

BAKER BOYER BANCORP

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**THIRD QUARTER  
REPORT  
2007**

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**Baker Boyer Bancorp**

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*Letter To Our Shareholders*

October 23, 2007

Dear Baker Boyer Shareholder:

I begin with thoughts regarding the sub-prime lending fiasco dominating today's financial news. There is one word for this problem - greed. Lenders sold homeowners a bill of goods and then packaged up this bill of goods (risky mortgages) and pawned it off on investors. WHY? Because financial institutions across the country are struggling to increase earnings. Under the pressure, some of our competitors followed a strategy that was detrimental to their customers, their shareholders, and the public. Unfortunately, we have not yet seen the full impact on our economy.

Baker Boyer did not participate in this scheme. We did not sell these risky loans to our clients, we did not purchase mortgage-backed securities for your bank's investment portfolio and we did not put our clients' wealth or assets at risk. What we did do was follow our mission - Guiding You to a Brighter Financial Future. We lived up to our commitment to grow and preserve our client's wealth. This has been the philosophy of the bank for over 137 years. And despite the earnings pressure, your board and management did not waver.

I also need to thank our real estate lending team, investment team and wealth management team, especially Judy Hicks, Mark Hess and Mark Kajita, for their wisdom and resolve to steer clear of these products.

As banks both big and small focus on cleaning up the mess, Baker Boyer is capitalizing on the opportunity to grow and expand our business. Since April we have been aggressively reaching out to small business owners and their management with new services and products. We successfully deepened our relationships by expanding their use of personal banking, business banking and wealth management services. The bottom-line result was a 29% increase in the monthly pre-tax income contribution of this already highly profitable business segment.

Next month we will celebrate another aspect of the unique role we play as the area's leading community bank. We will unveil our newly remodeled main office, widely referred to as "the community's living room." It's already the talk of the town and clients, prospective customers and community leaders are anxious to get a peek.

They will find a warm and inviting environment with touches of the original 1911 branch including the nearly 100-year-old clock that has been remounted in its place above the original vault. Conference rooms will provide confidential spaces for bankers and clients to share financial goals and objectives. Graphics and photographs highlight the history of Doc Baker's railroad, Dr. Baker and John Boyer's historic involvement in our local colleges, and the rich agricultural history of our community. So stop by, I'd love to give you a tour.

The growth in our business can be seen in the quarterly financial highlights. Loans and deposits are up 13% and 5% respectively. Wealth Management and Trust fees are up an impressive 15% and our brokerage arm, Investor Services fees are up 24%.

Stiff competition for deposits pushed costs up 29% - a nearly \$1.4 million increase over last year. The growth in employee expense is primarily due to limited, but strategic hiring of a small number of skilled bankers and investment advisors added to our team. Management and the Board's commitment to keeping a step ahead of our competition in technology also led to increases in other operating expenses. The overall impact of the growth in our core business coupled with increased expense of doing business caused earnings to slip 5.4% to \$2.39 per share.

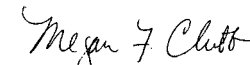
The issues I've discussed in this quarterly summary really highlight the unique opportunity I have been given to lead this organization and maintain its position as the oldest independently owned community bank in the state.

Despite the industry-wide pressure on earnings, we did not put your investment at risk by following so many others (even in our market) into the sub-prime lending scheme. We did continue to invest in people and technology and in strengthening our relationships with our customers.

The reward can be seen in our stock performance. Year-to-date dividends are up 3% and year-to-date total return to shareholders is 10%, which compares favorably to the 8% total return for the S&P 500.

This speaks volumes about the value of an independent bank led and run by independent people with their clients' best interest in mind. We continue to provide and improve upon the unique and special relationship with our clients and our community which, in turn, results in success for you our shareholder.

