

BAKER



BOYER

FAMILY LEGACIES GROWN LOCALLY

*Walla Walla Valley Tri-Cities Yakima*



2018  
ANNUAL REPORT





Megan

Chairman of the Board

Nick

President & CEO

## LETTER TO SHAREHOLDERS

*Cui Bono*

BY MARK KAJITA

*In Latin, "who benefits?" In the relationship between a community and a bank, it is never mutually exclusive. Success happens when it is mutually beneficial.*



**W**HAT BETTER WAY TO TALK ABOUT THE WONDERFUL EARNINGS OF BAKER BOYER than to take a look at the reason for its success. And, what better way to discuss this than to look at the historic way banks have maintained long-term health through its symbiotic relationships with the communities they serve. Throughout time, community banks have relied on one simple axiom, “What is good for the long-term health of the community is good for the long-term health of the bank.” This simple adage has steered decisions of the most successful banks towards future expansion and growth. Simply put, there is a circular and perpetually growing economic benefit that can occur when both the community and the banks that serve those communities work together. This is because the deposits of the community are conglomerated and lent out to individuals and businesses within the community in order to increase economic growth. This, in turn, increases savings of the depositors and in turn banks lend out more to individuals and businesses within the community. In essence, the community and the bank both expand and prosper in this symbiotic relationship of perpetual motion.

In Latin, this is encapsulated in the term *Cui Bono*, “who benefits.” In the relationship between a community and a bank, it is never mutually exclusive, but instead can only be successful if it is mutually beneficial. In the end, the shareholders, the Bank, the community, and all of its members benefit when a community and bank work together for a brighter economic future.

During the time of deregulation of the banking industry in the 1980s, the sudden influx of competitive pricing caused many banks to extend beyond their original community in search of

increasing their number of loans and deposits. This growth in the banking industry spawned regional, super-regional, and larger multi-national banks. However, in the zeal for growth laid the seed for turmoil. You see, when a bank was in a single community or area, the idea of a symbiotic relationship was always at the forefront of a banker’s mind. But, when banks became super-regional and larger, many banks took deposits from one part of the country and made loans in another. In essence, they were growing one area at the expense of another. The funds of the depositors didn’t see the economic impact which would normally have been created in their area. In these cases, the real question is *Cui Plagalis*, “who is penalized?”

“What is good for the long-term health of the community is good for the long-term health of the bank.”

The Aspen Institute, a multi-disciplinarian think tank, has explored many factors that lead to a healthy and economically vibrant community. Education, certainly, is a major factor that helps a community grow economically and expand.

As a side note, Walla Walla Community College was bestowed with the “2013 Aspen Prize for Top Community College in the Nation” by the Aspen Institute.

In addition, the Aspen Institute specifically has identified factors that influence economic growth in local communities and their overall long-term stability and prosperity for all. Ironically, what they identified has been the banking industry’s historic axiom all these years, “What’s good for the community is good for banks.” A financial system, *Cui Bono*.

For 150 years and through the succession of six generations of the Baker family, Baker Boyer has believed that it must and shall stay true to *Cui Bono*. Baker Boyer continues to believe that growth in any community we are in can only take place if we can have a symbiotic relationship between the community

## FINANCIAL HIGHLIGHTS 2018

- Total average asset size of the Bank decreased slightly by 0.70% from \$603.1 to \$599.2 million as of December 31, 2017 and 2018, respectively.
- Average loan balance increased over \$4 million ending at \$286 million on December 31, 2018. This equates to a 1.50% increase over the previous year. In addition, average yields on loans increased 28bps.
- Total interest income increased 11% from \$19 million to \$21 million for years ending December 31, 2017 and 2018, respectively.
- Total assets under management decreased by 7% from \$1.37 billion to \$1.28 billion as of December 31, 2017 and 2018 respectively. Asset management revenue increased by 6% from \$9.6 million to \$10.1 million for years ending December 31, 2017 and 2018, respectively.
- Although total non-interest expenses increased from \$23.6 to \$25 million for the years December 31, 2017 and 2018, respectively, we were more than \$1 million dollars or over 4% under budget for 2018.
- Net interest margin improved from 3.52% to 3.77% for the years December 31, 2017 and 2018, respectively.
- Total net income in 2018 was up from 2017 by \$1.8 million going from \$5.4 to \$7.3 million for the years ending December 31, 2017 and 2018, respectively. If the Tax Cut and Jobs Act was not signed into law at the end of 2017, leaving the 2018 corporate tax rate at 34%, the Bank would still have earned approximately \$1 million more in 2018.

and the Bank. This means a perpetual growth in our economic communities built on shared economic benefit. The Baker family and the employees of the Bank have never forgotten that our success is born only *after* the communities we serve succeed. We will NEVER penalize any one community for the benefit of another.

