

2019

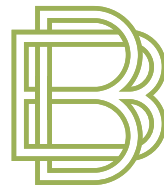
FIRST QUARTER REPORT



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BOARD OF DIRECTORS

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



BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

Walla Walla. Tri-Cities. Yakima.

Dear Baker Boyer Shareholder:

April 26, 2019

In the Walla Walla Valley and Eastern Washington and Oregon, spring has come and winter has ended. What a frigid winter it was as well. Despite the inclement weather, the Bank's financial strength continued to grow and expand. As the economy has continued to strengthen, deposits have naturally declined. As of March 31, 2019, average deposits have declined approximately 3% from the same time last year. Average deposits for March 31, 2019 are approximately \$524.8 million.

The strengthening economy has had positive effects on our revenue. Total average gross loans from the Banking Division have increased approximately 2%, or \$4.5 million, to \$285.3 million on March 31, 2019, compared to the same time in 2018. Most importantly, business loans account for \$4.1 million of that increase in gross loans. Business loans, by themselves, grew by approximately 9% on March 31, 2019, year over year.

This growth in lending and careful management of deposit and operational expenses has produced a strong 1.20% return on assets for the three months ending March 31, 2019. This is a tremendous increase from the 1.04% we reported for the same time period ending March 31, 2018.

In addition, despite the volatility of the fixed income and equity markets, the revenue from the Asset Management division continued to be strong and was \$2.3 million for the first three months ending March 31, 2019. This is only slightly below the same time period in 2018, or 2%.

All these factors have combined to report net income for the three months ending March 31, 2019 of \$1.8 million. This is a 13% increase over the same time period in 2018.

Baker Boyer continues to show strength in the first quarter of our 150th anniversary year. This is due to careful expense allocation and being a good steward to the communities we call home. I want to thank each of you for your continued support of this 150-year-old Pacific Northwest Legacy.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark H. Kajita".

Mark H. Kajita, CPA
President and CEO

Consolidated Balance Sheet - Average ytd

(Unaudited)

| | March 31, | | |
|--|-------------------|-------------------|---------------|
| | 2019 | 2018 | % Chg. |
| <i>(Dollars in Thousands)</i> | | | |
| ASSETS | | | |
| Cash and amounts due from banks | \$ 4,707 | \$ 4,563 | 3.2 |
| FFS and Int-bearing deposits at other financial institutions | 154,555 | 131,286 | 17.7 |
| Total Cash and Cash Equivalents | 159,262 | 135,849 | 17.2 |
| Investment securities: | | | |
| Available-for-sale, at fair value | 136,306 | 177,094 | (23.0) |
| Held-to-maturity at cost | 1,307 | 1,299 | 0.6 |
| Other investments, at cost | 1,353 | 1,354 | (0.1) |
| Total Investments | 138,966 | 179,747 | (22.7) |
| Loans | 285,255 | 280,684 | 1.6 |
| Allowance for credit losses | (6,258) | (6,233) | 0.4 |
| Net Loans | 278,997 | 274,451 | 1.7 |
| Bank premises and equipment, net | 13,322 | 13,035 | 2.2 |
| Accrued interest receivable | 3,031 | 3,161 | (4.1) |
| Other assets | 2,759 | 2,200 | 25.4 |
| TOTAL ASSETS | \$ 596,337 | \$ 608,443 | (2.0) |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Deposits | | | |
| Noninterest bearing | \$ 172,591 | \$ 170,036 | 1.5 |
| Interest bearing | 352,239 | 368,856 | (4.5) |
| Total Deposits | 524,830 | 538,892 | (2.6) |
| Federal funds purchased and security repurchase agreements | 14,788 | 16,501 | (10.4) |
| Other borrowed funds | 0 | 1 | (100.0) |
| Accrued interest payable | 40 | 17 | 135.3 |
| Other liabilities | 514 | 380 | 35.3 |
| TOTAL LIABILITIES | 540,172 | 555,791 | (2.8) |
| SHAREHOLDERS' EQUITY | | | |
| Common stock (no par value, stated value \$3.125 per share) | | | |
| | 3/31/19 | 3/31/18 | |
| Shares authorized | 4,000,000 | 4,000,000 | |
| Shares issued and | | | |
| outstanding | 1,296,753 | 1,296,790 | (0.0) |
| Additional paid-in capital | 401 | 430 | (6.7) |
| Retained earnings | 51,940 | 48,509 | 7.1 |
| Accumulated other comprehensive income (loss) | (221) | (333) | (33.6) |
| TOTAL SHAREHOLDERS' EQUITY | 56,165 | 52,652 | 6.7 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 596,337 | \$ 608,443 | (2.0) |

Consolidated Statements of Income

(Unaudited)

| | Three Months Ending March 31, | | |
|---|-------------------------------|------------------|--------------|
| | 2019 | 2018 | % Chg. |
| <i>(Dollars in Thousands, except per share amounts)</i> | | | |
| Interest and Dividend Income | | | |
| Loans, including fees | \$ 4,101 | \$ 3,717 | 10.3 |
| Federal funds sold and deposits at other financial institutions | 937 | 506 | 85.2 |
| Investment securities: | | | |
| Taxable | 209 | 184 | 13.6 |
| Tax-exempt | 460 | 572 | (19.6) |
| Other investment income and dividends | 18 | 16 | 12.5 |
| Total Interest and Dividend Income | 5,725 | 4,995 | 14.6 |
| Interest Expense | | | |
| Deposits | 193 | 54 | 257.4 |
| Federal funds purchased and security repurchase agreements | 4 | 5 | (20.0) |
| Other borrowed funds | 0 | 0 | - |
| Total Interest Expense | 197 | 59 | 233.9 |
| Net Interest Income | 5,528 | 4,936 | 12.0 |
| Provision for credit losses | 2 | 0 | - |
| Net Interest Income after Provision for Credit Losses | 5,526 | 4,936 | 12.0 |
| Non-Interest Income | | | |
| Trust and Investment Management fees | 2,090 | 2,088 | 0.1 |
| DS Baker Investment fees (brokerage) | 252 | 306 | (17.6) |
| Service charges on deposit accounts | 169 | 180 | (6.1) |
| Other service charges and fees | 257 | 324 | (20.7) |
| Other operating income | 105 | 187 | (43.9) |
| Total Non-Interest Income | 2,873 | 3,085 | (6.9) |
| Non-Interest Expense | | | |
| Salaries, wages, and other compensation | 3,092 | 3,043 | 1.6 |
| Retirement and employee benefits | 1,068 | 1,043 | 2.4 |
| Net occupancy expense | 320 | 287 | 11.5 |
| Furniture and equipment expense | 138 | 149 | (7.4) |
| Other operating expense | 1,678 | 1,658 | 1.2 |
| Total Non-Interest Expense | 6,296 | 6,180 | 1.9 |
| Income Before Income Taxes | 2,103 | 1,841 | 14.2 |
| Provision For Income Taxes | 343 | 281 | 22.1 |
| NET INCOME | \$ 1,760 | \$ 1,560 | 12.8 |
| Basic Earnings Per Common Share | \$ 1.37 | \$ 1.22 | 12.9 |
| Weighted Average Number of Shares Outstanding | 1,281,814 | 1,282,883 | |