Sincerely,

  
Megan F. Clubb  
President and CEO

**Board of Directors**

Megan F. Clubb, Chair	Dave Gordon
D.F. Baker	Fred Kimball
Jon S. Bren	Stephen G. Kimball
Lynne Bush	Susan C. Pratt
David B. Campbell	Robert R. Richards
Thomas W. Campbell	

## Consolidated Balance Sheets

(Unaudited)

	September 30,		% Chg.	
	2007	2006		
<i>(Dollars in Thousands)</i>				
<b>ASSETS</b>				
Cash and due from banks	\$ 14,134	\$ 14,122	0.1	
Federal funds sold and security resell agreements	10,660	1,730	516.2	
Investment securities				
Held-to-maturity	18,195	22,407	(18.8)	
Available-for-sale	33,940	52,329	(35.1)	
	52,135	74,736	(30.2)	
Other securities	1,880	1,880	-	
Loans	296,012	261,738	13.1	
Allowance for credit losses	(3,766)	(3,595)	4.8	
	<b>NET LOANS</b>	258,143	13.2	
Bank premises and equipment, net of accumulated depreciation	12,727	9,780	30.1	
Accrued interest receivable	3,651	3,687	(1.0)	
Other assets	996	1,137	(12.4)	
	<b>TOTAL ASSETS</b>	\$ 388,429	\$ 365,215	6.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Deposits				
Noninterest bearing	\$ 71,650	\$ 68,174	5.1	
Interest bearing	269,713	256,091	5.3	
	<b>TOTAL DEPOSITS</b>	341,363	324,265	5.3
Federal funds purchased and security repurchase agreements	9,479	6,546	44.8	
Other borrowed funds	2,000	-	-	
Accrued interest payable	632	555	13.9	
Other liabilities	565	489	15.5	
	<b>TOTAL LIABILITIES</b>	354,039	331,855	6.7
<b>SHAREHOLDERS' EQUITY</b>				
Common stock (no par value, \$3.125 stated value)				
	9/30/07	9/30/06		
Shares authorized	4,000,000	4,000,000		
Shares issued and outstanding	1,297,345	1,297,741	4,054	
Capital surplus	987	1,008	(2.1)	
Retained earnings	29,581	28,846	2.5	
Unearned shares - Long-Term Performance & Retention Plan	(389)	(334)	16.5	
Accumulated other comprehensive income (loss)	157	(215)	(173.0)	
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	34,390	33,360	3.1
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	\$ 388,429	\$ 365,215	6.4

## Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		% Chg.	
	2007	2006		
<i>(Dollars in Thousands)</i>				
<b>Interest Income:</b>				
Loans, including fees	\$ 15,887	\$ 14,093	12.7	
Investment securities				
Taxable	737	1,162	(36.6)	
Tax-exempt	943	1,068	(11.7)	
	1,680	2,230	(24.7)	
Other securities	28	20	40.0	
Federal funds sold	173	110	57.3	
	<b>TOTAL INTEREST INCOME</b>	17,768	16,453	8.0
<b>Interest Expense:</b>				
Deposits	6,263	4,893	28.0	
Federal funds purchased and security repurchase agreements	193	105	83.8	
Other borrowed funds	48	52	(7.7)	
	<b>TOTAL INTEREST EXPENSE</b>	6,504	5,050	28.8
	<b>NET INTEREST INCOME</b>	11,264	11,403	(1.2)
<b>Provision for loan losses</b>	239	587	(59.3)	
	<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	11,025	10,816	1.9
<b>Other Income:</b>				
Wealth Management and Trust fees	3,502	3,053	14.7	
Service charges on deposits	807	831	(2.9)	
Other service charges and fees	946	809	16.9	
Investment securities gains (losses)	(30)	-	-	
Other operating income	158	163	(3.1)	
	5,383	4,856	10.9	
<b>Other Expense:</b>				
Salaries and wages	6,123	5,818	5.2	
Retirement and employee benefits	1,873	1,797	4.2	
Net occupancy expense	646	643	0.5	
Furniture and equipment expense	522	532	(1.9)	
Other operating expense	3,117	2,580	20.8	
	12,281	11,370	8.0	
	<b>INCOME BEFORE INCOME TAXES</b>	4,127	4,302	(4.1)
<b>Provision For Income Taxes</b>	1,050	1,037	1.3	
	<b>NET INCOME</b>	\$ 3,077	\$ 3,265	(5.8)
<b>Basic Earnings Per Common Share</b>	\$ 2.39	\$ 2.53	(5.4)	
<b>Average number of shares outstanding</b>	1,285,565	1,289,816		