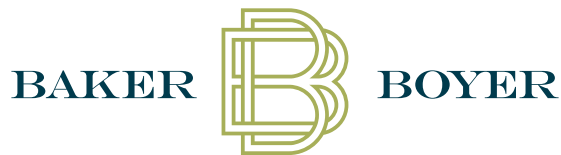


# 2017

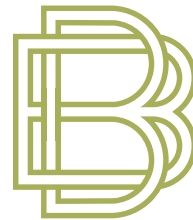
## SECOND QUARTER REPORT



Post Office Box 2175  
Walla Walla, WA 99362-0175  
(509) 525-2000

### BOARD OF DIRECTORS

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



## BAKER BOYER

FAMILY LEGACIES GROWN LOCALLY

*Walla Walla Tri-Cities Yakima*

Dear Baker Boyer Shareholder:

July 18, 2017

At the end of the second quarter, the Federal Reserve had once again raised interest rates on both the overnight and prime rates by .25% each. Much had been made about these rate increases. Pundits argued about whether it was prudent of the Federal Reserve to raise rates again in June or if it should have waited additional time to observe the U.S. economic recovery. Although this is the second move in 2017, the rates themselves are still set at the relatively low levels of 1.25% and 4.25% for the overnight and prime rates respectively. Any move made by the Federal Reserve was just moving rates up from their historic lows.

Fortunately for the Bank and its shareholders, Baker Boyer is designed to do very well in ever increasing interest rate hikes. This has been evident in the first 6 months of this year. Not only have our deposits increased 5.8% year over year as of June 30, 2017, our net interest income has also improved. Currently, net interest income for the first six months of 2017 is approximately \$9.3 million, a 6.8% increase over the same period in 2016. This was primarily due to increased income on our securities portfolio which benefited from the recent Federal Reserve rate increases. For the 6 months ending June 30, 2017, interest income from our securities portfolio was \$2.2 million, a 32.2% increase over the same time period in 2016.

Baker Boyer Asset Management has also seen strong revenue growth. Revenue from the Asset Management Division was \$4.4 million for the first six months ending June 30, 2017, a 7.4% increase over the same time period in 2016.

This increasing strength in our asset management revenues along with the recent positive effects of the interest rate increases has enabled the Bank to continue hiring and investing in new experts and deploying new sophisticated technology our clients value. Overall, this continued investment in our strategy has had a positive long term effect on the Bank's net income. For the six months ending June 30, 2017, net income was a strong \$2.62 million, a 6.5% increase over the same time period in 2016.

The Bank sees positive things for our future and the future of our strategy. We continue to see the investment we have made in both personnel, advisors, technology, and infrastructure provide positive financial impact for our Shareholders. We will continue to invest in our strategy to differentiate Baker Boyer from its competitors for 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)

	June 30,		% Chg.
	2017	2016	
<i>(Dollars in Thousands)</i>			
<b>ASSETS</b>			
Cash and amounts due from banks	\$ 4,620	\$ 4,252	8.7
FFS and Int-bearing deposits at other financial institutions	93,819	73,243	28.1
<b>Total Cash and Cash Equivalents</b>	<b>98,439</b>	<b>77,495</b>	<b>27.0</b>
Investment securities:			
Available-for-sale, at fair value	213,437	191,080	11.7
Held-to-maturity at cost	1,292	1,444	(10.5)
Other investments, at cost	1,318	1,265	4.2
<b>Total Investments</b>	<b>216,047</b>	<b>193,789</b>	<b>11.5</b>
Loans	277,925	286,796	(3.1)
Allowance for credit losses	(6,137)	(6,102)	0.6
<b>Net Loans</b>	<b>271,788</b>	<b>280,694</b>	<b>(3.2)</b>
Bank premises and equipment, net	13,264	13,320	(0.4)
Accrued interest receivable	2,771	2,536	9.3
Other assets	4,103	4,546	(9.7)
<b>TOTAL ASSETS</b>	<b>\$ 606,412</b>	<b>\$ 572,380</b>	<b>5.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Noninterest bearing	\$ 165,623	\$ 144,853	14.3
Interest bearing	362,539	354,167	2.4
<b>Total Deposits</b>	<b>528,162</b>	<b>499,020</b>	<b>5.8</b>
Federal funds purchased and security repurchase agreements	24,281	20,701	17.3
Other borrowed funds	830	0	-
Accrued interest payable	21	24	(12.5)
Other liabilities	1,099	1,082	1.6
<b>TOTAL LIABILITIES</b>	<b>554,393</b>	<b>520,827</b>	<b>6.4</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock (no par value, stated value \$3.125 per share)			
	6/30/17	6/30/16	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,298,366	1,303,677	(0.9)
Additional paid-in capital	768	1,150	(33.2)
Retained earnings	46,889	45,362	3.4
Accumulated other comprehensive income (loss)	320	964	(66.8)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>52,019</b>	<b>51,553</b>	<b>0.9</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 606,412</b>	<b>\$ 572,380</b>	<b>5.9</b>

## Consolidated Statements of Income

(Unaudited)

	Six Months Ending June 30,		% Chg.
	2017	2016	
<i>(Dollars in Thousands, except per share amounts)</i>			
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 7,278	\$ 7,488	(2.8)
Federal funds sold and deposits at other financial institutions	508	222	128.8
Investment securities:			
Taxable	414	400	3.5
Tax-exempt	1,227	1,000	22.7
Other investment income and dividends	29	25	16.0
<b>Total Interest and Dividend Income</b>	<b>9,456</b>	<b>9,135</b>	<b>3.5</b>
<b>Interest Expense</b>			
Deposits	124	139	(10.8)
Federal funds purchased and security repurchase agreements	10	10	-
Other borrowed funds	5	0	-
<b>Total Interest Expense</b>	<b>139</b>	<b>149</b>	<b>(6.7)</b>
<b>Net Interest Income</b>	<b>9,317</b>	<b>8,986</b>	<b>3.7</b>
<b>Provision for credit losses</b>	<b>2</b>	<b>266</b>	<b>(99.2)</b>
<b>Net Interest Income after Provision for Credit Losses</b>	<b>9,315</b>	<b>8,720</b>	<b>6.8</b>
<b>Non-Interest Income</b>			
Trust and Investment Management fees	3,800	3,498	8.6
DS Baker Investment fees (brokerage)	574	608	(5.6)
Service charges on deposit accounts	424	453	(6.4)
Other service charges and fees	671	553	21.3
Other operating income	344	407	(15.5)
<b>Total Non-Interest Income</b>	<b>5,813</b>	<b>5,519</b>	<b>5.3</b>
<b>Non-Interest Expense</b>			
Salaries, wages, and other compensation	5,851	5,456	7.2
Retirement and employee benefits	1,942	1,757	10.5
Net occupancy expense	636	584	8.9
Furniture and equipment expense	246	255	(3.5)
Other operating expense	3,131	2,964	5.6
<b>Total Non-Interest Expense</b>	<b>11,806</b>	<b>11,016</b>	<b>7.2</b>
<b>Income Before Income Taxes</b>	<b>3,322</b>	<b>3,223</b>	<b>3.1</b>
<b>Provision For Income Taxes</b>	<b>707</b>	<b>768</b>	<b>(7.9)</b>
<b>NET INCOME</b>	<b>\$ 2,615</b>	<b>\$ 2,455</b>	<b>6.5</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 2.03</b>	<b>\$ 1.90</b>	<b>7.0</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>1,288,196</b>	<b>1,294,112</b>	