 30, 2023, compared to 3.10% for the nine months ended September 30, 2022. The decrease in tax-adjusted net interest margin was primarily driven by the increase in market rates that increased the cost of deposits and other borrowings in excess of the increase in interest income from interest-earning assets.

The yield for the loan portfolio was 5.01% for the nine months ended September 30, 2023, compared to 3.99% for the nine months ended September 30, 2022. The increase was primarily the result of loan production with higher interest rates in a rising rate environment.

The tax-adjusted yield on the total investment securities portfolio was 3.42% for the nine months ended September 30, 2023, compared to 2.53% for the nine months ended September 30, 2022. The increase was primarily due to higher market interest rates that increased the effective rate earned on investment securities and reduced the fair value of these investment securities.

The rate paid on interest-bearing deposits increased to 1.70% during the nine months ended September 30, 2023, from 0.12% during the nine months ended September 30, 2022. The increase was a result of market and economic conditions, which led to an increase in our paid rates for selected parts of our deposit portfolio. Increases in deposit rates rose at a

faster pace due to the increases in the Federal Funds Rate that occurred in the second half of 2022. Continuing rate increases by the Federal Reserve and in the market rates may negatively impact our cost of funds rate.

The rate paid on our borrowings for the nine months ended September 30, 2023, was 4.67%, compared to 1.27% for the corresponding period in 2022. The increase was due to the increase in short-term borrowing costs, driven by increases in the Federal Funds Rate during the year. Further increases in the Federal Funds Rate may continue to increase our overall borrowing costs.

The following table sets forth the major components of net interest income and the related yields and rates for the nine months ended September 30, 2023, and September 30, 2022, for comparison (dollars in thousands).

	For the Nine Months Ended September 30,					
	2023			2022		
	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid
<b>Assets:</b>						
Loans, gross <sup>(1)(2)</sup>	\$ 1,985,898	\$ 74,485	5.01 %	\$ 1,758,267	\$ 52,486	3.99 %
Interest-earning deposits and fed funds sold	55,870	1,858	4.45	48,232	248	0.69
Taxable securities	1,040,695	28,130	3.61	1,163,840	20,100	2.31
Tax-exempt securities <sup>(3)</sup>	267,135	5,371	2.69	381,216	9,146	3.21
Total securities	1,307,830	33,501	3.42	1,545,056	29,246	2.53
Total interest-earning assets	3,349,598	109,844	4.38	3,351,555	81,980	3.27
Non-interest-earning assets	248,292			224,770		
Total assets	\$ 3,597,890			\$ 3,576,325		
<b>Liabilities and shareholders' equity:</b>						
Deposits:						
Non-interest-bearing demand	\$ 887,711			\$ 965,859		
Interest-bearing demand	554,724	1,520	0.37 %	583,080	106	0.02 %
Savings	983,046	11,242	1.53	1,127,900	657	0.08
Time	559,453	13,946	3.33	285,577	960	0.45
Total interest-bearing deposits	2,097,223	26,708	1.70	1,996,557	1,723	0.12
Total deposits	2,984,934	26,708	1.20	2,962,416	1,723	0.08
Borrowings:						
FHLB advances and other	302,060	10,553	4.67	267,948	2,554	1.27
Total interest-bearing liabilities	2,399,283	37,261	2.08	2,264,505	4,277	0.25
Non-interest-bearing liabilities	24,485			20,355		
Equity	286,411			325,606		
Total liabilities and equity	\$ 3,597,890			\$ 3,576,325		
Taxable-equivalent net interest income /net interest spread <sup>(4)</sup>		72,583	2.30 %		77,703	3.02 %
Taxable-equivalent net interest margin <sup>(5)</sup>			2.90 %			3.10 %
Taxable-equivalent net adjustment		(1,128)			(1,921)	
Net interest income		\$ 71,455			\$ 75,782	
Net interest-earning assets	\$ 950,315			\$ 1,087,050		

(1) Non-accrual loans are included in average loan balances.

(2) Loan fees are included in the calculation of interest income.

- (3) Yields and interest income on tax-exempt assets are computed on a taxable-equivalent basis assuming a 21% tax rate.
- (4) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
- (5) The net interest margin represents fully taxable-equivalent net interest income as a percent of average interest-earning assets for the period.

Taxable-equivalent net interest margin, as presented above, is calculated by dividing fully tax-equivalent (“FTE”) net interest income by total average earning assets. Net interest income, on an FTE basis, is a non-GAAP financial measure that the Company believes to provide a more accurate picture of the interest margin for comparative purposes. Management believes FTE net interest income is a standard practice in the banking industry, and when net interest income is adjusted on a FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to a FTE basis has no impact on net income. FTE net interest income is calculated by adding the tax benefit on certain financial interest earning assets, whose interest is tax-exempt, to total interest income and then subtracting total interest expense. As a non-GAAP measure, FTE net interest income should not be considered as a substitute for the nearest comparable GAAP measure, net interest income. Net interest income shown elsewhere in this presentation is GAAP net interest income. The following table reconciles GAAP net interest income to FTE net interest income (in thousands).

	Nine Months Ended	
	September 30, 2023	September 30, 2022
<b>GAAP Financial Measurements</b>		
Interest Income - Loans	\$ 74,485	\$ 52,486
Interest Income - Securities taxable	28,130	20,101
Interest Income - Securities tax-exempt	4,243	7,224
Interest Income - Other interest income	1,858	248
Interest Expense - Deposits	26,708	1,723
Interest Expense - Borrowed funds	10,495	2,506
Interest Expense - Other	58	48
<b>Total Net Interest Income</b>	<b>\$ 71,455</b>	<b>\$ 75,782</b>
<b>Non-GAAP Financial Measurements</b>		
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	\$ 1,128	\$ 1,921
<b>Total Tax Benefit on Tax-Exempt Interest Income <sup>(1)</sup></b>	<b>1,128</b>	<b>1,921</b>
<b>Tax-Equivalent Net Interest Income</b>	<b>\$ 72,583</b>	<b>\$ 77,703</b>

- (1) Tax benefit was calculated using the federal statutory tax rate of 21%.

### **Rate/Volume Analysis**

The following table sets forth the dollar difference in interest earned and paid for each major category of interest-earning assets and interest-bearing liabilities for the noted periods and the amount of such change attributable to changes in average balances (volume) or changes in average interest rates. Interest income and interest expense for the nine months ended September 30, 2023, and September 30, 2022, are annualized using an actual days over calendar year method. The volume variances are equal to the increase or decrease in average balance multiplied by current period rates, and rate variances are equal to the increase or decrease in rate times prior period average balances. Variances attributable to both rate and volume changes are calculated by multiplying the change in rate by the change in average balance and are allocated to the volume variance. See table below (in thousands).

	<b>Nine Months Ended September 30, 2023, compared to September 30, 2022</b>		
	<b>Dollar Increase (Decrease) Due to Change in:</b>		
	<b>Average Volume</b>	<b>Average Rate</b>	<b>Net Change</b>
<b>Income from the interest-earning assets:</b>			
Loans, gross	\$ 11,356	\$ 18,057	\$ 29,413
Securities <sup>(1)</sup>	(8,125)	13,814	5,689
Interest-bearing deposits and fed funds sold	340	1,813	2,153
Total interest income on interest-earning assets	3,571	33,684	37,255
<b>Expense from the interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(104)	1,994	1,890
Savings deposits	(2,215)	16,367	14,152
Time deposits	9,841	7,521	17,362
Total interest expense on interest-bearing deposits	7,522	25,882	33,404
Borrowings	1,593	9,103	10,696
Total interest expense on interest-bearing liabilities	9,115	34,985	44,100
<b>Taxable-equivalent net interest income</b>	\$ (5,544)	\$ (1,301)	\$ (6,845)

(1) Yields and interest income on tax-exempt securities have been computed on a taxable-equivalent basis.

