

2017

FIRST QUARTER REPORT



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BOARD OF DIRECTORS

Megan F. Clubb, Chair	Dave Gordon
Peter Allen	Mark H. Kajita
D. F. Baker	J. Eric Kimball
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BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

Walla Walla Tri-Cities Yakima

Dear Baker Boyer Shareholder:

April 28, 2017

First Quarter of 2017 has seen much change in both the economic and political arenas. In January, a new Administration was ushered in to the White House with agendas that could dramatically reshape the economic future of not only the U.S., but also of the world. In particular, financial institutions throughout the country are awaiting the Administration's stance on financial regulations enacted after the 2008 financial collapse. Although much needed to be changed to hinder this from ever happening again, the regulatory cost and lack of clarity of the new regulations have been felt most deeply by community banks like Baker Boyer that never participated in the questionable practices that led to the Subprime Crisis.

As we await the Administration's stance on these regulations, Baker Boyer continues to plot its future and the future of our shareholders. We continue to differentiate ourselves from other financial institutions with our focus on lifetime guidance and advising of our clients toward their success. The 1st Quarter of 2017 has shown that our profit model is not only the right thing to do, but also profitable for our shareholders.

Baker Boyer's 1st Quarter of 2017 was once again relatively strong as our communities continue to show faith in our institution. Total deposits have increased 7.0% to \$531 million from \$496 million for March 31, 2017 and 2016 respectively. At the same time the increase in interest rates, no matter how slight, has caused lending to slow for some of our small businesses. Subsequently, our loan balances fell 3.1% to \$277 million from \$286 million for March 31, 2017 and 2016 respectively. However, the combination of increased deposits, higher interest rates, lower loan balances and increased investment in our securities portfolio created an overall positive 4.6% increase in net interest margin to \$4.6 million from \$4.4 million for the three months ending March 31, 2017 and 2016 respectively.

In addition, Asset Management fees increased 8.5% to \$2.2 million from \$2.0 million for the three months ending March 31, 2017 and 2016 respectively. During the first three months of 2017, the combination of both the Banking and Asset Management Divisions created a net income of \$1.4 million which is a 7.8% increase from the same time period in 2016.

This diversification of Baker Boyer's business model has been the strength of our institution's stable financial performance through the great recession. Now, as we see interest rates finally rise, we see an opportunity to expand our profits even further. The Bank is also not only prepared for this rate increase, we are also taking steps to further differentiate ourselves from our competitors by continuing to invest our resources in technology, processes, and talent in order to provide a truly personalized experience to our clients of the next generation. This investment in our future will provide stable profits back to our shareholders for many years to come.

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,		% Chg.
	2017	2016	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 4,485	\$ 4,327	3.7
FFS and Int-bearing deposits at other financial institutions	102,516	76,747	33.6
Total Cash and Cash Equivalents	107,001	81,074	32.0
Investment securities:			
Available-for-sale, at fair value	208,272	183,972	13.2
Held-to-maturity at cost	1,291	1,443	(10.5)
Other investments, at cost	1,274	1,257	1.4
Total Investments	210,837	186,672	12.9
Loans	277,252	286,250	(3.1)
Allowance for credit losses	(6,066)	(6,085)	(0.3)
Net Loans	271,186	280,165	(3.2)
Bank premises and equipment, net	13,287	13,395	(0.8)
Accrued interest receivable	3,182	3,063	3.9
Other assets	3,141	3,591	(12.5)
TOTAL ASSETS	\$ 608,634	\$ 567,960	7.2
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 166,297	\$ 143,278	16.1
Interest bearing	364,350	352,461	3.4
Total Deposits	530,647	495,739	7.0
Federal funds purchased and security repurchase agreements	25,802	19,823	30.2
Other borrowed funds	0	0	-
Accrued interest payable	21	25	(16.0)
Other liabilities	647	904	(28.4)
TOTAL LIABILITIES	557,117	516,491	7.9
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	3/31/17	3/31/16	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,301,941	1,308,677	(0.5)
Additional paid-in capital	770	1,225	(37.1)
Retained earnings	46,586	45,235	3.0
Accumulated other comprehensive income (loss)	144	927	(84.5)
TOTAL SHAREHOLDERS' EQUITY	51,517	51,469	0.1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 608,634	\$ 567,960	7.2

Consolidated Statements of Income

(Unaudited)

	Three Months Ending March 31,		% Chg.
	2017	2016	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 3,580	\$ 3,746	(4.4)
Federal funds sold and deposits at other financial institutions	264	116	127.6
Investment securities:			
Taxable	206	193	6.7
Tax-exempt	584	490	19.2
Other investment income and dividends	15	12	25.0
Total Interest and Dividend Income	4,649	4,557	2.0
Interest Expense			
Deposits	63	70	(10.0)
Federal funds purchased and security repurchase agreements	5	5	-
Other borrowed funds	0	0	-
Total Interest Expense	68	75	(9.3)
Net Interest Income	4,581	4,482	2.2
Provision for credit losses			
	2	103	(98.1)
Net Interest Income after Provision for Credit Losses	4,579	4,379	4.6
Non-Interest Income			
Trust and Investment Management fees	1,915	1,697	12.8
DS Baker Investment fees (brokerage)	262	309	(15.2)
Service charges on deposit accounts	209	225	(7.1)
Other service charges and fees	337	264	27.7
Other operating income	175	195	(10.3)
Total Non-Interest Income	2,898	2,690	7.7
Non-Interest Expense			
Salaries, wages, and other compensation	2,773	2,639	5.1
Retirement and employee benefits	949	870	9.1
Net occupancy expense	329	296	11.1
Furniture and equipment expense	112	118	(5.1)
Other operating expense	1,474	1,388	6.2
Total Non-Interest Expense	5,637	5,311	6.1
Income Before Income Taxes	1,840	1,758	4.7
Provision For Income Taxes	433	453	(4.4)
NET INCOME	\$ 1,407	\$ 1,305	7.8
Basic Earnings Per Common Share			
	\$ 1.09	\$ 1.01	8.4
Weighted Average Number of Shares Outstanding			
	1,287,439	1,294,791	