

2021

THIRD QUARTER REPORT



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BOARD OF DIRECTORS

Megan F. Clubb, Chair

Russell S. Colombo
Charles B. Eglin
David B. Gordon
Martha C. Huber
Mark H. Kajita

J. Eric Kimball
Clifford "Kip" W. Kontos
Michael J. Mahoney
Jason H. Pratt



BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

Walla Walla. Tri-Cities Yakima.

Dear Baker Boyer Shareholder:

October 29, 2021

As we head into fall, Baker Boyer continues to be strong financially while continuing to lead our communities through the COVID-19 Pandemic and the most recent Delta Variant. The Bank has partnered with the Walla Walla County Department of Community Health to encourage the citizens of Walla Walla and our surrounding area to be vaccinated. We hosted a vaccine clinic and our employees continue to volunteer at different vaccine related events. In addition, Baker Boyer has provided free meals to those unsung heroes, our healthcare providers, who have been amongst the hardest hit by the Delta Variant.

All of this continues, as our communities continue to show their support for the Bank. The year-to-date average asset size of the Bank was \$766 million, a 17.4% increase from just 12 months earlier. The year-to-date average deposits alone have increased 18.5% over the last 12 months to \$680 million as of September 30, 2021. Asset Management fees have also increased significantly. As of September 30, 2021, fees for both Investment Management and Trust Services as well as our Brokerage group have increased 16.3% to \$8.4 million year-to-date. This has supported our net income as interest rates from the Federal Reserve remain near 0%. Net income after taxes for the 9 months ending September 30, 2021 is reported at \$3.8 million, 9.9% above budget for the same time period.

We are also being given some positive news from the Federal Reserve as it has indicated it will soon commence tapering of its asset purchase program and expects six interest rate increases in 2022 and 2023. This will greatly relieve our net interest margin pressure and provide stronger income for our loan and investment portfolios. For Baker Boyer every 10-basis point (.10%) rise in net interest margin, equates to a long-term annual increase of \$700 thousand dollars in revenue from our loan and investment portfolios.

Throughout the Pandemic, I have been so impressed with the dedication of our employees as well as the faith you, our shareholders, have put in the Bank. It is never easy to go through a once in a lifetime event like COVID-19. But it is infinitely easier when you have the support of wonderful people like our employees and yourselves.

Thank you again for your continued support of this Legacy. If you have any questions, please contact me and I will be glad to answer them. Have a wonderful upcoming Holiday Season.

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)

	Sept 30, 2021		% Chg.
	2021	2020	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 5,499	\$ 6,904	(20.4)
FFS and Int-bearing deposits at other financial institutions	148,446	170,509	(12.9)
Total Cash and Cash Equivalents	153,945	177,413	(13.2)
Investment securities:			
Available-for-sale, at fair value	226,715	141,388	60.3
Held-to-maturity at cost	1,325	1,317	0.6
Other investments, at cost	1,465	1,351	8.4
Total Investments	229,505	144,056	59.3
Loans	360,915	311,378	15.9
Allowance for credit losses	(6,333)	(6,337)	(0.1)
Net Loans	354,582	305,041	16.2
Bank premises and equipment, net	22,560	19,729	14.3
Accrued interest receivable	2,753	2,260	21.8
Other assets	2,321	3,614	(35.8)
TOTAL ASSETS	\$ 765,666	\$ 652,113	17.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 264,959	\$ 203,995	29.9
Interest bearing	415,619	370,116	12.3
Total Deposits	680,578	574,111	18.5
Federal funds purchased and security repurchase agreements	23,921	17,006	40.7
Other borrowed funds	0	4	-
Accrued interest payable	18	25	(28.0)
Other liabilities	314	726	(56.7)
TOTAL LIABILITIES	704,831	591,872	19.1
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/21	9/30/20	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,296,670	1,290,495	4.052 / 4.038 / 0.3
Additional paid-in capital	294	327	(10.1)
Retained earnings	55,109	54,322	1.4
Accumulated other comprehensive income (loss)	1,380	1,554	(11.2)
TOTAL SHAREHOLDERS' EQUITY	60,835	60,241	1.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 765,666	\$ 652,113	17.4

Consolidated Statements of Income

(Unaudited)

	Nine Months Ending Sept 30,		% Chg.
	2021	2020	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 12,647	\$ 11,809	7.1
Federal funds sold and deposits at other financial institutions	975	2,191	(55.5)
Investment securities:			
Taxable	1,202	1,045	15.0
Tax-exempt	881	1,017	(13.4)
Other investment income and dividends	48	43	11.6
Total Interest and Dividend Income	15,753	16,105	(2.2)
Interest Expense			
Deposits	161	224	(28.1)
Federal funds purchased and security repurchase agreements	9	9	-
Other borrowed funds	0	0	-
Total Interest Expense	170	233	(27.0)
Net Interest Income	15,583	15,872	(1.8)
Provision for credit losses	0	12	(100.0)
Net Interest Income after Provision for Credit Losses	15,583	15,860	(1.7)
Non-Interest Income			
Trust and Investment Management fees	7,922	6,632	19.5
DS Baker Investment fees (brokerage)	432	543	(20.4)
Service charges on deposit accounts	386	415	(7.0)
Other service charges and fees	996	894	11.4
Other operating income	264	652	(59.5)
Total Non-Interest Income	10,000	9,136	9.5
Non-Interest Expense			
Salaries, wages, and other compensation	10,693	10,262	4.2
Retirement and employee benefits	3,479	3,390	2.6
Net occupancy expense	1,174	896	31.0
Furniture and equipment expense	450	355	26.8
Other operating expense	5,185	5,149	0.7
Total Non-Interest Expense	20,981	20,052	4.6
Income Before Income Taxes	4,602	4,944	(6.9)
Provision For Income Taxes	781	827	(5.6)
NET INCOME	\$ 3,821	\$ 4,117	(7.2)
Basic Earnings Per Common Share	\$ 2.98	\$ 3.21	(7.1)
Weighted Average Number of Shares Outstanding	1,280,340	1,281,324	