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 March 31, 2024

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	**92-0289417**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 S. Fairfax Street, Alexandria, Virginia	**22314**
(Address of principal executive offices)	(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

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 May 8, 2024, there were 14,847,927 shares of the registrant's common stock outstanding.

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Part I - Financial Information

Item 1. Financial Statements

Burke & Herbert Financial Services Corp. Consolidated Financial Statements:

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

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Assets		
Cash and due from banks	$ 9,152	$ 8,896
Interest-earning deposits with banks	44,925	35,602
Cash and cash equivalents	54,077	44,498
Securities available-for-sale, at fair value	1,275,520	1,248,439
Restricted stock, at cost	16,357	5,964
Loans held-for-sale, at fair value	2,422	1,497
Loans	2,118,155	2,087,756
Allowance for credit losses	(24,606)	(25,301)
Net loans	2,093,549	2,062,455
Premises and equipment, net	61,576	61,128
Accrued interest receivable	16,328	15,895
Company-owned life insurance	94,755	94,159
Other assets	81,806	83,544
Total Assets	$ 3,696,390	$ 3,617,579
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest-bearing deposits	$ 822,767	$ 830,320
Interest-bearing deposits	2,167,346	2,171,561
Total deposits	2,990,113	3,001,881
Borrowed funds	360,000	272,000
Accrued interest and other liabilities	26,969	28,948
Total Liabilities	3,377,082	3,302,829
Commitments and contingent liabilities (see Note 10)		
Shareholders' Equity		
Preferred Stock, $1.00 par value per share; 2,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock	4,006	4,000
$0.50 par value; 20,000,000 shares authorized and 8,011,315 issued at March 31, 2024, and 8,000,000 issued at December 31, 2023; 7,440,025 shares outstanding at March 31, 2024, and 7,428,710 shares outstanding at December 31, 2023		
Additional paid-in capital	15,308	14,495
Retained earnings	428,532	427,333
Accumulated other comprehensive income (loss)	(100,954)	(103,494)
Treasury stock	(27,584)	(27,584)
571,290 shares, at cost, at March 31, 2024, and 571,290 shares, at cost, at December 31, 2023		
Total Shareholders' Equity	319,308	314,750
Total Liabilities and Shareholders' Equity	$ 3,696,390	$ 3,617,579

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 March 31, 2024	Three Months Ended March 31, 2023
Interest income		
Loans, including fees	$ 28,045	$ 22,760
Taxable securities	8,943	9,802
Tax-exempt securities	1,361	1,458
Other interest income	396	308
Total interest income	38,745	34,328
Interest expense		
Deposits	12,931	5,401
Borrowed funds	3,655	4,138
Other interest expense	28	15
Total interest expense	16,614	9,554
Net interest income	22,131	24,774
Credit loss expense - loans and available-for-sale securities	(670)	523
Credit loss expense - off-balance sheet credit exposures	—	(8)
Total provision for (recapture of) credit losses	(670)	515
Net interest income after credit loss expense	22,801	24,259
Non-interest income		
Fiduciary and wealth management	1,419	1,337
Service charges and fees	1,606	1,635
Net gains (losses) on securities	—	—
Income from company-owned life insurance	547	560
Other non-interest income	682	682
Total non-interest income	4,254	4,214
Non-interest expense		
Salaries and wages	9,518	9,494
Pensions and other employee benefits	2,365	2,468
Occupancy	1,538	1,457
Equipment rentals, depreciation and maintenance	1,281	1,339
Other operating	6,463	5,607
Total non-interest expense	21,165	20,365
Income before income taxes	5,890	8,108
Income tax expense	678	584
Net income	$ 5,212	$ 7,524
Earnings per common share:		
Basic	$ 0.70	$ 1.01
Diluted	0.69	1.00

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 March 31, 2024	Three Months Ended March 31, 2023
Net income	$ 5,212	$ 7,524
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities:		
Unrealized gain (loss) arising during period, net of tax of $117 and ($4,577) for the three months ended March 31, 2024, and March 31, 2023, respectively	(441)	17,218
Reclassification adjustment for loss (gain) on securities, net of tax of $— and $— for the three months ended March 31, 2024, and March 31, 2023, respectively	—	—
Reclassification adjustment for loss (gain) on fair value hedge, net of tax of $8 and $496 for the three months ended March 31, 2024, and March 31, 2023, respectively	(32)	(1,866)
Unrealized gain (loss) on cash flow hedge:		
Unrealized holding gain (loss) on cash flow hedge, net of tax of ($707) and ($13) for the three months ended March 31, 2024, and March 31, 2023, respectively	2,660	47
Reclassification adjustment for loss (gain) included in net income, net of tax ($94) and ($76) for the three months ended March 31, 2024, and March 31, 2023, respectively	353	287
Total other comprehensive income (loss)	2,540	15,686
Comprehensive income (loss)	$ 7,752	$ 23,210

See Notes to Consolidated Financial Statements.

Burke & Herbert Financial Services Corp.
Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2024, and March 31, 2023
(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					
Balance December 31, 2023	7,428,710	$ 4,000	$ 14,495	$ 427,333	$ (103,494)	$ (27,584)	$ 314,750
Net income	—	—	—	5,212	—	—	5,212
Other comprehensive income (loss)	—	—	—	—	2,540	—	2,540
(Purchase) sale of treasury stock, net	—	—	—	—	—	—	—
Cash dividends, declared - $0.53 per share	—	—	—	(3,939)	—	—	(3,939)
Share-based compensation expense, net	11	6	813	(74)	—	—	745
Balance March 31, 2024	7,440,025	$ 4,006	$ 15,308	$ 428,532	$ (100,954)	$ (27,584)	$ 319,308
Balance December 31, 2022	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	—	—	—	7,524	—	—	7,524
Other comprehensive income (loss)	—	—	—	—	15,686		15,686
(Purchase) sale of treasury stock, net	2,080	—	—	—	—	99	99
Cash dividends, declared - $0.53 per share	—	—	—	(3,936)	—	—	(3,936)
Share-based compensation expense, net	—	—	404	(8)	—	—	396
Balance March 31, 2023	7,427,840	$ 4,000	$ 12,686	$ 424,532	$ (123,809)	$ (27,626)	$ 289,783

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)

	Three Months Ended March 31, 2024	2023
Cash Flows from Operating Activities		
Net Income	$ 5,212	$ 7,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	820	684
Amortization of housing tax credits	1,372	1,398
Realized loss (gain) on sales of available-for-sale securities	—	—
Provision for (recapture of) credit losses	(670)	515
Income from company-owned life insurance	(547)	(560)
Deferred tax (benefit)	741	(1,234)
Loss on disposal of fixed assets	235	—
Accretion of securities	(442)	(466)
Amortization of securities	2,228	2,350
Share-based compensation expense	632	581
Repayment of operating lease liabilities	(598)	(810)
(Gain) on loans held-for-sale	(67)	(15)
Proceeds from sale of loans held-for-sale	5,457	658
Change in fair value of loans held-for-sale	26	7
Originations of loans held-for-sale	(6,340)	(1,010)
(Increase) decrease in accrued interest receivable	(433)	323
(Increase) decrease in other assets	1,006	(1,235)
Increase (decrease) in accrued interest payable and other liabilities	(1,543)	2,216
Net cash flows provided by operating activities	$ 7,089	$ 10,926
Cash Flows from Investing Activities		
Proceeds from maturities, prepayments, and calls of securities available-for-sale, net	35,010	28,883
Proceeds from sale of securities available-for-sale, net	1,281	—
Purchases of securities available-for-sale, net	(65,718)	—
Sales of restricted stock	2,304	22,232
Purchases of restricted stock	(12,696)	(14,918)
Purchases of property and equipment, net of disposals	(1,503)	(2,671)
Proceeds from (purchase of) company-owned life insurance	1,130	(6)
(Increase) in loans made to customers, net	(30,425)	(64,517)
Net cash flows (used in) investing activities	$ (70,617)	$ (30,997)
Cash Flows from Financing Activities		
Net (decrease) in non-interest-bearing accounts	(7,553)	(53,969)
Net increase (decrease) in interest-bearing accounts	(4,215)	165,960
Increase (decrease) in other short-term borrowings	88,000	(21,400)
Repayment of finance lease liabilities	(53)	(39)
Cash dividends paid	(3,939)	(3,936)
Proceeds from employee stock purchase program	48	—
Issuance of common stock	819	—

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

Sale of treasury stock		—		99
Net cash flows provided by financing activities	$	73,107	$	86,715
Increase in cash and cash equivalents		9,579		66,644
Cash and cash equivalents				
Beginning of period		44,498		50,295
End of period	$	54,077	$	116,939
Supplemental Disclosures of Cash Flow Information				
Cash payments for:				
Interest paid to depositors	$	14,978	$	4,276
Interest paid on other borrowed funds		785		3,952
Interest paid on finance lease		28		15
Income taxes		625		—
Change in unrealized gains on available-for-sale securities		(559)		21,795
Lease liability arising from obtaining right-of-use assets		—		—
Transfers from portfolio loans to loans held-for-sale		—		—
Financing of sale from loan held-for-sale		—		—

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.

Merger with Summit Financial Group, Inc.

Effective on May 3, 2024 (the "Closing Date"), Burke & Herbert, completed its previously announced merger with Summit Financial Group, Inc., a West Virginia corporation ("Summit"), pursuant to the Agreement and Plan of Reorganization and accompanying Plan of Merger dated August 24, 2023, between Burke & Herbert and Summit (the "Merger Agreement"). Below is a description of the nature of the event as of the merger closing date, but at this time management is not able to estimate its financial statement impact.

Pursuant to the Merger Agreement, on the Closing Date, (i) Summit merged with and into Burke & Herbert, with Burke & Herbert continuing as the surviving corporation (the "Merger"), and (ii) immediately following the Merger, Summit Community Bank, Inc., a West Virginia chartered bank and a wholly-owned subsidiary of Summit ("SCB"), merged with and into Burke & Herbert Bank & Trust Company, a Virginia chartered bank and a wholly-owned subsidiary of Burke & Herbert ("Burke & Herbert Bank"), with Burke & Herbert Bank as the surviving bank (the "Bank Merger").

In the merger, holders of Summit common stock outstanding at the effective time of the Merger received 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they owned (the "exchange ratio"), subject to the payment of cash in lieu of fractional shares. The total aggregate consideration payable in the Merger was approximately 7,405,772 shares of Burke & Herbert Common Stock. Additionally, each share of Summit's 6.0% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series 2021 (the "Summit Series 2021 Preferred Stock") issued and outstanding was converted into the right to receive a share of a newly created series of preferred stock of Burke & Herbert, the Burke & Herbert Series 2021 Preferred Stock (the "Burke & Herbert Series 2021 Preferred Stock").

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, 2023, included in the Company's Form 10-K filed with the SEC on March 22, 2024.

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 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 months ended March 31, 2024, 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, 2023, 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.

Recently adopted accounting standards

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU was effective for us January 1, 2024, and did not have a material impact on our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU was effective for us January 1, 2024, and did not have a material impact on our consolidated financial statements.

Pending adoption of new accounting standards

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740)*: Improvements to Income Tax Disclosures. The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. We do not expect the adoption of ASU 2023-09 to have a material impact on our consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. We do not expect the adoption of ASU 2023-06 to have a material impact on our consolidated financial statements.

Note 2— Securities

The carrying amount of available-for-sale ("AFS") securities and their approximate fair values at March 31, 2024, and December 31, 2023, are summarized as follows (in thousands):

	March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 196,742	$ —	$ 19,211	$ 177,531
Obligations of states and municipalities	533,934	3	75,343	458,594
Residential mortgage backed - agency	47,108	—	4,114	42,994
Residential mortgage backed - non-agency	312,730	28	16,752	296,006
Commercial mortgage backed - agency	35,395	29	1,005	34,419
Commercial mortgage backed - non-agency	176,385	2	5,988	170,399
Asset-backed	83,742	179	1,063	82,858
Other	14,179	—	1,460	12,719
Total	$ 1,400,215	$ 241	$ 124,936	$ 1,275,520

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 197,026	$ —	$ 17,955	$ 179,071
Obligations of states and municipalities	535,229	21	72,047	463,203
Residential mortgage backed - agency	47,074	—	4,836	42,238
Residential mortgage backed - non-agency	284,826	17	18,812	266,031
Commercial mortgage backed - agency	36,151	28	1,294	34,885
Commercial mortgage backed - non-agency	183,454	—	6,393	177,061
Asset-backed	79,315	23	1,402	77,936
Other	9,500	—	1,486	8,014
Total	$ 1,372,575	$ 89	$ 124,225	$ 1,248,439

At March 31, 2024, and December 31, 2023, AFS securities with amortized costs of $827.5 million and $826.5 million, respectively, and with estimated fair values of $740.2 million and $742.5 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 three months ended March 31, 2024, and March 31, 2023, were as follows (in thousands):

	March 31, 2024	March 31, 2023
Gross realized gains	$ —	$ —
Gross realized losses	—	—
Proceeds from sales of securities	1,281	—

The tax benefit (provision) related to these net realized gains and losses for March 31, 2024, and March 31, 2023, was $—, and $—, respectively.

The maturities of AFS securities at March 31, 2024, 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).

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Note 2— Securities (continued)

	March 31, 2024				
	Amortized Cost				
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ 29,986	$ 141,415	$ 25,341	$ —	$ 196,742
Obligations of states and municipalities	—	29,704	342,328	161,902	533,934
Residential mortgage backed - agency	43	19,002	28,063	—	47,108
Residential mortgage backed - non-agency	93,656	120,285	97,243	1,546	312,730
Commercial mortgage backed - agency	25	21,637	13,733	—	35,395
Commercial mortgage backed - non-agency	60,657	110,594	5,134	—	176,385
Asset-backed	8,034	40,745	34,963	—	83,742
Other	—	—	9,500	4,679	14,179
Total	$ 192,401	$ 483,382	$ 556,305	$ 168,127	$ 1,400,215

	March 31, 2024				
	Fair Value				
	One Year or Less	One to Five Years	Five to Ten Years	After Ten Years	Total
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ 29,943	$ 125,632	$ 21,956		$ 177,531
Obligations of states and municipalities	—	27,643	303,382	127,569	458,594
Residential mortgage backed - agency	42	18,585	24,367	—	42,994
Residential mortgage backed - non-agency	92,335	115,975	86,192	1,504	296,006
Commercial mortgage backed - agency	25	21,168	13,226	—	34,419
Commercial mortgage backed - non-agency	59,551	106,687	4,161	—	170,399
Asset-backed	7,983	40,615	34,260	—	82,858
Other	—	—	8,041	4,678	12,719
Total	$ 189,879	$ 456,305	$ 495,585	$ 133,751	$ 1,275,520

At March 31, 2024, and December 31, 2023, 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.

