

FAMILY LEGACIES GROWN LOCALLY

Walla, Walla, Dri-Cities Yakima.

2015
ANNUAL REPORT



LETTER TO SHAREHOLDERS

Continuing Evolution:

One of the great fascinations of mine is history. I am fascinated by it because in the history of the Human Race there have been so many brilliant people to learn from. So many things we think of as original problems have been faced by countless others before us and their solutions, although not always applicable to the modern day, show how during adversity an evolution needs to take place or else you are under a constant struggle to survive. One show on the History Channel particularly showcases this basic tenet... "Mankind: The Story of All of Us." The show highlights that during times of either turmoil or adversity, the people who can evolve and adapt to the changing environment, or better yet, move to another environment are the ones who are granted the privilege to not only survive but to thrive. That simple concept is not just for people, but it is also true of companies as well.

Take for example the current time period in which both you as clients and the Bank are living through. For clients, coming through the aftermath of the "Great Recession," in the US as well as living through the much longer global slowdown that continued after has been a life altering event for us. Much like how the "Great Depression," of the 1930s shaped and altered the lives of people who lived through that as well.

The current time period has asked everyone to evolve and take a look at their personal lives; to reset expectations for the future. The avarice that many took advantage of in the 1980s and 1990s has segued into a time of reflection, belt tightening and simply asking the question, "Is this what I need or is it what I want?" The slowing of the global economy has even gone a step further slowing the retirement of many in the Baby Boom generation. This monumental shift in mindset is a once in a lifetime event for many. Much can be learned, both the good and the bad, about how those of the Greatest Generation who after living through the Great Depression fought back and overcame these same insecurities about their future.

As I said at the start of this letter, adaptation and evolution is vital to a company's survival. There are many examples of how companies who thrived in a certain environment did not succeed when their business environment changed and they didn't evolve

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with it. Some companies that didn't change with their environment include Xerox, Kodak and Montgomery Ward. These companies either now don't exist or are a shell of their former glory. We often have fond memories of these companies, and frankly their words are still in our lexicon (I for one still ask for a Xerox of something every once in a while), but with each successive generation their corporate name means less and less. Someday their corporate name will cease to exist in its entirety and their names will be only referenced in history books.

Other companies realized they wouldn't survive in their new environment but created a brand new environment in which to thrive: think of Apple in the mid-1990s. It appeared that Apple would be relegated to the trash heap of history when successive losses in computer models had left them behind. But then Apple asked a fundamental question, "Why Should We Exist?" The answer for them wasn't to sell computers, but it was to make the interface between technology and humans effortless and seamless. The environment in which they were trying to compete was about how fast and how inexpensively they could build a

computer and then sell it with a small margin for profit. By changing their thought of why they exist, they decided to not compete for price like everyone else, but to focus on the experience of easily interacting with technology: enter the iPhone, iPod, iPad, and the list will go on and on. Like the story of evolution when faced with adversity Apple chose to not accept the status quo instead it would change the environment in which it competed. We no longer think of Apple as a computer manufacturer but we think of Apple as a technology interface company.

Because Baker Boyer has always been trying to evolve with the needs of our clients, we recognized that banking itself would be going through a transformative evolution as well. After the Savings and Loan crisis of the 1990s, the banking industry was quickly changing into an environment where every bank was forced to offer very low cost solutions. Like Apple, about 15 years ago Baker Boyer had to ask our own question, "Why Do We Exist?" After discussions on the subject of where the banking industry was headed (smaller margins on a large number of transactions and massive consolidation), and where we felt we

added the most value to the communities we serve, we decided that our best and most valued service was the advice we gave to our clients every day. This advice has always required time to get to know the client and their entire wealth journey, understand how we at the Bank could help them succeed, and finally give them wise advice to help them achieve their goal. This advice came from the banking division, administrative division and the asset management (formerly known as wealth management) division.

However, in the name themselves we understood our obstacle, they were divisions: split between the authorities and the rights of bankers, administrators and asset managers as employees of the Bank. Over the last decade we slowly but surely ripped down those walls of division, focusing not on the rights of the different experts we employed, but what the responsibilities we as experts collectively had to our clients and to our communities. In one word we rallied people around, "Legacies."

