

BAKER BOYER BANCORP

**THIRD QUARTER
REPORT
2008**



Baker Boyer Bancorp

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(509) 525-2000



Letter To Our Shareholders

October 15, 2008

Dear Baker Boyer Shareholder:

Baker Boyer continues to serve our community, remains one of the country's strongest and most successful banks, and delivers solid profitability and growth. Comparing the first three quarters of 2008 with 2007:

- Net income is up 7 percent to \$3.3 million
- Fee income from deposit and investment accounts is up 5 percent to \$5.5 million, and
- All the key measures of profitability from Net Interest Margin to Return on Equity continue to improve and place us as one of the Top 200 Community Banks in the nation

Unprecedented times create fear; we are fortunate that confidence in Baker Boyer as a safe haven for people's hard earned money is evident and growing. Our liquidity is improving as people make a "right to quality" and transfer their money to us. As a result, average balances in our most valuable deposits—checking accounts, savings accounts and other low interest accounts—are up \$26 million in September 2008 compared to September 2007, a 12 percent increase.

This unique position of stability and strength is a result of a philosophy built on our nearly 140 year experience with economic downturns, including the Great Depression. I believe this instilled a conservative lending and investment culture at Baker Boyer that remains today. We did not make sub prime loans. We avoided investing excess deposits in mortgage backed securities and we continue to take proactive measures to ensure those deposits are invested safely every night. The wealth management division follows a conservative investment strategy with significant diversification selecting quality companies with long term stability. Finally, Baker Boyer Bank is a community bank, and I believe the communities we do business in will be some of the best places in the country to ride out this storm. Our strong position will be one of the factors that will help make this possible.

Congress, the Treasury Department, and other agencies have taken many steps to stabilize the financial and credit markets. Yet, I know many people continue to be concerned about the economy, the safety of their retirement accounts, the cost of the proposed government bailout, and the stability of the banking system. I have been talking to large gatherings of our clients about what caused the volatility in the financial markets, its impact on our national and local economy, and how they can protect their business and personal assets. A full presentation is on our website at www.bakerboyer.com.

This is "our" time, and there are great opportunities in the Walla Walla Valley, the Tri-Cities, and Yakima. Baker Boyer is positioned once again as a stabilizing factor with funds available for quality growth projects. Our bankers and wealth management professionals are energized and they continue to attract high quality new accounts from personal and small business clients.

We are fortunate to live in a region with a strong business climate and wonderful, supportive people. Times like these remind me how fortunate I am to serve as the leader of one of the most exceptional independent banks in the country.

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 Sheet - YTD Average

(Unaudited)

	September 30,		% Chg.
	2008	2007	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 22,491	\$ 11,909	88.9
Federal funds sold and deposits at other financial institutions	7,306	4,457	63.9
Total Cash and Cash Equivalents	29,797	16,366	82.1
Investment securities:			
Available-for-sale, at fair value	23,898	37,580	(36.4)
Held-to-maturity at cost	16,657	19,202	(13.3)
Other investments, at cost	1,880	1,880	-
Total Investments	42,435	58,662	(27.7)
Loans	294,868	286,195	3.0
Allowance for credit losses	(3,746)	(3,662)	2.3
Net Loans	291,122	282,533	3.0
Bank premises and equipment, net	14,663	11,516	27.3
Accrued interest receivable	2,473	2,779	(11.0)
Other assets	1,742	1,335	30.5
TOTAL ASSETS	\$ 382,232	\$ 373,191	2.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 69,853	\$ 65,939	5.9
Interest bearing	261,211	261,877	(0.3)
Total Deposits	331,064	327,816	1.0
Federal funds purchased and security repurchase agreements	9,922	8,847	12.2
Other borrowed funds	4,197	1,231	240.9
Accrued interest payable	618	759	(18.6)
Other liabilities	1,154	762	51.4
TOTAL LIABILITIES	346,955	339,415	2.2
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/08	09/30/07	
Shares authorized	4,000,000	4,000,000	
Shares issued and			
outstanding	1,295,161	1,297,345	0.8
Additional paid-in capital	559	554	0.9
Retained earnings	30,453	29,220	4.2
Accumulated other comprehensive income (loss)	210	(22)	(1,054.5)
TOTAL SHAREHOLDERS' EQUITY	35,277	33,776	4.4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 382,232	\$ 373,191	2.4

Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		% Chg.
	2008	2007	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 15,056	\$ 15,886	(5.2)
Federal funds sold	396	174	127.6
Investment securities:			
Taxable	405	737	(45.0)
Tax-exempt	830	943	(12.0)
Other investment income and dividends	36	28	28.6
Total Interest and Dividend Income	16,723	17,768	(5.9)
Interest Expense			
Deposits	4,771	6,263	(23.8)
Federal funds purchased and security repurchase agreements	183	193	(5.2)
Other borrowed funds	158	48	229.2
Total Interest Expense	5,112	6,504	(21.4)
Net Interest Income	11,611	11,264	3.1
Provision for credit losses	218	239	(8.8)
Net Interest Income after Provision for Credit Losses	11,393	11,025	3.3
Non-Interest Income			
Wealth Management and Trust fees	3,574	3,502	2.1
Service charges on deposit accounts	885	807	9.7
Other service charges and fees	1,044	946	10.4
Investment securities gains (losses)	95	(30)	416.7
Other operating income	200	158	26.6
Total Non-Interest Income	5,798	5,383	7.7
Non-Interest Expense			
Salaries and wages	6,423	6,123	4.9
Retirement and employee benefits	1,900	1,873	1.4
Net occupancy expense	806	646	24.8
Furniture and equipment expense	515	522	(1.3)
Other operating expense	3,098	3,117	(0.6)
Total Non-Interest Expense	12,742	12,281	3.8
Income Before Income Taxes	4,449	4,127	7.8
Provision For Income Taxes	1,159	1,050	10.4
NET INCOME	\$ 3,290	\$ 3,077	6.9
Basic Earnings Per Common Share	\$ 2.56	\$ 2.39	7.1
Weighted Average Number of Shares Outstanding	1,283,293	1,285,565	