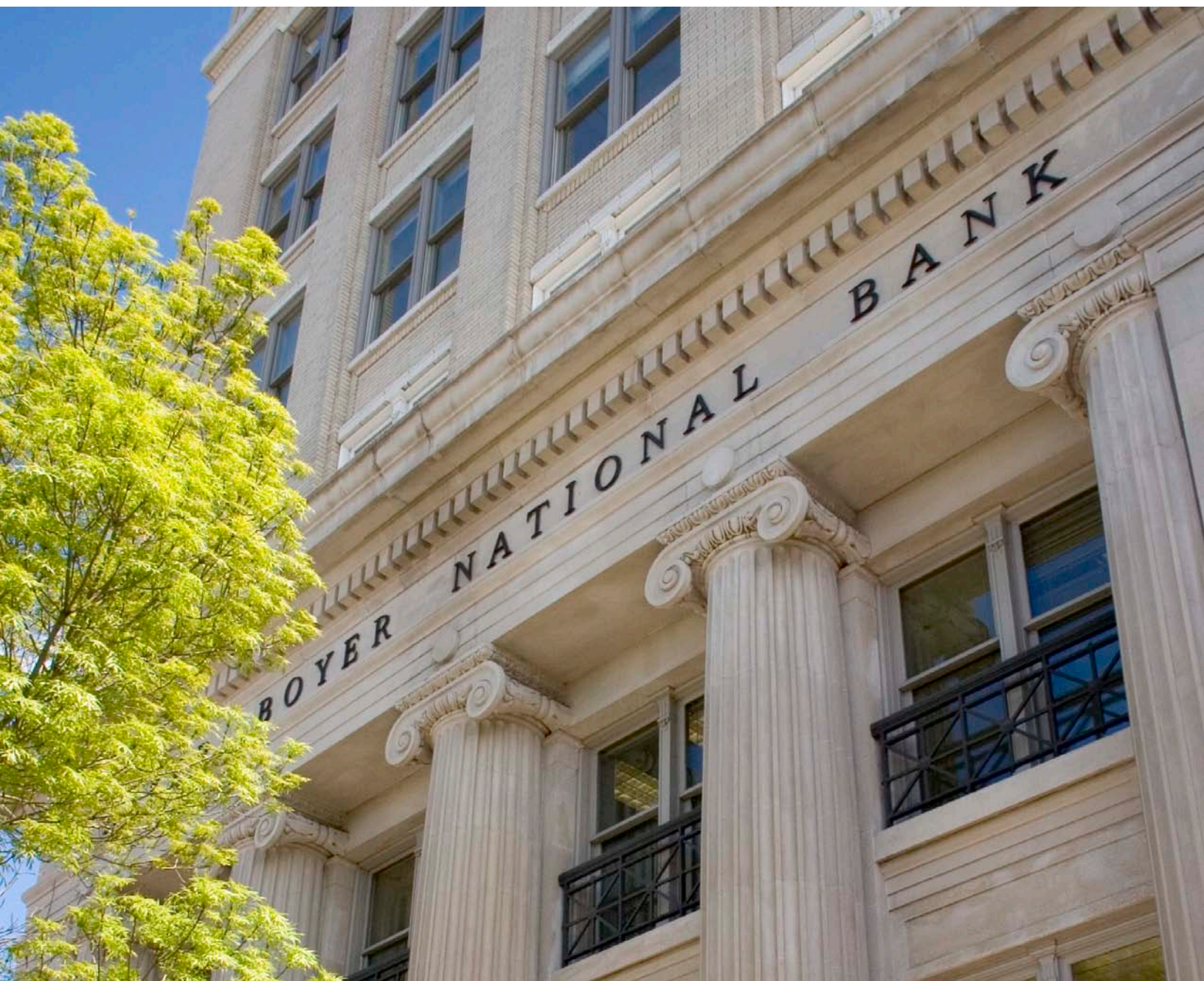


2008 Annual Report



Baker Boyer Bancorp

Walla Walla, Washington

DEAR BAKER BOYER SHAREHOLDER

I am writing this message at a time of great uncertainty in our country and in the financial sector. Yet the Baker Boyer story is a bright spot in these turbulent times. With so much to talk about, I decided to focus on the three areas I believe are most important to you. They are details on our solid performance, some thoughts on how we avoided the tsunami that washed over so many banks, and how we are using our unique financial strength to benefit customers, shareholders, employees and community.

