

2016

FIRST QUARTER REPORT



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BOARD OF DIRECTORS

Megan F. Clubb, Chair	Charles H. Eglin
Peter Allen	Dave Gordon
D. F. Baker	Mark H. Kajita
Jon S. Bren	J. Eric Kimball
Lynne Bush	Susan C. Pratt
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BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

Walla Walla Tri-Cities Yakima

Dear Baker Boyer Shareholder:

April 18, 2016

2016 started off with high hopes for additional interest rate hikes that would help alleviate the stresses that are being felt throughout the banking industry. Unfortunately, by March those high hopes had softened to the realization that the Federal Reserve was moribund with doubt.

The Federal Reserve has decided to take a remarkably timid approach to moving interest rates higher based on the tepid international strength in economies from China to Germany. Janet Yellen herself has outlined some of the factors that she and the Federal Reserve must see, and they include: the stability of foreign economies and markets, the stability of commodity prices, a move towards a larger contribution of the housing sector to the total US GDP, and a devaluation of the dollar against foreign currencies. With these very large hurdles, the markets are shying away from any predictions of a steady interest rate rise any time soon. Instead, through their transparency the Federal Reserve has only guaranteed additional confusion and trepidation in all markets around the world.

Even through the uncertainty laid out by the Federal Reserve, Baker Boyer has seen a relatively strong 1st Quarter of 2016. Our rollout of D.S. Baker Advisors and our ability to team experts from within our Bank to focus on the complex needs of our clients has been successful. We are seeing additional growth in revenues throughout the Bank. Although total gross loans have been relatively stable at \$286 million versus \$285 million on March 31, 2016 and 2015, respectively, net interest income increased to \$4.5 million from \$4.3 million for the quarters ending March 31, 2016 and 2015, respectively. This is a 4.2% increase in net interest income and an indication that our clients are willing to pay more for superior expertise in these perplexing financial times.

Total non-interest income has also improved to \$2.69 million from \$2.58 million for the quarter ended March 31, 2016 and 2015. This non-interest income gain represents a 4.3% increase in income from the prior year. The Bank has also successfully kept non-interest expenses in check with a modest 0.5% increase in total non-interest expenses for the quarter ending March 31, 2016, from the year prior.

All these improvements have helped increase overall net income after taxes of the Bank to \$1.30 million for the first quarter of 2016 from \$1.16 million for the same time period in 2015. This has led to a strong 12.6% increase in net income for the first quarter of 2016 versus the same time period in the previous year.

As we move forward with our strategy, we continue to invest our resources toward the advisory services that have proven the most needed by our clients. Business, investment, trust and family advising combine to offer a strong path of success for our clients and at the same time provides a healthy return for all of our shareholders. Although the path for other banks in our industry is a bit murky, the path for Baker Boyer is clear and undeniable: advise our clients towards achieving their legacy in order for us to strengthen ours. When keeping our focus on providing the advice our clients need, we have proven strong profitability to assure the Bank's legacy of supporting and growing the communities we serve.

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)

	March 31,		
	2016	2015	% Chg.
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 4,327	\$ 4,345	(0.4)
FFS and Int-bearing deposits at other financial institutions	76,747	47,345	62.1
Total Cash and Cash Equivalents	81,074	51,690	56.8
Investment securities:			
Available-for-sale, at fair value	183,972	204,662	(10.1)
Held-to-maturity at cost	1,443	1,490	(3.2)
Other investments, at cost	1,257	1,770	(29.0)
Total Investments	186,672	207,922	(10.2)
Loans	286,250	284,936	0.5
Allowance for credit losses	(6,085)	(6,022)	1.0
Net Loans	280,165	278,914	0.4
Bank premises and equipment, net	13,395	13,385	0.1
Accrued interest receivable	3,063	2,141	43.1
Other assets	2,749	3,282	(16.2)
TOTAL ASSETS	\$ 567,118	\$ 557,334	1.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 143,278	\$ 142,985	0.2
Interest bearing	352,461	342,587	2.9
Total Deposits	495,739	485,572	2.1
Federal funds purchased and security repurchase agreements	19,823	22,166	(10.6)
Other borrowed funds	0	0	-
Accrued interest payable	25	30	(16.7)
Other liabilities	62	295	(79.0)
TOTAL LIABILITIES	515,649	508,063	1.5
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	3/31/16	3/31/15	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,308,677	1,305,017	4.082 / 4,073
Additional paid-in capital	1,225	977	25.4
Retained earnings	45,235	43,550	3.9
Accumulated other comprehensive income (loss)	927	671	38.2
TOTAL SHAREHOLDERS' EQUITY	51,469	49,271	4.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 567,118	\$ 557,334	1.8

Consolidated Statements of Income

(Unaudited)

	Three Months Ending March 31,		
	2016	2015	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 3,746	\$ 3,648	2.7
Federal funds sold and deposits at other financial institutions	116	62	87.1
Investment securities:			
Taxable	193	300	(35.7)
Tax-exempt	490	363	35.0
Other investment income and dividends	12	12	-
Total Interest and Dividend Income	4,557	4,385	3.9
Interest Expense			
Deposits	70	79	(11.4)
Federal funds purchased and security repurchase agreements	5	5	-
Other borrowed funds	0	0	-
Total Interest Expense	75	84	(10.7)
Net Interest Income	4,482	4,301	4.2
Provision for credit losses	103	23	347.8
Net Interest Income after Provision for Credit Losses	4,379	4,278	2.4
Non-Interest Income			
Trust and Investment Management fees	1,697	1,624	4.5
DS Baker Investment fees (brokerage)	309	296	4.4
Service charges on deposit accounts	225	229	(1.7)
Other service charges and fees	264	263	0.4
Other operating income	195	168	16.1
Total Non-Interest Income	2,690	2,580	4.3
Non-Interest Expense			
Salaries, wages, and other compensation	2,639	2,647	(0.3)
Retirement and employee benefits	870	874	(0.5)
Net occupancy expense	296	281	5.3
Furniture and equipment expense	118	131	(9.9)
Other operating expense	1,388	1,352	2.7
Total Non-Interest Expense	5,311	5,285	0.5
Income Before Income Taxes	1,758	1,573	11.8
Provision For Income Taxes	453	414	9.4
NET INCOME	\$ 1,305	\$ 1,159	12.6
Basic Earnings Per Common Share	\$ 1.01	\$ 0.90	12.3
Weighted Average Number of Shares Outstanding	1,294,791	1,291,323	