



FAMILY LEGACIES GROWN LOCALLY

Walla Walla Tri-Cities Yakima

2016
ANNUAL REPORT



Megan
Chairman of the Board

Michael
President & CEO

LETTER TO SHAREHOLDERS

Looking back at 2016, it was a year of evolution for Baker Boyer and our continuing promise to our clients. I say evolution for good reason. It is not a change in focus for Baker Boyer, but an evolution of the Baker Boyer experience: The feeling of empowerment a client has after they interact with the Bank. This experience is simply evolving as our clients adapt to an ever-increasing data-filled world. Living in a data-filled world isn't bad, but it does add new complexities for everyone who lives in it.

What is the difference between a data-filled world and the one we had previously lived in? For one thing, there is much more data that is readily available and fewer resources at our disposal to interpret that data. Just open any web browser and search for a solution to any question you pose. Instantly, you will receive millions of hits from around the world. Logical people know that half of the data you receive is correct while the other half is suspect at best and fake at worst. You are left with an abundance of data and little ability to put it in context with your actual circumstance. Worse yet, you are bombarded with online advertisements that offer a myriad of products and services for a price,

leaving you wondering if the solution provided is a sales gimmick and you are the prey. Sound familiar?

Just to give you one example: imagine you have an investment portfolio and you want to know what best way to invest for your future. You search for the best investment strategy and receive millions of articles and advertisements in response. But which one of those investment strategies is actually specific to your situation? How much should you invest in one strategy if you have multiple goals: goals like saving for college, retiring at 60, making a major donation to your church, and the list can go on and on? Suddenly you realize that you have opened Pandora's Box and have a lot of data but you are still left feeling queasy. You are still left without confidence in a solution.

The example above is just one question you ask every day to which you expect simple answers from the Internet. What about other questions: how much of a house can I afford if I have these goals later in life, what growth will my business need to provide future income to me, and how can I successfully transition the family farm to my children? These questions are



artist rendition of Yakima building



Leadership Council

complex when looked at individually, but the best solution answers all of these question in tandem. How will you take the nearly infinite pieces of data that are available to you on the Internet, process them and find the one solution that fits your exact circumstance?

This is the data-filled world our clients live in and the world in which Baker Boyer is determined to help clients find unique holistic solutions. We need to help clients feel a sense of empowerment by interpreting and translating data they found in the digital world. The goal is to partner with clients by taking generic information they find and deploying unique custom-made solutions found only at Baker Boyer.

This partnership with Baker Boyer starts with deciphering and understanding our client's journey. Each journey is personal and unique, because each client has his or her own hopes, dreams and things that will allow them to feel successful. Until the Bank fully understands our client's unique personal story we don't really know how we can help empower a client to be successful.

At Baker Boyer, we see a client's journey as an unfinished puzzle, where we collect client information to put together a more complete picture of their needs. One of the responsibilities of each employee is to

continually collect puzzle pieces so that the experience a client has is one of empowerment, trust, and unique to them.

In addition to understanding a client's journey, Baker Boyer has also accumulated experts in various professional fields. Advisors in professions as varied as law, accounting, finance, family businesses, financial planning, investing, trust and estate planning, consumer lending, family dynamics, community banking, and technology. These advisors are not only experts in their own fields, but have been trained to uncover clues to a client's personal journey. Baker Boyer advisors can be deployed as a single expert if that is all a client currently needs or as a team of Advisors if the need requires a multi-faceted solution.

In order to keep all of our Advisors informed about our client's journey, Baker Boyer has designed and deployed a purpose-built Client Relationship Management (CRM) system that took three years to develop. The development of the CRM was a Herculean task; its sole purpose is to accumulate, house and organize information about each client journey. This system was put into service in April of 2016, combining previously accumulated client information collected in multiple bank systems into one master

system. From the beginning, Baker Boyer's new CRM was designed to be a tool not primarily focused on marketing or sales, but to help our Advisors understand each client's personal journey so we can propose solutions unique to them: to help them live in the data-filled world.

In 2016, Baker Boyer also launched D.S. Baker University, a new school specifically for Baker Boyer clients and taught by Baker Boyer Advisors and other professionals. We have started with courses in financial planning, trust design, business growth strategies, and family business succession planning. The latter included a follow-up session where we conducted small group discussions with members of the senior generation and junior generation. We discussed obstacles and misunderstandings between both generations of family members and ways to overcome hurdles standing in the way.

