



FAMILY LEGACIES GROWN LOCALLY

*Walla Walla Tri-Cities Yakima*

2017  
ANNUAL REPORT



*Megan*  
Chairman of the Board

*Nguyen*  
President & CEO

## LETTER TO SHAREHOLDERS

2017 was a watershed year for Baker Boyer: We achieved a critical mass of momentum towards our business model which is focused on client experience rather than just the sale of products. Despite a number of challenging economic circumstances over the last decade, Baker Boyer had strong financial results in 2017. This success across all of our business lines can be attributed to our continued commitment to re-empower our clients by helping them take control of their financial journey. Our revolutionary business model allows us to deliver highly customized experiences that empower personal financial journeys. As we move into 2018, we are now firmly established as market leaders with our unique approach.

After nearly 150 years of existence, Baker Boyer has learned that nothing stays the same; to survive you must always evolve with the needs of your community and be realistic and strategic about the environment in which you exist. Periodically, every successful venture must undergo revolution to continue to evolve and thrive. People often believe that revolution happens in an instant, when it actually takes time and effort to reap the rewards of the idea that sparked the change. Even our own American Revolution took time to fully form into the United States that we recognize today. We didn't become an independent nation immediately after the ink dried on the Declaration of Independence in 1776. It took a war, a failed attempt at confederation, and a historic compromise between many different ideas and interests before the Constitution was ratified in 1789. Since this constitutional "plan" for our country

was put into effect, it has been ratified 27 times to evolve with the inevitable changes that come with the complexity driven by our evolving democracy. Revolution is hard work, it takes time to transform an idea into something greater. Baker Boyer knows all about this.

For us, our revolution began fifteen years ago when Megan Clubb, Baker Boyer's then-president and CEO (and current Chairwoman), strategized with the Board of Directors and embraced a concept: that people want more than financial products and transactions; they desire and value the experience of financial empowerment. We believed that if we could deliver this experience, we would be able to change the dynamics of the conversations with clients, establish a true relationship-focused Bank, and improve the lives of the people in our communities. This revolutionary idea led to a deliberate evolution of our business model. I am often reminded of a quote I once heard from the French poet Antoine de Saint Exupéry, "A goal without a plan is just a wish." In order to ensure our goal was more than a wish we needed a plan. We spent the following 15 years building that plan, refining that experience, and improving both every step of the way.

Every revolutionary idea must overcome the entrenched ideas of the past. In business, one of the most entrenched ideas is that product features, functions, and pricing drive differentiation in most markets. Perhaps the best recent example of a revolutionary idea changing the marketplace is what Steve Jobs

did with Apple. Arguably, Apple's success is based on their focus to create the best user experience rather than just the technology. Steve Jobs fired the first shots in this revolution when he said, "You've got to start with the customer experience and work backwards to the technology." What a profound and insightful statement. Apple created an experience that instantly you recognize and realize that you want in every part of your life. So much so that people gladly pay a premium for their next i-product. Many have copied the technology but no one has been able to replicate the experience. Apple isn't alone in creating a unique experience that clients value and is difficult to replicate; think Costco, Nordstrom, and even Les Schwab – all companies headquartered right here in the Northwest that deliver an unmatched experience in their industries.

Baker Boyer believes that their clients should have the same type of experience in their financial lives. So that's what Baker Boyer has done. We created an experience that empowers our clients by evolving the entire structure of the bank, focusing on our processes, our employees' mindsets, our platforms, our technology, and everything else you can imagine.

This was no easy task. Baker Boyer has always given our clients a fantastic experience in each area of the Bank. To evolve, we determined we needed to train our employees to work together in teams to give our clients one holistic, empowering experience to transcend any banking experience they have had before. We also know we must build on that momentum. Complacency and atrophy are not an option. If you believe that you are at the pinnacle with nothing left to learn you will be overtaken. Just ask Kodak. I think most successful business leaders have learned that humility, openness, and curiosity are the cornerstones to building a self-sustaining vision. That is why we

continually strive to enhance this experience of empowerment by refining the expertise, tools, products, and services that our communities and clients value, compelling them to become Baker Boyer clients.

Focusing on continual improvement of our unique client-centered approach was critical to our success this year. The last quarter of 2017 was set to be the most profitable quarter for Baker Boyer in over a decade, despite the fact that we continue to exist in an environment of extremely low interest rates. Unfortunately, this stellar quarter profit was not realized due to the enactment of the Tax Cut and Jobs Act (TCJA) signed into law on December 22, 2017.