We closed the year with Earnings per Share at \$3.44 versus \$3.40 in 2007. Only 25% of Pacific Northwest community banks posted an increase in earnings in 2008. We are proud to be one of them. We were able to increase your dividend and our stock continues to outperform benchmarks. Total return to shareholders measured by dividends and stock appreciation held flat for the year ending December 2008. This really stands out when you compare it to the negative -37% rate of return of the S&P 500 and negative -53% rate of return of the Russell 1000 Financial Index for the same period. I attribute Baker Boyer's financial success to our commitment to stay locally rooted so that we can be the best at what we do—providing sophisticated wealth management, business and personal banking services with the welcoming feel of a community bank.

For nearly 140 years we have rejected the pressure of the growth treadmill—focusing instead on listening to our clients to provide trusted services tailored to their needs. I highly recommend you read *Small Giants, Companies that Choose to be Great Instead of Big*, by Bo Burlingame. One quote from the book really hit home with me as a reminder of some of the words my father used to preach.

“I’ve made much more money by choosing the right things to say no to than by choosing things to say yes to. I measure it by the money I haven’t lost and quality I haven’t sacrificed.”

(Denny Meyer of the Union Square Hospitality Group)

When historians write about 2008 it will be marked as a time that flawed investment and business decisions made by many financial institutions left customers concerned and public trust badly damaged. As 2009 begins many banks are unwilling or unable to provide needed credit to their customers. We continue to have the resources to make loans, adding \$15-20 million in new and renewed loan dollars per quarter.



Your management team took aggressive action in 2008 to promote Baker Boyer's position of strength. We began the year with a **Peace of Mind** campaign which stressed our mission, *Guiding you to a brighter financial future*, (and the pride we take in providing a source of exceptional service, being a safe haven for your hard earned money and giving trusted financial advice.) At mid-year we moved on with **Managing Your Finances in Volatile Markets** to educate our community and clients on the causes of the financial market meltdown, giving specific advice on how individuals and small businesses could protect their assets. By year-end we were presenting **Guiding You through Turbulent Times**, which explained what caused the economy to deteriorate, the government's aggressive actions to stabilize the banking system, and the reasons why Baker Boyer did not accept the government's TARP program for banks. The presentations are available on our website at www.bakerboyer.com.

Baker Boyer's strong financial position made us eligible for TARP funds, but after careful review of the terms, we determined we could remain a reliable source of loans to grow and operate local businesses and for individuals to purchase cars or homes without taxpayers' assistance.

The government capital is expensive at a cost of 8% per year, and in order for shareholders to benefit, we would have needed to rapidly increase our loan volume by expanding our lending activities outside of our local communities. We also had concerns that government control over dividend policy would be detrimental to shareholder value. We have remained conservative in our lending and investment management fundamentals which allows us to be a force in maintaining stability in our local economy. We know that bigger isn't better, and we are committed to continuing our mission as a local independent bank.

In the midst of this banking industry crisis, opportunities are developing for Baker Boyer. A good example is the recent expansion of our Yakima branch to a full service Wealth Management, Business Banking and Private Banking operation offering sophisticated services that no competitor can match locally.

That expansion occurred because we attracted a team of business bankers that were recognized by their previous employer for their strong lending and business development success.

Our solid performance allows us to offer a safe, worry free environment for our customers to invest and obtain loans. It also allows us to offer a more stable work environment than many of our competitors, and generates solid returns for our shareholders.

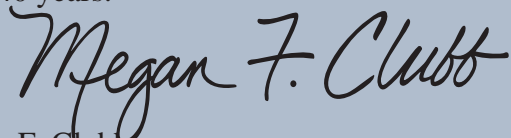
We will continue to let the community know how we avoided the problems faced by others and how that benefits them now. That ongoing communication is important because there is a great lack of trust in the banking industry. I read recently about a national survey that found trust in business was at a 10 year low, with only 38 percent of respondents indicating they trusted business leaders. That was a drop of 20% in a year. (PR News Feb 2, 2009). We need to let people know we're different.

It would be naïve of us to assume that Baker Boyer is immune from problems. That is why we increased our reserve for future loan losses in the fourth quarter. Our national bank regulators completed a full examination in January 2009. They were extremely complimentary of our operations, commended us on our strong credit administration practices and agreed we are well covered for future loan losses based on today's economic expectations. All and all it was a tremendous vote of confidence. I want to thank my entire staff for their hard work and continued vigil.