Note 2— Securities (continued)

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 March 31, 2024, and December 31, 2023.

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

	March 31, 2024				
	Less Than Twelve Months		More Than Twelve Months		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ —	$ 177,531	$ 19,211	$ 19,211
Obligations of states and municipalities	210	—	454,027	75,343	75,343
Residential mortgage backed - agency	33	1	42,961	4,113	4,114
Residential mortgage backed - non-agency	46,997	605	236,676	16,147	16,752
Commercial mortgage backed - agency	—	—	33,645	1,005	1,005
Commercial mortgage backed - non-agency	30,142	210	133,257	5,778	5,988
Asset-backed	8,493	38	53,526	1,025	1,063
Other	4,678	1	8,041	1,459	1,460
Total	$ 90,553	$ 855	$ 1,139,664	$ 124,081	$ 124,936

	December 31, 2023				
	Less Than Twelve Months		More Than Twelve Months		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
Securities Available-for-Sale					
U.S. Treasuries and government agencies	$ —	$ —	$ 179,071	$ 17,955	$ 17,955
Obligations of states and municipalities	501	14	458,113	72,033	72,047
Residential mortgage backed - agency	36	—	42,203	4,836	4,836
Residential mortgage backed - non-agency	632	2	263,184	18,810	18,812
Commercial mortgage backed - agency	—	—	34,080	1,294	1,294
Commercial mortgage backed - non-agency	23,437	254	153,625	6,139	6,393
Asset-backed	3,721	9	56,106	1,393	1,402
Other	—	—	8,014	1,486	1,486
Total	$ 28,327	$ 279	$ 1,194,396	$ 123,946	$ 124,225

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 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 allowance for credit losses ("ACL") is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis under the current expected credit loss ("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 March 31, 2024. 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 391 securities in an unrealized loss position as of March 31, 2024. The Company has evaluated AFS securities in an unrealized loss position for credit-related impairment at March 31, 2024, 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 March 31, 2024.

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

At March 31, 2024, the unrealized losses associated with 12 U.S. Treasuries and Government Agency securities, 16 Residential Mortgage Backed – Agency securities, and 14 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 by the U.S. government. Therefore, the Company has concluded that the unrealized losses for these securities do not require an ACL at March 31, 2024.

Securities of U.S. States and Municipalities

At March 31, 2024, the unrealized losses associated with 202 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 March 31, 2024.

Residential & Commercial Mortgage Backed – Non-Agency Securities

At March 31, 2024, the unrealized losses associated with 90 Residential Mortgage Backed – Non-Agency securities and 32 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 March 31, 2024.

Asset-Backed Securities

At March 31, 2024, the unrealized losses associated with 21 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 March 31, 2024.

Note 2— Securities (continued)

Other Securities

At March 31, 2024, the unrealized losses associated with 4 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 March 31, 2024.

Restricted stock, at cost

The Company's investment in Federal Home Loan Bank ("FHLB") stock totaled $16.3 million and $5.9 million at March 31, 2024, and December 31, 2023, 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 March 31, 2024, 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 March 31, 2024, and December 31, 2023, which is carried at cost and is not impaired at March 31, 2024.

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 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.

Note 3— Loans (continued)

Loan balances at March 31, 2024, and December 31, 2023, by portfolio segment were as follows (in thousands):

	March 31, 2024	December 31, 2023
Commercial real estate	$ 1,305,152	$ 1,309,084
Owner-occupied commercial real estate	131,154	131,381
Acquisition, construction & development	72,022	49,091
Commercial & industrial	82,774	67,847
Single family residential (1-4 units)	524,804	527,980
Consumer non-real estate and other	2,249	2,373
Loans, gross	2,118,155	2,087,756
Allowance for credit losses	(24,606)	(25,301)
Loans, net	$ 2,093,549	$ 2,062,455

Net deferred loan fees included in the above loan categories totaled $3.3 million and $3.5 million at March 31, 2024, and December 31, 2023, respectively. The Company holds $1.3 million and $3.0 million in Paycheck Protection Program loans, net of deferred fees and costs as of March 31, 2024, and December 31, 2023, respectively.

Note 4— Allowance for Credit Losses

On January 1, 2023, the Company adopted the CECL methodology as required under Accounting Standards Codification (“ASC”) 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. All information presented as of March 31, 2024, is in accordance with ASC 326.

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 loan categories using the weighted average remaining maturity (“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

Note 4— Allowance for Credit Losses (continued)

forecast. These qualitative risk factors considered by management are largely comparable to legacy factors prior to the adoption of CECL.

The following tables present the activity in the ACL, including the impact of the adoption of CECL, for the three months ended March 31, 2024, and for the three months ended March 31, 2023 (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
Three months ended								
March 31, 2024								
Balance, beginning of period	$ 20,633	$ 783	$ 368	$ 645	$ 2,797	$ 75	$ —	$ 25,301
Provision for (recapture of) credit losses	(1,659)	(1)	306	179	474	31	—	(670)
Charge-offs	—	—	—	—	—	(30)	—	(30)
Recoveries	3	—	—	—	1	1	—	5
Balance, end of period	$ 18,977	$ 782	$ 674	$ 824	$ 3,272	$ 77	$ —	$ 24,606
March 31, 2023								
Balance, beginning of period	$ 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) loan losses	218	(73)	410	25	(13)	(44)	—	523
Charge-offs	—	—	—	—	—	(17)	—	(17)
Recoveries	28	—	—	—	3	3	—	34
Balance, end of period	$ 18,409	$ 556	$ 1,852	$ 700	$ 4,030	$ 157	$ —	$ 25,704

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 March 31, 2024, and December 31, 2023, by portfolio segment (in thousands):

	March 31, 2024							
	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	$ —	$ —	$ 22,094	$ 22,094	$ 1,283,058	$ 1,305,152	$ 22,094	$ —
Owner-occupied commercial real estate	134	—	635	769	130,385	131,154	—	1,287
Acquisition, construction & development	—	—	—	—	72,022	72,022	—	—
Commercial & industrial	90	—	339	429	82,345	82,774	339	—
Single family residential (1-4 units)	3,341	—	27	3,368	521,436	524,804	—	3,028
Consumer non-real estate and other	24	—	—	24	2,225	2,249	—	—
Total	$ 3,589	$ —	$ 23,095	$ 26,684	$ 2,091,471	$ 2,118,155	$ 22,433	$ 4,315

	December 31, 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	$ 10,496	$ —	$ —	$ 10,496	$ 1,298,588	$ 1,309,084	$ —	$ —
Owner-occupied commercial real estate	—	—	790	790	130,591	131,381	—	1,000
Acquisition, construction & development	—	—	—	—	49,091	49,091	—	—
Commercial & industrial	195	364	—	559	67,288	67,847	—	—
Single family residential (1-4 units)	1,657	289	1,532	3,478	524,502	527,980	—	2,744
Consumer non-real estate and other	3	—	—	3	2,370	2,373	—	—
Total	$ 12,351	$ 653	$ 2,322	$ 15,326	$ 2,072,430	$ 2,087,756	$ —	$ 3,744

The amount of interest income recognized on nonaccrual loans during the periods presented is immaterial.

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.

Note 4— Allowance for Credit Losses (continued)

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.

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 tables present the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of March 31, 2024, and December 31, 2023 (in thousands):

	March 31, 2024							
	Term Loans							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 39,603	$ 189,776	$ 257,828	$ 149,843	$ 22,496	$ 490,273	$ 37,907	$ 1,187,726
Special Mention	—	—	12,235	35,586	—	—	—	47,821
Substandard	—	—	15,360	2,351	—	51,894	—	69,605
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 39,603	$ 189,776	$ 285,423	$ 187,780	$ 22,496	$ 542,167	$ 37,907	$ 1,305,152
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate								
Pass	$ 1,999	$ 9,260	$ 31,907	$ 11,035	$ 13,551	$ 51,867	$ 8,384	$ 128,003
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	529	—	—	2,298	—	2,827
Doubtful	—	—	—	—	—	324	—	324
Loss	—	—	—	—	—	—	—	—
Total	$ 1,999	$ 9,260	$ 32,436	$ 11,035	$ 13,551	$ 54,489	$ 8,384	$ 131,154
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Acquisition, construction & development								
Pass	$ 2,030	$ 20,603	$ 31,779	$ 3,490	$ —	$ 929	$ 11,925	$ 70,756
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	1,266	—	1,266
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 2,030	$ 20,603	$ 31,779	$ 3,490	$ —	$ 2,195	$ 11,925	$ 72,022
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial & industrial								
Pass	$ 2,275	$ 23,424	$ 13,949	$ 2,499	$ 114	$ 1,218	$ 38,792	$ 82,271
Special Mention	—	—	—	—	—	—	—	—

Note 4— Allowance for Credit Losses (continued)

Substandard	—	—	—	503	—	—	—	503
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 2,275	$ 23,424	$ 13,949	$ 3,002	$ 114	$ 1,218	$ 38,792	$ 82,774
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Single family residential (1-4 units)								
Pass	$ 5,561	$ 77,408	$ 120,119	$ 59,440	$ 31,929	$ 172,416	$ 54,903	$ 521,776
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	289	238	2,501	—	3,028
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 5,561	$ 77,408	$ 120,119	$ 59,729	$ 32,167	$ 174,917	$ 54,903	$ 524,804
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer non-real estate and other								
Pass	$ 137	$ 199	$ 135	$ 34	$ 117	$ 683	$ 944	$ 2,249
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 137	$ 199	$ 135	$ 34	$ 117	$ 683	$ 944	$ 2,249
Year to date gross charge-offs	$ 30	$ —	$ —	$ —	$ —	$ —	$ —	$ 30

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Note 4— Allowance for Credit Losses (continued)

	December 31, 2023							
	Term Loans							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Commercial real estate								
Pass	$ 195,857	$ 261,817	$ 166,253	$ 22,791	$ 75,170	$ 416,774	$ 36,761	$ 1,175,423
Special Mention	—	12,235	35,449	—	4,876	—	—	52,560
Substandard	—	15,420	12,847	—	2,209	50,625	—	81,101
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 195,857	$ 289,472	$ 214,549	$ 22,791	$ 82,255	$ 467,399	$ 36,761	$ 1,309,084
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate								
Pass	$ 9,309	$ 31,725	$ 11,229	$ 14,103	$ 10,279	$ 43,616	$ 6,184	$ 126,445
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	532	—	—	—	4,404	—	4,936
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 9,309	$ 32,257	$ 11,229	$ 14,103	$ 10,279	$ 48,020	$ 6,184	$ 131,381
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Acquisition, construction & development								
Pass	$ 8,535	$ 24,286	$ 13,698	$ —	$ 728	$ 241	$ 1,603	$ 49,091
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 8,535	$ 24,286	$ 13,698	$ —	$ 728	$ 241	$ 1,603	$ 49,091
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial & industrial								
Pass	$ 29,111	$ 15,204	$ 4,344	$ 162	$ 15	$ 1,335	$ 16,854	$ 67,025
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	822	—	—	—	—	822
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 29,111	$ 15,204	$ 5,166	$ 162	$ 15	$ 1,335	$ 16,854	$ 67,847
Year to date gross charge-offs	$ —	$ —	$ —	$ 29	$ —	$ —	$ —	$ 29
Single family residential (1-4 units)								
Pass	$ 78,222	$ 122,067	$ 60,202	$ 32,158	$ 40,938	$ 137,376	$ 54,273	$ 525,236
Special Mention	—	—	—	—	—	—	—	—

Note 4— Allowance for Credit Losses (continued)

Substandard	—	—	291	243	—	2,171	39	2,744
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 78,222	$ 122,067	$ 60,493	$ 32,401	$ 40,938	$ 139,547	$ 54,312	$ 527,980
Year to date gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer non-real estate and other								
Pass	$ 334	$ 150	$ 43	$ 151	$ 386	$ 325	$ 984	$ 2,373
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total	$ 334	$ 150	$ 43	$ 151	$ 386	$ 325	$ 984	$ 2,373
Year to date gross charge-offs	$ —	$ 165	$ —	$ —	$ —	$ —	$ —	$ 165
Totals	$ 321,368	$ 483,436	$ 305,178	$ 69,608	$ 134,601	$ 656,867	$ 116,698	$ 2,087,756

The following tables present information about collateral-dependent loans that were individually evaluated for purposes of determining the ACL as of March 31, 2024, and December 31, 2023 (in thousands):

	March 31, 2024				
	With Allowance		With No Related Allowance	Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
March 31, 2024					
Commercial real estate	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate	324	247	963	1,287	247
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	289	18	2,739	3,028	18
Consumer non-real estate and other	—	—	—	—	—
Total	$ 613	$ 265	$ 3,702	$ 4,315	$ 265

	December 31, 2023				
	With Allowance		With No Related Allowance	Total	
	Amortized Cost	Related Allowance	Amortized Cost	Amortized Cost	Related Allowance
December 31, 2023					
Commercial real estate	$ —	$ —	$ —	$ —	$ —
Owner-occupied commercial real estate	—	—	1,000	1,000	—
Acquisition, construction & development	—	—	—	—	—
Commercial & industrial	—	—	—	—	—
Single family residential (1-4 units)	—	—	2,744	2,744	—
Consumer non-real estate and other	—	—	—	—	—
Total	$ —	$ —	$ 3,744	$ 3,744	$ —

On January 1, 2023, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the troubled debt restructuring ("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.

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 months ended March 31, 2024, and for the year ended December 31, 2023, the Company did not extend any modifications to borrowers experiencing financial difficulty that had a more-than-insignificant direct change in the contractual cash flows of the loan.