### **Interest Income**

Total interest income was \$108.7 million for the nine months ended September 30, 2023, compared to \$80.1 million for the nine months ended September 30, 2022, an increase of 35.8%. The increase in interest income was primarily driven by an increase in both higher interest rates and average volume for the loan portfolio along with increasing rates for the securities portfolio. Interest income on loans and securities increased by \$22.0 million and \$5.0 million, respectively, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

### **Interest Expense**

Total interest expense was \$37.3 million for the nine months ended September 30, 2023, compared to \$4.3 million for the nine months ended September 30, 2022. The increase in interest expense was primarily driven by increasing interest rates for both interest-bearing deposits and borrowed funds and by a lesser extent from balance increases in both deposits and borrowed funds. Interest expense on interest-bearing deposits and borrowed funds increased by \$25.0 million and \$8.0 million, respectively, for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

### **Provision for (Recapture of) Credit Losses**

The provision for credit losses was \$1.0 million for the nine months ended September 30, 2023, compared to a recapture of \$7.6 million for the nine months ended September 30, 2022. The increased provision expense was partly due to the Company estimating credit losses using an expected life-time loss model versus an incurred model but primarily the result of a large recapture in 2022. The provision recapture in 2022 was a result of reassessing COVID-19 qualitative factors and the sale of a non-performing loan note. Proceeds obtained for this non-performing loan note were greater than the net of the loan note's carrying value and specific reserve. Additionally, loan balances have risen significantly for the nine months ended September 30, 2023, versus the nine months ended September 30, 2022. See [Note 4 - Allowance for Credit Losses](#) in Notes to Consolidated Financial Statements for further information.

### Non-interest Income

The following table sets forth the various components of our non-interest income for the periods indicated (in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Fiduciary and wealth management	\$ 3,996	\$ 3,995	\$ 1	0.0 %
Service charges and fees	4,959	5,130	(171)	(3.3)
Net gains (losses) on securities	(112)	63	(175)	(277.8)
Income from company-owned life insurance	1,720	1,634	86	5.3
Other non-interest income	2,565	2,050	515	25.1
Total	\$ 13,128	\$ 12,872	\$ 256	2.0 %

Non-interest income increased 2.0% for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increase was primarily driven by an increase in other non-interest income of \$515 thousand when compared to the nine months ended September 30, 2022. This increase in other non-interest income was primarily due to an increase of \$236 thousand in dividends from the FHLB and an increase of \$414 thousand from customer swap fees compared to the nine months ended September 30, 2022. The increase in other non-interest income was partially offset by a decrease in other non-interest income items of \$301 thousand for the nine months ended September 30, 2023. The increase in total non-interest income was also offset by a decrease of \$175 thousand in net gains/(losses) on securities and a decrease of \$171 thousand in service charges and fees when compared to the nine months ended September 30, 2022.

### Non-interest Expense

The following table sets forth the various components of our non-interest expense for the periods indicated (in thousands):

	Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Salaries and wages	\$ 29,283	\$ 29,240	\$ 43	0.1 %
Pensions and other employee benefits	7,116	5,957	1,159	19.5
Occupancy	4,464	4,306	158	3.7
Equipment rentals, depreciation and maintenance	4,231	4,296	(65)	(1.5)
Other	19,042	15,686	3,356	21.4
Total	\$ 64,136	\$ 59,485	\$ 4,651	7.8 %

Non-interest expense increased 7.8% for the nine months ended September 30, 2023, compared to September 30, 2022. The main drivers for this increase included pensions and other employee benefits which increased by \$1.2 million primarily due to increases in the costs of employee benefit plans and an increase of \$3.4 million in other non-interest expense. The Company incurred legal and consulting expenses associated with filing its initial Registration Statement and merger-related filings. For the nine months ended September 30, 2023, the Company incurred \$1.7 million of legal, consulting and audit fees related to the announced merger with Summit Financial Group, Inc. that are included in other non-interest expense for the nine months ended September 30, 2023. See [Note 13 — Other Operating Expenses](#) in Notes to Consolidated Financial Statements for further information on “Other” non-interest expense.

### Income Tax Expense

Income tax expense was \$1.9 million for the nine months ended September 30, 2023, a decrease of \$4.2 million from the tax provision for the nine months ended September 30, 2022. The decrease was due to the decrease in net income for the nine months ended September 30, 2023, when compared to the nine months ended September 30, 2022. For the nine months ended September 30, 2023, and September 30, 2022, our effective tax rates were 9.6% and 16.5%, respectively.

### Results of Operations for the Three Months Ended September 30, 2023, and 2022

#### General

Consolidated net income for the three months ended September 30, 2023, was \$4.1 million, compared to \$11.1 million earned during the three months ended September 30, 2022. The \$7.1 million, or 63.6%, decrease in net income is primarily

due to a recapture of provision expense in the prior year quarter, a decrease in net interest income, and an increase in non-interest expense compared to the prior year quarter ended September 30, 2022.

Net interest income decreased by \$3.8 million to \$22.9 million for the three months ended September 30, 2023, compared to \$26.7 million for the three months ended September 30, 2022. The main driver for this decrease was higher funding costs on both our deposits and borrowings, which was partially offset by higher interest income from growth in loans in addition to increases in interest rates on loans and securities.

For the three months ended September 30, 2023, the Company recorded credit loss expense of \$0.2 million compared to a recapture of provision losses of \$2.4 million. For the three months ended September 30, 2022, the Company was able to recapture provision that was booked to reflect the uncertainty of the COVID-19 pandemic. For the current period, the increased loan growth and the adoption of CECL, which requires the Company to estimate provision of credit losses using an expected life-time loss approach versus an incurred model, resulted in a higher credit expense for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

Non-interest income slightly increased by \$28 thousand, or 0.7%, to \$4.3 million for the three months ended September 30, 2023, as compared to \$4.3 million for the three months ended September 30, 2022. The increase in non-interest income was primarily due to small increases in most non-interest categories which were mostly offset by a decline in service charges and fees of \$153 thousand in the three months ended September 30, 2023, compared to September 30, 2022.

Non-interest expense increased by \$2.5 million, or 12.4%, to \$22.4 million for the three months ended September 30, 2023, as compared to \$20.0 million for the three months ended September 30, 2022. The increase was primarily due to increases in other non-interest expenses including higher legal, consulting, and audit fees arising from merger-related filings. The increase was also driven by increases in employee benefit expenses and occupancy related expenses when compared to the quarter ended September 30, 2022.

### **Net Interest Income and Net Interest Margin**

Net interest income is the principal component of the Company's income stream and represents the difference, or spread, between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Net interest margin, stated as a percentage, is the yield obtained by dividing the difference between interest income generated on earning assets and the interest expense paid on all funding sources by average earning assets.

Fluctuations in interest rates as well as changes in the volume and mix of earnings assets and interest-bearing liabilities can impact net interest income and net interest margin. Management closely monitors both total net interest income and the net interest margin and seeks to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities.

Net interest income totaled \$22.9 million for the three months ended September 30, 2023, compared to \$26.7 million for the three months ended September 30, 2022. The decrease in net interest income was primarily driven by both higher interest rates and higher volume of interest-bearing liabilities. The impact of higher rates on interest-bearing liabilities was partially offset by the increase in volume and rates of interest-earning assets. However, the increased pace of rate hikes from the Federal Reserve has resulted in higher deposit rates to retain depositors and increased the cost of borrowings from the FHLB and the Federal Reserve.

The tax-adjusted net interest margin was 2.76% for the three months ended September 30, 2023, compared to 3.25% for the three months ended September 30, 2022. The decrease in tax-adjusted net interest margin was primarily driven by the increase in market rates that increased the cost of deposit and other borrowings in excess of the increase in the interest income from interest-earning assets.

The yield for the loan portfolio was 5.15% for the three months ended September 30, 2023, compared to 4.19% for the three months ended September 30, 2022. The increase was primarily the result of increasing loan production with higher interest rates in a rising rate environment.

The tax-adjusted yield on the total investment securities portfolio was 3.37% for the three months ended September 30, 2023, compared to 2.89% for the three months ended September 30, 2022. The increase was primarily due to higher market interest rates that increased the effective rate earned by reducing the fair value of the average outstanding balance of the investment securities.

The rate paid on interest-bearing deposits increased to 2.09% during the three months ended September 30, 2023, from 0.19% during the three months ended September 30, 2022. The increase was a result of market and economic conditions, which led to an increase in our offering rate for selected parts of our deposit portfolio. Increases in deposit rates rose at a faster pace due to the increases in the Federal Funds Rate that continued in the second half of 2022. Additional increases by the Federal Reserve and in the market rates may negatively impact our cost of funds rate.

The rate paid on our borrowings for the three months ended September 30, 2023, was 4.69%, compared to 2.31% for the corresponding period in 2022. The increase was due to the increase in short-term borrowing costs, driven by increases in the Federal Funds Rate during the year. Further increases in the Federal Funds Rate may continue to increase our overall borrowing costs.

The following table sets forth the major components of net interest income and the related yields and rates for the three months ended September 30, 2023, and September 30, 2022, for comparison (dollars in thousands).