One of the obstacles between generations is common to all of our clients. It involves the differences between those who have grown up as digital natives as opposed to digital immigrants. Yes, there is such a thing as a digital immigrant. Immigrants are those who have known a life before the Internet and digital technology (those over 30); natives are those who have known no other world than a data-filled digital world (those younger than 30). A digital native is very

comfortable living in the data-filled world and feels empowered when he or she can answer simple questions by researching digital data they found themselves. But when a digital native needs more complex solutions, he or she values an advisor who helps translate mounds of data into a more complete holistic solution. Baker Boyer believes our Advisors and consistent promise to empower clients is well suited for both digital natives and digital immigrants.

To plan for that future, Baker Boyer has assembled a council of some of our youngest new leaders who have been tasked with translating the Baker Boyer experience to digital natives. Who better to tackle this challenge than our own future leaders who will inherit the management of the Bank? This council has been working on areas like client relationship development, teaming, technology as well as other areas specific to profitability, employee development and training.

One area of focus for the council has been on the use of the digital medium. While digital immigrants have traditionally interacted with the bank face-to-face; digital natives find it more acceptable to interact digitally. Baker Boyer will need to empower digital natives to find simple solutions through our own digital presence, while allowing them access to a team of our Advisors at a time and through a medium of their own choosing.

FINANCIAL HIGHLIGHTS 2016

In 2016, Baker Boyer budgeted for several increases in the Federal Reserve rate to increase our net interest margin and grow profitability for our shareholders. Unfortunately, the Federal Reserve allowed only one 25 basis point increase in December of 2016, which severely impacted our gross revenue projections. In order to counter that lower gross revenue amount the Bank instituted expense control throughout all facets of our business while continuing to deploy resources towards our strategy of evolution. The following are highlights of our 2016 financial figures:

- Total average asset size of the Bank increased by 4% from \$557 to \$580 million as of December 31, 2015 and 2016 respectively. This increase was almost entirely due to new interest checking, savings and money market accounts opened at the Bank.
- Average loan balances remained stable at \$288 million on December 31, 2016. This is a modest .3% decrease in average loan balances from the same time in 2015.
- Total interest income increased by 2.2% from \$18.1 to \$18.5 million for years ending December 31, 2015 and 2016 respectively.
- Total assets under management increased to \$1.3 billion as of December 31, 2016. This is an increase of 80% from 2008 when total assets under management was \$700 million. Asset management revenue increased by 3.8% from \$8.6 to \$8.9 million for the years ending December 31, 2015 and 2016 respectively.
- Although total non-interest expenses increased slightly by 2.8% from \$21.8 to \$22.4 million for the year ending December 31, 2015 and 2016 respectively, they were \$1 million below budget for 2016 due to lower revenue expectations.
- Net interest margin remained relatively stable at 3.50% for the year ending December 31, 2016, down only .03% from the prior year.
- Total net income decreased by 1.9% from \$5.6 million for 2015 to \$5.5 million for 2016. This was primarily due to the Bank recognizing a one-time gain on the sale of our credit card portfolio that had a net gain of \$215K after taxes. Without that one-time gain, core business profits increased by 2.0% for 2016, year over year.

Digital immigrants who desire more face-to-face interactions will also need additional resources to empower them to continue exploring their journeys. Because of this, Baker Boyer will continue empowering our communities by starting the design of a new business center in Yakima, Washington. Yakima has become one of our fastest growing markets and we are currently limited on services we can provide our clients by the size of our current building. This new business center will allow us to expand our capabilities to both digital immigrants and digital natives by providing additional face-to-face meeting spaces as well as an expanded home for our digital systems.

In the end, shareholders may ask: Why is Baker Boyer going down this path? In a world where all other financial institutions are focusing on branch closures, transaction fees, and making the experience more generic, why is Baker Boyer exploring a “unique,” future?

