

2019

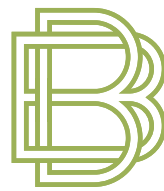
THIRD QUARTER REPORT



Post Office Box 2175
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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 |
| Michael J. Mahoney | David B. Gordon |



BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

Walla Walla. Tri-Cities Yakima.

Dear Baker Boyer Shareholder:

October 25, 2019

As we enter fall, Baker Boyer is preparing for our 150th community celebration. It is hard to believe that on November 10th, 150 years ago Dr. D.S. Baker and Mr. John Boyer first established a bond between the Bank and the communities we serve. This bond has evolved, strengthened, and continues to be nurtured by every generation of family members and the employees of the bank. On November 10, 2019, the Bank, our communities, and our shareholders all will join together to celebrate this promise between our founders and our communities.

This celebration highlights a Bank which continues to be in a strong position. This position of strength is centered on the Board of Directors and Management investing in both of our revenue generation divisions, the Banking and Asset Management Divisions. Both Divisions work together and symbiotically for the betterment of our clients and our shareholders. These Divisions, Banking and Asset Management, have worked closely with the Administrative Division to push our strategic initiative forward. The initiative of creating a distinctly unique financial institution, one which only succeeds if the communities we serve succeed.

For the quarter ending September 30, 2019, Baker Boyer has continued to strengthen. Although interest rates have moved down, overall net income has expanded beyond our budget. As of September 30, 2019, Baker Boyer's year to date net income is \$5.2 million or over 12% ahead of our budget. This is due to a combination of a strong performance from both the Banking and Asset Management Divisions as well as excellent support of our Administrative Division. The strong adherence to our strategic plan from all three Divisions is evident in a strong net income and equity investment for our shareholders.

We can never rest on our laurels, however, and every generation of employees has a duty to leave a strong Bank for the next generation of employees and shareholders to inherit. In 2020 and beyond, the Board of Directors has elected to make this large investment for the next generation and beyond. This intentional deployment of resources over the next few years will be instrumental in keeping the strength of the Bank at its highest level for years to come.

Every generation has to make a decision to invest for those they will never meet; to leave a future for others to expand on and make their own mark on. Baker Boyer's strong current position leaves us in the enviable position to do that very thing. I am so proud to work the rest of my career for future generations. I promise to leave this incredible legacy in a position for future leaders to have options on how to be successful in the environment in which they will live.

Sincerely,

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

Mark H. Kajita, CPA
President and CEO

Consolidated Balance Sheet - Average ytd

(Unaudited)

| | Sept 30, | | |
|--|-------------------|-------------------|---------------------|
| | 2019 | 2018 | % Chg. |
| <i>(Dollars in Thousands)</i> | | | |
| ASSETS | | | |
| Cash and amounts due from banks | \$ 4,682 | \$ 4,628 | 1.2 |
| FFS and Int-bearing deposits at other financial institutions | 157,568 | 118,611 | 32.8 |
| Total Cash and Cash Equivalents | 162,250 | 123,239 | 31.7 |
| Investment securities: | | | |
| Available-for-sale, at fair value | 123,283 | 174,237 | (29.2) |
| Held-to-maturity at cost | 1,309 | 1,301 | 0.6 |
| Other investments, at cost | 1,350 | 1,358 | (0.6) |
| Total Investments | 125,942 | 176,896 | (28.8) |
| Loans | 287,699 | 285,787 | 0.7 |
| Allowance for credit losses | (6,269) | (6,247) | 0.4 |
| Net Loans | 281,430 | 279,540 | 0.7 |
| Bank premises and equipment, net | 13,600 | 12,990 | 4.7 |
| Accrued interest receivable | 2,400 | 2,603 | (7.8) |
| Other assets | 4,086 | 3,900 | 4.8 |
| TOTAL ASSETS | \$ 589,708 | \$ 599,168 | (1.6) |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Deposits | | | |
| Noninterest bearing | \$ 168,020 | \$ 169,270 | (0.7) |
| Interest bearing | 349,342 | 360,769 | (3.2) |
| Total Deposits | 517,362 | 530,039 | (2.4) |
| Federal funds purchased and security repurchase agreements | 13,800 | 15,067 | (8.4) |
| Other borrowed funds | 0 | 0 | - |
| Accrued interest payable | 48 | 19 | 152.6 |
| Other liabilities | 1,280 | 1,047 | 22.3 |
| TOTAL LIABILITIES | 532,490 | 546,172 | (2.5) |
| SHAREHOLDERS' EQUITY | | | |
| Common stock (no par value, stated value \$3.125 per share) | | | |
| | 9/30/19 | 9/30/18 | |
| Shares authorized | 4,000,000 | 4,000,000 | |
| Shares issued and outstanding | 1,293,226 | 1,293,066 | 4.046 / 4.045 / 0.0 |
| Additional paid-in capital | 388 | 364 | 6.6 |
| Retained earnings | 52,512 | 49,113 | 6.9 |
| Accumulated other comprehensive income (loss) | 272 | (526) | (151.7) |
| TOTAL SHAREHOLDERS' EQUITY | 57,218 | 52,996 | 8.0 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 589,708 | \$ 599,168 | (1.6) |