A client's legacy may include setting up a charity, leaving wealth to their children, securing a future for their family business, providing their grandchildren with an education or a combination of all of the above. For the Bank, our legacy has and always will be to provide sage advice to our clients so they can continue to build and strengthen a healthy economy and community. We

take that legacy seriously, and it has been a cornerstone of what the Bank stands for over the last 146 years.

And so this round of evolution started for us 15 years ago. The bank realized that the business and social environment that our clients would live through would be very different than their parents lived through. In order for us to advise we would need to build the experts that our clients would need to meet the challenges of this new environment. We began by increasing the training of our current employees to meet the financial needs of our clients. In addition we added new experts that we believed our clients would ultimately need to fulfill their legacies.

In order to meet our clients' financial needs, we started to employ CPAs, individuals from the legal community, Certified Wealth Planners, Certified Wealth Strategists, MBAs, Certified Employee Benefit Specialists, Farm Specialists and many more.

We also went one step further and started to focus on those intangible and unexpected impediments to achieving our client's legacy. We hired and trained family advisors to help us understand the hidden reasons behind our client's decisions and how they impact a financial decision. We found that understanding the hidden impediments behind decisions was a vital piece of identifying the best solution for our client.

FINANCIAL HIGHLIGHTS 2015

- The Federal Reserve did not raise interest rates until the December meeting. The low rates during 2015 remained to be a challenge for all banks, continuing to compress margins in traditional banking services. In spite of this challenge Baker Boyer improved its net interest margin from 3.38% in 2014 to 3.53% for 2015.
- Average Loans increased in 2015 to \$289,087,000, a 3% improvement. Loan growth excluding Family Real Estate Loans, has increased by \$31,898,000 since 2008 year-end. In addition, we have originated \$245,000,000 in Family Real Estate Loans which were sold to Freddie Mac in this same time period. (Although we sold the mortgages to Freddie Mac, we retained the servicing rights so that our clients could still receive the Baker Boyer experience while at the same time Baker Boyer would not be exposed to the significant interest rate risk of holding 30 year fixed rate loans.)
- Our investment income on our excess cash and bond portfolio returned us \$583,000 or 17% more than 2014 with our bond portfolio yielding 1.85%,

- an improvement of 0.28%.
- Baker Boyer Asset Management has been a significant offset to our challenging margin. Average investment assets managed for our clients have grown from \$700 million in 2008 to \$1.2 billion by year end 2015, a near doubling of client assets in this timeframe.
- Our overall Non Interest income improved slightly over last year and 7% ahead of budget.
- We made a concerted effort to hold down Non-Interest Expense coming in at over 5% under budget.
- The net effect of all these trends resulted in 2015 Net Income of \$5,615,000, a slight improvement over 2014 net income of \$5,603,000.
- Baker Boyer completed a significant rebranding in 2015. This has been well received by our clients and employees. We continue to increase the number of clients we serve in all of our markets, who have complex financial needs. As we still find ourselves in extremely accommodated interest rates look for your Board to continue to be conservative in dividend increases until rates normalize.

We committed to working with our clients' CPA and attorney to translate some of the confusing terminology so they could better understand the solution. We don't purport to be our clients' CPA or attorney, instead we are dedicated to working with their own CPA, attorney and other specialists to help implement a plan tailor made for them. All dedicated to one thing: the realization of their legacy.

Now clients can enter the doors of Baker Boyer and a team of advisors will be set up for them, each advisor on the team working with other team members to find a solution that fits their situation best. All of this will be provided in their own community at their own local Baker Boyer office.

Over the many years I have worked at Baker Boyer, so many bankers from throughout the nation have asked me, "What is Baker Boyer's secret? How have you been able to buck the trend? How are you not being forced to merge, consolidate, or go out of business?" The simple answer is we evolved. We fought the urge to stay blindly rooted in the past. We recognized that in order to evolve we would, like Apple, need to move to an environment where we could still provide the advice our clients and communities expected while at the same time increase the level of expertise of our advice. We have been so successful at this we have

been asked by national organizations to talk about how others can be successful as well.