**For the Three Months Ended September 30,**

	2023			2022		
	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid
<b>Assets:</b>						
Loans, gross <sup>(1)(2)</sup>	\$ 2,034,275	\$ 26,425	5.15 %	\$ 1,763,540	\$ 18,618	4.19 %
Interest-earning deposits and fed funds sold	49,501	562	4.50	36,513	142	1.54
Taxable securities	991,170	8,909	3.57	1,153,564	8,171	2.81
Tax-exempt securities <sup>(3)</sup>	262,336	1,742	2.63	374,977	2,955	3.13
Total securities	1,253,506	10,651	3.37	1,528,541	11,126	2.89
Total interest-earning assets	3,337,282	37,638	4.47	3,328,594	29,886	3.56
Non-interest-earning assets	244,488			252,262		
Total assets	\$ 3,581,770			\$ 3,580,856		
<b>Liabilities and shareholders' equity:</b>						
Deposits:						
Non-interest-bearing demand	\$ 860,983			\$ 985,203		
Interest-bearing demand	537,644	757	0.56 %	557,232	36	0.03 %
Savings	952,001	4,370	1.82	1,133,804	273	0.10
Time	654,952	6,150	3.73	309,106	645	0.83
Total interest-bearing deposits	2,144,597	11,277	2.09	2,000,142	954	0.19
Total deposits	3,005,580	11,277	1.49	2,985,345	954	0.13
Borrowings:						
FHLB advances and other	262,521	3,106	4.69	280,069	1,631	2.31
Total interest-bearing liabilities	2,407,118	14,383	2.37	2,280,211	2,585	0.45
Non-interest-bearing liabilities	26,442			20,604		
Equity	287,227			294,838		
Total liabilities and equity	\$ 3,581,770			\$ 3,580,856		
Taxable-equivalent net interest income /net interest spread <sup>(4)</sup>		23,255	2.10 %		27,301	3.11 %
Taxable-equivalent net interest margin <sup>(5)</sup>			2.76 %			3.25 %
Taxable-equivalent net adjustment		(366)			(621)	
Net interest income		\$ 22,889			\$ 26,680	
Net interest-earning assets	\$ 930,164			\$ 1,048,383		

(1) Non-accrual loans are included in average loan balances.

(2) Loan fees are included in the calculation of interest income.

(3) Yields and interest income on tax-exempt assets are computed on a taxable-equivalent basis assuming a 21% tax rate.

(4) The interest rate spread represents the difference between the fully taxable-equivalent weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

(5) The net interest margin represents fully taxable-equivalent net interest income as a percent of average interest-earning assets for the period.

Taxable-equivalent net interest margin, as presented above, is calculated by dividing FTE net interest income by total average earning assets. Net interest income, on an FTE basis, is a non-GAAP financial measure that the Company believes to provide a more accurate picture of the interest margin for comparative purposes. Management believes FTE net interest income is a standard practice in the banking industry, and when net interest income is adjusted on a FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to a FTE basis has no impact on

net income. FTE net interest income is calculated by adding the tax benefit on certain financial interest earning assets, whose interest is tax-exempt, to total interest income then subtracting total interest expense. As a non-GAAP measure, FTE net interest income should not be considered as a substitute for the nearest comparable GAAP measure, net interest income. Net interest income shown elsewhere in this presentation is GAAP net interest income. The following table reconciles GAAP net interest income to FTE net interest income (in thousands).

	Three Months Ended	
	September 30, 2023	September 30, 2022
<b>GAAP Financial Measurements</b>		
Interest Income - Loans	\$ 26,425	\$ 18,618
Interest Income - Securities taxable	8,909	8,171
Interest Income - Securities tax-exempt	1,376	2,334
Interest Income - Other interest income	562	142
Interest Expense - Deposits	11,277	954
Interest Expense - Borrowed funds	3,078	1,614
Interest Expense - Other	28	17
<b>Total Net Interest Income</b>	<b>\$ 22,889</b>	<b>\$ 26,680</b>
<b>Non-GAAP Financial Measurements</b>		
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	\$ 366	\$ 621
<b>Total Tax Benefit on Tax-Exempt Interest Income <sup>(1)</sup></b>	<b>366</b>	<b>621</b>
<b>Tax-Equivalent Net Interest Income</b>	<b>\$ 23,255</b>	<b>\$ 27,301</b>

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

### Rate/Volume Analysis

The following table sets forth the dollar difference in interest earned and paid for each major category of interest-earning assets and interest-bearing liabilities for the noted periods and the amount of such change attributable to changes in average balances (volume) or changes in average interest rates. Interest income and interest expense for the three months ended September 30, 2023, and September 30, 2022, are annualized using an actual days over calendar year method. Volume variances are equal to the increase or decrease in average balance multiplied by current period rates, and rate variances are equal to the increase or decrease in rate times prior period average balances. Variances attributable to both rate and volume changes are calculated by multiplying the change in rate by the change in average balance and are allocated to the volume variance. See table below (in thousands).

	Three Months Ended September 30, 2023, compared to September 30, 2022		
	Dollar Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Net Change
<b>Income from the interest-earning assets:</b>			
Loans, gross	\$ 14,122	\$ 16,858	\$ 30,980
Securities <sup>(1)</sup>	(9,271)	7,385	(1,886)
Interest-bearing deposits and fed funds sold	585	1,080	1,665
<b>Total interest income on interest-earning assets</b>	<b>5,436</b>	<b>25,323</b>	<b>30,759</b>
<b>Expense from the interest-bearing liabilities:</b>			
Interest-bearing demand deposits	(109)	2,965	2,856
Savings deposits	(3,311)	19,576	16,265
Time deposits	13,669	8,164	21,833
<b>Total interest expense on interest-bearing deposits</b>	<b>10,249</b>	<b>30,705</b>	<b>40,954</b>
Borrowings	(824)	6,682	5,858
<b>Total interest expense on interest-bearing liabilities</b>	<b>9,425</b>	<b>37,387</b>	<b>46,812</b>
<b>Taxable-equivalent net interest income</b>	<b>\$ (3,989)</b>	<b>\$ (12,064)</b>	<b>\$ (16,053)</b>

(1) Yields and interest income on tax-exempt securities have been computed on a taxable-equivalent basis.

### Interest Income

Total interest income was \$37.3 million for the three months ended September 30, 2023, compared to \$29.3 million for the three months ended September 30, 2022, an increase of 27.4%. The increase in interest income was primarily driven by an increase in both rates and volume for the loan portfolio. Interest income on loans increased by \$7.8 million and interest income on securities decreased \$(0.2) million, for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

### Interest Expense

Total interest expense was \$14.4 million for the three months ended September 30, 2023, compared to \$2.6 million for the three months ended September 30, 2022. The increase in interest expense was primarily driven by increasing rates for both deposits and borrowed funds. The average interest-bearing balances of deposits also increased, but primarily, the increase in interest rate expense was due to higher rates. Interest expense on interest-bearing deposits and borrowed funds increased by \$10.3 million and \$1.5 million, respectively, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

### Provision for (Recapture of) Credit Losses

The provision for credit losses was \$0.2 million for the three months ended September 30, 2023, compared to a recapture of \$2.4 million for the three months ended September 30, 2022. The increased provision expense was primarily due to a recapture of provision that was booked to reflect the uncertainty of the COVID-19 pandemic for three months ended September 30, 2022 and the Company estimating credit losses using an expected life-time loss model versus an incurred model for the three months ended September 30, 2023. Additionally, loan balances have risen significantly for the three months ended September 30, 2023, versus the three months ended September 30, 2022. See [Note 4 - Allowance for Credit Losses](#) in Notes to Consolidated Financial Statements for further information.

### Non-interest Income

The following table sets forth the various components of our non-interest income for the periods indicated (in thousands):

	Three months ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Fiduciary and wealth management	\$ 1,354	\$ 1,328	\$ 26	2.0 %
Service charges and fees	1,583	1,736	(153)	(8.8)
Net gains (losses) on securities	(1)	(41)	40	(97.6)
Income from company-owned life insurance	589	555	34	6.1
Other non-interest income	764	683	81	11.9
Total	\$ 4,289	\$ 4,261	\$ 28	0.7 %

Non-interest income increased 0.7% for the three months ended September 30, 2023, compared to the three months ended September 30, 2022. The increase was primarily driven by an increase in other non-interest income of \$81 thousand, and a small increase in fiduciary and wealth management income as well as small increases in income from company-owned life insurance and a decline in losses on securities. This increase was partially offset by a decline in service charges and fees in the three months ended September 30, 2023.