Consolidated Statements of Income

(Unaudited)

| | Nine Months Ending September 30, | | |
|---|----------------------------------|-----------------|--------------|
| | 2019 | 2018 | % Chg. |
| <i>(Dollars in Thousands, except per share amounts)</i> | | | |
| Interest and Dividend Income | | | |
| Loans, including fees | \$ 12,526 | \$ 11,904 | 5.2 |
| Federal funds sold and deposits at other financial institutions | 2,873 | 1,534 | 87.3 |
| Investment securities: | | | |
| Taxable | 555 | 627 | (11.5) |
| Tax-exempt | 1,298 | 1,697 | (23.5) |
| Other investment income and dividends | 45 | 45 | - |
| Total Interest and Dividend Income | 17,297 | 15,807 | 9.4 |
| Interest Expense | | | |
| Deposits | 667 | 215 | 210.2 |
| Federal funds purchased and security repurchase agreements | 15 | 12 | 25.0 |
| Other borrowed funds | 0 | 0 | - |
| Total Interest Expense | 682 | 227 | 200.4 |
| Net Interest Income | 16,615 | 15,580 | 6.6 |
| Provision for credit losses | 14 | 0 | - |
| Net Interest Income after Provision for Credit Losses | 16,601 | 15,580 | 6.6 |
| Non-Interest Income | | | |
| Trust and Investment Management fees | 6,473 | 6,312 | 2.6 |
| DS Baker Investment fees (brokerage) | 732 | 999 | (26.7) |
| Service charges on deposit accounts | 519 | 543 | (4.4) |
| Other service charges and fees | 853 | 958 | (11.0) |
| Other operating income | 332 | 319 | 4.1 |
| Total Non-Interest Income | 8,909 | 9,131 | (2.4) |
| Non-Interest Expense | | | |
| Salaries, wages, and other compensation | 9,755 | 9,281 | 5.1 |
| Retirement and employee benefits | 3,156 | 3,043 | 3.7 |
| Net occupancy expense | 924 | 949 | (2.6) |
| Furniture and equipment expense | 506 | 403 | 25.6 |
| Other operating expense | 4,913 | 4,940 | (0.5) |
| Total Non-Interest Expense | 19,254 | 18,616 | 3.4 |
| Income Before Income Taxes | 6,256 | 6,095 | 2.6 |
| Provision For Income Taxes | 1,052 | 947 | 11.0 |
| NET INCOME | \$ 5,204 | \$ 5,148 | 1.1 |
| Basic Earnings Per Common Share | | | |
| | \$ 4.06 | \$ 4.01 | 1.0 |
| Weighted Average Number of Shares Outstanding | | | |
| | 1,282,829 | 1,282,118 | |