We believe Eastern Washington and Oregon will remain one of the best places to weather this downturn; however, 2009 brings some new challenges. Large state budget cuts will be felt here and the retail sector will continue to wrestle with reduced consumer spending. Recessions put pressure on all banks' earnings, and there is little agreement on the length and depth of the recession, so we will proceed cautiously.

In November we celebrate our 140th year anniversary, and we have a lot to be thankful for. My predecessors established a culture that emphasizes banking fundamentals. I am confident in the future of Baker Boyer and look forward to celebrating many more anniversaries as the leader of the area's leading independent bank.

As always, you are our best ambassadors in telling the Baker Boyer story. Please invite prospective clients and investors to take a look at your bank: an institution that has successfully navigated economic downturns for the past 140 years.



Megan F. Clubb
Chairman and CEO

140 YEARS STRONG

March 6, 1933 — The Federal Reserve gave the final announcement of the President's Declaration of a Bank Holiday (*pictured top at right*). Notice the banks were only allowed to give clients access to safe deposit boxes. No other transactions were allowed.

March 7, 1933 — The very next day after receiving the telegraph from the Federal Reserve, Baker Boyer responded with a request to issue Baker Boyer Bank Notes (*pictured bottom at right*). We were solid and had a tremendous amount of cash in our vaults. The goal of the officers of the bank was to provide currency to our local economy. Unfortunately, the Treasury declined our request.

When the Governor of the State of Washington declared the bank holiday, the management team of the bank proclaimed,

"Notwithstanding the fact that the Governor has declared a **Bank holiday for the State of Washington, the officers of the Baker-Boyer National Bank** announce that the bank will be open for business as usual."

The management team kept the bank open and made financial transactions through the back door.

We have been through these cycles before and with a history of 140 years of stability, we will continue to be the area's leading independent bank.

PATRONS ARE REQUESTED TO FAVOR THE COMPANY BY CRITICISM AND SUGGESTION CONCERNING ITS SERVICE

12015

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable sign above or preceding the address.

WESTERN UNION

NEWCOMB CARLTON, PRESIDENT

J. C. WILLEVER, FIRST VICE-PRESIDENT

SIGNS

- DL = Day Letter
- NM = Night Message
- NL = Night Letter
- LCO = Deferred Cable
- NLT = Cable Night Letter
- WLT = Week-End Letter

The filing time as shown in the date line on full-rate telegrams and day letters, and the time of receipt at destination as shown on all messages, is STANDARD TIME.
Received at 11 Second Ave., North, Walla Walla, Wash. TELEPHONES 140 - 147 1933 MAR 6 PM 1 52

PR69 54 GOVT CNT 2 QTNB=SANFRANCISCO CALIF 6 1140A

BAKER BOYER NATIONAL BANK=
WALLAWALLA WASH=

IN TRANSIT	
FULL-RATE	DAY LETTER

WE HAVE RECEIVED THE FOLLOWING MESSAGE WHICH IS SENT FOR YOUR INFORMATION AND GUIDANCE "UNDER AUTHORITY CONFERRED UPON HIM BY PRESIDENTS PROCLAMATION DECLARING BANK HOLIDAY SECRETARY OF TREASURY HAS ISSUED FOLLOWING REGULATION 'ALL BANKING INSTITUTIONS MAY ALLOW THEIR CUSTOMERS FREE ACCESS TO THE SAFETY DEPOSIT BOXES AND SAFES RENTED TO SUCH CUSTOMERS' "

FEDERAL RESERVE BANK OF SANFRANCISCO.

THE QUICKEST, SUREST AND SAFEST WAY TO SEND MONEY IS BY TELEGRAPH OR CABLE

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM <input checked="" type="checkbox"/>	FULL RATE
DAY LETTER	DEFERRED
NIGHT MESSAGE	NIGHT LETTER
NIGHT LETTER	WEEK-END LETTER

Patrons should check class of service desired; otherwise message will be transmitted as a full-rate communication.

COPY OF WESTERN UNION TELEGRAM

CRG OUR ACCT

March 7, 1933

Secretary of the Treasury

Washington, D. C.