Although the TCJA will significantly lower taxes for Baker Boyer going forward, it also required us to write down an asset related to our loan loss reserve. This is due to the difference in timing between booking an expense for financial purposes when adding to our loan loss reserve and deducting those losses for federal income tax purposes. For financial statement purposes, we book an expense in the same year we add to our loan loss reserve. In contrast, we receive the tax benefit the year we reduce the loan loss reserve when we recognize the write-off of a loan.

Over the last decade, the Bank has been extremely careful and methodical and has added to our loan loss reserve in excess of what we have actually written off in individual loans. Because of this, we have future tax savings built in that is calculated at the present federal corporate tax rate and based on the size of our loan loss reserve. This future tax savings is called a Deferred Tax Asset and is an asset on our financial statements.

## FINANCIAL HIGHLIGHTS 2017

- Total average assets size of the Bank increased by over 4% from \$580 to \$605 million as of December 31, 2016 and 2017 respectively. This increase was primarily in non interest bearing and low interest bearing accounts.
- Average loan balances reduced slightly from 2016 average ending at \$282 million at December 31, 2017. This equates to a 2% reduction over the previous year; however, yields on loans increased 14bps.
- Total interest income increased over 4% from \$18.5 to \$19.3 million for the years ending December 31, 2016 and 2017 respectively.
- Total assets under management increased to almost \$1.4 billion as of December 31, 2017. This is a 100% increase from 2016 when total assets under management was \$700 million. Asset management revenue increased by over 8% from \$8.9 to \$9.6 million for the years ending December 31, 2016 and 2017 respectively.
- Although total non-interest expenses increased from \$22.4 to \$23.6 million for the years ending December 31, 2016 and 2017 respectively, we were more than \$1 million dollars or 4% under budget for 2017.
- Net interest margin improved from 3.35% to 3.46% for the years ending December 31, 2016 and 2017 respectively. This 11bps improvement was partially due to the Federal Reserve moving rates up three times in 2017.
- Total net income in 2017 was down just slightly from 2016 going from \$5.507 to \$5.449 million for the years ending December 31, 2016 and 2017 respectively. This reduction was due to the 2018 Tax Cut and Jobs Act (TCJA) signed into law before 2017 year end. As mentioned in the CEO's letter to shareholders, due to the conservative nature of the Bank and maintaining a healthy loan loss reserve we had a significant net deferred tax asset. The TCJA required us to write down the value of our deferred tax assets by \$0.7 million. Without this write down 2017 year end net income would have been \$6.2 million or almost 12% ahead of 2016.

# REDESIGN OF THE WEBSITE

Here's a sneak peek of our new website which will launch soon.

More than an updated design, it will be a platform to increase the quantity and quality of website traffic, to deliver “financial intelligence” articles and videos, and to tell the story of what makes Baker Boyer truly different.



Therein lies the issue for Baker Boyer. Our careful planning and strong loan loss reserve created a large tax asset. When tax rates fell dramatically due to the TCJA, the value of the future tax savings contained in the loan loss reserve also fell. Baker Boyer was required to write-down the value of the tax asset by approximately \$0.7 million in the final days of 2017. I want to be clear that this one-time write-down of our tax asset only affected our 2017 profits. It in no way diminishes the strength of our model and the successes we have achieved in 2017.

In 2017, the deposits of the Bank continued to grow and we continued to deploy them into both our loan portfolio as well as into safe investments such as municipal bonds and short term U.S. Treasury Bonds. Our balance sheet remains highly liquid and the Bank is well positioned to meet the loan demands of our communities.

Asset Management also had a spectacular year. Total assets under management for the Investment Management and Trust (IMT) group has grown nearly \$200 million, and the combined assets managed by both the IMT and the brokerage arm of our business is approaching \$1.5 billion. Revenue from the combined groups was over \$9.6 million for all of 2017, an 8% increase over 2016.

To further fuel our success, Family Advisors have been serving a growing number of clients. They are trained to reveal the unspoken needs that our clients must address to build solutions that will empower them to achieve their goals. They identify the skills and resources required to assemble the right team of experts to deliver the solution. Throughout 2017, Family Advisors have continued to strengthen the relationships our clients have with us, increasing business to the Bank.