*“The Baker family and the employees of the Bank have never forgotten that our success is born only after the communities we serve succeed.”*

This is why we have evolved into the financial firm that we are today. In Walla Walla, Milton-Freewater, the Tri-Cities, and Yakima we have evolved to meet the needs of the economies of those areas. Some needs are common throughout all of our communities.

Understanding the increasing complexity of the rules governing the different types of business entities is one example. It makes a difference if you are a sole-proprietorship, a partnership, a limited liability company, a corporation, or an S-corporation. They all have their uses and their pros and cons. But, I will say, few business owners understand what those pros and cons are and how they may be taking undue risk remaining in one entity versus transitioning into another. In addition, each entity also has different ways of transacting business, which will make them more profitable. It is in the Bank's best interest to assist our clients who are business owners to be more profitable so that they can continue to grow the economy of our communities and thus strengthen the future of the Bank.

Another example is how a different business entity type affects how a business owner will pass that business along to another generation or affects how to sell it effectively. Each entity has pitfalls when considering either option, and in order to help our clients better understand some of their options, we have employed MBAs, CPAs, advisors with law degrees, and financial planners who work with our clients' CPAs and attorneys to decipher and translate their options from obscure tax laws to common English.

In addition, we have found that much of the decision-making process isn't necessarily steered by financial numbers alone. Instead, many financial decisions are made based on a family's personal and emotional biases. These biases stifle discussions between family members as to what the reasons are surrounding why decisions are made. Because of this, we have employed Family Advisors. Think of them as financial therapists. Their job is to help clients bridge the gap between what is in their thoughts to saying it out loud. This includes helping them explore hopes and dreams for the future. Through this, we help clients uncover solutions that will satisfy all the participants as much as possible. Finally, Baker Boyer helps clients wrap all this

together around our new and robust financial planning group. These financial planners' only goal is to help clients make decisions that will be in the best interest of their family finances. In the end, what is best for the long term health of the family business is also in the best long-term interest of the community and the Bank. Cui Bono? In this instance, we all do.

These are some of the areas where all of our communities have benefited from the investment Baker Boyer has made into their future. But, let's talk about one community who has truly valued the investment that Baker Boyer has made to help grow their economy and to make a better future. That community is Yakima.

At the turn of the 21st Century, many financial institutions and trust companies exited the Yakima Valley. They had decided that their fortunes rested with larger communities up and down the West Coast. Many institutions decided to service Yakima from far afield, in some cases from the East Coast of the US. In stark contrast, Baker Boyer saw an opportunity.

In 2001, Baker Boyer started its foray into the Yakima Valley, by renting space and opening our first office there. Baker Boyer saw in Yakima what it sees in the Walla Walla Valley—vibrant entrepreneurs who desired to grow the economy and strengthen their community. Baker Boyer continued its expansion into Yakima by building our own building in 2006. All the time, Yakima and its citizens welcomed us with ever-widening arms. We have and continue to build wonderful lasting relationships with families, CPA firms, and law firms who value the long-term approach that Baker Boyer brings to the Valley. Cui Bono? We all do.



Yakima Building: Exterior View

In 2018, Baker Boyer made the decision to once again invest in the Yakima Valley. We announced the building of a new office to house our ever-increasing number of employees and clients. We will construct an 18,000 square foot building that we believe will meet the needs of Yakima for the next 25 years. When it opens in the spring of 2020, we will rent out part of the building in order to both lower the cost for our shareholders as well as provide office space for professionals in the Yakima community. This will leave us ample space to grow and hire even

more employees dedicated to the Yakima Valley. At present, we are providing some of that expertise from Walla Walla, as our employees travel to Yakima in order to serve the needs of the Yakima community. In the future, Baker Boyer will have our local Yakima employees meeting these needs.