Note 5— Deposits

The aggregate amount of time deposits that meet or exceed the FDIC Insurance Limit of $250,000, was approximately $108.0 million and $92.3 million on March 31, 2024, and December 31, 2023, respectively. Brokered time deposits, which are fully insured, totaled $370.8 million and $389.0 million as of March 31, 2024, and December 31, 2023, respectively. Time deposits through the Certificate of Deposit Account Registry Service ("CDARS") program totaled $24.3 million at March 31, 2024, compared to $24.2 million at December 31, 2023.

At March 31, 2024, the scheduled maturities of time deposits for the remaining nine months ending December 31, 2024, and the following five years were as follows (in thousands):

As of March 31, 2024		
Remaining nine months ending, December 31, 2024	$	383,222
2025		159,208
2026		84,314
2027		49,583
2028		78,369
2029		173
Total	$	754,869

At March 31, 2024, and December 31, 2023, amounts included in time deposits for individual retirement accounts totaled $27.4 million and $28.5 million, respectively.

Overdrafts of $117 thousand and $110 thousand were reclassified to loans as of March 31, 2024, and the year ended December 31, 2023, respectively.

Note 6— Advances and Other Borrowings

The Company had borrowings of $360.0 million and $272.0 million at March 31, 2024, and December 31, 2023, respectively. At March 31, 2024, the interest rate on this debt ranged from 4.78% to 5.58%. At December 31, 2023, the interest rate on this debt ranged from 4.38% to 5.57%. The average balance outstanding during the three months ending March 31, 2024, and the year ending December 31, 2023, was $303.6 million and $293.9 million, respectively. The Company has a finance lease liability that is not included in these balances - see Note 7 - Leased Property for a discussion of this liability that is included in the accrued interest and other liabilities line in the Consolidated Balance Sheets. 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 had total borrowing capacity of $994.2 million with an unused capacity of $704.2 million as of March 31, 2024. 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 March 31, 2024, and December 31, 2023, was $805.9 million and $797.8 million, respectively. As of March 31, 2024, all of the Company's borrowings will mature within one calendar year.

Note 6— Federal Home Loan Bank Advances and Other Short-Term Borrowings

The contractual maturities of these borrowings, which all occur within one year of the reporting date, are as follows as of March 31, 2024, (in thousands):

Due in 2024	$ 340,000
Due in 2025	20,000
Total	$ 360,000

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 eleven years and may contain renewal options. The components of lease income, which is included in non-interest expense on the Consolidated Statements of Income, were as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Operating lease income	$ 575	$ 575
Total lease income	$ 575	$ 575

The remaining maturities of operating lease receivables as of March 31, 2024, are as follows (in thousands):

	Operating Leases
Remaining nine months ending December 31, 2024	$ 1,726
2025	2,265
2026	1,657
2027	1,356
2028	1,333
Thereafter	2,450
Total lease receivables	$ 10,787

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 fourteen 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	March 31, 2024	December 31, 2023
Right-of-use assets:			
Operating leases	Other assets	$ 5,283	$ 5,110
Finance leases	Other assets	3,518	3,590
Total right-of-use assets		$ 8,801	$ 8,700
Lease liabilities:			
Operating leases	Other liabilities	$ 5,490	$ 5,327
Finance leases	Other liabilities	3,787	3,840
Total lease liabilities		$ 9,277	$ 9,167

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

	Three Months Ended March 31, 2024	2023
Finance lease cost		
Right-of-use asset amortization	$ 71	$ 51
Interest expense	28	15
Operating lease cost	634	839
Total lease cost	$ 733	$ 905

The Company’s future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of March 31, 2024, are as follows (in thousands):

	Operating Leases	Finance Leases
Remaining nine months ending December 31, 2024	$ 1,774	$ 246
2025	1,404	334
2026	961	341
2027	747	347
2028	548	354
Thereafter	474	2,993
Total undiscounted lease payments	5,908	4,615
Less: discount	(418)	(828)
Net lease liabilities	$ 5,490	$ 3,787

Note 7— Leased Property (continued)

The following table presents additional information about the Company's leases as of March 31, 2024, and December 31, 2023.

Supplemental lease information (dollars in thousands)	March 31, 2024	December 31, 2023
Finance lease weighted average remaining lease term (years)	12.41	12.66
Finance lease weighted average discount rate	2.96 %	2.96 %
Operating lease weighted average remaining lease term (years)	3.73	3.71
Operating lease weighted average discount rate	3.62 %	3.33 %

	Three Months Ended March 31,	
Cash paid for amounts included in the measurement of lease liabilities	2024	2023
Operating cash flows from operating leases	$ 644	$ 868
Operating cash flows from finance leases	28	15
Financing cash flows from finance leases	53	39
Right-of-use assets obtained in exchange for new finance lease liabilities	—	—
Right-of-use assets obtained in exchange for new operating lease liabilities	—	—

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 March 31, 2024, 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 March 31, 2024, and December 31, 2023, 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 March 31, 2024, and December 31, 2023 (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
As of March 31, 2024						
Total Capital to risk weighted assets						
Consolidated	$ 445,121	17.54 %	$ 266,504	≥ 10.5%	$ 253,814	≥ 10.0%
Burke & Herbert Bank & Trust	442,168	17.43	266,399	≥ 10.5	253,713	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	420,261	16.56	215,742	≥ 8.5	203,051	≥ 8.0
Burke & Herbert Bank & Trust	417,308	16.45	215,656	≥ 8.5	202,971	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	420,261	16.56	177,670	≥ 7.0	164,979	≥ 6.5
Burke & Herbert Bank & Trust	417,308	16.45	177,599	≥ 7.0	164,914	≥ 6.5
Tier 1 (Core) Capital to average assets						
Consolidated	420,261	11.36	148,038	≥ 4.0	185,048	≥ 5.0
Burke & Herbert Bank & Trust	417,308	11.28	148,035	≥ 4.0	185,044	≥ 5.0
As of December 31, 2023						
Total Capital to risk weighted assets						
Consolidated	$ 443,799	17.88 %	$ 260,694	≥ 10.5%	$ 248,280	≥ 10.0%
Burke & Herbert Bank & Trust	442,414	17.82	260,626	≥ 10.5	248,215	≥ 10.0
Tier 1 (Core) Capital to risk weighted assets						
Consolidated	418,244	16.85	211,038	≥ 8.5	198,624	≥ 8.0
Burke & Herbert Bank & Trust	416,859	16.79	210,983	≥ 8.5	198,572	≥ 8.0
Common Tier 1 (CET 1) to risk-weighted assets						
Consolidated	418,244	16.85	173,796	≥ 7.0	161,382	≥ 6.5
Burke & Herbert Bank & Trust	416,859	16.79	173,751	≥ 7.0	161,340	≥ 6.5
Tier 1 (Core) Capital to average assets						
Consolidated	418,244	11.31	147,965	≥ 4.0	184,957	≥ 5.0
Burke & Herbert Bank & Trust	416,859	11.27	147,986	≥ 4.0	184,982	≥ 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 March 31, 2024, approximately $175.8 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 variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Other 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

Note 9— Derivatives (continued)

over the life of the agreements without exchange of the underlying notional amount. During 2024, such derivatives were used to hedge the variable cash flows associated with variable-rate debt and assets.

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 expense or interest income in the same period(s) during which the hedged transaction affects earnings. During the next twelve months, the Company estimates that an additional $0.1 million will be reclassified as a reduction to interest income, and an additional $2.8 million will be reclassified as a reduction to interest expense.

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 March 31, 2024, and December 31, 2023 (in thousands):

	March 31, 2024		
	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedges:			
Interest rate swaps related to cash flow hedges	Other assets	$ 250,000	$ 3,356
Interest rate swaps related to cash flow hedges	Other liabilities	50,000	481
Derivatives not designated as hedges:			
Interest rate swaps related to customer loans	Other assets	$ 72,305	$ 1,478
Interest rate swaps related to customer loans	Other liabilities	72,305	1,478

	December 31, 2023		
	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedges:			
Interest rate swaps related to cash flow hedges	Other assets	$ 100,000	$ 65
Interest rate swaps related to cash flow hedges	Other liabilities	150,000	1,047
Derivatives not designated as hedges:			
Interest rate swaps related to customer loans	Other assets	$ 72,572	$ 998
Interest rate swaps related to customer loans	Other liabilities	72,572	998

Note 9— Derivatives (continued)

The table below presents the effect of cash flow hedge accounting on AOCI for the three months ended March 31, 2024, and March 31, 2023, as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	March 31, 2024 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	March 31, 2024 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	$ (17)	$ (17)	$ —	Interest Income	$ (483)	$ (483)	$ —
Interest Rate Products	3,385	3,385	—	Interest Expense	36	36	—
Total	$ 3,368	$ 3,368	$ —		$ (447)	$ (447)	$ —

Derivatives in Cash Flow Hedging Relationships	March 31, 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	March 31, 2023 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	$ 60	$ 60	$ —	Interest Income	$ (363)	$ (363)	$ —
Total	$ 60	$ 60	$ —		$ (363)	$ (363)	$ —

The table below presents the effect of the Company's derivative financial instruments on the Consolidated Statements of Income for the three months ended March 31, 2024, and March 31, 2023.

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships			
	Three months ended			
	March 31, 2024		March 31, 2023	
	Interest Income	Interest Expense	Interest Income	Interest Expense
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.	$ (443)	$ 36	$ (203)	$ —
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20				
Interest contracts				
Hedged items [(1)]	40	—	2,362	—
Derivatives designated as hedging instruments	—	—	(2,202)	—
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20				
Interest contracts				
Amount of gain or (loss) reclassified from AOCI into income	(483)	36	(363)	—
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	(483)	36	(363)	—
Amount of gain or (loss) reclassified from AOCI into income - excluded component	—	—	—	—

Note 9— Derivatives (continued)

(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 hedged assets.

Credit-risk-related Contingent Features

As of March 31, 2024, 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 $0.5 million. As of March 31, 2024, 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.

The net gains (losses) relating to the free-standing derivative instruments (interest rate lock commitments) were $15.4 thousand and $4.2 thousand for the three months ending March 31, 2024, and March 31, 2023, respectively. The notional amount of the mortgage pipeline that resulted in an interest rate lock commitment was $3.0 million and $838.0 thousand at March 31, 2024, and March 31, 2023, respectively. 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 on the Consolidated Statements of 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 (e.g. revolving lines of credit) and commercial letters 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 March 31, 2024, and December 31, 2023, is as follows (in thousands):

	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 283,042	$ 278,923
Commercial letters of credit	10,904	10,718

Commitments to extend credit and commercial letters of credit both include exposure to some credit loss in the event of non-performance 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 zero credit losses on unfunded commitments for the three months ended March 31, 2024, and had an ACL on off-balance sheet credit exposures that totaled $254.2 thousand at March 31, 2024. The Company recorded a recapture of $7.5 thousand for the three months ended March 31, 2023, and had an ACL on off-balance sheet credit exposures that totaled $267.3 thousand at March 31, 2023. The ACL on off-balance sheet credit exposures 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.

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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 March 31, 2024, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment Securities				
U.S. Treasuries and government agencies	$ 177,531	$ —	$ —	$ 177,531
Obligations of states and municipalities	—	458,594	—	458,594
Residential mortgage backed - agency	—	42,994	—	42,994
Residential mortgage backed - non-agency	—	296,006	—	296,006
Commercial mortgage backed - agency	—	34,419	—	34,419
Commercial mortgage backed - non-agency	—	170,399	—	170,399
Asset-backed	—	82,858	—	82,858
Other	—	12,719	—	12,719
Total investment securities available-for-sale	$ 177,531	$ 1,097,989	$ —	$ 1,275,520
Loans held-for-sale, at fair value	$ —	$ 2,422	$ —	$ 2,422
Derivatives	$ —	$ 4,834	$ —	$ 4,834
Financial liabilities				
Derivatives	$ —	$ 1,959	$ —	$ 1,959

	Fair Value Measurements at December 31, 2023, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets				
Investment Securities				
U.S. Treasuries and government agencies	$ 179,071	$ —	$ —	$ 179,071
Obligations of states and municipalities	—	463,203	—	463,203
Residential mortgage backed - agency	—	42,238	—	42,238
Residential mortgage backed - non-agency	—	266,031	—	266,031
Commercial mortgage backed - agency	—	34,885	—	34,885
Commercial mortgage backed - non-agency	—	177,061	—	177,061
Asset-backed	—	77,936	—	77,936
Other	—	8,014	—	8,014
Total investment securities available-for-sale	$ 179,071	$ 1,069,368	$ —	$ 1,248,439
Loans held-for-sale, at fair value	$ —	$ 1,497	$ —	$ 1,497
Derivatives	$ —	$ 1,063	$ —	$ 1,063
Financial liabilities				
Derivatives	$ —	$ 2,045	$ —	$ 2,045

Note 11— Fair Value Measurements (continued)

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 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 March 31, 2024, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans:				
Commercial real estate	$ —	$ —	$ 277	$ 277
Owner-occupied commercial real estate	—	—	1,374	1,374
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Single family residential	—	—	2,068	2,068
Consumer non-real estate and other	—	—	—	—
Other real estate owned	—	—	—	—

Note 11— Fair Value Measurements (continued)

	Fair Value Measurements at December 31, 2023, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Individually evaluated loans:				
Commercial real estate	$ —	$ —	$ 286	$ 286
Owner-occupied commercial real estate	—	—	1,315	1,315
Acquisition, construction & development	—	—	—	—
Commercial & industrial	—	—	—	—
Single family residential	—	—	1,816	1,816
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 March 31, 2024, and December 31, 2023 (in thousands except for percentages):

Description	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
March 31, 2024					
Individually evaluated loans	$ 3,371	Income, Market, & Discounted cash flow analysis	External appraised values; management assumptions regarding market trends, market rate for borrower, or other relevant factors	3.6% - 9.0%	5.4%
	348	Appraisal of collateral	Management adjustments (e.g. liquidity, selling costs, etc.)	5.0% - 20.0% for liquidity 6.0%- 8.0% for selling costs	N/A
December 31, 2023					
Individually evaluated loans	$ 3,417	Income, Market, & Discounted cash flow analysis	External appraised values; management assumptions regarding market trends, market rate for borrower, or other relevant factors	3.6% - 9.0%	5.4%