Technology continues to evolve in two ways: first, to protect our clients and second, to allow our clients to interact with the Bank at a time and in a way of their preference. In the area of security, we all know that hackers will continue to attack businesses that hold valuable information that can be sold to others. Our Information Technology Department has worked hard to deploy the latest processes and technologies to foil those hackers from infiltrating our systems. We have put up multiple lines of defense to ensure that our clients' information is safe. Although this is the most prudent thing to do, it can also lead to frustrations from clients who don't understand it is for their own protection. It is our position that a bit of inconvenience is worth the peace of mind of knowing your sensitive information is protected. In the area of client accessibility and engagement with Baker Boyer, we are far along in the exciting redesign of our website. This will create a more convenient and informative experience for both current and prospective clients. You can see a sneak peek of the website redesign above.

Financially, the Bank's net income prior to the TJCA write-down of our tax assets was approximately \$6.2 million, nearly 20% over our budget for 2017. After the TJCA write-down, the Bank's net income was \$5.5 million, still 6% over our budget for 2017 and just slightly below our 2016 net income. This solid growth in our core business income made 2017 a very successful year for the Bank and the shareholders.

In 2017, we continued to hire new employees throughout the Bank who have the expertise to propel our revolutionary model forward. While we rely on the experience of many long-time employees, nearly 46% of our employees have worked at Baker Boyer for under five years, bringing fresh perspectives from other industries and experiences. This influx of new hires has

helped us to round out the talent our clients will need to fuel their financial empowerment journey.

Finally, to continue the growth of the Baker Boyer Model, we will need advice from the next generation of the Bank's major shareholders. In 2017 the Bank inaugurated our first meetings of the Continuity and Advisory Committee. This group is made up of talented, next-generation shareholders that bring valuable new perspectives to the Bank as we move forward. The committee meets prior to the Board of Directors to listen to the major issues of the Bank and to give advice to the Board regarding ways to improve or to change. Members of the Continuity and Advisory Committee are pictured below.

Which all leads me back to my original assertion: Baker Boyer has achieved a critical mass in operationalizing our unique approach to financial consulting and banking. Our model has been proven by our clients to be effective, profitable, and sustainable. In fact, it is being recognized as so innovative that other financial institutions are attempting to replicate it in their communities. The old adage that imitation is the sincerest form of flattery is still alive in modern business. Fortunately, we believe it will be very difficult for others to replicate the

unique experience-based approach we have developed over the last 15 years. Baker Boyer will continue to refine and enhance the experience our clients feel when interacting with the Bank, adjusting our allocation of resources to match these evolving needs. This effective reallocation of resources will help us prioritize projects to invest in our model in a cost-effective way, which will drive our continued success.

Now for something personal. This model could not exist without you, the shareholders who hold Baker Boyer so close to your heart. If I have never said it before: Thank You. You matter to all of us who work at the Bank, and you matter to the communities that we serve. I, the Board of Directors, the employees, and our community never forget that fact.

The future is now and your employees here at Baker Boyer are committed to evolve and enhance our models to provide our clients financial empowerment for generations to come.

Mark H. Kajita, CPA  
President and CEO



**The Continuity and Advisory Committee (CAC) is a newly-formed group of next-generation shareholders that will provide insights and assistance to the Baker Boyer Board.**

**Members are: (left to right) standing: Brian Bush, Jason Pratt, Dorsey F Baker (*former Board Member and mentor*), Nathan Campbell, Riley Clubb and Mark Kajita; seated: Elizabeth Hill and Bryna Riley.**



# FINANCIAL HIGHLIGHTS

(Unaudited, Dollars in Thousands Except Per Share Amounts)

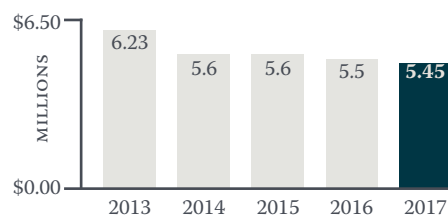
YEAR-TO-DATE	12/31/17	12/31/16	% CHANGE
Net Income	\$5,449	\$5,507	(1.1)
Cash Dividends Paid	\$3,984	\$3,807	4.6
Return on Avg. Assets	0.90 %	0.95 %	
Return on Avg. Shareholders' Equity	10.35 %	10.63 %	
Average Number of Shares Outstanding, net	1,287,109	1,295,977	

PER SHARE	12/31/17	12/31/16	% CHANGE
Earnings *	\$4.19	\$4.21	(0.5)
Cash Dividends Paid	3.07	2.92	5.1
Book Value	40.39	39.46	2.4

