

2019

SECOND QUARTER REPORT

Dear Baker Boyer Shareholder:

July 19, 2019

In the Walla Walla Valley and Eastern Washington and Oregon, we have had an unusually wet and cool first half of the year. This has led to a delay in all lending including agricultural lending. However, as the summer months are continuing to warm, we are seeing a pick-up in overall commercial lending throughout our portfolio. Loans are up approximately 0.3% from the prior year to an average balance of \$285 million as of June 30, 2019.

Despite the delay in commercial lending, Baker Boyer has benefited with the increasing rates over the last year. Our interest income for the six-month ending June 30, 2019 was \$11.4 million, or a 10.6% increase from the same time period in 2018. In addition, although there has been large fluctuations in the stock and bond markets since the beginning of the year, the Asset Management Division's revenue has continued to be strong and relatively stable. For the six-months ending June 30, 2019, Asset Management's revenue was \$4.7 million, which is only a slight decline of 1.5% for the same time period in 2018.

When combining all these factors together, Baker Boyer's net income has increased by 5.3% to \$3.3 million for the first six-months of 2019 from the same time period in 2018. This is a strong start to a year that has seen headwinds due to weather delays as well as stock market fluctuations.

On a separate note, Baker Boyer's celebration of its 150th Anniversary is in full swing. This celebration includes fun events for the community and our employees. As part of this celebration, Baker Boyer is selling commemorative items to the community at its branches. Currently, we have 150th Anniversary mugs for sale at all of our branches in the Walla Walla Valley. In addition, we are finalizing the details on a commemorative book. This book will be available in October and celebrates the relationship between the Bank, the Baker Family, and the communities we serve.

All employees are so proud of the Baker Boyer legacy and our tie to it. We look forward to this year of celebration and many more years to come. We all want to thank you, the shareholders, for your continued belief in us and this Pacific Northwest Legacy.

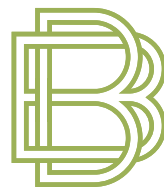
Sincerely,



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 J. Allen	J. Eric Kimball
Jon S. Bren	Clifford "Kip" W. Kontos
David B. Campbell	Charles H. Eglin
Michael J. Mahoney	David B. Gordon

Consolidated Balance Sheet - Average ytd

(Unaudited)

	June 30,		% Chg.
	2019	2018	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 4,771	\$ 4,543	5.0
FFS and Int-bearing deposits at other financial institutions	155,017	122,206	26.8
Total Cash and Cash Equivalents	159,788	126,749	26.1
Investment securities:			
Available-for-sale, at fair value	129,228	176,284	(26.7)
Held-to-maturity at cost	1,308	1,300	0.6
Other investments, at cost	1,350	1,357	(0.5)
Total Investments	131,886	178,941	(26.3)
Loans	285,365	284,380	0.3
Allowance for credit losses	(6,262)	(6,243)	0.3
Net Loans	279,103	278,137	0.3
Bank premises and equipment, net	13,348	12,999	2.7
Accrued interest receivable	2,422	2,575	(5.9)
Other assets	4,172	3,865	7.9
TOTAL ASSETS	\$ 590,719	\$ 603,266	(2.1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 168,315	\$ 168,644	(0.2)
Interest bearing	350,571	365,267	(4.0)
Total Deposits	518,886	533,911	(2.8)
Federal funds purchased and security repurchase agreements	13,975	15,588	(10.3)
Other borrowed funds	1	0	-
Accrued interest payable	44	17	158.8
Other liabilities	1,044	1,076	(3.0)
TOTAL LIABILITIES	533,950	550,592	(3.0)
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	6/30/19	6/30/18	
Shares authorized	4,000,000	4,000,000	
Shares issued and			
outstanding	1,295,935	1,292,840	4,048
Additional paid-in capital	414	404	2.5
Retained earnings	52,313	48,755	7.3
Accumulated other comprehensive income (loss)	(6)	(532)	(98.9)
TOTAL SHAREHOLDERS' EQUITY	56,769	52,674	7.8
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 590,719	\$ 603,266	(2.1)

Consolidated Statements of Income

(Unaudited)

	Six Months Ending June 30,		% Chg.
	2019	2018	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 8,253	\$ 7,791	5.9
Federal funds sold and deposits at other financial institutions	1,878	993	89.1
Investment securities:			
Taxable	389	408	(4.7)
Tax-exempt	891	1,131	(21.2)
Other investment income and dividends	32	27	18.5
Total Interest and Dividend Income	11,443	10,350	10.6
Interest Expense			
Deposits	418	117	257.3
Federal funds purchased and security repurchase agreements	10	9	11.1
Other borrowed funds	0	0	-
Total Interest Expense	428	126	239.7
Net Interest Income	11,015	10,224	7.7
Provision for credit losses	8	0	#DIV/0!
Net Interest Income after Provision for Credit Losses	11,007	10,224	7.7
Non-Interest Income			
Trust and Investment Management fees	4,253	4,175	1.9
DS Baker Investment fees (brokerage)	496	648	(23.5)
Service charges on deposit accounts	340	362	(6.1)
Other service charges and fees	554	674	(17.8)
Other operating income	194	154	26.0
Total Non-Interest Income	5,837	6,013	(2.9)
Non-Interest Expense			
Salaries, wages, and other compensation	6,417	6,267	2.4
Retirement and employee benefits	4,140	4,075	1.6
Net occupancy expense	612	609	0.5
Furniture and equipment expense	327	282	16.0
Other operating expense	3,442	3,346	2.9
Total Non-Interest Expense	12,946	12,577	2.9
Income Before Income Taxes	3,898	3,660	6.5
Provision For Income Taxes	625	553	13.0
NET INCOME	\$ 3,273	\$ 3,107	5.3
Basic Earnings Per Common Share	\$ 2.55	\$ 2.42	5.3
Weighted Average Number of Shares Outstanding	1,282,989	1,282,866	