This evolution continues. We are now preparing for what our clients will need from our Bank in another 15 years. At that time the landscape might look very different. The Baby Boom generation will be moving most of their assets to their children in the largest wealth transfer from one generation to another. Millennials who have recently entered the work force will at that time be managers of small businesses and we will need to consider how the Bank will need to communicate and advise.

To end, Baker Boyer does not see evolution in negative terms. Quite the contrary, management and our employees all see a wonderful opportunity to better serve future generations as they travel through their own wealth journey. That sense of opportunity comes from our shared confidence in the Bank's future and its ability to thrive for years to come. There are so many things to consider in an evolution, and I am proud to say that every generation of Baker Boyer management has not only been up to the challenge but reveled in it.

Mark H. Kajita President/Chief Investment Officer,

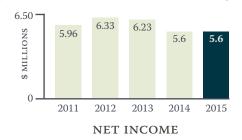


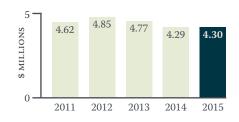
FINANCIAL HIGHLIGHTS

(Unaudited, Dollars in Thousands Except Per Share Amounts)

YEAR-TO-DATE	12/31/15	12/31/14	% CHANGE
Net Income	\$5,615	\$5,603	0.2
Cash Dividends Paid	\$3,812	\$3,809	0.1
Return on Avg. Assets	1.01 %	1.00%	
Return on Avg. Shareholders' Equity	11.28 %	11.68 %	
Average Number of Shares Outstanding, net	1,292,702	1,295,615	
PER SHARE	12/31/15	12/31/14	% CHANGE
Earnings *	\$4.30	\$4.29	0.2
Cash Dividends Paid	2.92	2.92	0.0
Book Value	38.88	37.27	4.3
AT DECEMBER 31,	12/31/15	12/31/14	% CHANGE
Total Assets	\$567,078	\$552,817	2.7
Total Loans	289,703	285,088	1.6
Allowance for Loan Losses	6,155	5,964	3.2
Total Investment Securities	184,608	201,277	(8.3)
Total Deposits	496,518	484,051	2.6
Total Shareholders' Equity	50,765	48,530	4.6
DAILY AVERAGE FOR THE YEAR	12/31/15	12/31/14	% CHANGE
Assets	\$557,193	\$557,995	(0.1)
Loans - Net	283,056	275,088	2.9
Investment Securities	197,409	197,091	0.2
Deposits	485,771	487,295	(0.3)

^{*} Earnings per share are calculated on the net weighted average number of shares outstanding.



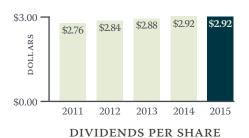


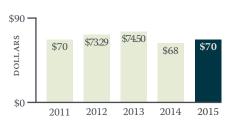
EARNINGS PER SHARE

49,789

47,960

3.8





Y-E STOCK TRADE PRICE

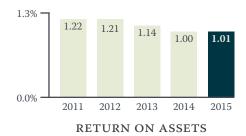
Shareholders' Equity

FIVE YEAR HIGHLIGHTS

PER SHARE	2015	2014	2013	2012	2011
Earnings*	4.30	4.29	4.75	4.88	4.59
Cash dividends	2.92	2.92	2.88	2.84	2.76
Book value, year-end	38.88	37.27	36.18	34.64	32.52
FOR THE YEAR (dollars in thousands)	2015	2014	2013	2012	2011
Net income	\$5,615	\$5,603	\$6,234	\$6,327	\$5,962
Cash dividends	3,812	3,809	3,779	3,720	3,604
PERFORMANCE MEASURES	2015	2014	2013	2012	2011
Return on average assets	1.01 %	1.00 %	1.14 %	1.21 %	1.22 %
Return on average equity	11.28	11.68	13.36	14.28	14.45
Yield on average earning assets - fully taxable equivalent	3.59	3.46	3.75	4.17	4.80
Average cost of interest bearing liabilities	0.09	0.11	0.17	0.30	0.58
Net interest margin - fully taxable equivalent	3.53	3.38	3.63	3.95	4.36
Average equity to average assets ratio	8.88	8.55	8.56	8.21	8.26
Dividend payout ratio	67.89	67.98	60.62	58.80	60.45
Net charge-offs to average loans	0.05	0.29	(0.02)	0.13	0.43
Year-end ratio of allowance for loan losses to total loans	2.12	2.09	2.37	2.26	2.06
EMPLOYMENT	2015	2014	2013	2012	2011
Number of Full-Time Equivalent Employees at Year-End	172	174	173	173	170