Note 11— Fair Value Measurements (continued)

Fair value of financial instruments

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at March 31, 2024, and December 31, 2023, were as follows (in thousands):

		Fair Value Measurements at March 31, 2024, 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
Financial Assets					
Cash and due from banks	$ 9,152	$ 9,152	$ —	$ —	$ 9,152
Interest-earning deposits with banks	44,925	44,925	—	—	44,925
Loans, net	2,093,549	—	—	1,931,927	1,931,927
Accrued interest	16,328	—	16,328	—	16,328
Financial Liabilities					
Non-interest-bearing	$ 822,767	$ —	$ 822,767	$ —	$ 822,767
Interest-bearing	2,167,346	—	2,162,288	—	2,162,288
Other borrowed funds	360,000	—	356,679	—	356,679
Accrued interest	5,268	—	5,268	—	5,268

		Fair Value Measurements at December 31, 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
Financial Assets					
Cash and due from banks	$ 8,896	$ 8,896	$ —	$ —	$ 8,896
Interest-bearing deposits with banks	35,602	35,602	—	—	35,602
Loans, net	2,062,455	—	—	1,897,459	1,897,459
Accrued interest	15,895	—	15,895	—	15,895
Financial Liabilities					
Non-interest-bearing	$ 830,320	$ —	$ 830,320	$ —	$ 830,320
Interest-bearing	2,171,561	—	2,167,218	—	2,167,218
Other borrowed funds	272,000	—	271,716	—	271,716
Accrued interest	8,954	—	8,954	—	8,954

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 months ended March 31, 2024, and March 31, 2023 (in thousands):

	Three months ended March 31, 2024			
	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	$ (490)	$ (97,259)	$ (5,745)	$ (103,494)
Net unrealized gains (losses)	2,660	(441)	—	2,219
Less: net realized (gains) losses reclassified to earnings	353	(32)	—	321
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ 2,523	$ (97,732)	$ (5,745)	$ (100,954)

	Three months ended March 31, 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)	47	17,218	—	17,265
Less: net realized (gains) losses reclassified to earnings	287	(1,866)	—	(1,579)
Net change in pension plan benefits	—	—	—	—
Ending Balance	$ (1,255)	$ (115,523)	$ (7,031)	$ (123,809)

The following table presents amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended March 31, 2024, and March 31, 2023 (in thousands).

	Amount Reclassified From Accumulated Other Comprehensive Income		
	Three months ended		
Details about Accumulated Other Comprehensive Income Components	March 31, 2024	March 31, 2023	Affected Line Item in the Statements of Income
Cash flow hedges:			
Interest rate contracts	$ (447)	$ (363)	Interest income
Tax effect	94	76	Income tax expense (benefit)
Net of tax	$ (353)	$ (287)	
Available-for-sale securities:			
Realized gains (losses) on securities	$ —	$ —	Net gains/(losses) on securities
Realized gains (losses) on basis adjustment for fair value hedges	40	2,362	Interest income
Tax effect	(8)	(496)	Income tax expense (benefit)
Net of tax	$ 32	$ 1,866	
Total reclassifications, net of tax	$ (321)	$ 1,579	Net income

Note 13— Other Operating Expense

Other operating expense from the Consolidated Statements of Income for the three months ended March 31, 2024, and March 31, 2023, is as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
FDIC & other regulatory assessment	$ 516	$ 734
Historic tax credit amortization	632	632
IT related	550	491
Consultant and advisory expenses	581	470
ATM & network expense	551	429
Directors' fees	493	410
Accounting and audit expenses	343	307
Legal fees and expenses	345	305
Virginia franchise tax	675	243
Marketing expense	329	219
Other	1,448	1,367
Total	$ 6,463	$ 5,607

The Company incurred merger-related expenses of $633.0 thousand for the three months ended March 31, 2024. The Company did not incur any merger-related expenses for the three months ended March 31, 2023. These expenses are primarily included in the consultant and advisory expenses and legal fees and expenses line items in the table above.

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 expense that has been charged against income for the share-based awards granted was $590.5 thousand and $580.6 thousand for the three months ended March 31, 2024, and March 31, 2023, respectively. The total income tax benefit was $124.0 thousand and $121.9 thousand for the three months ended March 31, 2024, and March 31, 2023, 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's practice is using authorized unissued shares 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 authorized unissued shares to satisfy all 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.

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.

A total of zero and 24,705 shares were issued during the three months ended March 31, 2024, and March 31, 2023, respectively.

Note 14— Share-Based Compensation (continued)

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.

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 performance and/or market targets (e.g. market capitalization target) over the performance period. If the conditions are achieved, the grant recipient will receive 100% of the units granted as these awards do not provide for a multiplier effect. The performance / market targets are 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 all the Company's RSU awards issued under both the 2019 SIP and 2023 SIP:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2023	143,585	$ 51.21
Granted	—	—
Vested	(6,600)	45.14
Forfeited	(200)	73.00
Non-vested at March 31, 2024	136,785	$ 51.47

As of March 31, 2024, there was $2.3 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 2.50 years.

2023 Employee Stock Purchase Plan

In 2023, a new employee stock purchase plan ("2023 ESPP") was approved by the Board of directors and shareholders. Upon the plan's shareholder approval date of March 30, 2023, the 2023 ESPP reserved 250,000 shares of common stock for issuance to employees. At March 31, 2024, 243,620 shares were available to be issued. Whole shares are sold to participants in the plan at 85% of the lower of the stock price at the beginning or end of each semi-annual offering period that began on September 1, 2023. Eligible employees may purchase shares in an amount that does not exceed the lesser of the IRS limit of $25,000 or 15% of their annual salary. The following table presents information for the employee stock purchase plan at the end of March 31, 2024.

	March 31, 2024
Shares purchased	6,380
Weighted average price of shares purchased	$ 43.11
Compensation expense recognized (in 000's)	41.3

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 Company uses the treasury stock method as described by ASC 260 - *Earnings Per Share* for each dilutive instrument when computing diluted earnings per share.

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

Three Months Ended March 31,

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Note 15— Earnings Per Share (continued)

	2024	2023
Net income (in thousands)	$ 5,212	$ 7,524
Weighted average number of shares	7,433,481	7,426,638
Options effect of dilutive shares	94,008	77,835
Weighted average dilutive shares	7,527,489	7,504,473
Basic EPS	$ 0.70	$ 1.01
Diluted EPS	0.69	1.00

Stock awards equivalent to zero and zero shares of Common Stock were not considered in computing diluted earnings per common share for the three months ended March 31, 2024, and March 31, 2023, 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, 2023, included in our Form 10-K filed with the SEC on March 22, 2024, and as amended on April 12, 2024 (the "Form 10-K"). 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 Form 10-K, 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 financial holding company status. 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 March 31, 2024, we had total consolidated assets of $3.7 billion, gross loans of $2.1 billion, total deposits of $3.0 billion, and total shareholders' equity of $319.3 million. As of March 31, 2024, we had 381 full-time employees. None of our employees are covered by a collective bargaining agreement.

Merger with Summit Financial Group, Inc.

Effective on May 3, 2024 (the "Closing Date"), Burke & Herbert, completed its previously announced merger with Summit Financial Group, Inc., a West Virginia corporation ("Summit"), pursuant to the Agreement and Plan of Reorganization and accompanying Plan of Merger dated August 24, 2023, between Burke & Herbert and Summit (the "Merger Agreement").

Pursuant to the Merger Agreement, on the Closing Date, (i) Summit merged with and into Burke & Herbert, with Burke & Herbert continuing as the surviving corporation (the "Merger"), and (ii) immediately following the Merger, Summit Community Bank, Inc., a West Virginia chartered bank and a wholly-owned subsidiary of Summit ("SCB"), merged with and into Burke & Herbert Bank & Trust Company, a Virginia chartered bank and a wholly-owned subsidiary of Burke & Herbert ("Burke & Herbert Bank"), with Burke & Herbert Bank as the surviving bank (the "Bank Merger").

In the merger, holders of Summit common stock outstanding at the effective time of the merger received 0.5043 shares of Burke & Herbert common stock for each share of Summit common stock they owned (the "exchange ratio"), subject to the payment of cash in lieu of fractional shares. The total aggregate consideration payable in the Merger was approximately 7,405,772 shares of Burke & Herbert Common Stock. Additionally, each share of the Summit Series 2021 Preferred Stock issued and outstanding was converted into the right to receive a share of the new Burke & Herbert Series 2021 Preferred Stock.

Critical Accounting Policies and Estimates

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and conform to general practices within the industry in which we operate. To prepare financial statements in conformity with GAAP, management makes estimates, assumptions, and judgments based on available information. 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.

Our most significant accounting policies are presented in the notes to the accompanying consolidated financial statements. These policies, along with the other disclosures presented in the financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, we have identified the determination of the allowance for credit losses and income taxes to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new information becomes available.

Allowance for Credit Losses

The allowance for credit losses represents our estimate of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and projections including reasonable and supportable forecasts, reversion, and post-reversion forecasts. It is a valuation account that is deducted from the financial assets' amortized cost basis to present the net amount expected to be collected on the financial asset. Financial assets are charged-off against the allowance when management believes the uncollectibility of a financial asset is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company's loan portfolio is the largest financial asset that is in scope of this critical accounting estimate. Determining the amount of the allowance for credit losses is considered a critical accounting estimate, because it is based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts, and prepayment experience as related to credit contractual terms. Management estimates the allowance balance using relevant available information from internal and external sources. Historical credit loss experience provides the basis for the estimation of expected credit losses; adjustments to historical loss information are made for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, and delinquency levels, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. The model methodology used for funded credits, along with taking into consideration the probability of drawdowns or funding on unfunded commitments and whether such commitments are irrevocable or not by the Company, is how the Company determines the allowance for credit losses for unfunded commitments. These evaluations are conducted at least quarterly and more frequently, if deemed necessary.

The Company is using an internally developed model that produces an estimate of the allowance for credit losses as the lifetime expected credit losses of the loan portfolio. This model uses a remaining useful life or WARM method within defined-contractual terms by federal call codes. The model forecasts net charge-off rates by call codes using ordinary least squares ("OLS") regression models that use macroeconomic variables to forecast the Company's and peer banks' net charge-off rates. These models are used to produce reasonable and supportable forecasts of net charge-off rates. The macroeconomic variables utilized by the Company include variables that meet defined criteria in forecasting credit losses for our loan portfolio. These variables include, but are not limited to, unemployment rates, housing and commercial real estate prices, gross domestic product levels, equity market conditions or interest rates, as well as other variables that are portfolio-specific, such as those pertaining to commercial real estate or to residential loan portfolios. The Company sources the macroeconomic variables and the macroeconomic variable forecasts that it uses in its ACL model from the Standard & Poor's Global Market Intelligence and from CoStar Group.

The Company currently has set an initial reasonable and supportable period of two years with a subsequent straight-line loss-rate reversion for the following four quarters before then utilizing historical average loss rates in remaining periods of the modeled contractual terms. 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 adjustments considered by management include the following: (i) management's assessment of macroeconomic forecasts used in the model and how those forecasts align with management's overall evaluation of current expected credit conditions; (ii) organization specific risks such as credit concentrations, collateral specific risks, nature and size of the portfolio, and external factors that may ultimately impact credit quality; and (iii) underwriting and delinquency trends. The qualitative factors applied at March 31, 2024, and the importance and levels of the qualitative factors applied, may change in future periods depending on the level of changes to items such as the uncertainty of economic conditions and management's assessment of the level of credit risk within the loan portfolio as a result of such changes, compared to the amount of ACL calculated by the model. Management reviews supplemental data sources including historical net charge-off rates and data measuring other specific credit outcomes from its systems of record in supporting qualitative factors. However, qualitative factor evaluations are inherently imprecise and require significant management judgement.

Income Taxes

The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated taxes due. The calculation of each component of the Company's income tax provision is complex and requires the use of estimates and judgments in its determination. As part of the Company's evaluation and implementation of business strategies, consideration is given to the regulations and tax laws that apply to the specific facts and circumstances for any tax positions under evaluation. Management closely monitors tax developments on both the federal and state level in order to evaluate the effect they may have on the Company's overall tax position and the estimates and judgments used in determining the income tax provision and records adjustments as necessary.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expenses. In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company must consider all available evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and the results of recent operations. A valuation allowance is recognized for a deferred tax asset if, based on the available evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized. See Note 8 — Income Taxes, in Notes to the December 31, 2023 Consolidated Financial Statements of the Company for additional information.

Non-GAAP Financial Measures

We prepare our financial statements in accordance with U.S. GAAP and also present certain non-GAAP financial measures that exclude certain items or otherwise include components that differ from the most directly comparable measures calculated in accordance with U.S. GAAP. Non-GAAP measures are provided as additional useful information to assess our financial condition and results of operations (including period-to-period operating performance). These non-GAAP measures are not intended as a substitute for GAAP financial measures and may not be defined or calculated the same way as non-GAAP measures with similar names used by other companies. For more information, including the reconciliation of these non-GAAP financial measures to their corresponding GAAP financial measures, see the respective sections where the measures are presented.

Current Economic Environment in the Financial Services Industry

Commercial Real Estate Sector Concentration

The commercial real estate ("CRE") sector has been impacted significantly by rising interest rates and higher vacancies, increasing the prospect of default that borrowers may face due to the record amount of upcoming maturities. In addition, the office market continues to struggle with fewer employees in the office after the COVID-19 pandemic. The Bank continues to monitor its commercial real estate portfolio by reviewing various credit risk and concentration reports. The Bank's exposure to commercial real estate at March 31, 2024, was $1.3 billion or 61.6% of its gross loan portfolio, not including owner-occupied commercial real estate and acquisition, construction & development. Commercial real estate as a percent of total assets at March 31, 2024, was 35.3%, not including owner-occupied commercial real estate and acquisition, construction & development. Including owner-occupied commercial real estate and acquisition, construction & development, total exposure was $1.5 billion or 71.2% of our total gross loans and 40.7% of total assets at March 31, 2024.