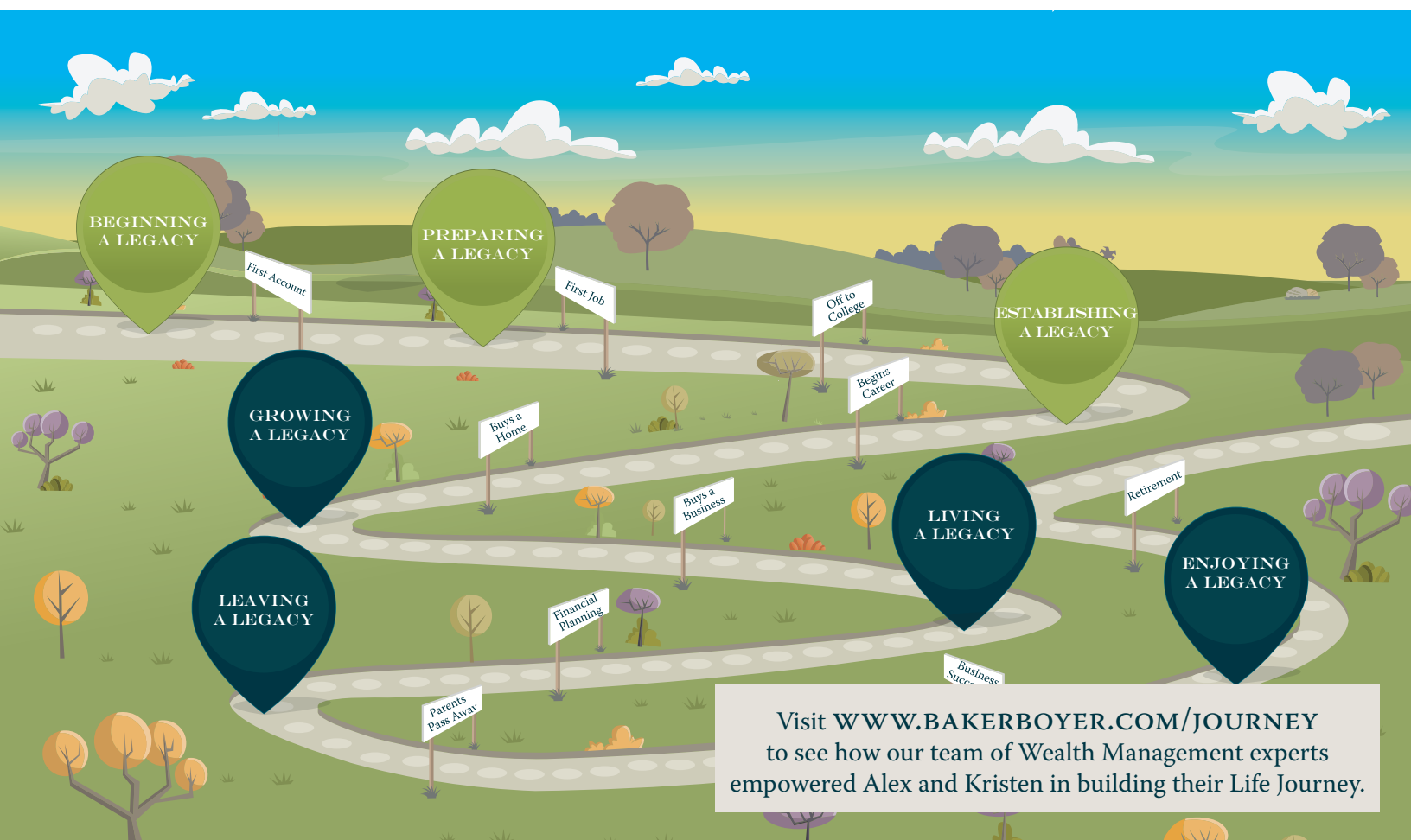
First, the steady stream of net income from staying with our unique approach to empower our clients has proven to be very profitable to our shareholders. In 2016, for the ninth consecutive year Baker Boyer was on the list of Top 200 Community Banks (American Banker Magazine) with the ranking of 33. For shareholders that translates into steady dividend payments and a consistent strong Return on Equity as compared to other community banks in the Nation.

Second, and more importantly, it's because a bank (any bank) can only be as strong as the communities they are in. Banks can either focus on short-term gains and take from their community or they can focus on the long-term success of their community and revel in a future that is symbiotic for both. Baker Boyer knows who it is and what we mean to our communities. After 147 years we have never lost sight that we are servant leaders: We LEAD, but we are also SERVANTS to the communities we live in and the different generations that populate them. Each employee at the Bank has the same loyalty and belief in our hometowns as did the original founder D.S. Baker.

But belief is not good enough. Each generation of Advisors is asked to not just believe, but to strengthen and grow the economy of our communities. Like I said at the beginning of this article, this isn't a change in our focus, but an evolution into a new data-filled world.

I end with a promise to all of our shareholders: The Baker Boyer experience is alive and well. In addition, through careful planning we intend to make the Baker Boyer experience accessible to future generations of clients with the ultimate outcome of high profitability to future generations of shareholders.

Mark H. Kajita, CPA
President & CEO



Visit WWW.BAKERBOYER.COM/JOURNEY
to see how our team of Wealth Management experts
empowered Alex and Kristen in building their Life Journey.