Another specific area of need for Yakima is the need for professional meeting space—a place where professionals can meet to help expand the economic growth of the community. Baker Boyer has both heard of and experienced for itself the lack of professional space for conferences. In order to meet this need, Baker Boyer will be building conference space into our new building for the benefit of the community. We see the providing of this space as yet another way to secure the long-term health and vitality of the Yakima Valley.

In this Annual Shareholder Report, you will see the financial impact that our model has brought to our shareholders. 2018 was the most profitable year in the history of Baker Boyer. But when reading through our successes please don't forget that it hasn't always been so easy. In the early years of de-regulation and bank mergers and acquisitions, Baker Boyer was criticized for holding true to our core beliefs and not expanding fast enough or in the way other financial institutions had grown. Many of those institutions have failed or have been merged into other financial institutions. However, Baker Boyer remains and is stronger than ever.

2019 is a watershed year for Baker Boyer. We celebrate our commitment to our communities that has lasted 150 years. We also want to thank those communities and our shareholders for supporting us as we have continued our commitment to mutual benefit and symbiotic economic expansion. Watch for community events celebrating our legacy.

In conclusion, the Aspen Institute has just reiterated what Baker Boyer has known for 150 years. Social and economic growth and equity is not just altruism, but financially it is just good business. These goals are not mutually exclusive but intricately intertwined for long-term success. I have a favorite saying, "When you have been around for 150 years and your goal is to be around for at least another 100 years... When you are talking about a quarter of a millennium, the impossible is possible, the improbable is probable you just have to plan for it." Baker Boyer is planning for the future of both its business model and for the future of its shareholders. We are doing so, not by wringing every last penny of profit from our communities, but looking at ways to grow the communities we serve. In this case, fortune favors the bold, and Baker Boyer will always be bold. Cui Bono? We all do.

Mark H. Kajita, CPA  
President and CEO



## CELEBRATING 150 YEARS



Throughout 2019, please join us in celebrating Baker Boyer's Sesquicentennial. From Baker & Boyer to Kajita & Clubb, the Bank's leaders have cultivated a commitment to growing local legacies for 150 years.



# FINANCIAL HIGHLIGHTS

(Unaudited, Dollars in Thousands Except Per Share Amounts)

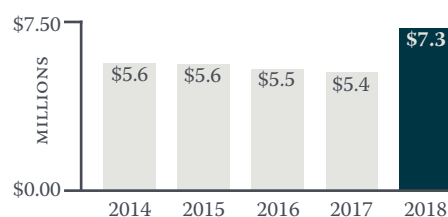
YEAR-TO-DATE	12/31/18	12/31/17	% CHANGE
Net Income	\$7,262	\$5,449	33.3
Cash Dividends Paid	3,882	3,984	(2.6)
Return on Avg. Assets	1.21%	0.90%	
Return on Avg. Shareholders' Equity	13.62%	10.35%	
Average Number of Shares Outstanding, net	1,282,006	1,287,109	

PER SHARE	12/31/18	12/31/17	% CHANGE
Earnings *	\$5.61	\$4.19	33.9
Cash Dividends Paid	3.00	3.07	(2.3)
Book Value	42.71	40.39	5.8

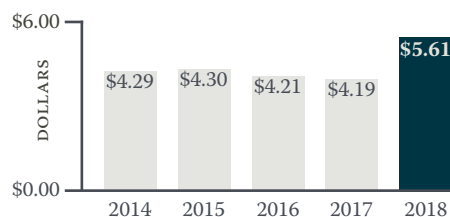
AT YEAR END	12/31/18	12/31/17	% CHANGE
Total Assets	\$600,990	\$607,079	(1.0)
Total Loans	287,684	286,871	0.3
Allowance for Loan Losses	6,260	6,225	0.6
Total Investment Securities	143,134	178,021	(19.6)
Total Deposits	530,450	535,795	(1.0)
Total Shareholders' Equity	55,230	52,219	5.8

DAILY AVERAGE FOR THE YEAR	12/31/18	12/31/17	% CHANGE
Assets	\$599,202	\$603,141	(0.7)
Loans - Net	279,624	275,337	1.6
Investment Securities	173,028	207,899	(16.8)
Deposits	530,003	527,241	0.5
Shareholders' Equity	53,320	52,626	1.3

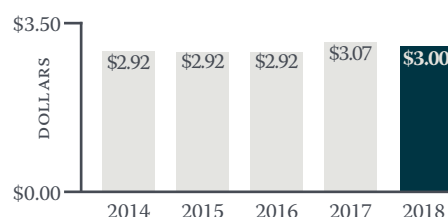
\* Earnings per share are calculated on the net weighted average number of shares outstanding.