Loan balances by portfolio segment amortized cost (in thousands) and by percentage of our total gross loan portfolio at March 31, 2024, were as follows:

	March 31, 2024	
	Amortized Cost	Percentage
Commercial real estate	$ 1,305,152	61.6 %
Owner-occupied commercial real estate	131,154	6.2
Acquisition, construction & development	72,022	3.4
Commercial & industrial	82,774	3.9
Single family residential (1-4 units)	524,804	24.8
Consumer non-real estate and other	2,249	0.1
Total gross loans	$ 2,118,155	100.0 %

Monitoring of the CRE concentration is performed at both the loan level and at the portfolio level. The Credit Risk Management team provides management and the board of directors with periodic reports on the credit portfolio, which include the CRE portfolio (including owner-occupied CRE and acquisition, construction & development loans). These reports provide an assessment of asset quality and risk rating migration and monitor concentrations against the board approved concentration limits (including sub-limits). The tables below present the Bank's commercial real estate, owner-occupied commercial real estate, and acquisition, construction & development portfolios by collateral type and geographic location as of March 31, 2024 (in thousands).

	Commercial Real Estate by Collateral Type and Geographic Location					
	VA	MD	DC	Other	Total	Percentage
Retail Real Estate	$ 211,511	$ 111,204	$ 29,693	$ 8,966	$ 361,374	27.7 %
Industrial/Warehouse	189,849	20,264	—	—	210,113	16.1
Multi-Family	123,068	19,602	39,573	901	183,144	14.0
Office Buildings/Condos	124,522	39,108	24,549	—	188,179	14.4
Hotels/Motels	36,384	39,844	52,767	13,779	142,774	10.9
Self-Storage	58,081	—	—	—	58,081	4.5
Nursing-Assisted Living	38,090	—	—	—	38,090	2.9
Restaurants	18,868	4,256	10,668	863	34,655	2.7
Gas Stations	7,420	1,676	14,882	—	23,978	1.8
Other	24,206	9,648	30,910	—	64,764	5.0
Total	$ 831,999	$ 245,602	$ 203,042	$ 24,509	$ 1,305,152	100.0 %

	Owner-Occupied Commercial Real Estate by Collateral Type and Geographic Location					
	VA	MD	DC	Other	Total	Percentage
Industrial/Warehouse	$ 38,694	$ 598	$ —	$ 5,896	$ 45,188	34.5 %
Office Buildings/Condos	22,380	596	635	—	23,611	18.0
Churches/Religious Organizations	19,704	1,244	243	—	21,191	16.2
Retail	11,373	—	133	—	11,506	8.8
Private School	7,616	—	—	—	7,616	5.8
Gas Stations	5,335	1,088	—	—	6,423	4.9
Restaurants	2,254	171	—	—	2,425	1.8
Other	12,245	581	368	—	13,194	10.0
Total	$ 119,601	$ 4,278	$ 1,379	$ 5,896	$ 131,154	100.0 %

	Acquisition, Construction & Development by Collateral Type and Geographic Location					
	VA	MD	DC	Other	Total	Percentage
Multi-Family	$ —	$ —	$ 12,951	$ 14,515	$ 27,466	38.1 %
Industrial/Warehouse	—	11,411	—	—	11,411	15.8
Land	10,999	1,150	—	—	12,149	16.9
Retail Real Estate	—	7,153	—	1,658	8,811	12.2
Storage	3,999	—	—	—	3,999	5.6
Residential For-Sale	2,114	723	—	—	2,837	3.9
Other	5,349	—	—	—	5,349	7.5
Total	$ 22,461	$ 20,437	$ 12,951	$ 16,173	$ 72,022	100.0 %

CRE loans are monitored through various processes that include payment monitoring, financial reporting, and covenant compliance monitoring, and annual reviews for larger relationships. Furthermore, construction loans are monitored throughout the life of the project and the construction loan administration function is centralized within the Credit Risk Management team. Monitoring the market conditions is also an important component of prudent CRE risk management. Quarterly construction progress reviews are also completed on all acquisition, construction & development loans. For each loan, management reviews the adequacy of the construction budget, adequacy of the interest reserve, pace of construction, and review of any loan covenants.

The Bank believes its underwriting and monitoring standards for commercial real estate loans are sufficient to evaluate its loan portfolio and keep it from incurring significant losses. The majority of the Bank’s commercial real estate loans are in

Virginia (approximately 64.6%) and within the Greater Washington, DC MSA area, and it does not have significant exposure to any economic areas of the country that are underperforming the national economy. Additionally, the Bank's overall exposure to the "Office" collateral type is 14.0% of total commercial real estate loans, including owner-occupied commercial real estate and acquisition, construction & development. The Bank believes that the combined loan portfolio is well-diversified, generally seasoned, manageable, and will outperform the industry in terms of performance through the economic cycle; however, our underwriting, review, and monitoring cannot eliminate all of the risks related to these loans. For further discussion see Part II, Item 1A. "Risk Factors".

2023 Banking Failures and Ensuing Banking Industry Liquidity Concerns

In response to the bank failures that occurred during March and May 2023 and the attendant stress on economic agents, including various financial 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 Part II, Item 1A. "Risk Factors". 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.

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 a periodic basis.

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.

Applicable Basel III Capital Rules require the 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 Company or the Bank.

Under capital adequacy guidelines and the regulatory framework for "prompt corrective action", the 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 March 31, 2024, and December 31, 2023, 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, 2023, included in our Form 10-K.

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, including successfully integrating Summit's operations, people, and technology with ours, and continuing to efficiently satisfy the obligations associated with being a public company, all of which 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 events affecting the financial services market generally as well as pandemics and political instability and conflicts, and any actions taken to mitigate and manage such impacts,

- 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,
- Our ability to successfully integrate into our operations Summit's assets, liabilities, and systems, as well as new management personnel and 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 March 31, 2024, and March 31, 2023, and the selected income statement data for the three months ended March 31, 2024, and March 31, 2023, 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.

	As of the Three Months Ended March 31,	
(In thousands, except ratios, share and per share data)	**2024**	**2023**
Selected Financial Condition Data:		
Total assets	$ 3,696,390	$ 3,671,186
Total cash and cash equivalents	54,077	116,939
Total investment securities, at fair value	1,275,520	1,362,785
Net loans	2,093,549	1,926,034
Company-owned life insurance	94,755	93,053
Premises and equipment, net	61,576	55,157
Total deposits	2,990,113	3,032,391
Advances and other borrowings	360,000	321,700
Total shareholders' equity	319,308	289,783

	As of or for the Three Months Ended March 31,	
	2024	**2023**
Selected Operating Data:		
Interest income	$ 38,745	$ 34,328
Interest expense	16,614	9,554
Net interest income	22,131	24,774
Provision for (recapture of) credit losses	(670)	515
Total non-interest income	4,254	4,214
Total non-interest expenses	21,165	20,365
Income before income taxes	5,890	8,108
Income tax expense	678	584
Net income	5,212	7,524
Per Share Data:		
Average shares of common stock outstanding, basic	7,433,481	7,426,638
Average shares of common stock outstanding, diluted	7,527,489	7,504,473
Total shares of common stock outstanding	7,440,025	7,427,840
Basic net income per share	$ 0.70	$ 1.01
Diluted net income per share	0.69	1.00
Dividends declared per share	0.53	0.53
Dividend payout ratio [(1)]	76.81 %	53.00 %
Book value (at period end)	$ 42.92	$ 39.01

	As of or for the Three Months Ended March 31,	
	2024	2023
Performance Ratios:		
Return on average assets	0.58 %	0.85 %
Return on average equity	6.67	10.83
Interest rate spread (2)	1.95	2.58
Net interest margin (3)	2.68	3.06
Efficiency ratio (4)	80.22	70.25
Capital Ratios:		
Common equity tier 1 (CET 1) capital to risk-weighted assets	16.56 %	17.55 %
Total risk-based capital to risk-weighted assets	17.54	18.65
Tier 1 capital to risk-weighted assets	16.56	17.55
Tier 1 capital to average assets	11.36	11.19
Average equity to average assets	8.69	7.85
Asset Quality Ratios:		
Allowance coverage ratio	1.16 %	1.32 %
Allowance for credit losses as a percentage of non-performing loans	91.99	791.87
Net charge-offs to average outstanding loans during the period	0.00	0.00
Non-performing loans as a percentage of total loans	1.26	0.17
Non-performing assets as a percentage of total assets	0.72	0.09
Other Data:		
Number of full-service branches	23	23
Number of full-time equivalent employees	381	411

(1) 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.

Results of Operations for the Three Months Ended March 31, 2024, and 2023

General

Consolidated net income for the three months ended March 31, 2024, was $5.2 million, compared to $7.5 million earned during the three months ended March 31, 2023. The $2.3 million, or 30.7%, decrease in net income is primarily due to increased funding costs and merger-related costs that were partially offset by an increase in loan interest income, due to increased loan balances and higher rates, and a recapture of credit loss provision in the current quarter ended March 31, 2023.

Net interest income decreased by $2.6 million to $22.1 million for the three months ended March 31, 2024, compared to $24.8 million for the three months ended March 31, 2023. The main driver for this decrease was higher funding costs on deposits, which was partially offset by higher interest income from higher rates and growth in loans.

For the three months ended March 31, 2024, the Company recorded credit loss provision recapture of $0.7 million compared to a provision of $0.5 million for the three months ended March 31, 2023. For the three months ended March 31, 2024, the Company was able to recapture provision as a result of loan payoffs and loan upgrades that resulted in a lower percentage of credit watch list loans to total loans. These loan payoffs and loan upgrades resulted in provision recapture from our ACL model even with new loan growth for the quarter.

Non-interest income increased slightly by $40.0 thousand, or 0.9%, to $4.3 million for the three months ended March 31, 2024, as compared to $4.2 million for the three months ended March 31, 2023. The increase in non-interest income was primarily due to a small increase in fiduciary and wealth management income of $82.0 thousand, which was partially offset by declines in other non-interest income categories in the three months ended March 31, 2024, compared to March 31, 2023.

Non-interest expense increased by $0.8 million, or 3.9%, to $21.2 million for the three months ended March 31, 2024, as compared to $20.4 million for the three months ended March 31, 2023. The increase was primarily due to increases in other non-interest expenses of $0.9 million including higher legal, consulting, and audit fees arising from merger-related filings slightly offset by reduced employee benefit expenses and equipment and occupancy costs.

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 $22.1 million for the three months ended March 31, 2024, compared to $24.8 million for the three months ended March 31, 2023. 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 current interest rate environment has resulted in higher deposit rates to retain depositors and increased the cost of borrowings from the FHLB and the Federal Reserve which has more than offset increases in interest income from higher rates and the increase in volume of loans.

The tax-adjusted net interest margin was 2.68% for the three months ended March 31, 2024, compared to 3.06% for the three months ended March 31, 2023. 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 5.41% for the three months ended March 31, 2024, compared to 4.81% for the three months ended March 31, 2023. The increase was primarily the result of increasing loan production with higher interest rates during the three months ended March 31, 2024, when compared to the prior period.

The tax-adjusted yield on the total investment securities portfolio was 3.43% for the three months ended March 31, 2024, compared to 3.45% for the three months ended March 31, 2023. The small decrease was primarily due to payoffs and maturities of higher yielding securities that decreased the effective rate earned.

The rate paid on interest-bearing deposits increased to 2.41% during the three months ended March 31, 2024, from 1.09% during the three months ended March 31, 2023. The large 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, specifically the time and money-market deposit accounts. Additional increases in the market rates may negatively impact our cost of funds rate.

The rate paid on our borrowings for the three months ended March 31, 2024, was 4.82%, compared to 4.70% for the three months ended March 31, 2023. The increase was due to the increase in short-term borrowing costs. Further increases in market rates 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 March 31, 2024, and March 31, 2023, for comparison (dollars in thousands).

	For the Three Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid	Average Outstanding Balance	Interest Income/Expense	Rate Earned/Paid
Assets:						
Loans, gross [1][2]	$ 2,085,826	$ 28,045	5.41 %	$ 1,919,678	$ 22,760	4.81 %
Interest-earning deposits and fed funds sold	41,692	396	3.82	43,973	308	2.84
Taxable securities	989,875	8,943	3.63	1,095,486	9,803	3.63
Tax-exempt securities [3]	259,699	1,723	2.67	272,783	1,845	2.74
Total securities	1,249,574	10,666	3.43	1,368,269	11,648	3.45
Total interest-earning assets	3,377,092	39,107	4.66	3,331,920	34,716	4.23
Non-interest-earning assets	243,145			257,675		
Total assets	$ 3,620,237			$ 3,589,595		
Liabilities and shareholders' equity:						
Deposits:						
Non-interest-bearing demand	$ 812,199			$ 923,039		
Interest-bearing demand	489,779	765	0.63 %	572,547	199	0.14 %
Savings	922,732	4,529	1.97	1,018,851	2,673	1.06
Time	745,945	7,637	4.12	411,785	2,530	2.49
Total interest-bearing deposits	2,158,456	12,931	2.41	2,003,183	5,402	1.09
Total deposits	2,970,655	12,931	1.75	2,926,222	5,402	0.75
Borrowings:						
FHLB advances and other	307,446	3,683	4.82	358,124	4,153	4.70
Total interest-bearing liabilities	2,465,902	16,614	2.71	2,361,307	9,555	1.64
Non-interest-bearing liabilities	27,718			23,588		
Equity	314,418			281,661		
Total liabilities and equity	$ 3,620,237			$ 3,589,595		
Taxable-equivalent net interest income /net interest spread [4]		22,493	1.95 %		25,161	2.58 %
Taxable-equivalent net interest margin [5]			2.68 %			3.06 %
Taxable-equivalent net adjustment		(362)			(387)	
Net interest income		$ 22,131			$ 24,774	
Net interest-earning assets	$ 911,190			$ 970,613		

(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 an FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to an 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 March 31, 2024	Three Months Ended March 31, 2023
GAAP Financial Measurements		
Interest Income - Loans	$ 28,045	$ 22,760
Interest Income - Securities taxable	8,943	9,802
Interest Income - Securities tax-exempt	1,361	1,458
Interest Income - Other interest income	396	308
Interest Expense - Deposits	12,931	5,401
Interest Expense - Borrowed funds	3,655	4,138
Interest Expense - Other	28	15
Total Net Interest Income	$ 22,131	$ 24,774
Non-GAAP Financial Measurements		
Add: Tax Benefit on Tax-Exempt Interest Income - Securities	$ 362	$ 387
Total Tax Benefit on Tax-Exempt Interest Income (1)	362	387
Tax-Equivalent Net Interest Income	$ 22,493	$ 25,161

(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 March 31, 2024, and March 31, 2023, 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 March 31, 2024, compared to March 31, 2023 — Dollar Increase (Decrease) Due to Change in:		
	Average Volume	Average Rate	Net Change
Income from the interest-earning assets:			
Loans, gross	$ 2,283	$ 3,002	$ 5,285
Securities (1)	(1,013)	30	(983)
Interest-bearing deposits and fed funds sold	(22)	110	88
Total interest income on interest-earning assets	1,248	3,142	4,390
Expense from the interest-bearing liabilities:			
Interest-bearing demand deposits	(129)	696	567
Savings deposits	(472)	2,328	1,856
Time deposits	3,606	1,501	5,107
Total interest expense on interest-bearing deposits	3,005	4,525	7,530
Borrowings	(607)	137	(470)
Total interest expense on interest-bearing liabilities	2,398	4,662	7,060
Taxable-equivalent net interest income	$ (1,150)	$ (1,520)	$ (2,670)

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

Interest Income

Total interest income was $38.7 million for the three months ended March 31, 2024, compared to $34.3 million for the three months ended March 31, 2023, an increase of 12.9%. The increase in interest income was primarily driven by an increase in both rates and volume for the loan portfolio slightly offset by lower volume in the securities portfolio. Interest income on loans increased by $5.3 million while interest income on securities decreased $1.0 million, for the three months ended March 31, 2024, compared to the three months ended March 31, 2023.