FINANCIAL HIGHLIGHTS

(Unaudited, Dollars in Thousands Except Per Share Amounts)

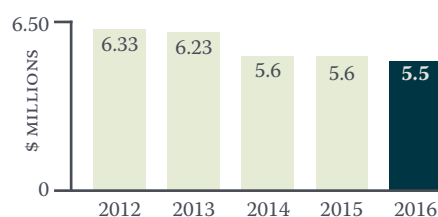
YEAR-TO-DATE	12/31/16	12/31/15	% CHANGE
Net Income	\$5,507	\$5,615	(1.9)
Cash Dividends Paid	\$3,807	\$3,812	(0.1)
Return on Avg. Assets	0.95 %	1.01 %	
Return on Avg. Shareholders' Equity	10.63 %	11.28 %	
Average Number of Shares Outstanding, net	1,295,977	1,292,702	

PER SHARE	12/31/16	12/31/15	% CHANGE
Earnings *	\$4.21	\$4.30	(2.1)
Cash Dividends Paid	2.92	2.92	0.0
Book Value	39.46	38.88	1.5

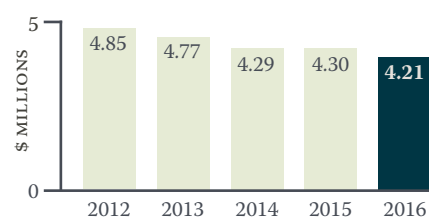
AT DECEMBER 31,	12/31/16	12/31/15	% CHANGE
Total Assets	\$602,333	\$567,078	6.2
Total Loans	280,395	289,703	(3.2)
Allowance for Loan Losses	6,054	6,155	(1.6)
Total Investment Securities	201,319	184,608	9.1
Total Deposits	527,146	496,518	6.2
Total Shareholders' Equity	51,248	50,765	1.0

DAILY AVERAGE FOR THE YEAR	12/31/16	12/31/15	% CHANGE
Assets	\$579,783	\$557,193	4.1
Loans - Net	282,078	283,056	(0.3)
Investment Securities	196,137	197,409	(0.6)
Deposits	505,661	485,771	4.1
Shareholders' Equity	51,811	49,789	4.1

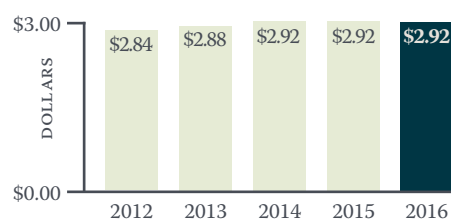
* Earnings per share are calculated on the net weighted average number of shares outstanding.



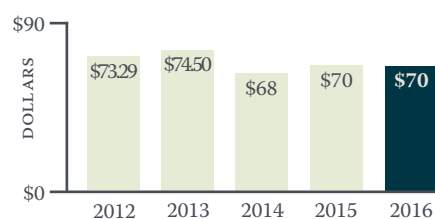
NET INCOME



EARNINGS PER SHARE



DIVIDENDS PER SHARE



Y-E STOCK TRADE PRICE

FIVE YEAR HIGHLIGHTS

(Unaudited)

PER SHARE	2016	2015	2014	2013	2012
Earnings*	4.21	4.30	4.29	4.75	4.88
Cash dividends	2.92	2.92	2.92	2.88	2.84
Book value, year-end	39.46	38.88	37.27	36.18	34.64

FOR THE YEAR (dollars in thousands)	2016	2015	2014	2013	2012
Net income	\$5,507	\$5,615	\$5,603	\$6,234	\$6,327
Cash dividends	3,807	3,812	3,809	3,779	3,720

PERFORMANCE MEASURES	2016	2015	2014	2013	2012
Return on average assets	0.95 %	1.01 %	1.00 %	1.14 %	1.21 %
Return on average equity	10.63	11.28	11.68	13.36	14.28
Yield on average earning assets - fully taxable equivalent	3.55	3.59	3.46	3.75	4.17
Average cost of interest bearing liabilities	0.08	0.09	0.11	0.17	0.30
Net interest margin - fully taxable equivalent	3.50	3.53	3.38	3.63	3.95
Average equity to average assets ratio	8.60	8.88	8.55	8.56	8.21
Dividend payout ratio	69.13	67.89	67.98	60.62	58.80
Net charge-offs (recoveries) to average loans	0.20	0.18	0.29	(0.02)	0.13
Year-end ratio of allowance for loan losses to total loans	2.16	2.12	2.09	2.37	2.26