### Non-interest Expense

The following table sets forth the various components of our non-interest expense for the periods indicated (in thousands):

	Three months ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Salaries and wages	\$ 9,867	\$ 10,094	\$ (227)	(2.2)%
Pensions and other employee benefits	2,242	2,017	225	11.2
Occupancy	1,462	1,151	311	27.0
Equipment rentals, depreciation and maintenance	1,435	1,534	(99)	(6.5)
Other	7,417	5,156	2,261	43.9
Total	\$ 22,423	\$ 19,952	\$ 2,471	12.4 %

Non-interest expense increased \$2.5 million or 12.4% for the three months ended September 30, 2023, compared to September 30, 2022. The main drivers for this increase include an increase in employee benefit expenses, an increase in occupancy related expenses, and a large increase of \$2.3 million in other non-interest expenses. For the three months ended September 30, 2023, the Company incurred \$1.6 million of legal, consulting, and audit fees related to the announced merger with Summit Financial Group, Inc. that are included in other non-interest expense for the three months ended September 30, 2023. See [Note 13 — Other Operating Expenses](#) in Notes to Consolidated Financial Statements for further information on “Other” non-interest expense.

#### ***Income Tax Expense***

Income tax expense was \$0.5 million for the three months ended September 30, 2023, a decrease of \$1.8 million from the tax provision for the three months ended September 30, 2022. The decrease was due to the decrease in net income for the three months ended September 30, 2023, when compared to the prior year three months ended September 30, 2022. For the three months ended September 30, 2023, and September 30, 2022, our effective tax rates were 10.3% and 16.7%, respectively.

#### **Analysis of Financial Condition for the Period Ended September 30, 2023, and December 31, 2022**

Assets increased by \$22.3 million to \$3.59 billion as of September 30, 2023, compared to \$3.56 billion as of December 31, 2022. Loans, net of ACL, increased by \$178.3 million from \$1.87 billion as of December 31, 2022, to \$2.04 billion as of September 30, 2023. Deposits increased by \$65.2 million and amounted to \$2.99 billion at September 30, 2023, compared to \$2.92 billion at December 31, 2022. Borrowed funds decreased by \$44.1 million to \$299.0 million as of September 30, 2023, compared to \$343.1 million at December 31, 2022.

#### ***Investment Securities***

Our investment policy is established and reviewed annually by the Board. We are permitted under federal law to invest in various types of liquid assets, including United States Government obligations, securities of various federal agencies and of state and municipal governments, mortgage-backed securities, time deposits of federally insured institutions, certain bankers’ acceptances, and federal funds. Our securities are all classified as AFS.

Our investments provide a source of liquidity because we can pledge them to support borrowed funds or can liquidate them to generate cash proceeds. Our investment portfolio is also a resource in managing interest rate risk because the maturity and interest rate characteristics of this asset class can be modified to match changes in the loan and deposit portfolios. The majority of our AFS investment portfolio is comprised of obligations of states and municipalities and residential mortgage-backed securities. During the nine months ended September 30, 2023, the unrealized losses on our holdings increased from December 31, 2022, as the increase in long-term interest rate expectations, portfolio runoff, and rebalancing had a negative impact on the value of our AFS portfolio.

On January 1, 2023, the Company adopted the new CECL standard in accordance with ASU 2016-13, which changed the accounting framework by replacing the other-than-temporary impairment (“OTTI”) assessment with the recognition of an ACL. The Company determined that the declines in market value were due to increases in interest rates and market movements and not due to credit factors. Therefore, the Company has concluded that the unrealized losses for the AFS securities do not require an ACL at September 30, 2023. Under the prior OTTI framework, the Company did not record any cumulative OTTI expense as of December 31, 2022.

The Company has sufficient access to liquidity such that management does not believe it would be necessary to sell any of its investment securities at a loss to offset any unexpected deposit outflows. Management believes the structure of the Bank’s investment portfolio is appropriately aligned with the rest of the balance sheet to protect against significant and unexpected charges against earnings and capital.

The following tables reflect the amortized cost and fair market values for the total portfolio for each category of investment for September 30, 2023, and December 31, 2022 (in thousands):

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. Treasuries and government agencies	\$ 197,310	\$ —	\$ 24,328	\$ 172,982
Obligations of states and municipalities	536,885	7	107,413	429,479
Residential mortgage backed - agency	47,494	—	5,658	41,836
Residential mortgage backed - non-agency	307,763	4	25,659	282,108
Commercial mortgage backed - agency	36,874	20	1,355	35,539
Commercial mortgage backed - non-agency	181,844	—	8,500	173,344
Asset backed	82,811	11	1,650	81,172
Other	9,500	—	1,565	7,935
<b>Total</b>	<b>\$ 1,400,481</b>	<b>\$ 42</b>	<b>\$ 176,128</b>	<b>\$ 1,224,395</b>

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available-for-Sale</b>				
U.S. Treasuries and government agencies	\$ 198,154	\$ —	\$ 23,161	\$ 174,993
Obligations of states and municipalities	550,590	12	96,695	453,907
Residential mortgage backed - agency	57,883	14	4,836	53,061
Residential mortgage backed - non-agency	365,983	2	26,690	339,295
Commercial mortgage backed - agency	61,810	75	1,952	59,933
Commercial mortgage backed - non-agency	191,709	10	8,420	183,299
Asset backed	101,791	49	3,214	98,626
Other	9,500	—	857	8,643
<b>Total</b>	<b>\$ 1,537,420</b>	<b>\$ 162</b>	<b>\$ 165,825</b>	<b>\$ 1,371,757</b>

The investment maturity table below summarizes contractual maturities for our investment securities at September 30, 2023. The actual timing of principal payments may differ from remaining contractual maturities because obligors may have the right to repay certain obligations with or without penalties. The overall weighted average duration of the Company's investment portfolio is 4.0 years at September 30, 2023. The weighted-average yield below represents the effective yield for the investment securities and is calculated based on the amortized cost of each security (dollars in thousands). Interest on securities below excludes tax-equivalent adjustments.

	September 30, 2023									
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
<b>Securities Available-for-Sale</b>										
U.S. Treasuries and government agencies	\$ 29,802	1.61 %	\$ 78,123	1.23 %	\$ 89,385	1.38 %	\$ —	— %	\$ 197,310	1.36 %
Obligations of states and municipalities	370	4.10	15,989	2.47	234,600	2.11	285,926	2.08	536,885	2.11
Residential mortgage backed - agency	42	4.17	808	4.09	46,644	3.65	—	—	47,494	3.66
Residential mortgage backed - non-agency	72,280	2.86	137,888	3.99	95,182	3.65	2,413	6.56	307,763	3.64
Commercial mortgage backed - agency	165	7.34	19,531	5.40	17,178	4.88	—	—	36,874	5.17
Commercial mortgage backed - non-agency	13,613	7.04	163,088	4.87	5,143	1.43	—	—	181,844	4.94
Asset backed	8,247	5.72	41,248	6.72	33,316	5.85	—	—	82,811	6.27
Other	—	—	—	—	9,500	5.13	—	—	9,500	5.13
<b>Total</b>	<b>\$ 124,519</b>	<b>3.22 %</b>	<b>\$ 456,675</b>	<b>4.09 %</b>	<b>\$ 530,948</b>	<b>2.77 %</b>	<b>\$ 288,339</b>	<b>2.12 %</b>	<b>\$ 1,400,481</b>	<b>3.11 %</b>

### Lending Activities

Our loan portfolio consists primarily of commercial real estate loans, but we offer a variety of products to meet the credit needs of our borrowers. The risks associated with lending activities differ among loan classes and are subject to the impact of changes in interest rates, market conditions of collateral securing the loans, and general economic conditions. Any of these factors may adversely impact a borrower's ability to repay loans and also impact the associated collateral. Additional discussion on the classes of loans the Company makes and related risks is included in [Note 3 — Loans](#) in Notes to Consolidated Financial Statements.

The following tables set forth the composition of our loan portfolio as of the dates indicated (in thousands):

	September 30, 2023	December 31, 2022
Commercial real estate	\$ 1,260,653	\$ 1,109,315
Owner-occupied commercial real estate	123,496	127,114
Acquisition, construction & development	96,535	94,450
Commercial & industrial	61,571	53,514
Single family residential (1-4 units)	525,558	499,362
Consumer non-real estate and other	2,803	3,466
Loans, gross	2,070,616	1,887,221
Allowance for credit losses	(26,111)	(21,039)
Loans, net	\$ 2,044,505	\$ 1,866,182

The loan portfolio, excluding ACL, at September 30, 2023, increased by \$183.4 million primarily due to growth in our commercial and residential real estate loan production. The Company's organic growth has occurred in both legacy and newer markets, principally in commercial real estate.