Interest Expense

Total interest expense was $16.6 million for the three months ended March 31, 2024, compared to $9.6 million for the three months ended March 31, 2023. The increase in interest expense was primarily driven by increasing rates for both deposits and borrowed funds and an increased volume of time deposits, slightly offset by declines in volume of borrowings, interest-bearing demand deposits, and savings deposits. Interest expense on interest-bearing deposits increased by $7.5 million while interest on borrowed funds decreased by $0.5 million due to volume, for the three months ended March 31, 2024, compared to the three months ended March 31, 2023.

Provision for (Recapture of) Credit Losses

The provision recapture of credit losses was $0.7 million for the three months ended March 31, 2024, compared to a provision of $0.5 million for the three months ended March 31, 2023. The provision recapture was the result of loan payoffs and loan upgrades that resulted in a lower percentage of credit watch list loans to total loans. These loan payoffs and loan upgrades resulted in provision recapture from our ACL model even with new loan growth for the quarter. 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 March 31,		Increase (Decrease)	
	2024	2023	Amount	Percent
Fiduciary and wealth management	$ 1,419	$ 1,337	$ 82	6.1 %
Service charges and fees	1,606	1,635	(29)	(1.8)
Net gains (losses) on securities	—	—	—	N/A
Income from company-owned life insurance	547	560	(13)	(2.3)
Other non-interest income	682	682	—	0.0
Total	$ 4,254	$ 4,214	$ 40	0.9 %

Non-interest income increased 0.9% for the three months ended March 31, 2024, compared to the three months ended March 31, 2023. The increase was due to a small increase in fiduciary and wealth management income of $82.0 thousand, which was partially offset by declines in service charges and fees of $29.0 thousand and reduced income on company-owned life insurance of $13.0 thousand for the three months ended March 31, 2024.

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 March 31,		Increase (Decrease)	
	2024	2023	Amount	Percent
Salaries and wages	$ 9,518	$ 9,494	$ 24	0.3 %
Pensions and other employee benefits	2,365	2,468	(103)	(4.2)
Occupancy	1,538	1,457	81	5.6
Equipment rentals, depreciation and maintenance	1,281	1,339	(58)	(4.3)
Other	6,463	5,607	856	15.3
Total	$ 21,165	$ 20,365	$ 800	3.9 %

Non-interest expense increased $0.8 million or 3.9% for the three months ended March 31, 2024, compared to March 31, 2023. The main drivers for this increase include a large increase of $0.9 million in other non-interest expenses and smaller increases in salaries and wages of $24.0 thousand and occupancy expenses of $81.0 thousand. Increases were partially offset by declines in pensions and other employee benefits expense of $103.0 thousand and equipment rentals, depreciation and maintenance expenses of $58.0 thousand. For the three months ended March 31, 2024, the Company incurred $633.0 thousand of legal, consulting, and audit fees related to the merger with Summit Financial Group, Inc. that are included in other non-interest expense for the three months ended March 31, 2024. 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 $0.7 million for the three months ended March 31, 2024, an increase of $0.1 million from the tax provision for the three months ended March 31, 2023. The increase was due to a tax adjustment that resulted in a reduction of the tax expense for the three months ended March 31, 2023. Removing that benefit would have resulted in a consistent effective tax rate for the three months ended March 31, 2024, and March 31, 2023. For the three months ended March 31, 2024, and March 31, 2023, our effective tax rates were 11.5% and 7.2%, respectively.

Analysis of Financial Condition for the Period Ended March 31, 2024, and December 31, 2023

Assets increased by $78.8 million to $3.70 billion as of March 31, 2024, compared to $3.62 billion as of December 31, 2023. Loans, net of ACL, increased by $31.1 million from $2.06 billion as of December 31, 2023, to $2.09 billion as of March 31, 2024. Deposits decreased by $11.8 million and amounted to $2.99 billion at March 31, 2024, compared to $3.00 billion at December 31, 2023. Borrowed funds increased by $88.0 million to $360.0 million as of March 31, 2024, compared to $272.0 million at December 31, 2023.

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 three months ended March 31, 2024, the value of our securities portfolio increased $27.1 million from December 31, 2023, as a result of purchasing new securities and an insignificant change in unrealized losses during the period.

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 March 31, 2024, and at December 31, 2023.

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 March 31, 2024, and December 31, 2023 (in thousands):

	March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 196,742	$ —	$ 19,211	$ 177,531
Obligations of states and municipalities	533,934	3	75,343	458,594
Residential mortgage backed - agency	47,108	—	4,114	42,994
Residential mortgage backed - non-agency	312,730	28	16,752	296,006
Commercial mortgage backed - agency	35,395	29	1,005	34,419
Commercial mortgage backed - non-agency	176,385	2	5,988	170,399
Asset backed	83,742	179	1,063	82,858
Other	14,179	—	1,460	12,719
Total	$ 1,400,215	$ 241	$ 124,936	$ 1,275,520

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasuries and government agencies	$ 197,026	$ —	$ 17,955	$ 179,071
Obligations of states and municipalities	535,229	21	72,047	463,203
Residential mortgage backed - agency	47,074	—	4,836	42,238
Residential mortgage backed - non-agency	284,826	17	18,812	266,031
Commercial mortgage backed - agency	36,151	28	1,294	34,885
Commercial mortgage backed - non-agency	183,454	—	6,393	177,061
Asset backed	79,315	23	1,402	77,936
Other	9,500	—	1,486	8,014
Total	$ 1,372,575	$ 89	$ 124,225	$ 1,248,439

The investment maturity table below summarizes contractual maturities for our investment securities at March 31, 2024. 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 March 31, 2024. 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.

	March 31, 2024									
	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
Securities Available-for-Sale										
U.S. Treasuries and government agencies	$ 29,986	1.61 %	$ 141,415	1.30 %	$ 25,341	1.36 %	$ —	— %	$ 196,742	1.36 %
Obligations of states and municipalities	—	—	29,704	2.39	342,328	2.08	161,902	2.12	533,934	2.11
Residential mortgage backed - agency	43	3.66	19,002	5.15	28,063	2.68	—	—	47,108	3.67
Residential mortgage backed - non-agency	93,656	4.29	120,285	4.28	97,243	3.60	1,546	7.48	312,730	4.09
Commercial mortgage backed - agency	25	6.37	21,637	5.52	13,733	5.41	—	—	35,395	5.48
Commercial mortgage backed - non-agency	60,657	6.32	110,594	4.02	5,134	1.43	—	—	176,385	4.73
Asset backed	8,034	5.83	40,745	7.03	34,963	5.96	—	—	83,742	6.47
Other	—	—	—	—	9,500	5.13	4,679	8.34	14,179	6.19
Total	$ 192,401	4.57 %	$ 483,382	3.56 %	$ 556,305	2.71 %	$ 168,127	2.35 %	$ 1,400,215	3.22 %

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):

	March 31, 2024	December 31, 2023
Commercial real estate	$ 1,305,152	$ 1,309,084
Owner-occupied commercial real estate	131,154	131,381
Acquisition, construction & development	72,022	49,091
Commercial & industrial	82,774	67,847
Single family residential (1-4 units)	524,804	527,980
Consumer non-real estate and other	2,249	2,373
Loans, gross	2,118,155	2,087,756
Allowance for credit losses	(24,606)	(25,301)
Loans, net	$ 2,093,549	$ 2,062,455

The loan portfolio, excluding ACL, at March 31, 2024, increased by $30.4 million primarily due to growth in commercial & industrial and acquisition, construction & development loans. The Company's organic growth has occurred in both legacy and newer markets.

The following table shows the maturity distribution for total loans outstanding as of March 31, 2024. The maturity distribution is grouped by remaining scheduled principal payments that are due in the following periods. The principal balances of loans are indicated by both fixed and floating rate categories in the table below (in thousands).

	March 31, 2024								
	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	Total
Loans:									
Commercial real estate	$ 116,996	$ 13,648	$ 624,128	$ 126,348	$ 328,544	$ 94,755	$ 733	$ —	$ 1,305,152
Owner-occupied commercial real estate	3,509	235	60,520	9,125	52,882	565	3,193	1,125	131,154
Acquisition, construction & development	1,607	6,179	2,380	58,182	—	—	3,053	621	72,022
Commercial & industrial	154	22,212	37,910	11,581	4,677	6,240	—	—	82,774
Total commercial loans	122,266	42,274	724,938	205,236	386,103	101,560	6,979	1,746	1,591,102
Single family residential (1-4 units)	3,766	1,146	9,258	13,724	17,531	9,872	275,278	194,229	524,804
Consumer non-real estate and other	246	157	611	461	—	—	384	390	2,249
Total loans	$ 126,278	$ 43,577	$ 734,807	$ 219,421	$ 403,634	$ 111,432	$ 282,641	$ 196,365	$ 2,118,155

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 non-performing loans total increased by $23.0 million from December 31, 2023, due to one loan that was 90 days past due and still accruing as of March 31, 2024. The Company determined that the loan was well-secured and subsequent to March 31, 2024, the loan was current. 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 March 31, 2024, totaled $26.7 million.

The following table summarizes the Company’s non-performing assets as of March 31, 2024, and December 31, 2023 (in thousands):

	March 31, 2024	December 31, 2023
Non-accrual loans	$ 4,315	$ 3,744
90 days past due and still accruing	22,433	
Total non-performing loans	26,748	3,744
Other real estate owned	—	
Total non-performing assets	$ 26,748	$ 3,744

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 $30.0 thousand and $17.0 thousand for the three months ended March 31, 2024, and March 31, 2023, respectively. Gross recoveries totaled $5.0 thousand and $34.0 thousand for the three months ended March 31, 2024, and March 31, 2023, respectively. The ACL as a percentage of gross loans, net of unearned income, was 1.16% and 1.32% as of March 31, 2024, and March 31, 2023, respectively.

The Company recorded a provision recapture of $670 thousand and a provision of $0.5 million for the three months ended March 31, 2024, and March 31, 2023, respectively. The provision recapture for March 31, 2024 was primarily the result of loan payoffs and certain loan upgrades offset by new loan originations during the quarter.

The following table summarizes the changes in the Company's credit loss experience by portfolio as of the three and three months ended March 31, 2024, and March 31, 2023 (dollars in thousands):

	Three months ended	
	March 31, 2024	March 31, 2023
Loans outstanding at end of period	$ 2,118,155	$ 1,951,738
Balance of allowance at beginning of period	(25,301)	(21,039)
Impact of the adoption of CECL	—	(4,125)
Loans charged-off:		
Commercial real estate	—	—
Owner-occupied commercial real estate	—	—
Acquisition, construction & development	—	—
Commercial & industrial	—	—
Residential	—	—
Consumer non-real estate and other	30	17
Total loans charged-off	30	17
Recoveries of loans charged-off:		
Commercial real estate	(3)	(28)
Owner-occupied commercial real estate	—	—
Acquisition, construction & development	—	—
Commercial & industrial	—	—
Residential	(1)	(3)
Consumer non-real estate and other	(1)	(3)
Total recoveries of loans charged-off	(5)	(34)
Net loan charge-offs (recoveries)	25	(17)
Provision for (recapture of) credit losses for the period	(670)	523
Ending allowance	$ (24,606)	$ (25,704)
Average loans outstanding during the period	$ 2,085,826	$ 1,919,678
Allowance coverage ratio (1)	1.16 %	1.32 %
Net charge-offs to average outstanding loans during the period (2)	0.00	0.00
Allowance for credit losses as a percentage of non-performing loans (3)	91.99	791.87

(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 by portfolio with a comparison of the percentage composition in relation to total ACL and total loans as of March 31, 2024, and December 31, 2023 (dollars in thousands).

