

July 21, 2008

Greetings

I have a great story to share with you. My report comes in four parts - our financial performance, how we produced such strong results, the impact on clients and the communities we serve, and the growing number of ways we are being recognized for our accomplishments.

First the financial results - our numbers continue to improve. Compare the first half of 2008 to 2007:

- Net income is up 5% to \$2 million
- Baker Boyer Bank is growing:
 - Our most valuable deposits, checking accounts, increased 5% to \$69 million
 - Loans grew 5% to \$295 million
 - Fee income grew 7%, led by the significant growth in new investment management accounts and investor services revenues, and
- Loan quality remains solid with net charge-offs to loans a mere 0.2% annualized

Baker Boyer is in an enviable position given these turbulent times. And my report is in sharp contrast to the one being given by some of our local, regional and national competitors. I have just returned from the Washington Bankers Association convention where much of the talk was about the current struggles in banking. Declining profitability, falling stock prices and layoffs have spread from sub-prime investments to real estate developments and geographically from Wall Street banks to banks on Main Street USA.

This is creating opportunities for us; but, unfortunately the impact is being felt by their customers, employees and the community as a whole. For an explanation of the cause of the earnings decline at some banks and its impact on the economy, please read [Mark Kajita's Special Report](#) included in this mailing.

Today we are producing solid financial performance because of two key decisions executed by our management team. First, we chose not to be a follower and did not chase competitors in irrational product pricing practices or in taking excessive risks. Second, we have been disciplined as we have grown and we have not endangered our capital by expanding for the sake of expansion knowing that bigger does **not** mean better.

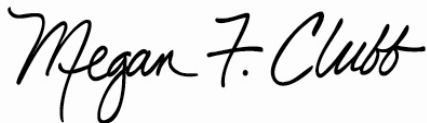
As a result, we are there for our customers and community when others are not. Many people are learning firsthand about the important role community banks play in the connection between a healthy community and healthy local businesses.

Baker Boyer is now listed as one of the nation's Top 200 Community Banks by *U.S. Banker* magazine, due to our three year average return on equity of 13.1 %. We are 175th on a list that was drawn from every publicly traded bank and thrift with under \$2 billion in assets. You can see the full report at www.bakerboyer.com.

We were once again recognized as one of this state's top 100 "Best Places to Work" by *Washington CEO* magazine, and the *Walla Walla Union Bulletin* named us as the "Best Bank in the Walla Walla Valley". I am particularly proud of these two honors because they were based on an anonymous survey of employees and write-in ballots of local customers. These honors clearly set us apart as the area's foremost financial institution and a great place to work and to do business.

I see a lot of opportunities ahead. Our bankers are energized and are successfully attracting new clients as our competitors retrench. We offer our clients safe, reliable products and services while handling their money with the same care and concern as we do our own. We are a team of banking and wealth management professionals offering a depth of experience no competitor can claim in our local markets. I am proud to serve as the leader of Baker Boyer Bank and as always, I ask that you help us tell the Baker Boyer success story. I would love to work with you to arrange a meeting with any individuals or businesses you think would benefit from our unique approach to financial guidance.

Sincerely,

A handwritten signature in black ink that reads "Megan F. Clubb". The signature is written in a cursive, flowing style.

Megan F. Clubb
President and CEO