*Earnings per share are calculated on the net weighted average number of shares outstanding, adjusted for stock dividends and stock splits. The weighted average number of shares outstanding was:

2015: 1,292,702 2014: 1,295,615 2013: 1,299,388 2012: 1,295,006 2011: 1,291,478





AVERAGE DAILY BALANCE SHEETS

(Unaudited. Dollars in Thousands)

ASSETS	2015	2014
Cash and amounts due from banks	\$ 4,414	\$ 4,327
Interest-bearing deposits at other financial institutions	51,394	60,613
Federal funds sold	0	0
Securities available for sale, at fair value	195,731	195,366
Securities held to maturity, at cost	1,488	1,535
Other investments, at cost	1,469	1,802
Loans	289,087	281,437
Allowance for credit losses	(6,031)	(6,349)
Net Loans	283,056	275,088
Premises and equipment, net	13,640	13,936
Accrued interest receivable	2,626	2,416
Other assets	3,375	2,913
Total Assets	\$ 557,193	\$ 557,996
LIABILITIES AND SHAREHOLDERS' EQUITY Deposits		
Demand, non-interest-bearing	\$ 145,210	\$ 135,351
Savings and interest-bearing demand	282,351	284,529
Time	58,210	67,415
Total Deposits	485,771	487,295
Federal funds purchased and security repurchase agreements	21,335	22,585
Other borrowed funds	38	0
Accrued interest payable	28	39
Other liabilities	232	118
Total Liabilities	507,404	510,037
SHAREHOLDERS' EQUITY		
Common Stock (no par value, stated value \$3.125 per share)	4,078	4,082
Additional paid-in capital	1,059	1,183
Retained earnings	43,966	42,044
Accumulated other comprehensive income (loss)	686	650
Total Shareholders' Equity	49,789	47,959
Total Liabilities and Shareholders' Equity	\$ 557,193	\$ 557,996

AUDITOR & STOCK INFORMATION

INDEPENDENT PUBLIC ACCOUNTANTS AND AUDITORS

Moss Adams, LLP - 601 West Riverside, Suite 1800, Spokane, WA 99201-0663 | (509) 747-2600

MARKET MAKERS FOR BAKER BOYER BANCORP STOCK

Jefferies Group, Inc - 520 Madison Avenue, New York, NY 10022 | (212) 284-2300 KCG Holdings - 545 Washington Blvd., Jersey City, NJ 07310 | (800) 544-7508 Monroe Securities, Inc. - 100 N. Riverside Plaza, Suite 1620, Chicago, IL 60606 | (312) 327-2530 Pershing Trading Co., LP - 1 Pershing Plaza, Jersey City, NJ 07399 | (800) 459-1893 UBS Capital Markets, LP - 4111 Pavonia Ave East, Jersey City, NJ 07310 | (201) 963-9100 Wedbush Securities - 1000 Wilshire Blvd., Los Angeles, CA 90017 | (213) 688-8000

DIRECT CONTACTS FOR STOCK REPURCHASES

Mark Hess, Executive Vice President/Chief Operating Officer | (509) 526-1315 Mark H. Kajita, President/Chief Investment Officer | (509) 526-1412

CORPORATE AND INVESTOR INFORMATION

Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2015, there were 1,305,662 shares of common stock issued and outstanding. General shareholder account inquiries should be directed to the Company's Chief Operating Officer at the following address and telephone number:

Mark Hess, Executive Vice President/Chief Operating Officer 7 West Main Street, PO Box 2175, Walla Walla, WA 99362 (509) 525-2000 | (800) 234-7923

ANNUAL MEETING OF SHAREHOLDERS

Hegan +. Clubb

The Annual Meeting of Shareholders will be held at 4:30 P.M. on Thursday, April 28, 2016, at the Baker Boyer Bank Main Office, 7 W. Main, Walla Walla, Washington.