We are the only bank in this community and have over three million dollars deposits. On March tenth we wish to issue small denominations of unsecured bearer certificates, to depositors wishing to split up their balances. To be issued in substantially the following form:

Walla Walla, Wn., March 10, 1933
 "This certifies that the bearer has blank dollars on deposit in the Baker-Boyer National Bank payable in accordance with any regulations established by the Secretary of the Treasury governing the payment of bank balances on deposit prior to the bank holiday proclaimed on March sixth, Nineteen Hundred Thirty Three."

We believe these certificates will supply the community with a temporary medium of exchange and be entirely acceptable to the business interests here.

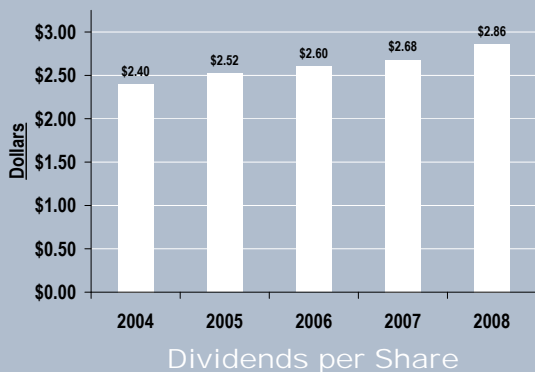
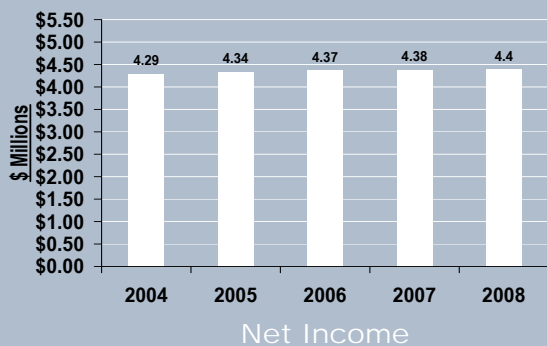
Please wire immediately if above will be allowable or suggest approved wording.

Baker-Boyer National Bank

(Dollars in Thousands Except Per Share Amounts)

	<u>12/31/08</u>	<u>12/31/07</u>	<u>% Change</u>
Year-to-Date			
Net Income	\$4,407	\$4,375	0.7
Cash Dividends Paid	3,709	3,477	6.7
Return on Avg. Assets	1.13%	1.16%	
Return on Avg. Shareholders' Equity	12.47%	12.85%	
Average Number of Shares Outstanding	1,282,586	1,285,348	
Per Share			
Earnings*	\$3.44	\$3.40	1.2
Cash Dividends Paid	2.86	2.68	6.7
Book Value	27.50	26.83	2.5
At December 31,			
Total Assets	\$426,636	\$392,263	8.8
Total Loans	293,898	300,324	(2.1)
Allowance for Loan Losses	4,217	3,815	10.5
Total Investment Securities	48,198	48,308	(0.2)
Total Deposits	369,846	344,153	7.5
Total Shareholders' Equity	35,617	34,801	2.3
Daily Average for the Year			
Assets	\$389,374	\$375,993	3.6
Loans - Net	290,493	285,380	1.8
Investment Securities	42,545	55,552	(23.4)
Deposits	335,850	329,652	1.9
Shareholders' Equity	35,335	34,042	3.8

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



	2008	2007	2006	2005	2004
PER SHARE					
Earnings*	3.44	3.40	3.39	\$3.35	\$3.30
Cash dividends	2.86	2.68	2.60	2.52	2.40
Book value, year-end	27.50	26.83	26.05	25.24	24.88
FOR THE YEAR (Dollars in Thousands)					
Net income	\$4,407	\$4,375	\$4,374	\$4,339	\$4,285
Cash dividends	3,709	3,477	3,377	3,275	3,119
PERFORMANCE MEASURES					
Return on average assets	1.13%	1.16%	1.19%	1.14%	1.10%
Return on average equity	12.47	12.85	13.17	13.31	13.42
Yield on average earning assets fully taxable equivalent	6.47	7.08	6.70	6.01	5.69
Average cost of interest bearing liabilities	2.30	3.17	2.60	1.75	1.47
Net interest margin - fully taxable equivalent	4.66	4.59	4.67	4.63	4.52
Average equity to average assets ratio	9.07	9.05	9.00	8.59	8.16
Dividend payout ratio	84.16	79.47	77.21	75.48	72.79
Net charge-offs to average loans	0.11	0.03	0.05	0.41	0.51
Year-end ratio of allowance for loan losses to total loans	1.43	1.27	1.32	1.24	1.19
NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES AT YEAR-END					
	170	175	180	179	188

Audit fees paid by the Company for the audit provided by Moss Adams LLP for fiscal years ending 2008 and 2007 were approximately \$62,900 and \$25,900, respectively. Tax fees paid to Moss Adams LLP for 2008 and 2007, were approximately \$8,930 and \$2,000, respectively.