EMPLOYMENT	2016	2015	2014	2013	2012
Number of Full-Time Equivalent Employees at Year-End	176	172	174	173	173

*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:

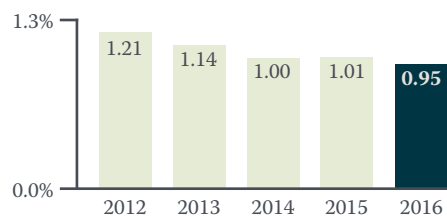
2016: 1,295,977

2015: 1,292,702

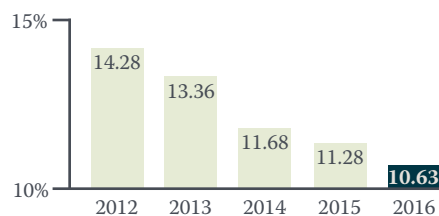
2014: 1,295,615

2013: 1,299,388

2012: 1,295,006



RETURN ON ASSETS



RETURN ON EQUITY

AVERAGE DAILY BALANCE SHEETS

(Unaudited. Dollars in Thousands)

ASSETS	2016	2015
Cash and amounts due from banks	\$ 4,397	\$ 4,414
Interest-bearing deposits at other financial institutions	74,804	51,394
Federal funds sold	0	0
Securities available for sale, at fair value	194,767	195,731
Securities held to maturity, at cost	1,370	1,488
Other investments, at cost	1,269	1,469
Loans	288,182	289,087
Allowance for credit losses	(6,104)	(6,031)
Net Loans	282,078	283,056
Premises and equipment, net	13,238	13,640
Accrued interest receivable	2,670	2,626
Other assets	5,190	3,375
Total Assets	\$ 579,783	\$ 557,193
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand, non-interest-bearing	\$ 151,385	\$ 145,210
Savings and interest-bearing demand	301,590	282,351
Time	52,686	58,210
Total Deposits	505,661	485,771
Federal funds purchased and security repurchase agreements	20,354	21,335
Other borrowed funds	158	38
Accrued interest payable	23	28
Other liabilities	1,776	232
Total Liabilities	527,972	507,404
SHAREHOLDERS' EQUITY		
Common Stock (no par value, stated value \$3.125 per share)	4,069	4,078
Additional paid-in capital	1,013	1,059
Retained earnings	45,702	43,966
Accumulated other comprehensive income (loss)	1,027	686
Total Shareholders' Equity	51,811	49,789
Total Liabilities and Shareholders' Equity	\$ 579,783	\$ 557,193

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 - 111 Pavonia Ave East, Jersey City, NJ 07310 | (201) 804-3389

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 Executive Officer | (509) 526-1412

CORPORATE AND INVESTOR INFORMATION

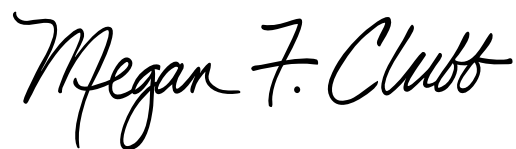
Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2016, there were 1,298,730 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

The Annual Meeting of Shareholders will be held at 4:30 P.M. on Thursday, April 27, 2017, 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.



Chairman of the Board
Baker Boyer Bancorp

Member FDIC



To contact the board of directors, please email info@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 DAVID B. CAMPBELL
Farming, Construction and
Energy Systems, retired,
Walla Walla, WA
Chairman of the Executive
Compensation Committee

7 CHARLES H. EGLIN
Building Contractor,
Owner Tri-Ply Construction
Yakima, WA
Member of the Audit Committee

8 DAVID B. GORDON
Retired General Manager,
Northwest Grain Growers
Walla Walla, WA
Member of the Executive
Compensation Committee

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

10 SUSAN C. PRATT
Attorney; retired Assistant Attorney General,
State of Washington
Tacoma, WA
Member of the Executive
Compensation Committee

11 JOHN R. VALAAS
Investor, retired President & CEO,
First Mutual Bank
Bellevue, WA
Member of the Executive
Compensation Committee

THE EXECUTIVE COMMITTEE

A MARK H. KAJITA, CPA
Chair of the Executive Committee,
President & CEO
kajitam@bakerboyer.com

B PETER J. ALLEN
Executive Vice President,
Asset Management
allenp@bakerboyer.com

C LYLE W. HANSEN
Executive Vice President,
Banking
hansenl@bakerboyer.com

D MARK A. HESS, CFA
Chief Operating Officer,
Executive Vice President,
Administration
hessm@bakerboyer.com

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



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