The following table shows the maturity distribution for total loans outstanding as of September 30, 2023. The maturity distribution is grouped by remaining scheduled principal payments that are due in the following periods. The principal balance of loans are indicated by both fixed and floating rate categories in the table below (in thousands).

	September 30, 2023								Total
	Within One Year		One Year to Five Years		Five Years to 15 Years		After 15 Years		
	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	Fixed Rates	Adjustable Rates	
Loans:									
Commercial real estate	\$ 92,343	\$ 34,169	\$ 538,416	\$ 110,177	\$ 388,283	\$ 95,660	\$ —	\$ 1,605	\$ 1,260,653
Owner-occupied commercial real estate	8,403	235	54,274	5,337	53,523	579	—	1,145	123,496
Acquisition, construction & development	22,613	6,988	880	57,800	5,531	594	1,628	501	96,535
Commercial & industrial	502	10,475	38,132	6,019	5,293	1,150	—	—	61,571
Total commercial loans	123,861	51,867	631,702	179,333	452,630	97,983	1,628	3,251	1,542,255
Single family residential (1-4 units)	3,674	1,901	9,889	13,326	19,636	11,568	273,931	191,633	525,558
Consumer non-real estate and other	217	277	937	549	401	—	22	400	2,803
Total loans	\$ 127,752	\$ 54,045	\$ 642,528	\$ 193,208	\$ 472,667	\$ 109,551	\$ 275,581	\$ 195,284	\$ 2,070,616

### Asset Quality

The Company maintains policies and procedures to promote sound underwriting and mitigate credit risk. The Chief Credit Officer is responsible for establishing credit risk policies and procedures, including underwriting guidelines and credit approval authority, and monitoring credit exposure and performance of the Company's lending-related transactions.

A loan is placed on non-accrual status when (i) the Company is advised by the borrower that scheduled principal or interest payments cannot be met, (ii) when management's best judgment indicates that payment in full of principal and interest can no longer be expected, or (iii) when any such loan or obligation becomes delinquent for 90 days, unless it is both well-secured and in the process of collection.

The Company's asset quality remained stable through the second quarter of 2023. The Company's non-performing assets, which includes non-performing loans consisting of non-accrual loans, loans that are more than 90 days past due and still accruing, and other real estate owned as of September 30, 2023, totaled \$2.9 million.

The following table summarizes the Company's non-performing assets as of September 30, 2023, and December 31, 2022 (in thousands):

	September 30, 2023	December 31, 2022
Non-accrual loans	\$ 2,856	\$ 5,497
90 days past due and still accruing	—	—
Total non-performing loans	2,856	5,497
Other real estate owned	—	—
Total non-performing assets	\$ 2,856	\$ 5,497

### ***Allowance for Credit Losses***

Refer to the discussion in [Note 1. Nature of Business Activities and Significant Accounting Policies](#) in Notes to Consolidated Financial Statements for management's approach to estimating the ACL.

The Company maintains the ACL at a level deemed adequate by management for expected credit losses. As disclosed in [Note 1](#) and [Note 4](#), on January 1, 2023, the Company implemented CECL and increased the ACL, previously the allowance for credit losses, with a cumulative-effect adjustment to the ACL for credit losses of \$4.4 million, which included a cumulative-effect adjustment to the ACL for off-balance sheet exposures of \$274.8 thousand. The Company's ACL is calculated quarterly with any adjustment recorded to the provision for credit losses in the consolidated Statement of Income. Management evaluates the adequacy of the ACL utilizing a defined methodology to determine if it properly addresses the current and expected risks in the loan portfolio, which considers the performance of borrowers and specific evaluation of individually evaluated loans, including historical loss experiences, trends in delinquencies, non-performing loans and other risk assets, and qualitative factors. Risk factors are continuously reviewed and adjusted, as needed, by management when conditions support a change. Management believes its approach properly addresses relevant accounting and bank regulatory guidance for loans both collectively and individually evaluated.

Gross charged-off loans were \$13.0 thousand and \$54.0 thousand for the three months ended September 30, 2023, and September 30, 2022, respectively, and \$134.0 thousand and \$3.4 million for the nine months ended September 30, 2023, and September 30, 2022, respectively. Gross recoveries totaled \$5.0 thousand and \$33.0 thousand for the three months ended September 30, 2023, and September 30, 2022, respectively, and \$48.0 thousand and \$219.0 thousand for the nine months ended September 30, 2023, and September 30, 2022, respectively. The ACL as a percentage of gross loans, net of unearned income, was 1.26% and 1.20% as of September 30, 2023, and September 30, 2022, respectively.

The Company recorded a provision of \$200 thousand and a provision recapture of \$2.4 million for the three months ended September 30, 2023, and September 30, 2022, respectively, and a provision of \$1.0 million and a provision recapture of \$7.6 million for the nine months ended September 30, 2023, and September 30, 2022, respectively. The provision recapture was as a result of removing COVID-19 qualitative factors and the sale of a non-performing loan note in the first half of 2022.

The following table summarizes the changes in the Company's credit loss experience by portfolio as of the three and nine months ended September 30, 2023, and 2022 (dollars in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Loans outstanding at end of period	\$ 2,070,616	\$ 1,751,827	\$ 2,070,616	\$ 1,751,827
Balance of allowance at beginning of period	(25,919)	(23,362)	(21,039)	(31,709)
Impact of the adoption of CECL	—	—	(4,125)	—
Loans charged-off:				
Commercial real estate	—	—	—	3,282
Owner-occupied commercial real estate	—	—	—	—
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	29	20
Residential	—	—	—	—
Consumer non-real estate and other	13	54	105	109
Total loans charged-off	13	54	134	3,411
Recoveries of loans charged-off:				
Commercial real estate	(4)	(27)	(35)	(34)
Owner-occupied commercial real estate	—	—	—	—
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Residential	(1)	(2)	(7)	(166)
Consumer non-real estate and other	—	(4)	(6)	(19)
Total recoveries of loans charged-off	(5)	(33)	(48)	(219)
Net loan charge-offs (recoveries)	8	21	86	3,192
Provision for (recapture of) credit losses for the period	200	(2,388)	1,033	(7,564)
Ending allowance	\$ (26,111)	\$ (20,953)	\$ (26,111)	\$ (20,953)
Average loans outstanding during the period	\$ 2,034,275	\$ 1,763,540	\$ 1,985,898	\$ 1,758,267
Allowance coverage ratio <sup>(1)</sup>	1.26 %	1.20 %	1.26 %	1.20 %
Net charge-offs to average outstanding loans during the period <sup>(2)</sup>	0.00	0.00	0.00	0.18
Allowance for credit losses as a percentage of non-performing loans <sup>(3)</sup>	914.25	374.29	914.25	374.29

(1) The allowance coverage ratio is calculated by dividing the ACL at the end of the period by gross loans, net of unearned income at the end of the period.

(2) The Net charge-offs to average outstanding loans during the period is calculated by dividing total net loan charge-offs (recoveries) during the year by average gross loans outstanding during the year.

(3) The Allowance for credit losses as a percentage of non-performing loans ratio is calculated by dividing the ACL at the end of the period by non-accrual loans at the end of the period.

The following table summarizes the ACL and the allowance for credit losses by portfolio with a comparison of the percentage composition in relation to total ACL and allowance for credit losses and total loans as of September 30, 2023, and December 31, 2022 (dollars in thousands).

	<b>September 30, 2023</b>		
	<b>Allowance for credit losses</b>	<b>Percent of Allowance in Each Category to Total Allocated ACL</b>	<b>Percent of Loans in Each Category to Total Loans</b>
Commercial real estate	\$ 19,612	75.10 %	60.89 %
Owner-occupied commercial real estate	785	3.01	5.96
Acquisition, construction & development	1,765	6.76	4.66
Commercial & industrial	517	1.98	2.97
Residential	3,386	12.97	25.38
Consumer non-real estate and other	46	0.18	0.14
<b>Total</b>	<b>\$ 26,111</b>	<b>100.00 %</b>	<b>100.00 %</b>

	<b>December 31, 2022</b>		
	<b>Allowance for credit losses</b>	<b>Percent of Allowance in Each Category to Total Allocated Allowance</b>	<b>Percent of Loans in Each Category to Total Loans</b>
Commercial real estate	\$ 15,477	73.56 %	58.78 %
Owner-occupied commercial real estate	635	3.02	6.74
Acquisition, construction & development	2,082	9.90	5.00
Commercial & industrial	438	2.08	2.84
Residential	2,379	11.31	26.46
Consumer non-real estate and other	28	0.13	0.18
<b>Total</b>	<b>\$ 21,039</b>	<b>100.00 %</b>	<b>100.00 %</b>

### ***Derivative Financial Instruments***

The Company utilizes interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position. The Company recognizes derivative financial instruments at fair value as either other assets or other liabilities on the Consolidated Balance Sheets. The Company's use of derivative financial instruments are described more fully in [Note 9 — Derivatives](#) in Notes to Consolidated Financial Statements.