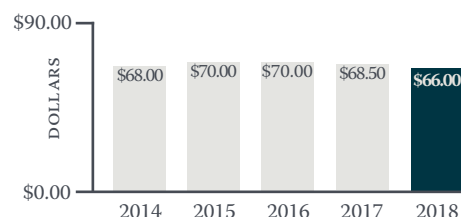
NET INCOME



EARNINGS PER SHARE



DIVIDENDS PER SHARE



Y-E STOCK TRADE PRICE

# FIVE YEAR HIGHLIGHTS

(Unaudited)

PER SHARE	2018	2017	2016	2015	2014
Earnings*	\$5.61	\$4.19	\$4.21	\$4.30	\$4.29
Cash dividends	3.00	3.07	2.92	2.92	2.92
Book value, year-end	42.71	40.39	39.46	38.88	37.27

FOR THE YEAR (dollars in thousands)	2018	2017	2016	2015	2014
Net income	\$7,262	\$5,449	\$5,507	\$5,615	\$5,603
Cash dividends	3,882	3,984	3,807	3,812	3,809

PERFORMANCE MEASURES	2018	2017	2016	2015	2014
Return on average assets	1.21%	.90%	0.95 %	1.01 %	1.00 %
Return on average equity	13.62	10.35	10.63	11.28	11.68
Yield on average earning assets - fully taxable equivalent	3.84	3.57	3.55	3.59	3.46
Average cost of interest bearing liabilities	0.10	.07	0.08	0.09	0.11
Net interest margin - fully taxable equivalent	3.77	3.52	3.50	3.53	3.38
Average equity to average assets ratio	9.32	8.60	8.60	8.88	8.55
Dividend payout ratio	53.46	73.11	69.13	67.89	67.98
Net charge-offs (recoveries) to average loans	(0.01)	(0.06)	0.20	0.18	0.29
Year-end ratio of allowance for loan losses to total loans	2.18	2.17	2.16	2.12	2.09

EMPLOYMENT	2018	2017	2016	2015	2014
Number of Full-Time Equivalent Employees at Year-End	175	179	176	172	174

\*Earnings per share are calculated on the net weighted average number of shares outstanding, adjusted for stock dividends and stock splits. The weighted average number of shares outstanding was:

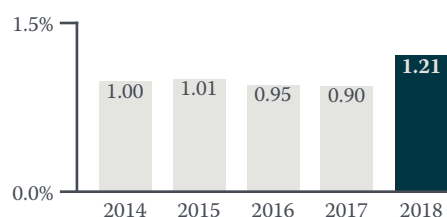
2018: 1,282,006

2017: 1,287,109

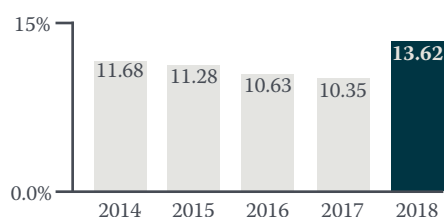
2016: 1,295,977

2015: 1,292,702

2014: 1,295,615



RETURN ON ASSETS



RETURN ON EQUITY

# AVERAGE DAILY BALANCE SHEETS

(Unaudited. Dollars in Thousands)