	March 31, 2024		
	Allowance for credit losses	Percent of Allowance in Each Category to Total Allocated ACL	Percent of Loans in Each Category to Total Loans
Commercial real estate	$ 18,977	77.12 %	61.61 %
Owner-occupied commercial real estate	782	3.18	6.19
Acquisition, construction & development	674	2.74	3.40
Commercial & industrial	824	3.35	3.91
Residential	3,272	13.30	24.78
Consumer non-real estate and other	77	0.31	0.11
Total	$ 24,606	100.00 %	100.00 %

	December 31, 2023		
	Allowance for credit losses	Percent of Allowance in Each Category to Total Allocated ACL	Percent of Loans in Each Category to Total Loans
Commercial real estate	$ 20,633	81.56 %	62.71 %
Owner-occupied commercial real estate	783	3.09	6.29
Acquisition, construction & development	368	1.45	2.35
Commercial & industrial	645	2.55	3.25
Residential	2,797	11.05	25.29
Consumer non-real estate and other	75	0.30	0.11
Total	$ 25,301	100.00 %	100.00 %

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 is 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 March 31, 2024, the Company has available unused borrowing capacity of $704.2 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 March 31, 2024, and December 31, 2023, respectively (dollars in thousands):

	March 31, 2024	December 31, 2023
Balance at end of period	$ 360,000	$ 272,000
Weighted average interest rate at end of period	5.38%	4.75%

Deposits

Total deposits decreased by $11.8 million from December 31, 2023, to March 31, 2024, due to a decrease in both non-interest-bearing and interest-bearing deposits of $7.6 million and $4.2 million, respectively. However, excluding brokered deposits, the Company's deposit balance increased by $6.4 million. This increase is due to the Company continuing 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.

All of the Company's brokered deposits are in the form of certificates of deposits that are insured by the FDIC. The Company issued brokered CDs in tranches, with varying initial maturities from 18 months to 60 months and varying call options between 6 months and 12 months. The Company has the ability to call all current issuances.

The following table sets forth the balance of each category of deposits as of the dates indicated (in thousands):

	March 31, 2024	December 31, 2023
Demand, non-interest-bearing	$ 822,767	$ 830,320
Demand, interest-bearing	492,468	509,646
Money market and savings	920,009	925,853
Brokered deposits	370,847	389,011
Time deposits, other	384,022	347,051
Total interest-bearing	2,167,346	2,171,561
Total deposits	$ 2,990,113	$ 3,001,881

The following table sets forth the average balances of deposits and the average interest rates paid as of March 31, 2024 (dollars in thousands):

	March 31, 2024	
	Average Balance	Average Rate Paid
Demand, non-interest-bearing	$ 812,199	—
Demand, interest-bearing	489,779	0.63 %
Money market and savings	922,732	1.97 %
Brokered deposits	378,407	4.65 %
Time deposits, other	367,538	3.57 %
Total interest-bearing	2,158,456	2.41 %
Total deposits	$ 2,970,655	1.75 %

The Company has deposits that meet or exceed the FDIC insurance limit of $250,000 in the amounts of $700.8 million and $677.3 million at March 31, 2024, and December 31, 2023, respectively.

The following table sets forth maturity ranges of time deposits as of March 31, 2024, that meet or exceed the FDIC insurance limit (in thousands).

	March 31, 2024
Due within 3 months or less	$ 41,379
Due after 3 months and within 6 months	31,798
Due after 6 months and within 12 months	31,741
Due after 12 months	3,127
Total uninsured, time deposits	$ 108,045

Shareholders' Equity

Total shareholders' equity at March 31, 2024, was $319.3 million, compared to $314.8 million at December 31, 2023. Shareholders' equity increased by $4.6 million in part due to a decrease in accumulated other comprehensive income (loss) of $2.5 million from December 31, 2023, to March 31, 2024, primarily as a result of an increase in unrealized gains on cash flow hedges see Note 12 — Accumulated Other Comprehensive Income (Loss) in Notes to Consolidated Financial Statements for more detail.

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 March 31, 2024 Percentage Change in Net Interest Income	As of December 31, 2023 Percentage Change in Net Interest Income
300	3.2 %	0.8 %
200	2.5	0.9
100	2.0	1.2
(100)	(1.3)	(1.0)
(200)	(1.5)	(0.8)

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 March 31, 2024, and December 31, 2023.

Change in Interest Rates (in Basis Points)	As of March 31, 2024 Percentage Change in EVE	As of December 31, 2023 Percentage Change in EVE
300	(17.9)%	(16.7)%
200	(12.9)	(12.1)
100	(6.1)	(5.8)
(100)	3.2	2.3
(200)	3.7	1.7

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 March 31, 2024. 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 March 31, 2024, 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

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-K for the year ended December 31, 2023.

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 March 31, 2024, 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

Exhibit No.	Description
2.1*	Agreement and Plan of Reorganization between Burke & 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)
3.1*	Articles of Incorporation of Burke & Herbert Financial Services Corp. (incorporated by reference to Exhibit 3.1 to the Form 10 Registration Statement, filed February 28, 2023)
3.2*	Articles of Amendment to the Articles of Incorporation of Burke & Herbert Financial Services Corp. (incorporated by reference to Exhibit 3.2 to the Form 10/A Registration Statement, filed April 3, 2023)
3.3*	Articles of Amendment to the Articles of Incorporation of Burke & Herbert Financial Services Corp., effective as of 12:01 a.m. Eastern Time on May 3, 2024 (incorporated by reference to Exhibit 3.3 to the Form 8-K, filed May 3, 2024)
3.4#	Bylaws of Burke & Herbert Financial Services Corp.
4.1*	Summit Financial Group, Inc., Form of 5.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (included as Exhibit A to the Form of Subordinated Note Purchase Agreement dated as of September 22, 2020, by and between Summit Financial Group, Inc. and each of the Purchasers) (incorporated by reference to Exhibit 10.1 to Summit Financial Group, Inc.'s Form 8-K filed on September 23, 2020 (File No. 000-16587))
4.2*	Summit Financial Group, Inc., Forms of 3.25% Fixed-to-Floating Rate Subordinated Note due 2031 (included as Exhibit A-1 and Exhibit A-2 to the Indenture, dated as of November 16, 2021, by and between Summit Financial Group, Inc. and UMB Bank, N.A., as Trustee) (incorporated by reference to Exhibit 4.1 to Summit Financial Group, Inc.'s Form 8-K filed on November 17, 2021 (File No. 000-16587))
10.1*†	Employment Agreement, dated as of August 24, 2023, by and between Burke & Herbert Bank & Trust Company and H. Charles Maddy, III
10.2*†	Burke & Herbert Bank 2024-2025 Merger Incentive Plan
10.3*†	Burke & Herbert Bank 2024-2025 Merger Incentive Plan Form of Performance-Based Restricted Stock Unit Award Agreement
31.1#	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	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

* Previously filed
† Management Contract or compensatory plan or arrangement
\# Filed herewith

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: May 10, 2024

Burke & Herbert Financial Services Corp.

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

Exhibit 3.4

BYLAWS

OF

BURKE & HERBERT FINANCIAL SERVICES CORP.

Effective as May 3, 2024

ARTICLE I

OFFICES

SECTION 1. Principal Office. The principal office of the Corporation shall be located at the Main Office at the southeast intersection of King Street and Fairfax Street in the City of Alexandria, Virginia. The Board of Directors shall have the power and authority to change the location of the principal office and to establish and maintain branch offices at any other location as allowed by law.

SECTION 2. Registered Office. The Registered Office of the Corporation, as required by law to be maintained in the Commonwealth of Virginia, shall be 100 South Fairfax Street, Alexandria, Virginia 22314. The Board of Directors shall have the power and authority to change the location of the Registered Office as allowed by law.

ARTICLE II

SHAREHOLDERS' MEETINGS

SECTION 1. Annual Meeting. The annual meeting of the shareholders shall be held at such time and place fixed by the Board of Directors. The purpose of the annual meeting shall be to elect Directors and to transact such other business as may come before the meeting. In the event of exigent and unforeseen circumstances, the Board of Directors may determine that any meeting of shareholders may be held solely by means of remote communication, including, but not limited to, telephonically, with or without video, or with or without other electronic assistance. Participation as a shareholder by means of remote communication shall be subject to such guidelines and procedures as the Board of Directors adopts, subject to the provisions of the Code of Virginia.

SECTION 2. Special Meeting. Special meetings of the shareholders may be called by resolution of the Board of Directors, the Chair of the Board of Directors, or the Chief Executive Officer.

SECTION 3. Presiding Officer; Conduct. The Chair of the Board shall preside at all meetings of the shareholders. In the absence of the Chair, the Vice-Chair, or in the absence of the Vice-Chair, the Lead Independent Director (if any), shall be the Presiding Officer. In the absence of the Chair, the Vice-Chair and the Lead Independent Director, the Chief Executive Officer shall be the Presiding Officer. In the absence of the Chair, Vice-Chair, the Lead Independent Director and the Chief Executive Officer, the Directors shall elect a presiding officer *pro tempore.* If the Secretary is not present, the Presiding Officer shall appoint a Secretary of the meeting. The Presiding Officer may appoint one or more inspectors of the election to determine the qualification of voters, the validity of proxies, and the results of ballots. The Presiding Officer shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such officer, are appropriate for the proper conduct of the meeting.

SECTION 4. Notice of Meeting. Written notice stating the place, day and hour of the meeting, and in case of a special meeting, the purpose for which the meeting is called, shall be given not less than ten (10) days nor more than sixty (60) days before the date of the meeting (unless a different time is required by statute) by mail to each Shareholder of record entitled to vote at such meeting. Such notice shall be deemed to have been given when deposited in the United States mail, addressed to the Shareholder at the address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

Without limiting the manner by which notice otherwise may be given effectively to shareholders, any notice to shareholders given by the Corporation, under any provision of the Code of Virginia, 1950, as amended, the Articles of Incorporation or these Bylaws, shall be effective if given by a form of electronic transmission consented to by the shareholder to whom the notice is given. Any such consent shall be revocable by the shareholder by written notice to the Corporation.

SECTION 5. Closing the Transfer Books or Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the resolution of the Board of Directors calling the meeting of the shareholders or declaring such dividend, as the case may be, shall establish the record date for such determination of shareholders; provided, that in no event shall such date be more than seventy (70) days prior to the date proposed for such meeting or dividend declaration.

SECTION 6. Quorum. A majority of the outstanding Common Stock of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. Once a share is represented as present at a meeting, either in person or by proxy, it is deemed present for quorum purposes for the remainder of the meeting and for adjournment of that meeting unless a new date is set of record for adjournment of that meeting.

SECTION 7. Manner of Acting. The affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of greater number or voting by classes is required by statute or the Articles of Incorporation.

SECTION 8. Proxies. At all meetings of shareholders, a shareholder may vote by proxy on a document executed by the shareholder or a duly authorized attorney in fact. Such proxy shall be filed with the secretary of the Corporation before or at the time of the meeting.

SECTION 9. Shareholder Proposals.

(a) For any shareholder proposal to be presented in connection with an annual meeting of shareholders of the Corporation, including any nomination or proposal relating to the nomination of a director to be elected to the Board of Directors of the Corporation, the shareholders must have given timely notice thereof in writing to the Secretary of the Corporation.

(b) To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days or more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is changed by more than thirty (30) days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which notice of the date of annual meeting was mailed or public announcement of the date of such meeting is first made. No adjournment or postponement of an annual meeting shall commence a new period for the giving of notice of a shareholder proposal hereunder.

(c) Such shareholder's notice shall set forth: (i) as to each person whom the shareholder proposes to nominate for election or reelection as a director, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and of the beneficial owner, if any, on whose behalf the nomination or proposal is made, (A) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner and (B) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such shareholders and such beneficial owner; and (iii) a written representation and agreement (in the form provided by the Corporation upon written request) that the shareholder is not and will not become a party to any written or oral agreement, arrangement or understanding with any other party or shareholder regarding the subject matter of the shareholder's proposal.

SECTION 10. Adjournments. A majority of the votes entitled to be cast at any meeting, represented in person or by proxy, even though less than a quorum, may adjourn the meeting to a fixed time and place or by remote communication. The presiding officer of a meeting may adjourn or recess any meeting of shareholders, at any time or for any reason, without a vote of the shareholders.

ARTICLE III

BOARD OF DIRECTORS

SECTION 1. General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors, and, except as otherwise expressly provided by applicable law or the Articles of Incorporation, all of the powers of the Corporation shall be vested in the Board of Directors.

SECTION 2. Number and Tenure. Effective as of the Effective Time (as defined herein), and notwithstanding any other provision of these Bylaws that may be to the contrary, the Board of Directors of the Corporation shall be fixed at sixteen (16) Directors, of which eight (8) shall be current members of the Board of Directors of the Corporation prior to the Effective Time, and eight (8) shall be current members of the Board of Directors of Summit Financial Group, Inc. ("SMMF") prior to the Effective Time. For the purposes of these Bylaws, the term "Effective Time" shall have the same meaning as defined in the Agreement and Plan of Reorganization, dated as of August 24, 2023, between the Corporation and SMMF, as the same may be amended from time to time (the "Merger Agreement").

At the next annual meeting of shareholders following the Effective Time, the Corporation shall nominate and recommend each BHRB Continuing Director and each SMMF Continuing Director for reelection to the Board of Directors, and the Corporation's proxy materials with respect to such annual meeting shall include the recommendation of the Board of Directors that its shareholders vote to reelect each BHRB Continuing Director and each SMMF Continuing Director to the Board of Directors.

From and after the Effective Time until the date that is one year after the date of the next annual meeting, no vacancy on the Board created by the cessation of service of a director shall be filled by the Board of Directors and the Board of Directors shall not nominate any individual to fill such vacancy, unless (x) such individual would be an independent director of the Corporation (unless such predecessor director was not an independent director), (y) in the case of a vacancy created by the cessation of service of a BHRB Continuing Director, not less than a majority of the BHRB Continuing Directors have approved the appointment or nomination (as applicable) of the individual appointed or nominated (as applicable) to fill such vacancy, and (z) in the case of a vacancy created by the cessation of service of a SMMF Continuing Director, not less than a majority of the SMMF Continuing Directors have approved the appointment or nomination (as applicable) of the individual appointed or nominated (as applicable) to fill such vacancy. Notwithstanding the foregoing, any appointment, nomination, and recommendation pursuant to this Article III, Section 2 shall be made in accordance with the Corporation's corporate governance guidelines, applicable law and the rules of The Nasdaq Stock Market, LLC (or other national securities exchange on which the Corporation's securities are listed).