### ***Off-Balance Sheet Arrangements***

The Company enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of its customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit, and financial guarantees which would impact the Company's liquidity and capital resources to the extent customers accept and/or use these commitments. See [Note 10 — Commitments and Contingencies](#) in Notes to Consolidated Financial Statements for a discussion of credit extension commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. With the exception of these off-balance sheet arrangements, the Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### ***Funding Activities***

The Company's funding activities are monitored and governed through the Company's asset/liability management process. Deposits are the primary source of funds for lending and investing activities; however, the Company will use borrowings to meet liquidity needs and for temporary funding. Sources of borrowings include advances from the FHLB of Atlanta, borrowings from correspondent banks, and the Fed Discount Window. The Company also utilizes brokered time deposits. For more discussion of brokered time deposits, see the Deposits heading below this section.

As of September 30, 2023, the Company has available unused borrowing capacity of \$883.5 million through its available lines of credit with the FHLB of Atlanta and unsecured federal fund lines of credit from correspondent banking relationships. Advances on credit lines are secured by both securities and loans.

The following table shows certain information regarding borrowings as of the three months ended September 30, 2023, and December 31, 2022, respectively (dollars in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Balance at end of period	\$ 299,000	\$ 343,100
Weighted average interest rate at end of period	4.83%	4.42%

### **Deposits**

Total deposits increased by \$65.2 million from December 31, 2022, to September 30, 2023, due to an increase in the balance of brokered time deposits. The Company has issued brokered time deposits that amounted to \$389.0 million as of September 30, 2023, and \$100.3 million at December 31, 2022, which are included in the table below within "Time deposits, other". The following table sets forth the balance of each category of deposits as of the dates indicated (in thousands):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
	<b>Balance</b>	<b>Balance</b>
Demand, non-interest-bearing	\$ 853,385	\$ 960,692
Demand, interest-bearing	530,360	616,665
Money market and savings	927,035	1,044,152
Time deposits, other	674,838	298,891
Total interest-bearing	2,132,233	1,959,708
Total deposits	\$ 2,985,618	\$ 2,920,400

The Company continues to seek organic growth in both interest-bearing and non-interest-bearing deposits consistent with our relationship-based strategy. Management evaluates its utilization of brokered deposits, taking into consideration the interest rate curve and regulatory views on non-core funding sources, and balances this funding source with its funding needs based on growth initiatives.

The Company has deposits that meet or exceed the FDIC insurance limit of \$250,000 in the amounts of \$670.7 million and \$843.4 million at September 30, 2023, and December 31, 2022, respectively.

The following table sets forth maturity ranges of time deposits as of September 30, 2023, that meet or exceed the FDIC insurance limit (in thousands).

	<b>September 30, 2023</b>
Due within 3 months or less	\$ 8,909
Due after 3 months and within 6 months	24,287
Due after 6 months and within 12 months	27,441
Due after 12 months	4,840
Total uninsured, time deposits	\$ 65,477

### **Shareholders' Equity**

Total shareholders' equity at September 30, 2023, was \$270.8 million, compared to \$273.5 million at December 31, 2022. Shareholders' equity decreased by \$2.6 million in part due to an increase in unrealized losses in the AFS securities portfolio since December 31, 2022. Accumulated other comprehensive income decreased \$6.7 million from December 31, 2022, to September 30, 2023, primarily as a result of an increase in unrealized losses on AFS investment securities.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Market Risk***

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in lending, investment, and deposit-taking activities. To that end, management actively monitors and manages its interest rate risk exposure, and on at least a quarterly basis, in conjunction with the Company's Asset/Liability meetings, reports its findings to the ALCO and to the Board. From time to time, management may change the frequency of such testing or update certain inputs as a result of abnormal market conditions. Our profitability is affected by fluctuations in interest rates; a sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We monitor the impact of changes in interest rates on net interest income using several tools. See [Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#), Recent Events in the Financial Services Industry.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while configuring our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest rate risk.

In addition, the Company's Asset/Liability policy provides for a subcommittee of the ALCO, comprised of executive and senior management that, upon the determination that abnormal market risks are occurring or may be forthcoming, will convene with the responsibility of making all decisions related to mitigation of potential negative impacts to the Company. This subcommittee acts as a clearinghouse for information on Company earnings, credit risk, lending and deposit activities, and liquidity management necessary for internal communications, including to the Board, and external communications.

#### ***Interest Rate Sensitivity***

Interest rate risk is the risk to earnings and fair value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricing and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time, depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve, where interest rates increase or decrease in a non-parallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

The rates on some interest-bearing financial instruments may adjust promptly with changes in market rates, while others adjust only periodically or are fixed for a predefined term. Such instances can cause a mismatch between the sensitivity and behavior of financial assets and liabilities. Interest rate fluctuations and economic factors, coupled with repricing mismatches and embedded options inherent in these financial assets and liabilities, may impact the Company's interest expense, interest income, and the value of certain financial assets and liabilities. Through the ALCO, we attempt to manage the balance sheet in a manner that increases the benefit or reduces the negative impacts from such events.

The overall impact of changes in interest rates, including, but not limited to, the impact to our net interest income and to our securities portfolio, can be enhanced or diluted depending on the variability of interest rates. From time to time, the Company may hedge its interest rate risk position, which can impact earnings. We generally do not hedge all of our interest rate risk, nor can we guarantee that any attempts to do so will be successful. See [Note 9 - Derivatives](#) in Notes to Consolidated Financial Statements for a discussion of our hedging activity.

The Company actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. The ALCO, using policies and procedures approved by the Company's Board, is responsible for the management of the Company's interest rate sensitivity position. The Company manages interest rate sensitivity by changing the mix, pricing and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms, and through wholesale funding. Wholesale funding consists of, but is not limited to, borrowings with the FHLB, federal funds purchased, and brokered time deposits.

The Company uses several tools to manage its interest rate risk, including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios, and net interest margin reports. The results of these reports are compared to limits established by the Company's ALCO policies, and appropriate adjustments are made if the results are outside the established limits.

There are an infinite number of potential interest rate scenarios, each of which can be accompanied by differing economic/political/regulatory climates; can generate multiple differing behavior patterns by markets, borrowers, depositors, etc.; and, can last for varying degrees of time. Therefore, by definition, interest rate risk sensitivity cannot be predicted with certainty. Accordingly, the Company's interest rate risk measurement philosophy focuses on maintaining an appropriate balance between theoretical and practical scenarios; especially given the primary objective of the Company's overall asset/liability management process, which is to facilitate meaningful strategy development and implementation.

Therefore, we model a set of interest rate scenarios capturing the financial effects of a range of plausible rate scenarios; the collective impact of which will enable the Company to clearly understand the nature and extent of its sensitivity to interest rate changes. Doing so necessitates an assessment of rate changes over varying time horizons and of varying/sufficient degrees such that the impact of embedded options within the balance sheet are sufficiently examined.

The following tables demonstrate the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock", in the yield curve and subjective adjustments in deposit pricing might have on the Company's projected net interest income over the next 12 months. This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next 12 months.

Change in Interest Rates (in Basis Points)	As of September 30, 2023		As of December 31, 2022	
		Percentage Change in Net Interest Income		Percentage Change in Net Interest Income
300		(6.9)%		(9.2)%
200		(4.8)		(6.2)
100		(2.2)		(3.0)
(100)		(0.9)		(2.0)
(200)		0.5		(5.8)

**Economic Value of Equity Analysis ("EVE").** We analyze the sensitivity of our financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between predicted changes in the fair value of our assets and predicted changes in the present value of our liabilities, assuming various changes in current interest rates. The table below represents an analysis of our interest rate risk as measured by the estimated changes in our economic value of equity, resulting from an instantaneous and sustained parallel shift in the yield curve at September 30, 2023, and December 31, 2022.

