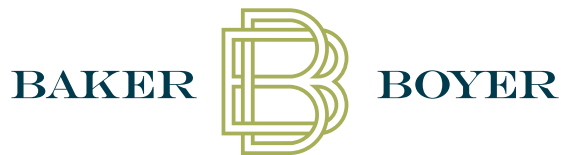


# 2016

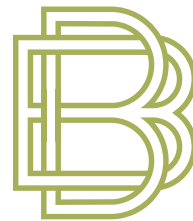
## SECOND QUARTER REPORT



Post Office Box 2175  
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(509) 525-2000

### BOARD OF DIRECTORS

Megan F. Clubb, Chair	Dave Gordon
Peter Allen	Mark H. Kajita
D. F. Baker	J. Eric Kimball
Jon S. Bren	Susan C. Pratt
David B. Campbell	John R. Valaas
Charles H. Eglin	



## BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

*Walla Walla Tri-Cities Yakima*

Dear Baker Boyer Shareholder:

July 22, 2016

The second quarter of 2016 started off with pockets of optimism for the U.S. Economy as well as the rebound of crop yields in the Northwest. At this time, precipitation in Eastern Washington is a marked improvement from the drought conditions we experienced in the prior year. Although we won't know until we have completed harvest, in general agriculture in Eastern Washington appears stronger than we had experienced in 2015.

Economic conditions for the second quarter of 2016 progressed as expected on the domestic front, however in the international arena markets were stunned by the historic BREXIT vote in the United Kingdom. The vote by the United Kingdom to exit the European Union will have long term impacts on both European and London markets. BREXIT's initial turbulence in equity markets for the U.S. was later quashed as those markets quickly rebounded. The more lasting impacts of BREXIT in the U.S. has been in the currency and fixed income markets. Uncertainty of the future of the economies of Europe sent the dollar soaring against the British Pound. This strengthening of the dollar is simply a continuation of the rise that we have seen over many years, and is sparked by the realization that the U.S. is the strongest economy to exit out of the Great Recession. Increase in the value of the dollar along with the lingering uncertainty in foreign markets led to a flood of cash coming into U.S. Treasuries sparking a further decline in overall interest rates throughout the U.S.

These lower rates, although good for businesses and consumers, are further hampering the health of community banks throughout the U.S. Without diversified services and products community banks are facing continued net income pressures that hurt their ability to return profits back to their shareholders.

In contrast to the community bank industry, Baker Boyer continues to strengthen as it continues to build on its diversified asset management and banking divisions. Total average assets of the Bank increased to \$572 million from \$558 million as of June 30, 2016 and 2015 respectively. Average gross loans have remained stable at approximately \$287 million on June 30, 2016 and 2015. Correspondingly net interest income increased to \$9.0 million for the first six months of 2016, a 2.8% increase from the year prior.

Total non-interest income has also increased by 1.7% over the same six month time period last year, with the first six months of 2016 showing non-interest income at \$5.5 million. All of these conditions have led to net income coming in for the first six months of 2016 at \$2.5 million which equates to a 1.3% increase from the same time period last year.

As we enter the second half of 2016, Baker Boyer continues to assess the strategic advantage of combining our business products and services in order to provide a holistic solution to our clients. However, we know that technology and the way our clients want to access the Baker Boyer experience is changing, and going forward we will be investing our resources to meet that challenge. Baker Boyer's strategy has rewarded our shareholders in the past and we are confident that as we continue to evolve this model our shareholders will be pleased with the results.

