

2018

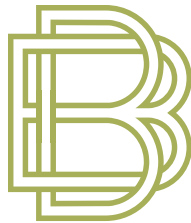
FIRST QUARTER REPORT



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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:

April 24, 2018

First Quarter of 2018 saw much change and fluctuation in the US Economy as well as the stock market. Although financial numbers for the US Economy continue to strengthen and the overall national unemployment rate is now at 4.1%, financial markets seem unable to determine which direction they want to take after recent moves by the Administration. While in our market area, lower tax rates will have a positive impact for many of our clients, it is also true that the recent discussion of trade wars and tariffs on commodities have people scratching their heads.

This uncertainty, however, has not been seen in the recent 1st Quarter earnings of 2018. Across the board, Baker Boyer continues to see strengthening in profit margins throughout every division of the Bank.

Year-to-date average total deposits have increased 1.6% to \$539 million from \$531 million for March 31, 2018 and 2017, respectively. Demand for small business lending has also increased to \$281 million as of March 31, 2018. This is a 1.2% increase from the prior year. Both these factors, along with general market interest rates, have contributed to our increase in net interest income. For the 3 months, ending March 31, 2018, net interest income before loan loss provisions was \$4.9 million, a 7.7% increase from the same time period in 2017.

Asset Management has also prospered as its fees increased 9.9% to \$2.4 million from \$2.2 million for the three months ending March 31, 2018 and 2017, respectively. During the first three months of 2018, the combination of both the Banking and Asset Management Divisions created a net income of \$1.6 million which is a 10.9% increase from the same time period in 2017.

Your management team readjusted our budgeted projections to account for the lower corporate tax rate after the Tax Cut and Jobs Act was enacted last December. A portion of that surplus has been allocated to reinvest in our business model in support of our strategies to grow our long-term net income stream. Even with this reinvestment, Baker Boyer's net income is currently 26.4% over our budget for the first three months of 2018.

Thank you for your continued confidence in the management and the employees of this company. We always strive to make wise decisions to secure your own family legacies.

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,		
	2018	2017	% Chg.
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 4,563	\$ 4,485	1.7
FFS and Int-bearing deposits at other financial institutions	131,286	102,516	28.1
Total Cash and Cash Equivalents	135,849	107,001	27.0
Investment securities:			
Available-for-sale, at fair value	177,132	208,272	(15.0)
Held-to-maturity at cost	1,299	1,291	0.6
Other investments, at cost	1,316	1,274	3.3
Total Investments	179,747	210,837	(14.7)
Loans	280,684	277,252	1.2
Allowance for credit losses	(6,233)	(6,066)	2.8
Net Loans	274,451	271,186	1.2
Bank premises and equipment, net	13,035	13,287	(1.9)
Accrued interest receivable	3,161	3,182	(0.7)
Other assets	2,200	3,141	(30.0)
TOTAL ASSETS	\$ 608,443	\$ 608,634	(0.0)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 170,036	\$ 166,297	2.2
Interest bearing	368,856	364,350	1.2
Total Deposits	538,892	530,647	1.6
Federal funds purchased and security repurchase agreements	16,501	25,802	(36.0)
Other borrowed funds	1	0	-
Accrued interest payable	17	21	(19.0)
Other liabilities	380	647	(41.3)
TOTAL LIABILITIES	555,791	557,117	(0.2)
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	3/31/18	3/31/17	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,296,790	1,301,941	0.7
Additional paid-in capital	430	770	(44.2)
Retained earnings	48,509	46,586	4.1
Accumulated other comprehensive income (loss)	(333)	144	(331.3)
TOTAL SHAREHOLDERS' EQUITY	52,652	51,517	2.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 608,443	\$ 608,634	(0.0)

Consolidated Statements of Income

(Unaudited)

	Three Months Ending March 31,		
	2018	2017	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 3,717	\$ 3,580	3.8
Federal funds sold and deposits at other financial institutions	506	264	91.7
Investment securities:			
Taxable	184	206	(10.7)
Tax-exempt	572	584	(2.1)
Other investment income and dividends	16	15	6.7
Total Interest and Dividend Income	4,995	4,649	7.4
Interest Expense			
Deposits	54	63	(14.3)
Federal funds purchased and security repurchase agreements	5	5	-
Other borrowed funds	0	0	-
Total Interest Expense	59	68	(13.2)
Net Interest Income	4,936	4,581	7.7
Provision for credit losses	0	2	(100.0)
Net Interest Income after Provision for Credit Losses	4,936	4,579	7.8
Non-Interest Income			
Trust and Investment Management fees	2,088	1,915	9.0
DS Baker Investment fees (brokerage)	306	262	16.8
Service charges on deposit accounts	180	209	(13.9)
Other service charges and fees	324	337	(3.9)
Other operating income	187	175	6.9
Total Non-Interest Income	3,085	2,898	6.5
Non-Interest Expense			
Salaries, wages, and other compensation	3,043	2,773	9.7
Retirement and employee benefits	1,043	949	9.9
Net occupancy expense	287	329	(12.8)
Furniture and equipment expense	149	112	33.0
Other operating expense	1,658	1,474	12.5
Total Non-Interest Expense	6,180	5,637	9.6
Income Before Income Taxes	1,841	1,840	0.1
Provision For Income Taxes	281	433	(35.1)
NET INCOME	\$ 1,560	\$ 1,407	10.9
Basic Earnings Per Common Share			
	\$ 1.22	\$ 1.09	11.3
Weighted Average Number of Shares Outstanding	1,282,883	1,287,439	