Change in Interest Rates (in Basis Points)	As of September 30, 2023		As of December 31, 2022	
		Percentage Change in EVE		Percentage Change in EVE
300		(23.0)%		(15.8)%
200		(16.3)		(10.5)
100		(7.8)		(4.7)
(100)		5.9		0.1
(200)		9.7		(3.2)

**Item 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2023. Based on their evaluation of the Company’s disclosure controls and procedures, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and regulations are designed and operating in an effective manner.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II - Other Information

### Item 1. Legal Proceedings

#### Legal Proceedings

In the ordinary course of our operations, and from time to time, the Company and its subsidiary are parties to various legal claims, lawsuits and proceedings incidental to the ordinary nature of the Company's business. Currently, we are not party to any material legal proceedings, and no such proceedings are, to management's knowledge, threatened against us. Although the ultimate outcome of any pending legal proceedings cannot be ascertained at this time, it is the opinion of management that the liabilities (if any) resulting from such legal proceedings will not have a material adverse effect on the Company's business, including its consolidated financial position, results of operations, or cash flows, or otherwise require disclosure under the federal securities laws.

#### Item 1A. Risk Factors

Except as described below, there have been no material changes in the risk factors that were disclosed in Item 1A, under the caption "Risk Factors" in our Form 10 for the year ended December 31, 2022.

#### Risks Relating to the Consummation of the Merger and Burke & Herbert Following the Merger

***The market price of Burke & Herbert common stock after the merger may be affected by factors different from those currently affecting the shares of Burke & Herbert common stock or Summit common stock.***

In the merger, Summit shareholders will become Burke & Herbert shareholders. Burke & Herbert's business differs from that of Summit and certain adjustments may be made to the Burke & Herbert's business as a result of the merger. Accordingly, the results of operations of the continuing corporation and the market price of Burke & Herbert's common stock after the completion of the merger may be affected by factors different from those currently affecting the independent results of operations of each of Burke & Herbert and Summit.

***We expect to incur substantial costs related to the merger and integration.***

Burke & Herbert has incurred and expects to incur a number of non-recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, severance/employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs and other related costs. Some of these costs are payable by us regardless of whether the merger is completed.

We have also incurred and expect to incur significant costs in connection with negotiating the merger agreement and closing the merger. In addition, the continuing corporation will incur integration costs following the completion of the merger as Burke & Herbert and Summit integrate their businesses, including facilities and systems consolidation costs and employment-related costs. Burke & Herbert may also incur additional costs to maintain employee morale and to retain key employees. There are a large number of processes, policies, procedures, operations, technologies and systems that may need to be integrated, including purchasing, accounting and finance, payroll, compliance, treasury management, branch operations, vendor management, risk management, lines of business, pricing and benefits. While we have assumed that a certain level of costs will be incurred, there are many factors beyond our control that could affect the total amount or the timing of the integration costs. Moreover, many of the costs that will be incurred are, by their nature, difficult to estimate accurately. These integration costs may result in the continuing corporation taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time. Anticipated future merger and integration-related pre-tax costs are currently estimated to be approximately \$57 million.

***Combining Burke & Herbert and Summit may be more difficult, costly or time-consuming than expected, and we may fail to realize the anticipated benefits of the merger.***

The merger is a transaction combining two financial institutions of relatively similar asset size. The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of Burke & Herbert and Summit. To realize the anticipated benefits and cost savings from the merger, we must successfully integrate and combine Summit's businesses in a manner that permits those cost savings to be realized, without adversely affecting current revenues and future growth. If we are not able to successfully achieve these objectives, the anticipated benefits of

the merger may not be realized fully, or at all, or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the continuing corporation following the completion of the merger, which may adversely affect the value of the common stock of the continuing corporation following the completion of the merger.

We have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the two companies may also divert management attention and resources. These integration matters could have an adverse effect on us during this transition period and for an undetermined period after completion of the merger on the continuing corporation.

Furthermore, the board of directors of the continuing corporation will consist of former directors from each of Burke & Herbert and Summit. Combining the boards of directors of each company into a single board could require the reconciliation of differing priorities and philosophies.

***The future results of the continuing corporation following the merger may suffer if the continuing corporation does not effectively manage its expanded operations, including complying with any enhanced regulatory requirements.***

Following the merger, the size of the business of the continuing corporation will increase beyond the current size of our business. The continuing corporation's future success will depend, in part, upon our ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that the continuing corporation will be successful or that it will realize the expected operating efficiencies, revenue enhancement or other benefits currently anticipated from the merger.

The continuing corporation may also face increased scrutiny from governmental authorities as a result of the increased size of its business, including if the total assets of the continuing corporation grow to exceed \$10 billion as of December 31 of any calendar year. Banks with \$10 billion or more in total assets are, among other things: examined directly by the CFPB with respect to various federal consumer financial laws; subject to reduced dividends on any holdings of Federal Reserve Bank of Richmond common stock; subject to limits on interchange fees pursuant to the Durbin amendment to the Dodd-Frank Act; subject to certain enhanced prudential standards; no longer treated as a "small institution" for FDIC deposit insurance assessment purposes; and no longer eligible to elect to be subject to the "community bank leverage ratio." Compliance with these additional ongoing requirements may necessitate additional personnel, the design and implementation of additional internal controls, and the incurrence of significant expenses which could have a significant adverse effect on the Company's financial condition or results of operations.

***The continuing corporation may be unable to retain Company personnel successfully after the merger is completed.***

The success of the merger will depend in part on the ability of us and the continuing corporation to retain the talents and dedication of key employees currently employed. It is possible that these employees may decide not to remain with Burke & Herbert or Summit, as applicable, while the merger is pending or with the continuing corporation after the merger is consummated. If we are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, we could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the continuing corporation's business activities may be adversely affected, and management's attention may be diverted from successfully hiring suitable replacements, all of which may cause the continuing corporation's business to suffer and we may not be able to locate or retain suitable replacements for any key employees who leave.

***Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the continuing corporation following the merger.***

Before the merger and the bank merger may be completed, various approvals and consents must be obtained from the Federal Reserve Board (unless a waiver is granted), the FDIC, the Virginia BFI, the West Virginia Division of Financial Institutions ("WVDFI"), and other regulatory authorities in the United States. In determining whether to grant these

approvals, such regulatory authorities consider a variety of factors, including the regulatory standing of each party and various other factors. These approvals could be delayed or not obtained at all, including due to an adverse development in either party's regulatory standing or in any other factors considered by regulators when granting such approvals; governmental, political or community group inquiries, investigations or opposition; or changes in legislation or the political environment generally.

The approvals that are granted may impose terms and conditions, limitations, obligations or costs, or place restrictions on the conduct of the continuing corporation's business or require changes to the terms of the transactions contemplated by the merger agreement. There can be no assurance that regulators will not impose any such conditions, limitations, obligations or restrictions and that such conditions, limitations, obligations or restrictions will not have the effect of delaying the completion of any of the transactions contemplated by the merger agreement, imposing additional material costs on or materially limiting the revenues of the continuing corporation following the merger or otherwise reduce the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, there can be no assurance that any such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. The completion of the merger is conditioned on the receipt of the requisite regulatory approvals and the expiration of all statutory waiting periods without the imposition of any material burdensome regulatory condition. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions or decrees by any court or governmental entity of competent jurisdiction that would prohibit or make illegal the completion of any of the transactions contemplated by the merger agreement.

In addition, despite the parties' commitments to using their reasonable best efforts to comply with conditions imposed by regulators, under the terms of the merger agreement, neither Burke & Herbert nor Summit, nor any of their respective subsidiaries, is permitted (without the written consent of the other party), to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the required permits, consents, approvals and authorizations of governmental entities or regulatory agencies that would reasonably be expected to have a material adverse effect on the continuing corporation and its subsidiaries, taken as a whole, after giving effect to the merger and the bank merger.

***Certain of Burke & Herbert's and Summit's directors and executive officers may have interests in the merger that may differ from, or are in addition to, the interests of Burke & Herbert's shareholders.***

Burke & Herbert's shareholders should be aware that some of Burke & Herbert's and Summit's directors and executive officers may have interests in the merger that are different from, or in addition to, those of Burke & Herbert shareholders and Summit shareholders. These interests may create potential conflicts of interest. The Burke & Herbert and Summit boards of directors were aware of these respective interests and considered these interests, among other matters, when making their decisions to approve the merger agreement, and in recommending that, in the case of the Burke & Herbert board of directors, Burke & Herbert shareholders vote to approve the merger agreement and, in the case of the Summit board of directors, Summit shareholders vote to approve the merger agreement.