ASSETS	2018	2017
Cash and amounts due from banks	\$4,625	\$ 4,719
Interest-bearing deposits at other financial institutions	122,004	95,801
Federal funds sold	0	0
Securities available for sale, at fair value	170,370	205,257
Securities held to maturity, at cost	1,301	1,294
Other investments, at cost	1,357	1,348
Loans	285,873	281,526
Allowance for credit losses	(6,249)	(6,189)
<b>Net Loans</b>	<b>279,624</b>	<b>275,337</b>
Premises and equipment, net	13,021	13,173
Accrued interest receivable	2,686	2,862
Other assets	4,214	3,350
<b>Total Assets</b>	<b>\$599,202</b>	<b>\$ 603,141</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<b>Deposits</b>		
Demand, non-interest-bearing	\$172,377	\$ 165,462
Savings and interest-bearing demand	316,559	315,089
Time	41,067	46,690
<b>Total Deposits</b>	<b>530,003</b>	<b>527,241</b>
Federal funds purchased and security repurchase agreements	14,609	21,584
Other borrowed funds	0	1,193
Accrued interest payable	21	19
Other liabilities	1,249	478
<b>Total Liabilities</b>	<b>\$545,882</b>	<b>\$ 550,515</b>
SHAREHOLDERS' EQUITY		
Common Stock (no par value, stated value \$3.125 per share)	4,044	4,045
Additional paid-in capital	354	613
Retained earnings	49,539	47,405
Accumulated other comprehensive income (loss)	(617)	563
<b>Total Shareholders' Equity</b>	<b>53,320</b>	<b>52,626</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$599,202</b>	<b>\$ 603,141</b>



# AUDITOR & STOCK INFORMATION

## INDEPENDENT PUBLIC ACCOUNTANTS AND AUDITORS

Moss Adams, LLP - 601 West Riverside, Suite 1800, Spokane, WA 99201-0663 | (509) 747-2600

## MARKET MAKERS FOR BAKER BOYER BANCORP STOCK

Jefferies Group, Inc - 520 Madison Avenue, New York, NY 10022 | (212) 284-2300

KCG Holdings - 300 Vesey Street, New York, NY 10282 | (800) 544-7508

Monroe Securities, Inc. - 100 N. Riverside Plaza, Suite 1620, Chicago, IL 60606 | (312) 327-2530

Pershing Trading Co., LP - 1 Pershing Plaza, Jersey City, NJ 07399 | (800) 459-1893

UBS Capital Markets, LP - 111 Pavonia Ave East, Jersey City, NJ 07310 | (201) 804-3389

Wedbush Securities - 1000 Wilshire Blvd., Los Angeles, CA 90017 | (213) 688-8000

## DIRECT CONTACTS FOR STOCK REPURCHASES

Mark Hess, Executive Vice President/Chief Operating Officer | (509) 526-1315

Mark H. Kajita, President/Chief Executive Officer | (509) 526-1412

## CORPORATE AND INVESTOR INFORMATION

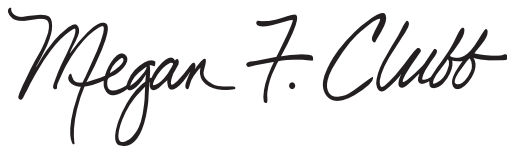
Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2018, there were 1,293,066 shares of common stock issued and outstanding. General shareholder account inquiries should be directed to the Company's Chief Operating Officer at the following address and telephone number:

Mark Hess, Executive Vice President/Chief Operating Officer  
7 West Main Street, PO Box 2175, Walla Walla, WA 99362  
(509) 525-2000 | (800) 234-7923

## ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 4:30 P.M. on Thursday, April 25, 2019, at the Baker Boyer Bank Main Office, 7 W. Main, Walla Walla, Washington.

I, the undersigned, hereby attest to the correctness of information contained in the Annual Report of Baker Boyer Bancorp and its wholly-owned subsidiary, Baker Boyer National Bank. This Annual Report is also furnished to customers of Bancorp pursuant to the requirements of the Federal Deposit Insurance Corporation (FDIC) to provide an annual disclosure statement. This Annual Report has not been reviewed for accuracy or relevance by the FDIC.