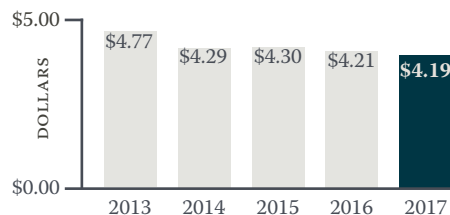
AT DECEMBER 31,	12/31/17	12/31/16	% CHANGE
Total Assets	\$607,079	\$601,533	0.9
Total Loans	286,871	280,395	2.3
Allowance for Loan Losses	6,225	6,054	2.8
Total Investment Securities	176,705	201,319	(12.2)
Total Deposits	535,795	527,146	1.6
Total Shareholders' Equity	52,219	51,248	1.9

DAILY AVERAGE FOR THE YEAR	12/31/17	12/31/16	% CHANGE
Assets	\$603,274	\$579,783	4.1
Loans - Net	275,337	282,078	(2.4)
Investment Securities	207,899	197,406	5.3
Deposits	527,240	505,661	4.3
Shareholders' Equity	52,626	51,811	1.6

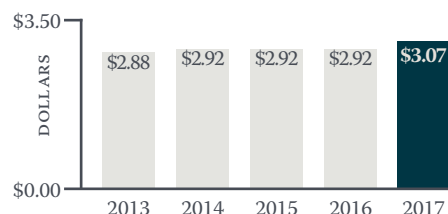
\* Earnings per share are calculated on the net weighted average number of shares outstanding.



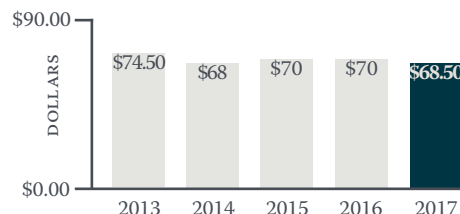
NET INCOME



EARNINGS PER SHARE



DIVIDENDS PER SHARE



Y-E STOCK TRADE PRICE

# FIVE YEAR HIGHLIGHTS

(Unaudited)

PER SHARE	2017	2016	2015	2014	2013
Earnings*	\$4.19	\$4.21	\$4.30	\$4.29	\$4.75
Cash dividends	3.07	2.92	2.92	2.92	2.88
Book value, year-end	40.39	39.46	38.88	37.27	36.18

FOR THE YEAR (dollars in thousands)	2017	2016	2015	2014	2013
Net income	\$5,449	\$5,507	\$5,615	\$5,603	\$6,234
Cash dividends	3,984	3,807	3,812	3,809	3,779

PERFORMANCE MEASURES	2017	2016	2015	2014	2013
Return on average assets	.90%	0.95 %	1.01 %	1.00 %	1.14 %
Return on average equity	10.35	10.63	11.28	11.68	13.36
Yield on average earning assets - fully taxable equivalent	3.57	3.55	3.59	3.46	3.75
Average cost of interest bearing liabilities	.07	0.08	0.09	0.11	0.17
Net interest margin - fully taxable equivalent	3.52	3.50	3.53	3.38	3.63
Average equity to average assets ratio	8.60	8.60	8.88	8.55	8.56
Dividend payout ratio	73.11	69.13	67.89	67.98	60.62
Net charge-offs (recoveries) to average loans	(0.06)	0.20	0.18	0.29	(0.02)
Year-end ratio of allowance for loan losses to total loans	2.17	2.16	2.12	2.09	2.37

EMPLOYMENT	2017	2016	2015	2014	2013
Number of Full-Time Equivalent Employees at Year-End	179	176	172	174	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:

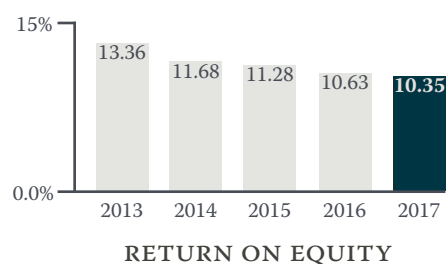
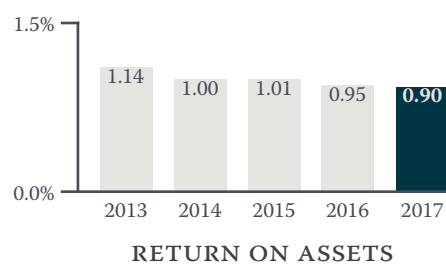
2017: 1,287,109

2016: 1,295,977

2015: 1,292,702

2014: 1,295,615

2013: 1,299,388



# AVERAGE DAILY BALANCE SHEETS

(Unaudited. Dollars in Thousands)

