

# 2023

## SECOND QUARTER REPORT



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### BOARD OF DIRECTORS

Megan F. Clubb, Chair

Riley B. Clubb	Mark H. Kajita
Edward Chvatal Jr.	J. Eric Kimball
Russell S. Colombo	Clifford "Kip" Kontos
Jim Edmunds	Michael J. Mahoney
Charles B. Eglin	Jason H. Pratt
Martha C. Huber	



## BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

*Tri-Cities Yakima Walla Walla*

Dear Baker Boyer Shareholder:

July 31, 2023

Summer is fully on my mind as I gaze out at the amber waves of grain that grace the Walla Walla Valley during this time of the year. It is the consistency of moving from season to season that highlights the cycles of weather we are so blessed with. It is these cycles that also remind me of financial cycles that the Bank has lived through over the last 150 years. It is our ability to be resilient during any time frame and to take advantage of opportunities that has made us prosperous all these decades.

As I mentioned in my dividend letter in June, Baker Boyer continues to grow our loan portfolio. In addition, our loan portfolio, investment portfolio and asset management business continue to be very strong. It is a testament to the hard work of our Advisors helping clients prepare for both the prosperous times but also put away for a rainy day. In addition, we continue to see opportunity to grow where other banks may have to hold back and slow loan growth and fulfillment. This ability to make wise choices and remain strong has once again been highlighted in American Banker Magazine, by their listing Baker Boyer as one of the '2023 Top 200 Community Banks in the Nation.' An honor even more important as it is our 16th year in a row of receiving this award.

But, even as one of the 'Top 200 Community Banks,' Baker Boyer cannot be totally immune when financial disruptions are felt in the banking environment. In particular, as most banks have experienced, Baker Boyer's deposits are falling off faster than we had budgeted. This has led us to pay much higher interest expense costs for the first 6 months of 2023, inhibiting our expected net income growth. We believe this is a temporary issue and interest expense costs will stabilize and fall sometime in the next year.

As such, net income for the first 6 months of 2023 was \$1.6 million. In comparison, in the first 6 months of 2022 reported net income was \$2.1 million, after the exclusion of a large \$3.1 million after tax one-time adjustment, the result of a reversal of the excess funding of our loan loss reserve. This excess funding had built up over years thanks to our strong loan stewardship and record of low loan losses. If the adjustment was included, net income for the first six months of 2022 was \$5.2 million.

The American Bankers Association Journal this month talks about the "Tricky Times," that all banks are in right now. But I want to let you know, the safety and soundness of our portfolios, the growth in asset management and loans, and the opportunities we have for our future are leading us further down our evolution. It will take investment of time and money for us to realize all of our potential, and your management and Board of Directors are dedicated to taking advantage of all our opportunities.

Respectfully,

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)

	June 30,		% Chg.
	2023	2022	
<i>(Dollars in Thousands)</i>			
<b>ASSETS</b>			
Cash and amounts due from banks	\$ 3,895	\$ 7,515	(48.2)
FFS and Int-bearing deposits at other financial institutions	28,057	88,042	(68.1)
<b>Total Cash and Cash Equivalents</b>	<b>31,952</b>	<b>95,557</b>	<b>(66.6)</b>
Investment securities:			
Available-for-sale, at fair value	322,305	344,154	(6.3)
Held-to-maturity at cost	1,340	1,332	0.6
Other investments, at cost	1,983	1,581	25.4
<b>Total Investments</b>	<b>325,628</b>	<b>347,067</b>	<b>(6.2)</b>
Loans	350,556	341,950	2.5
Allowance for credit losses	(3,406)	(6,176)	(44.9)
<b>Net Loans</b>	<b>347,150</b>	<b>335,774</b>	<b>3.4</b>
Bank premises and equipment, net	20,701	22,375	(7.5)
Accrued interest receivable	3,091	2,915	6.0
Other assets	9,753	5,840	67.0
<b>TOTAL ASSETS</b>	<b>\$ 738,275</b>	<b>\$ 809,528</b>	<b>(8.8)</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Noninterest bearing	\$ 257,239	\$ 281,765	(8.7)
Interest bearing	403,349	446,832	(9.7)
<b>Total Deposits</b>	<b>660,588</b>	<b>728,597</b>	<b>(9.3)</b>
Federal funds purchased and security repurchase agreements	15,941	28,938	(44.9)
Other borrowed funds	16,711	1	-
Accrued interest payable	85	15	466.7
Other liabilities	822	448	83.5
<b>TOTAL LIABILITIES</b>	<b>694,147</b>	<b>757,999</b>	<b>(8.4)</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock (no par value, stated value \$3.125 per share)			
	6/30/23	6/30/22	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,303,291	1,302,777	0.2
Additional paid-in capital	911	602	51.3
Retained earnings	58,746	56,209	4.5
Accumulated other comprehensive income (loss)	(19,609)	(9,353)	109.7
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>44,128</b>	<b>51,529</b>	<b>(14.4)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 738,275</b>	<b>\$ 809,528</b>	<b>(8.8)</b>

## Consolidated Statements of Income

(Unaudited)

	Six Months Ending June 30,		
	2023	2022	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 8,757	\$ 7,501	16.7
Federal funds sold and deposits at other financial institutions	328	398	(17.6)
Investment securities:			
Taxable	1,998	1,572	27.1
Tax-exempt	397	488	(18.6)
Other investment income and dividends	39	35	11.4
<b>Total Interest and Dividend Income</b>	<b>11,519</b>	<b>9,994</b>	<b>15.3</b>
<b>Interest Expense</b>			
Deposits	654	99	560.6
Federal funds purchased and security repurchase agreements	32	5	540.0
Other borrowed funds	420	0	-
<b>Total Interest Expense</b>	<b>1,106</b>	<b>104</b>	<b>963.5</b>
<b>Net Interest Income</b>	<b>10,413</b>	<b>9,890</b>	<b>5.3</b>
<b>Provision for credit losses</b>	<b>0</b>	<b>(3,900)</b>	<b>-</b>
<b>Net Interest Income after Provision for Credit Losses</b>	<b>10,413</b>	<b>13,790</b>	<b>(24.5)</b>
<b>Non-Interest Income</b>			
Wealth Management fees	5,411	5,804	(6.8)
Service charges on deposit accounts	244	285	(14.4)
Other service charges and fees	627	628	(0.2)
Other operating income	935	431	116.9
<b>Total Non-Interest Income</b>	<b>7,217</b>	<b>7,148</b>	<b>1.0</b>
<b>Non-Interest Expense</b>			
Salaries, wages, and other compensation	7,960	7,256	9.7
Retirement and employee benefits	2,628	2,390	10.0
Net occupancy expense	720	780	(7.7)
Furniture and equipment expense	337	363	(7.2)
Other operating expense	4,165	3,749	11.1
<b>Total Non-Interest Expense</b>	<b>15,810</b>	<b>14,538</b>	<b>8.7</b>
<b>Income Before Income Taxes</b>	<b>1,820</b>	<b>6,400</b>	<b>(71.6)</b>
<b>Provision For Income Taxes</b>	<b>206</b>	<b>1,241</b>	<b>(83.4)</b>
<b>NET INCOME</b>	<b>\$ 1,614</b>	<b>\$ 5,159</b>	<b>(68.7)</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 1.25</b>	<b>\$ 4.02</b>	<b>(68.8)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>1,287,875</b>	<b>1,284,740</b>	