

# 2018

## THIRD QUARTER REPORT

Dear Baker Boyer Shareholder:

October 15, 2018

Fall is upon us in Walla Walla, ending a relatively strong harvest for wheat with prices that have been higher than we have seen in the past year. This combined with some rain a few weeks ago has lifted the prospects for winter wheat planting. In addition, throughout our footprint, economic revitalization is strengthening with the overall prospects of the national economy.

Financially, the Bank remains very strong and well capitalized. Deposits continue to be stable. The Bank's average deposits as of September 30, 2018, has increased by 1.1% from \$525 million in 2017 to \$530 million in 2018. These deposits have been deployed to either fund our loan growth or have been invested in our securities and investment portfolios. Average loan growth has seen an increase of 2.0% as of September 30, 2018, from \$280 million in 2017 to \$286 million in 2018.

The increase in average loans has combined with recent Federal Reserve rate increases to strengthen our net interest margins. The average net interest margins have increased from 3.52% on September 30, 2017, to 3.74% for the same time-period in 2018.

Non-interest income has also had strong growth in 2018. For the nine-month period ending September 30, 2018, Investment Management and Trust Services has seen a 10.0% growth in income from the same time-period in 2017. Investor Services has seen 14% growth for that same nine-month time-period.

With both the asset management and banking divisions strengthening, we have seen a marked improvement in both our net income and return on average assets. Net income for the nine months ending September 30, 2018, is up 22.1%, from \$4.2 million in 2017 to \$5.1 million in 2018. This corresponds with an increase in our average return on assets as of September 30, 2018, from .94% in 2017 to 1.15% in 2018.

As always, we are extremely grateful for the support of our shareholders and their belief in both the Bank's vision as well as our ability to execute on that vision. If you have any further questions, please do not hesitate to contact me.

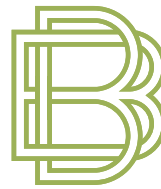
Sincerely,



Mark H. Kajita, CPA  
President and CEO



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**BAKER BOYER**

FAMILY LEGACIES GROWN LOCALLY

*Walla Walla. Tri-Cities Yakima.*

### BOARD OF DIRECTORS

Megan F. Clubb, Chair	Mark H. Kajita
Peter Allen	J. Eric Kimball
Jon S. Bren	Kip Kontos
David B. Campbell	Charles H. Eglin
John R. Valaas	Dave Gordon

## Consolidated Balance Sheet - Average ytd

(Unaudited)

	Sept 30,		
	2018	2017	% Chg.
<i>(Dollars in Thousands)</i>			
<b>ASSETS</b>			
Cash and amounts due from banks	\$ 4,628	\$ 4,727	(2.1)
FFS and Int-bearing deposits at other financial institutions	118,611	90,423	31.2
<b>Total Cash and Cash Equivalents</b>	<b>123,239</b>	<b>95,150</b>	<b>29.5</b>
Investment securities:			
Available-for-sale, at fair value	174,276	210,390	(17.2)
Held-to-maturity at cost	1,301	1,293	0.6
Other investments, at cost	1,319	1,359	(2.9)
<b>Total Investments</b>	<b>176,896</b>	<b>213,042</b>	<b>(17.0)</b>
Loans	285,787	280,089	2.0
Allowance for credit losses	(6,247)	(6,170)	1.2
<b>Net Loans</b>	<b>279,540</b>	<b>273,919</b>	<b>2.1</b>
Bank premises and equipment, net	12,990	13,219	(1.7)
Accrued interest receivable	2,603	2,797	(6.9)
Other assets	3,900	4,720	(17.4)
<b>TOTAL ASSETS</b>	<b>\$ 599,168</b>	<b>\$ 602,847</b>	<b>(0.6)</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Noninterest bearing	\$ 169,270	\$ 163,170	3.7
Interest bearing	360,769	361,360	(0.2)
<b>Total Deposits</b>	<b>530,039</b>	<b>524,530</b>	<b>1.1</b>
Federal funds purchased and security repurchase agreements	15,067	22,574	(33.3)
Other borrowed funds	0	1,595	-
Accrued interest payable	19	20	(5.0)
Other liabilities	1,047	1,727	(39.4)
<b>TOTAL LIABILITIES</b>	<b>546,172</b>	<b>550,446</b>	<b>(0.8)</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/18	9/30/17	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,293,066	1,296,886	4,045
Additional paid-in capital	364	700	(48.0)
Retained earnings	49,113	47,146	4.2
Accumulated other comprehensive income (loss)	(526)	509	(203.3)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>52,996</b>	<b>52,401</b>	<b>1.1</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 599,168</b>	<b>\$ 602,847</b>	<b>(0.6)</b>

## Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		
	2018	2017	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 11,904	\$ 11,110	7.1
Federal funds sold and deposits at other financial institutions	1,534	763	101.0
Investment securities:			
Taxable	627	591	6.1
Tax-exempt	1,697	1,868	(9.2)
Other investment income and dividends	45	38	18.4
<b>Total Interest and Dividend Income</b>	<b>15,807</b>	<b>14,370</b>	<b>10.0</b>
<b>Interest Expense</b>			
Deposits	215	197	9.1
Federal funds purchased and security repurchase agreements	12	16	(25.0)
Other borrowed funds	0	0	-
<b>Total Interest Expense</b>	<b>227</b>	<b>213</b>	<b>6.6</b>
<b>Net Interest Income</b>	<b>15,580</b>	<b>14,157</b>	<b>10.1</b>
<b>Provision for credit losses</b>	0	2	(100.0)
<b>Net Interest Income after Provision for Credit Losses</b>	<b>15,580</b>	<b>14,155</b>	<b>10.1</b>
<b>Non-Interest Income</b>			
Trust and Investment Management fees	6,312	5,756	9.7
DS Baker Investment fees (brokerage)	999	875	14.2
Service charges on deposit accounts	543	629	(13.7)
Other service charges and fees	958	952	0.6
Other operating income	319	581	(45.1)
<b>Total Non-Interest Income</b>	<b>9,131</b>	<b>8,793</b>	<b>3.8</b>
<b>Non-Interest Expense</b>			
Salaries, wages, and other compensation	9,281	8,764	5.9
Retirement and employee benefits	3,043	2,835	7.3
Net occupancy expense	949	941	0.9
Furniture and equipment expense	403	361	11.6
Other operating expense	4,940	4,636	6.6
<b>Total Non-Interest Expense</b>	<b>18,616</b>	<b>17,537</b>	<b>6.2</b>
<b>Income Before Income Taxes</b>	<b>6,095</b>	<b>5,411</b>	<b>12.6</b>
<b>Provision For Income Taxes</b>	947	1,195	(20.7)
<b>NET INCOME</b>	<b>\$ 5,148</b>	<b>\$ 4,216</b>	<b>22.1</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 4.01</b>	<b>\$ 3.27</b>	<b>22.6</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>1,282,118</b>	<b>1,287,533</b>	