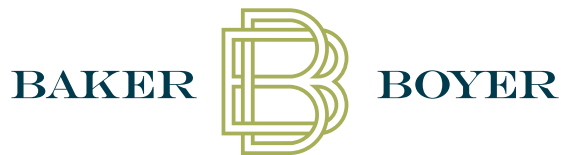


# 2017

## THIRD 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:

October 18, 2017

Throughout the 3rd Quarter of 2017, the Bank made major strides in executing on its vision of providing the Advisors that our clients need in this ever-increasingly complex world. We have continued to welcome new Advisors and Associates – all with backgrounds in areas of finance, politics, and strategic planning - throughout the Bank. These hires have greatly strengthened our ability to anticipate our client's questions and needs and then address them in order to grow their legacy in the present while also preparing them for their future. We accomplished this in one of the more competitive hiring environments seen in my career, highlighted by a national unemployment rate of 4.2% as of the writing of this letter. I am happy to share that the Bank's vision and legacy to the communities we serve resonates with our new staff, and continues to provide us a competitive advantage in hiring the best and brightest.

As our numbers highlight, the Bank's legacy of focusing on strengthening our communities by investing in the Advisors needed has been extremely profitable for our shareholders as well. Deposits have grown by 4.9% to \$525 million, up from \$500 million as of September 30, 2017, and 2016 respectively. Interest income for the Banks combined loan and securities portfolio has increased by 4.3% to \$14.4 million for the nine months ending September 30, 2017, as compared to the same time period in 2016. Growth was especially apparent in our tax-exempt security portfolio, which saw income gains of 22.7% for the first nine months of 2017, compared to the first nine months of 2016.

Additionally, strong growth in our Trust and Investment Management Services has propelled fee income to \$5.8 million for the nine months ending September 30, 2017, which is a 9.4% increase over the same time-period in 2016. This continued strength in our Asset Management group has been a strong contributor to the overall value of the Baker Boyer Brand since its inception: it is especially apparent that this strength is a critical part of the profitability success our Shareholders have experienced over the last decade.

The Bank continues to execute on our strategy of hiring the experts and Advisors our clients need to succeed. We see the future of our strategy as our differentiator from competitors who continue to cut costs while adjusting to a higher interest rate environment. Our careful strategy of reducing long-term risk to our Shareholders by leveraging the different profit streams of our Bank has been a sound strategy, and provides for consistent dividend streams. We will continue to focus on this same strategy as we move forward.

Sincerely,

A handwritten signature in dark blue ink, appearing to read "Mark H. Kajita".

Mark H. Kajita, CPA  
President and CEO

## Consolidated Balance Sheet - Average ytd

(Unaudited)

	September 30,		
	2017	2016	% Chg.
<i>(Dollars in Thousands)</i>			
<b>ASSETS</b>			
Cash and amounts due from banks	\$ 4,727	\$ 4,393	7.6
FFS and Int-bearing deposits at other financial institutions	90,423	69,478	30.1
<b>Total Cash and Cash Equivalents</b>	<b>95,150</b>	<b>73,871</b>	<b>28.8</b>
Investment securities:			
Available-for-sale, at fair value	210,390	193,199	8.9
Held-to-maturity at cost	1,293	1,397	(7.4)
Other investments, at cost	1,359	1,268	7.2
<b>Total Investments</b>	<b>213,042</b>	<b>195,864</b>	<b>8.8</b>
Loans	280,089	289,134	(3.1)
Allowance for credit losses	(6,170)	(6,107)	1.0
<b>Net Loans</b>	<b>273,919</b>	<b>283,027</b>	<b>(3.2)</b>
Bank premises and equipment, net	13,219	13,265	(0.3)
Accrued interest receivable	2,797	2,585	8.2
Other assets	4,720	4,279	10.3
<b>TOTAL ASSETS</b>	<b>\$ 602,847</b>	<b>\$ 572,891</b>	<b>5.2</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Noninterest bearing	\$ 163,170	\$ 146,557	11.3
Interest bearing	361,360	353,318	2.3
<b>Total Deposits</b>	<b>524,530</b>	<b>499,875</b>	<b>4.9</b>
Federal funds purchased and security repurchase agreements	22,574	20,330	11.0
Other borrowed funds	1,595	0	-
Accrued interest payable	20	24	(16.7)
Other liabilities	1,727	834	107.1
<b>TOTAL LIABILITIES</b>	<b>550,446</b>	<b>521,063</b>	<b>5.6</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/17	9/30/16	
Shares authorized	4,000,000	4,000,000	
Shares issued and			
outstanding	1,296,886	1,303,870	(0.7)
Additional paid-in capital	700	1,098	(36.2)
Retained earnings	47,146	45,557	3.5
Accumulated other comprehensive income (loss)	509	1,099	(53.7)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>52,401</b>	<b>51,828</b>	<b>1.1</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 602,847</b>	<b>\$ 572,891</b>	<b>5.2</b>

## Consolidated Statements of Income

(Unaudited)

	Nine Months Ending Septembr 30,		
	2017	2016	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
<b>Interest and Dividend Income</b>			
Loans, including fees	\$ 11,110	\$ 11,277	(1.5)
Federal funds sold and deposits at other financial institutions	763	353	116.1
Investment securities:			
Taxable	591	591	-
Tax-exempt	1,868	1,523	22.7
Other investment income and dividends	38	33	15.2
<b>Total Interest and Dividend Income</b>	<b>14,370</b>	<b>13,777</b>	<b>4.3</b>
<b>Interest Expense</b>			
Deposits	197	205	(3.9)
Federal funds purchased and security repurchase agreements	16	15	6.7
Other borrowed funds	0	0	-
<b>Total Interest Expense</b>	<b>213</b>	<b>220</b>	<b>(3.2)</b>
<b>Net Interest Income</b>	<b>14,157</b>	<b>13,557</b>	<b>4.4</b>
<b>Provision for credit losses</b>	2	433	(99.5)
<b>Net Interest Income after Provision for Credit Losses</b>	<b>14,155</b>	<b>13,124</b>	<b>7.9</b>
<b>Non-Interest Income</b>			
Trust and Investment Management fees	5,805	5,304	9.4
DS Baker Investment fees (brokerage)	875	911	(4.0)
Service charges on deposit accounts	629	681	(7.6)
Other service charges and fees	952	852	11.7
Other operating income	532	661	(19.5)
<b>Total Non-Interest Income</b>	<b>8,793</b>	<b>8,409</b>	<b>4.6</b>
<b>Non-Interest Expense</b>			
Salaries, wages, and other compensation	8,764	8,196	6.9
Retirement and employee benefits	2,835	2,564	10.6
Net occupancy expense	941	868	8.4
Furniture and equipment expense	361	379	(4.7)
Other operating expense	4,636	4,484	3.4
<b>Total Non-Interest Expense</b>	<b>17,537</b>	<b>16,491</b>	<b>6.3</b>
<b>Income Before Income Taxes</b>	<b>5,411</b>	<b>5,042</b>	<b>7.3</b>
<b>Provision For Income Taxes</b>	1,195	1,196	(0.1)
<b>NET INCOME</b>	<b>\$ 4,216</b>	<b>\$ 3,846</b>	<b>9.6</b>
<b>Basic Earnings Per Common Share</b>	<b>\$ 3.27</b>	<b>\$ 2.97</b>	<b>10.1</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>1,287,533</b>	<b>1,293,276</b>	