Chairman of the Board  
Baker Boyer Bancorp

Member FDIC



## THE BOARD OF DIRECTORS

- |  |   |   |
|--|---|---|
| <p><b>1 MEGAN F. CLUBB</b><br/>Chairman, Baker Boyer Bancorp,<br/>retired, President and CEO,<br/>Baker Boyer National Bank<br/>Walla Walla, WA<br/>Member of the Executive<br/>Compensation Committee</p> | <p><b>5 DAVID B. CAMPBELL</b><br/>Farming, Construction and<br/>Energy Systems, retired,<br/>Walla Walla, WA<br/>Chairman of the Executive<br/>Compensation Committee</p>                 | <p><b>9 J. ERIC KIMBALL, CPA</b><br/>Certified Public Accountant<br/>Owner, J. Eric Kimball CPA<br/>Walla Walla, WA<br/>Member of the Audit Committee</p> |
| <p><b>2 MARK H. KAJITA, CPA</b><br/>President and CEO<br/>Baker Boyer National Bank<br/>Walla Walla, WA</p>  | <p><b>6 JON S. BREN</b><br/>Secretary, Baker Boyer Bancorp,<br/>Retired Executive Vice President,<br/>Baker Boyer National Bank<br/>Walla Walla, WA<br/>Member of the Audit Committee</p> | <p><b>10 CLIFFORD "KIP" W. KONTOS</b><br/>Captain, Alaska Airlines<br/>Walla Walla, WA<br/>Member of the Executive<br/>Compensation Committee</p>         |
| <p><b>3 JOHN R. VALAAS</b><br/>Investor, retired President &amp; CEO,<br/>First Mutual Bank<br/>Bellevue, WA<br/>Member of the Executive<br/>Compensation Committee</p>                                    | <p><b>7 CHARLES H. EGLIN</b><br/>Building Contractor,<br/>Owner Tri-Ply Construction<br/>Yakima, WA<br/>Chairman of the Audit Committee</p>   |   |
| <p><b>4 PETER J. ALLEN, JD</b><br/>Executive Vice President,<br/>Asset Management<br/>Baker Boyer National Bank<br/>Walla Walla, WA</p>  | <p><b>8 DAVID B. GORDON</b><br/>Retired General Manager,<br/>Northwest Grain Growers<br/>Walla Walla, WA<br/>Member of the Executive<br/>Compensation Committee</p>                       |   |

*To contact the board of directors, please email [info@bakerboyer.com](mailto:info@bakerboyer.com).*





## THE EXECUTIVE COMMITTEE

Members are (from left to right) - Teresa Larson, Joshua Allington, Mark Kajita, Mark Hess, Peter Allen, and Jessica Long

**MARK H. KAJITA, CPA**  
Chair of the Executive Committee,  
President & CEO  
[kajitam@bakerboyer.com](mailto:kajitam@bakerboyer.com)

**PETER J. ALLEN, JD**  
Executive Vice President,  
Asset Management  
[allenp@bakerboyer.com](mailto:allenp@bakerboyer.com)

**JOSHUA ALLINGTON**  
Executive Vice President,  
Chief Banking Officer  
[allingtonj@bakerboyer.com](mailto:allingtonj@bakerboyer.com)

**MARK A. HESS, CFA**  
Chief Operating Officer,  
Executive Vice President,  
Administration  
[hessm@bakerboyer.com](mailto:hessm@bakerboyer.com)

**TERESA L. LARSON**  
Executive Vice President,  
Strategic Plan Director  
[larsont@bakerboyer.com](mailto:larsont@bakerboyer.com)

**JESSICA LONG**  
Assistant Vice President,  
Executive Project Manager,  
Senior Executive Assistant,  
Secretary of the Executive Committee  
[longj@bakerboyer.com](mailto:longj@bakerboyer.com)



### THE CONTINUITY AND ADVISORY COMMITTEE (CAC)

Members are: (from left to right)  
standing: Brian Bush, Jason Pratt,  
Dorsey F Baker (*former Board  
Member and mentor*), Nathan  
Campbell, Riley Clubb and Mark  
Kajita; seated: Elizabeth Hill and  
Bryna Riley.

# OUR LOCATIONS

## HEADQUARTERS

7 W. MAIN STREET  
WALLA WALLA, WA 99362

## EASTGATE BRANCH

1931 E. ISAACS  
WALLA WALLA, WA 99362

## PLAZA BRANCH

1530 PLAZA WAY  
WALLA WALLA, WA 99362

## MILTON-FREEWATER BRANCH

320 N. COLUMBIA  
MILTON-FREEWATER, OR 97862

## WHEATLAND VILLAGE BRANCH

1500 S. CATHERINE STREET  
WALLA WALLA, WA 99362

## KENNEWICK OFFICE

1149 N. EDISON STREET, SUITE A  
KENNEWICK, WA 99336

## YAKIMA OFFICE

909 TRIPLE CROWN WAY  
YAKIMA, WA 98908