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)

	June 30,		
	2016	2015	% Chg.
<i>(Dollars in Thousands)</i>			
<b>ASSETS</b>			
Cash and amounts due from banks	\$ 4,252	\$ 4,538	(6.3)
FFS and Int-bearing deposits at other financial institutions	73,243	44,921	63.0
<b>Total Cash and Cash Equivalents</b>	<b>77,495</b>	<b>49,459</b>	<b>56.7</b>
Investment securities:			
Available-for-sale, at fair value	191,080	203,529	(6.1)
Held-to-maturity at cost	1,444	1,491	(3.2)
Other investments, at cost	1,265	1,686	(25.0)
<b>Total Investments</b>	<b>193,789</b>	<b>206,706</b>	<b>(6.2)</b>
Loans	286,796	287,207	(0.1)
Allowance for credit losses	(6,102)	(6,043)	1.0
<b>Net Loans</b>	<b>280,694</b>	<b>281,164</b>	<b>(0.2)</b>
Bank premises and equipment, net	13,320	13,627	(2.3)
Accrued interest receivable	3,290	2,407	36.7
Other assets	3,792	4,182	(9.3)
<b>TOTAL ASSETS</b>	<b>\$ 572,380</b>	<b>\$ 557,545</b>	<b>2.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Noninterest bearing	\$ 144,853	\$ 142,719	1.5
Interest bearing	354,167	342,088	3.5
<b>Total Deposits</b>	<b>499,020</b>	<b>484,807</b>	<b>2.9</b>
Federal funds purchased and security repurchase agreements	20,701	22,177	(6.7)
Other borrowed funds	0	77	-
Accrued interest payable	24	29	(17.2)
Other liabilities	1,082	1,132	(4.4)
<b>TOTAL LIABILITIES</b>	<b>520,827</b>	<b>508,222</b>	<b>2.5</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock (no par value, stated value \$3.125 per share)			
	6/30/16	6/30/15	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,303,677	1,305,017	4.077
Additional paid-in capital	1,150	998	15.2
Retained earnings	45,362	43,570	4.1
Accumulated other comprehensive income (loss)	964	680	41.8
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>51,553</b>	<b>49,323</b>	<b>4.5</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 572,380</b>	<b>\$ 557,545</b>	<b>2.7</b>

## Consolidated Statements of Income

(Unaudited)

	Six Months Ending June 30,		
	2016	2015	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 7,488	\$ 7,419	0.9
Federal funds sold and deposits at other financial institutions	222	125	77.6
Investment securities:			
Taxable	400	564	(29.1)
Tax-exempt	1,000	781	28.0
Other investment income and dividends	25	23	8.7
<b>Total Interest and Dividend Income</b>	<b>9,135</b>	<b>8,912</b>	<b>2.5</b>
<b>Interest Expense</b>			
Deposits	139	156	(10.9)
Federal funds purchased and security repurchase agreements	10	11	(9.1)
Other borrowed funds	0	0	-
<b>Total Interest Expense</b>	<b>149</b>	<b>167</b>	<b>(10.8)</b>
<b>Net Interest Income</b>	<b>8,986</b>	<b>8,745</b>	<b>2.8</b>
<b>Provision for credit losses</b>	266	46	478.3
<b>Net Interest Income after Provision for Credit Losses</b>	<b>8,720</b>	<b>8,699</b>	<b>0.2</b>
<b>Non-Interest Income</b>			
Trust and Investment Management fees	3,498	3,429	2.0
DS Baker Investment fees (brokerage)	608	568	7.0
Service charges on deposit accounts	453	474	(4.4)
Other service charges and fees	553	573	(3.5)
Other operating income	407	383	6.3
<b>Total Non-Interest Income</b>	<b>5,519</b>	<b>5,427</b>	<b>1.7</b>
<b>Non-Interest Expense</b>			
Salaries, wages, and other compensation	5,456	5,358	1.8
Retirement and employee benefits	1,757	1,752	0.3
Net occupancy expense	584	556	5.0
Furniture and equipment expense	255	280	(8.9)
Other operating expense	2,964	2,896	2.3
<b>Total Non-Interest Expense</b>	<b>11,016</b>	<b>10,842</b>	<b>1.6</b>
<b>Income Before Income Taxes</b>	<b>3,223</b>	<b>3,284</b>	<b>(1.9)</b>
<b>Provision For Income Taxes</b>	768	861	(10.8)
<b>NET INCOME</b>	<b>\$ 2,455</b>	<b>\$ 2,423</b>	<b>1.3</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 1.90</b>	<b>\$ 1.88</b>	<b>1.2</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>1,294,112</b>	<b>1,292,195</b>	