***The merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include: (i) approval of the merger by Burke & Herbert shareholders and approval by Summit shareholders; (ii) authorization for listing on Nasdaq of the shares of Burke & Herbert common stock to be issued in the merger, subject to official notice of issuance; (iii) the receipt of the requisite regulatory approvals, including the approval of the Federal Reserve Board (unless a waiver is granted), the FDIC, the VBFI and the WVDFI; (iv) effectiveness of the registration statement on Form S-4 for the Burke & Herbert shares to be issued as consideration in the merger; and (v) the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement or making the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement illegal. Each party's obligation to complete the merger is also subject to certain additional customary conditions, including (a) subject to applicable materiality standards, the accuracy of the representations and warranties of the other party, (b) the performance in all material respects by the other party of its obligations under the merger agreement, and (c) the receipt by each party of an opinion from its counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after the requisite shareholder approvals, or Burke & Herbert or Summit may elect to terminate the merger agreement in certain other circumstances.

***Failure to complete the merger could negatively impact Burke & Herbert.***

If the merger is not completed for any reason, including as a result of the either one of Burke & Herbert's or Summit's shareholders failing to approve their respective merger proposal, there may be various adverse consequences us and we may experience negative reactions from the financial markets and from their respective customers and employees. For example, our business may be impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. We also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against Burke & Herbert or Summit to perform their respective obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of \$14.86 million to Summit.

Additionally, we have incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement and all filing and other fees paid in connection with the merger. If the merger is not completed, we would have to pay these expenses without realizing the expected benefits of the merger.

***In connection with the merger, we will assume Summit's outstanding debt obligations, and the continuing corporation's level of indebtedness following the completion of the merger could adversely affect the continuing corporation's ability to raise additional capital and to meet its obligations under its existing indebtedness.***

In connection with the merger, we will assume Summit's outstanding indebtedness. Our existing debt, together with any future incurrence of additional indebtedness, and the assumption of Summit's outstanding indebtedness, could have important consequences for the continuing corporation's creditors and the continuing corporation's shareholders. For example, it could:

- limit our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- restrict us from making strategic acquisitions or cause the continuing corporation to make non-strategic divestitures;
- restrict our ability to pay dividends;
- increase our vulnerability to general economic and industry conditions; and
- require a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on the continuing corporation's indebtedness, thereby reducing our ability to use cash flows to fund operations, capital expenditures and future business opportunities.

***We are subject to business uncertainties and contractual restrictions while the merger is pending.***

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with us to seek to change existing business relationships with us. In addition, subject to certain exceptions, we have agreed to operate our business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect our ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of the other party. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

***Uncertainty related to the proposed merger could disrupt our relationships with customers, suppliers, business partners and others, as well as our operating results and businesses generally.***

Whether or not the merger is ultimately consummated, as a result of uncertainty related to the proposed transactions, risks relating to Burke & Herbert's business include the following:

- our employees may experience uncertainty about their future roles, which might adversely affect our ability to retain and hire key personnel and other employees;
- customers, suppliers, business partners and other parties with which we maintain business relationships may experience uncertainty about their respective futures and seek alternative relationships with third parties, seek to alter their business relationships with us or fail to extend an existing relationship; and

- We have expended and will continue to expend significant costs, fees and expenses for professional services and transaction costs in connection with the proposed merger.

If any of the aforementioned risks were to materialize, they could lead to significant costs which may impact our results of operations and financial condition.

***The current higher for longer interest rate environment may adversely impact the fair value adjustments of investments and loans acquired in the merger.***

Upon the closing of the merger, we will need to adjust the fair value of Summit's investment and loan portfolios. The rising interest rate environment could have the effect of increasing the magnitude of the purchase accounting marks relating to such fair value adjustments, thereby increasing initial tangible book value dilution, extending the tangible book value earn-back period, and negatively impacting our capital ratios, which may necessitate taking steps to strengthen our capital position.

***The merger agreement limits our ability to pursue alternatives to the merger and may discourage other companies from trying to acquire us.***

The merger agreement contains "no shop" covenants that restricts our ability to, directly or indirectly, among other things, initiate, solicit, knowingly encourage or knowingly facilitate, inquiries or proposals with respect to, or, subject to certain exceptions generally related to the exercise of fiduciary duties by our board of directors, engage in any negotiations concerning, or provide any confidential or non-public information or data relating to, any alternative acquisition proposals. These provisions, which include a \$14.86 million termination fee payable under certain circumstances, may discourage a potential third-party acquirer that might have an interest in acquiring all or a significant part of us from considering or proposing that acquisition.

***Burke & Herbert shareholders will have reduced ownership and voting interest in the continuing corporation after the consummation of the merger and will exercise less influence over management.***

Burke & Herbert shareholders currently have the right to vote in the election of the board of directors and on other matters affecting us. When the merger is completed, each Burke & Herbert shareholder and each Summit shareholder will become a holder of common stock of the continuing corporation, with a percentage ownership of the continuing corporation that is smaller than the holder's percentage ownership of either Burke & Herbert or Summit individually, as applicable, prior to the consummation of the merger. Based on the number of shares of Burke & Herbert common stock and Summit common stock outstanding as of the close of business on the respective record dates, and based on the number of shares of Burke & Herbert common stock expected to be issued in the merger, the former Summit shareholders, as a group, are estimated to own approximately 50% of the outstanding shares of the continuing corporation immediately after the merger and current Burke & Herbert shareholders as a group are estimated to own approximately 50% of the outstanding shares of the continuing corporation immediately after the merger. Because of this, our shareholders may have less influence on the management and policies of the continuing corporation than they now have on the management and policies of us.

***Issuance of shares of our common stock in connection with the merger may adversely affect the market price of our common stock.***

In connection with the payment of the merger consideration, we expect to issue approximately 7,400,527 shares of Burke & Herbert's common stock to Summit shareholders. The issuance of these new shares of our common stock may result in fluctuations in the market price of our common stock, including a stock price decrease.

***Company shareholders will not have appraisal rights or dissenters' rights in the merger.***

Appraisal rights (also known as dissenters' rights) are statutory rights that, if applicable under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Burke & Herbert shareholders are not entitled under applicable law to appraisal rights in connection with the merger.

***Shareholder litigation could prevent or delay the completion of the merger or otherwise negatively impact our business.***

Shareholders of Burke & Herbert and/or of Summit may file lawsuits against Burke & Herbert, Summit and/or the directors and officers of either company in connection with the merger. One of the conditions to the closing is that no order, injunction or decree issued by any court or governmental entity of competent jurisdiction or other legal restraint preventing

the consummation of the merger, the bank merger or any of the other transactions contemplated by the merger agreement be in effect. If any plaintiff were successful in obtaining an injunction prohibiting Burke & Herbert or Summit defendants from completing the merger, the bank merger or any of the other transactions contemplated by the merger agreement, then such injunction may delay or prevent the effectiveness of the merger and could result in significant costs to us, including any cost associated with the indemnification of directors and officers of each company. We may incur costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with the merger. Such litigation could have an adverse effect on the financial condition and results of operations of Burke & Herbert and Summit and could prevent or delay the completion of the merger.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

(c) Insider Trading Arrangements

During the three months ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933, as amended).

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
2.1	<a href="#">Agreement and Plan of Reorganization between Burke &amp; Herbert Financial Services Corp. and Summit Financial Group, Inc., dated as of August 24, 2023 (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-4 filed October 2, 2023)</a>
31.1	<a href="#">Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2023

**Burke & Herbert Financial Services Corp.**

By: /s/ David P. Boyle  
Name: David P. Boyle  
Title: President & Chief Executive Officer

By: /s/ Roy E. Halyama  
Name: Roy E. Halyama  
Title: Executive Vice President, Chief Financial Officer

**Exhibit 31.1**

**CERTIFICATION**

I, David P. Boyle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Burke & Herbert Financial Services Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [reserved]
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/s/ David P. Boyle  
David P. Boyle  
President & Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Roy E. Halyama, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Burke & Herbert Financial Services Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [reserved]
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/s/ Roy E. Halyama  
Roy E. Halyama  
Executive Vice President & Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906**

In connection with the Quarterly Report on Form 10-Q of Burke & Herbert Financial Services Corp. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, as the Principal Executive Officer of the Company and the Principal Financial Officer of the Company, respectively, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2023

/s/ David P. Boyle

David P. Boyle

President & Chief Executive Officer

(Principal Executive Officer)

Date: November 9, 2023

/s/ Roy E. Halyama

Roy E. Halyama

Executive Vice President & Chief Financial Officer

(Principal Financial Officer)