ASSETS	2017	2016
Cash and amounts due from banks	\$ 4,719	\$ 4,397
Interest-bearing deposits at other financial institutions	95,801	74,804
Federal funds sold	0	0
Securities available for sale, at fair value	205,257	194,767
Securities held to maturity, at cost	1,294	1,370
Other investments, at cost	1,348	1,269
Loans	281,526	288,182
Allowance for credit losses	(6,189)	(6,104)
<b>Net Loans</b>	<b>275,337</b>	<b>282,078</b>
Premises and equipment, net	13,173	13,238
Accrued interest receivable	2,862	2,670
Other assets	4,730	5,190
<b>Total Assets</b>	<b>\$ 604,521</b>	<b>\$ 579,783</b>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<b>Deposits</b>		
Demand, non-interest-bearing	\$ 165,462	\$ 151,385
Savings and interest-bearing demand	315,089	301,590
Time	46,690	52,686
<b>Total Deposits</b>	<b>527,241</b>	<b>505,661</b>
Federal funds purchased and security repurchase agreements	21,584	20,354
Other borrowed funds	1,193	158
Accrued interest payable	19	23
Other liabilities	1,858	1,776
<b>Total Liabilities</b>	<b>\$ 551,895</b>	<b>\$ 527,972</b>
SHAREHOLDERS' EQUITY		
Common Stock (no par value, stated value \$3.125 per share)	4,045	4,069
Additional paid-in capital	613	1,013
Retained earnings	47,405	45,702
Accumulated other comprehensive income (loss)	563	1,027
<b>Total Shareholders' Equity</b>	<b>52,626</b>	<b>51,811</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 604,521</b>	<b>\$ 579,783</b>

# 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

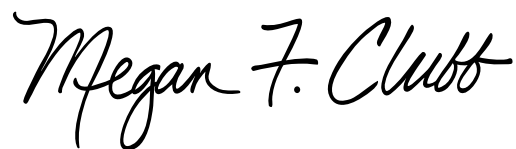
Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2017, there were 1,292,940 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 19, 2018, 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



## THE BOARD OF DIRECTORS

**1 MEGAN F. CLUBB**  
Chairman, Baker Boyer Bancorp,  
retired, President and CEO,  
Baker Boyer National Bank  
Walla Walla, WA  
Member of the Executive  
Compensation Committee

**2 MARK H. KAJITA, CPA**  
President and CEO  
Baker Boyer National Bank  
Walla Walla, WA

**3 PETER J. ALLEN, JD**  
Executive Vice President,  
Asset Management  
Baker Boyer National Bank  
Walla Walla, WA

**4 KIP KONTOS**  
Captain, Alaska Airlines  
Walla Walla, WA  
Member of the Executive  
Compensation 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. GORDON**  
Retired General Manager,  
Northwest Grain Growers  
Walla Walla, WA  
Member of the Executive  
Compensation Committee

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

**8 DAVID B. CAMPBELL**  
Farming, Construction and  
Energy Systems, retired,  
Walla Walla, WA  
Chairman of the Executive  
Compensation Committee

**9 CHARLES H. EGLIN**  
Building Contractor,  
Owner Tri-Ply Construction  
Yakima, WA  
Chairman of the Audit Committee

### NOT PICTURED:

**DORSEY F. BAKER**  
Retired General Service Manager,  
Holt California, Inc.,  
Lodi, CA  
Retired as of April 20, 2017

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

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

*To contact the board of directors, please email [info@bakerboyer.com](mailto:info@bakerboyer.com).*

# THE EXECUTIVE COMMITTEE

**A MARK H. KAJITA, CPA**  
Chair of the Executive Committee,  
President & CEO  
[kajitam@bakerboyer.com](mailto:kajitam@bakerboyer.com)

**B PETER J. ALLEN, JD**  
Executive Vice President,  
Asset Management  
[allenp@bakerboyer.com](mailto:allenp@bakerboyer.com)

**C LYLE W. HANSEN**  
Executive Vice President,  
Banking  
[hansenl@bakerboyer.com](mailto:hansenl@bakerboyer.com)

**D MARK A. HESS, CFA**  
Chief Operating Officer,  
Executive Vice President,  
Administration  
[hessm@bakerboyer.com](mailto:hessm@bakerboyer.com)

**E TERESA L. LARSON**  
Executive Vice President,  
Strategic Plan Director  
[larsont@bakerboyer.com](mailto:larsont@bakerboyer.com)

**F JESSICA LONG**  
Assistant Vice President,  
Executive Project Manager,  
Senior Executive Assistant,  
Secretary of the Executive Committee  
[longj@bakerboyer.com](mailto:longj@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