I, the undersigned, hereby attest to the correctness of information contained in the Annual Report of Baker Boyer Bancorp and its wholly-owned subsidiary, Baker Boyer National Bank. This Annual Report is also furnished to customers of Bancorp pursuant to the requirements of the Federal Deposit Insurance Corporation (FDIC) to provide an annual disclosure statement. This Annual Report has not been reviewed for accuracy or relevance by the FDIC.

CEO and Chairman of the Board Baker Boyer Bancorp

Member FDIC



THE EXECUTIVE COMMITTEE

- A MARK H. KAJITA, CPA
 Chair of the Executive Committee,
 President,
 Chief Investment Officer
 kajitam@bakerboyer.com
- B PETER J. ALLEN
 Executive Vice President,
 Asset Management
 allenp@bakerboyer.com
- C MEGAN F. CLUBB Chief Executive Officer, Chairman of the Board clubbm@bakerboyer.com
- D LYLE W. HANSEN
 Executive Vice President,
 Banking
 hansenl@bakerboyer.com
- E MARK A. HESS, CFA
 Chief Operating Officer,
 Executive Vice President,
 Administration
 hessm@bakerboyer.com
- F TERESA L. LARSON

 Secretary of the Executive Committee
 Senior Vice President,
 Strategic Plan Director
 larsont@bakerboyer.com

THE BOARD OF DIRECTORS

1 MEGAN F. CLUBB

Chairman, CEO, Baker Boyer Bancorp; Baker Boyer National Bank Walla Walla, WA

2 MARK H. KAJITA, CPA

President, Chief Investment Officer Baker Boyer National Bank Walla Walla, WA

3 PETER J. ALLEN

Executive Vice President, Asset Management Baker Boyer National Bank Walla Walla, WA

4 DORSEY F. BAKER

Retired General Service Manager, Holt California, Inc., Lodi, CA Chairman of the Audit Committee

5 JON S. BREN

Secretary, Baker Boyer Bancorp, retired Executive Vice President, Baker Boyer National Bank Walla Walla, WA Member of the Audit Committee

6 LYNNE E. BUSH

Community Volunteer Leader Seattle, WA Member of Executive Compensation Committee

7 DAVID B. CAMPBELL

Farming, Construction and Energy Systems, retired, Walla Walla, WA Chairman of the Executive Compensation Committee

8 CHARLES H. EGLIN

Building Contractor, Owner Tri-Ply Construction Yakima, WA Member of the Audit Committee

9 DAVID B. GORDON

Retired General Manager, Northwest Grain Growers Walla Walla, WA Member of the Executive Compensation Committee

10 J. ERIC KIMBALL, CPA

Certified Public Accountant Owner, J. Eric Kimball CPA Walla Walla, WA Member of the Audit Committee

11 STEPHEN G. KIMBALL

Retired Board Member as of April 2015 Chairman Emeritus and Retired President & CEO, Baker Boyer Bancorp; Baker Boyer National Bank Walla Walla, WA Member of the Audit Committee

12 SUSAN C. PRATT

Attorney; retired Assistant Attorney General, State of Washington Tacoma, WA Member of the Executive Compensation Committee

13 JOHN R. VALAAS

Investor, retired President & CEO, First Mutual Bank Bellevue, WA Member of the Executive Compensation Committee



OUR LOCATIONS

HEADQUARTERS

7 W. MAIN STREET WALLA WALLA, WA 99362

EASTGATE BRANCH

1931 E. ISAACS WALLA WALLA, WA 99362

PLAZA BRANCH

1530 PLAZA WAY WALLA WALLA, WA 99362

MILTON-FREEWATER BRANCH

320 N. COLUMBIA
MILTON-FREEWATER, OR 97862

WHEATLAND VILLAGE BRANCH

1500 S. CATHERINE STREET WALLA WALLA, WA 99362

KENNEWICK OFFICE

1149 n. edison street, suite a kennewick, wa 99336

YAKIMA OFFICE

909 TRIPLE CROWN WAY YAKIMA, WA 98908