For purposes of this Article III, Section 2, the terms "BHRB Continuing Directors" and "SMMF Continuing Directors" shall mean, respectively, the initial directors of BHRB and SMMF who were selected to be directors of the Corporation by BHRB or SMMF, as applicable, as of the Effective Time, pursuant to Section 1.4(b) of the Merger Agreement, and any directors of the Corporation who were subsequently appointed or nominated and elected to fill a vacancy created by the cessation of service of any such director (or any successor thereto) pursuant to this Article III, Section 2.

SECTION 3. Election of Directors.

(a) Except as otherwise specified in the Articles of Incorporation or these Bylaws or provided by applicable law, a nominee for director shall be elected to the Board of Directors at any meeting of shareholders at which a quorum is present if the votes cast for such nominee's election exceed the votes cast against such nominee's election; provided, however, that nominees for director shall be elected by a plurality of the votes cast at any meeting of shareholders for which the number of nominees exceeds the number of directors to be elected. If directors are to be elected by a plurality of the votes cast, the shareholders shall not be permitted to vote against a nominee. If a nominee for director who is an incumbent director is not re-elected to the Board of Directors in accordance with the voting requirements stated above and no successor has been elected at such meeting of shareholders, such director must promptly tender his or her written offer of resignation in accordance with the Corporation's Director Resignation Policy.

(b) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made by or at the direction of the Board of Directors, or by any shareholder of the Corporation entitled to vote for the election of Directors who complies with the notice procedures set forth in Article II, Section 9 of these Bylaws.

SECTION 4. Director Eligibility. No person who is age 75 or older shall be eligible to serve on the Board of Directors after the annual meeting of shareholders following his or her 75th birthday; *provided*, *however* that the Board of Directors may, upon a majority vote thereof and with the written consent of the director, grant one or more one-year extensions of any director's term beyond his or her 75th birthday.

SECTION 5. Regular Meetings. An annual meeting of the Board of Directors shall be held, without other notice than this Bylaw, at its next meeting following the annual meeting of shareholders. Regular meetings of the Directors shall be held quarterly at such time and place as determined by the Board of Directors; *provided* that the Independent Directors (as such term in defined by Rule 5605(a)(2) of the NASDAQ Stock Market Corporate Governance Requirements) shall meet in executive session at least twice per year and be presided over by the Chair of the Board or, if the Chair is not an Independent Director, by the Lead Independent Director (if any).

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chair, the Lead Independent Director (if any), or by order of a majority of the Directors of the Corporation. Such special meetings shall be held upon one (1) day prior notice to all Directors. Such notice shall state the purpose, time and location of the meeting.

SECTION 7. Presiding Officer. The Chair of the Board shall preside at all meetings of the Board of Directors. In the absence of the Chair, the Vice-Chair, or in the absence of the Vice-Chair, the Lead Independent Director (if any), shall be the Presiding Officer. In the absence of the Chair, the Vice-Chair, and the Lead Independent Director, the Chief Executive Officer shall be the Presiding Officer. In the absence of the Chair, Vice-Chair, the Lead Independent Director, and the Chief Executive Officer, the Directors shall elect a presiding officer *pro tempore.*

SECTION 8. Lead Independent Director. At any time during which the Chair is not an Independent Director (as determined by the Board of Directors), the Independent Directors of the Board of Directors may appoint an Independent Director that is a member of the Board of Directors to serve as the “Lead Independent Director” and such Lead Independent Director shall perform such duties and have such other powers as the Board of Directors shall designate from time to time. The Lead Independent Director shall be subject to election annually and in no event less frequently than every fifteen months.

SECTION 9. Quorum. A majority of the total number of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

SECTION 10. Manner of Acting. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors except that no plan of merger or share exchange or any direct or indirect sale, lease, exchange or other disposition of all or substantially all of the Corporation's property, otherwise than in the usual and regular course of business, shall be submitted to the shareholders for a vote unless such action is approved by at least two-thirds of the entire Board of Directors. The Board of Directors may permit any or all directors to participate in a meeting of the directors by, or conduct the meeting through the use of, conference telephone or any other means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by such means shall be deemed to be present in person at the meeting.

SECTION 11. Vacancies. Directors elected to fill a vacancy shall be elected to serve the remaining term of the Director they replace and shall be elected by affirmative vote of a majority of the total number of Directors. The term of a Director shall expire at the next Annual Meeting of the shareholders.

SECTION 12. Compensation. Upon the recommendation of the Compensation Committee and by resolution of the Board of Directors, Directors may be paid a retainer fee and a fixed sum for attendance at each meeting of the Board of Directors. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefore.

SECTION 13. Action Without A Meeting. Unless otherwise provided by law, any action required to be taken at a meeting of the Directors or any other action which may be taken at a meeting of the Directors may be taken without a meeting if a consent in writing which sets forth the action so taken shall be signed by all of the Directors entitled to vote with respect to the subject matter thereof.

SECTION 14. Presumption of Assent. A Director of the Corporation who is present at a meeting of the Board of Directors at which any corporate action is taken shall be presumed to have assented to the action unless or he or she votes against or abstains from the action taken.

ARTICLE IV

COMMITTEES OF THE CORPORATION

SECTION 1. Standing Committees. The following committees are the committees of the Corporation:

Audit
Compensation
Enterprise Risk Management
Nominating & Governance

Membership shall be by recommendation of the Chair to the Nominating & Governance Committee. The Nominating & Governance Committee shall make final recommendations to the Board of Directors for ratification.

SECTION 2. Other Committees. The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these Bylaws, may establish such other standing or special committees as it deems necessary or appropriate. The Chair may recommend as many special committees (and the membership thereof) to the Board as he or she deems necessary for the successful management and governance of the Corporation.

SECTION 3. Meetings. Regular and special meetings of any Committee established pursuant to this Article may be called and held as directed by the Committee Chair or a majority of the committee members subject to the same requirements with respect to time, place and manner, and notice as are specified in these Bylaws for regular and special meetings of the Board of Directors.

SECTION 4. Quorum and Manner of Acting. A majority of the members of any Committee serving at the time of any meeting thereof shall constitute a quorum for the transaction of business at such meeting. The action of a majority of those members present at a Committee meeting at which a quorum is present shall constitute the act of the Committee.

SECTION 5. Term of Office. Members of any Committee shall be appointed as provided above and shall hold office for one year unless such office is vacated in accordance with Section 7 hereof.

SECTION 6. Resignation and Removal. Any member of a Committee may resign at any time by giving written notice of his or her intention to do so to the Chair or the Secretary of the Corporation, or may be removed, with or without cause, at any time by such vote of the Board of Directors.

SECTION 7. Vacancies. Any vacancy occurring in a Committee resulting from any cause whatever may be filled by appointment of the Chair and by the vote of a majority of the number of Directors fixed by these Bylaws.

SECTION 8. Compensation. Upon the recommendation of the Compensation Committee, the Board of Directors from time to time shall establish the compensation to be paid to Directors for attending committee meetings for which they are members.

ARTICLE V

OFFICERS

SECTION 1. Election of Officers / Terms. The officers of the Board of Directors shall include a Chair, and Vice Chair, both of whom must also be Directors of the Board, and a Secretary and Assistant Secretary. The officers of the Corporation shall include a Chief Executive Officer, President, one or more Vice-Presidents (whose seniority and titles, may be specified by the Board of Directors), a Corporate Secretary, a Cashier, a Chief Financial Officer, a Trust Officer and other officers as may from time to time be elected by the Board of Directors. The officers of the Board of Directors and of the Corporation shall be elected at an annual meeting of the Directors that follows the annual meeting of the shareholders and shall hold office until the next annual meeting of the Board of Directors. Any two officers, except for the Chair and the Secretary of the Board of Directors who cannot be combined, may be combined in the same person as the Board of Directors may determine.

SECTION 2. Removal of Officers/Vacancies. Any officer of the Corporation may be removed summarily with or without cause, at any time, by the Board of Directors. Vacancies may be filled by the Board of Directors.

SECTION 3. Duties. The officers of the Corporation shall have such duties as generally pertain to their offices, respectively, as well as such powers and duties as are prescribed by law or are hereinafter provided or as from time to time shall be conferred by the Board of Directors. The Board of Directors shall designate the Chief Executive Officer and the Chief Financial Officer at the annual election of the officers. The Board of Directors may require any officer to give such bond for the faithful performance of his or her duties as the Board may see fit. The duties, responsibilities, obligations, and authority of each officer shall be designated by the Board of Directors: (1) by the position; or (2) by act of the Board of Directors designating such duty, responsibility, obligation, and authority to the individual holding such position.

ARTICLE VI

CONTRACTS, OBLIGATIONS AND OTHER TRANSACTIONS

SECTION 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances.

SECTION 2. Other Instruments. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notices or other evidences of indebtedness issued in the name of the Corporation, or documents concerning other transactions, shall be signed by such officer or officers, agent or agents of the Corporation and in such a manner as shall from time to time be determined by resolution of the Board of Directors.

ARTICLE VII

CERTIFICATES FOR SHARES AND THEIR TRANSFERS

SECTION 1. Certificates for Shares. Certificates representing shares of the Corporation shall be in the forms prescribed by the Board of Directors. All certificates surrendered to the Corporation for transfer shall be cancelled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefore upon such terms and indemnity to the Corporation as the Board of Directors may prescribe. Shares of the Corporation may be issued in non-certificated form.

SECTION 2. Transfer of Shares. So long as shares of the Corporation are held in certificated form, all transfers of stock of the Corporation shall be made upon its books by surrender of the certificate for the shares transferred accompanied by an assignment in writing by the transferring shareholder, and may be accomplished either by such shareholder or by his or her duly authorized attorney-in-fact. In case of transfer by attorney, the power of attorney, duly executed and acknowledged, shall be deposited with the Transfer Agent. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes. If the shareholders enter into an agreement restricting the transfer of shares, such shares may be transferred on the books of the Corporation only in accordance with the terms of such agreement to the extent that the Corporate Secretary is provided written notification of such agreement.

ARTICLE VIII

DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms, conditions and amounts provided by law or by the Articles of Incorporation of the Corporation.

ARTICLE IX

MISCELLANEOUS PROVISIONS

SECTION 1. Seal. The Corporation may have a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation, the year of the incorporation, the state of the incorporation and the words "Corporate Seal - Virginia."

SECTION 2. Waiver of Notice. Unless otherwise provided by law, whenever notice is required to be given to any Shareholder or Director of the Corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation, a Waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

SECTION 3. Fiscal Year. The fiscal year of the Corporation shall begin on January 1 and end on December 31 of each year.

SECTION 4. Amendment of Bylaws. Unless proscribed by law or the Articles of Incorporation, these Bylaws may be amended or altered at any meeting of the Board of Directors by affirmative vote of a majority of the number of Directors fixed by these Bylaws.

SECTION 5. Signatures. Checks, notes, drafts, and other orders for the payment of money shall be signed by such persons as the Board of Directors from time to time may authorize. The signature of any such person may be a facsimile or other electronic form when authorized by the Board of Directors.

SECTION 6. Forum for Adjudication of Disputes. To the fullest extent permitted by law, and unless the Corporation consents in writing to the selection of an alternative forum, the United States District Court for the Eastern District of Virginia, Alexandria Division or, in the event that court lacks jurisdiction to hear such action, the Circuit Court of the City of Alexandria, Virginia, shall be the sole exclusive forum for (i) any derivative action or proceeding brought in the name or right of the Corporation or on its behalf, (ii) any action asserting a claim for breach of a fiduciary duty owed by a director, officer, employee or other agent of the Corporation to the Corporation or the Corporation's shareholders, (iii) any action arising or asserting a claim arising pursuant to any provision of the Virginia Stock Corporation Act (Va. Code Ann. § 13.1-601, et seq.) or any provision of the Articles of Incorporation or these Bylaws or (iv) any action asserting a claim governed by the internal affairs doctrine, including, without limitation, any action to interpret, apply, enforce or determine the validity of the Articles of Incorporation or these Bylaws, in each case subject to such court having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and have consented to the provision in this Section 6.

SECTION 7. Voting of Stock Held. Unless otherwise provided by a vote of the Board of Directors, the Chief Executive Officer may either appoint attorneys to vote any stock of any other corporation owned by this Corporation or may attend any meeting of the holders of stock of such other corporation and vote such shares in person.

SECTION 8. Examination of Books. The Board of Directors, the Chief Executive Officer, or the President, subject to applicable law, shall have the power to determine from time to time whether and to what extent and under what conditions and limitations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the shareholders.

SECTION 9. Construction. In the event of any conflict between the provisions of these Bylaws as in effect from time to time and the provisions of the Articles of Incorporation of the Corporation as in effect from time to time, the provisions of the Articles of Incorporation shall be controlling. As used in these Bylaws, the term "Articles of Incorporation" shall mean the articles of incorporation of the Corporation filed with the Virginia State Corporation Commission pursuant to the Virginia Stock Corporation Act, as amended from time to time. As used herein, unless the context otherwise requires: (i) the terms defined herein shall have the meaning set forth herein for all purposes; (ii) the terms "include," "includes," and "including" are deemed to be followed by "without limitation" whether or not they are in fact followed by such words or words of like import; (iii) "writing," "written" and comparable terms refer to printing, typing, handwriting and other means of reproducing words in a visible form; (iv) "hereof," "herein," and comparable terms refer to the entirety of these Bylaws and not to any particular article, section or other subdivision hereof; and (v) references to any gender include references to all genders, and references to the singular include references to the plural and vice versa.

SECTION 10. Redemption of Certain Shares. In accordance with the provisions of Section 13.1-728.7 of Article 14.1 of the Virginia Stock Corporation Act, the Corporation may, but is not required to, redeem shares of its common stock which have been the subject of a control share acquisition (as defined in that Article) under the circumstances set forth in A and B of Section 13.1728.7.

This is to certify that these Bylaws were adopted by the Board of Directors of the Corporation as the Bylaws of the Corporation with an effective date of May 3, 2024

Dated this 3rd day of May, 2024.

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

[Signature page to Bylaws of Burke & Herbert Financial Services Corp.]

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: May 10, 2024

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

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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: May 10, 2024

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

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Exhibit 32.1

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: May 10, 2024

/s/ David P. Boyle

David P. Boyle
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2024

/s/ Roy E. Halyama

Roy E. Halyama
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)