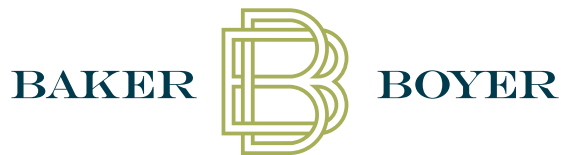


2016

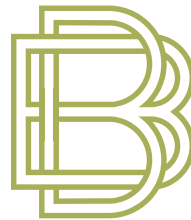
THIRD QUARTER REPORT



Post Office Box 2175
Walla Walla, WA 99362-0175
(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:

October 17, 2016

Fall has come to Washington and Oregon and with it will come an end to the election season. Although this has been a tempestuous election cycle, one thing has remained the same, the Federal Reserve refuses to move interest rates at the meeting immediately preceding any Presidential election. This means rates have remained very low while at the same time unemployment has remained at approximately 5%. Discussions are starting at the Federal Reserve that in these conditions it is hard to justify an extremely accommodative position let alone a more neutral position on interest rates.

As difficult as the current interest rate environment is on community banks, Baker Boyer continues to defy the odds and posts steady net income to our shareholders. This ability comes from listening to our clients and emphasizing the services they need versus having quotas on products to be sold to clients regardless of their needs. In October, Baker Boyer will continue its tradition of empowering our own clients by providing educational classes, named "D.S. Baker University." We have already provided a class on family business succession planning and now will hold classes on personal financial planning, adding value to your family business and use of trusts to accomplish your legacy. It is Baker Boyer's long term vision of strengthening the communities we live in to secure the strength of the Bank for generations to come.

The investment in the strength of our communities is providing net income to our shareholders. Average deposits are up 3.4% to nearly \$500 million from this time last year. Gross loans have remained relatively stable at \$289 million year over year, but net interest income from those loans and from our securities portfolio have increased to \$13.6 million; an increase of 1.6% from the same time last year. Income from Baker Boyer Asset Management has also increased. For the first nine months of 2016, the Asset Management Division posted income of \$6.3 million, a 3.3% increase over the same time last year.

Net Income for the first three quarters of 2016 was \$3.8 million. This is a 6.3% decline from the prior year but this difference is due to the onetime gain on sale of the credit card business in 2015. Without that one time gain on sale, 2016 net income would be slightly higher than the same time last year.

Baker Boyer's strategy, is a deliberate movement away from other banks who base their success on current sales quotas. Baker Boyer believes that by empowering and strengthening our communities, a long lasting prosperity will be attainable by all, including our shareholders. We will continue with this strategy so that Baker Boyer will be here to grow communities for the next 100 years, and as such the shares of the Bank will be a legacy that each generation can pass on to the next.

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)

	September 30,		% Chg.
	2016	2015	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 4,393	\$ 4,441	(1.1)
FFS and Int-bearing deposits at other financial institutions	69,478	45,904	51.4
Total Cash and Cash Equivalents	73,871	50,345	46.7
Investment securities:			
Available-for-sale, at fair value	193,199	199,117	(3.0)
Held-to-maturity at cost	1,397	1,492	(6.4)
Other investments, at cost	1,268	1,541	(17.7)
Total Investments	195,864	202,150	(3.1)
Loans	289,134	289,307	(0.1)
Allowance for credit losses	(6,107)	(6,001)	1.8
Net Loans	283,027	283,306	(0.1)
Bank premises and equipment, net	13,265	13,666	(2.9)
Accrued interest receivable	2,585	2,506	3.2
Other assets	4,279	4,332	(1.2)
TOTAL ASSETS	\$ 572,891	\$ 556,305	3.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 146,557	\$ 143,000	2.5
Interest bearing	353,318	340,262	3.8
Total Deposits	499,875	483,262	3.4
Federal funds purchased and security repurchase agreements	20,330	22,255	(8.6)
Other borrowed funds	0	51	(100.0)
Accrued interest payable	24	29	(17.2)
Other liabilities	834	1,217	(31.5)
TOTAL LIABILITIES	521,063	506,814	2.8
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/16	9/30/15	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,303,870	1,305,662	(0.1)
Additional paid-in capital	1,098	1,031	6.5
Retained earnings	45,557	43,753	4.1
Accumulated other comprehensive income (loss)	1,099	630	74.4
TOTAL SHAREHOLDERS' EQUITY	51,828	49,491	4.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 572,891	\$ 556,305	3.0

Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		% Chg.
	2016	2015	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 11,277	\$ 11,340	(0.6)
Federal funds sold and deposits at other financial institutions	353	188	87.8
Investment securities:			
Taxable	591	773	(23.5)
Tax-exempt	1,523	1,262	20.7
Other investment income and dividends	33	30	10.0
Total Interest and Dividend Income	13,777	13,593	1.4
Interest Expense			
Deposits	205	230	(10.9)
Federal funds purchased and security repurchase agreements	15	16	(6.3)
Other borrowed funds	0	0	-
Total Interest Expense	220	246	(10.6)
Net Interest Income	13,557	13,347	1.6
Provision for credit losses	433	219	97.7
Net Interest Income after Provision for Credit Losses	13,124	13,128	(0.0)
Non-Interest Income			
Trust and Investment Management fees	5,304	5,130	3.4
DS Baker Investment fees (brokerage)	911	881	3.4
Service charges on deposit accounts	681	725	(6.1)
Other service charges and fees	852	939	(9.3)
Other operating income	661	907	(27.1)
Total Non-Interest Income	8,409	8,582	(2.0)
Non-Interest Expense			
Salaries, wages, and other compensation	8,196	7,979	2.7
Retirement and employee benefits	2,564	2,526	1.5
Net occupancy expense	868	841	3.2
Furniture and equipment expense	379	422	(10.2)
Other operating expense	4,484	4,378	2.4
Total Non-Interest Expense	16,491	16,146	2.1
Income Before Income Taxes	5,042	5,564	(9.4)
Provision For Income Taxes	1,196	1,458	(18.0)
NET INCOME	\$ 3,846	\$ 4,106	(6.3)
Basic Earnings Per Common Share	\$ 2.97	\$ 3.18	(6.5)
Weighted Average Number of Shares Outstanding	1,293,276	1,292,673	