Dollars in Thousands

	<u>2008</u>	<u>2007</u>
Assets		
Cash and due from banks	\$10,710	\$11,947
Interest-bearing deposits at other financial institutions	19,376	1,189
Federal funds sold and security resell agreements	5,712	3,932
Securities available for sale	25,942	36,573
Securities held to maturity	16,413	18,789
Other Investments	1,880	1,880
Loans	294,274	289,077
Allowance for credit losses	(3,782)	(3,697)
Net Loans	290,492	285,380
Premises and equipment	14,617	12,074
Accrued interest receivable	2,500	2,815
Other assets	1,731	1,414
Total Assets	\$389,373	\$375,993
Liabilities and Shareholders' Equity		
Deposits		
Demand	\$70,405	\$66,840
Savings and interest-bearing demand	157,888	148,345
Time	107,557	114,467
Total Deposits	335,850	329,652
Federal funds purchased and security repurchase agreements	10,922	9,115
Other borrowed funds	5,494	1,606
Accrued interest payable	582	768
Other liabilities	1,191	810
Total Liabilities	354,039	341,951
Shareholders' Equity		
Common stock (no par value, stated value \$3.125 per share)	4,053	4,031
Additional paid-in capital	541	567
Retained earnings	30,557	29,417
Accumulated other comprehensive income (loss)	184	27
Total Shareholders' Equity	35,335	34,042
Total Liabilities and Shareholders' Equity	\$389,374	\$375,993

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

HILL THOMPSON MAGID & Co. - 15 Exchange Place, Suite 800, Jersey City, NJ 07302-3912

(800) 631-3083

JEFFRIES GROUP, INC - 520 Madison Avenue, New York, NY 10022

(212) 824-2300

KNIGHT EQUITY MARKETS, LP - 545 Washington Blvd., Jersey City, NJ 07310

(800) 544-7508

MONROE SECURITIES, INC. - 100 N. Riverside Plaza, Suite 1620, Chicago, IL 60606

(312) 506-5750

PERSHING TRADING Co., LP - 1 Pershing Plaza, Jersey City, NJ 07399

(800) 459-1893

RYAN, BECK & Co. - 220 S. Orange Avenue, Livingston, NJ 07039-5817

(800) 395-7926

UBS CAPITAL MARKETS, LP - 111 Pavonia Avenue East, Jersey City, NJ 07310

(800) 631-3094

WEDBUSH MORGAN SECURITIES - 4949 SW Meadows Road, Suite 100, Lake Oswego, OR 97035

(866) 491-7828

Direct Contacts for Stock Repurchases

MARK HESS, Executive Vice President/Chief Operating Officer

(509) 526-1315

MEGAN F. CLUBB, President/Chief Executive Officer/Chairman of the Board

(509) 526-1318

Corporate and Investor Information

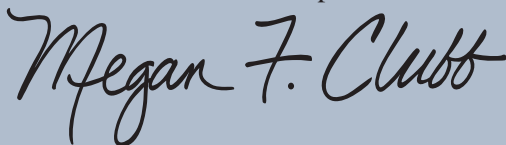
Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2008, there were 1,295,161 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 3:30 P.M. on Thursday, April 23, 2009, at the Marcus Whitman Hotel & Conference Center, Renaissance Room, 6 West Rose, 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.



President, CEO and Chairman of the Board
Baker Boyer Bancorp



Board of Directors

Seated: Megan F. Clubb, Susan C. Pratt *Standing left to right:* David B. Campbell, David B. Gordon, Lynne E. Bush, Stephen G. Kimball, Fred J. Kimball, D.F. Baker, Jon S. Bren, Robert R. Richards Thomas W. Campbell

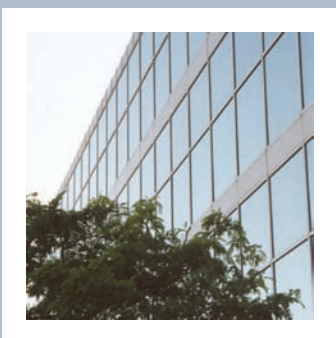
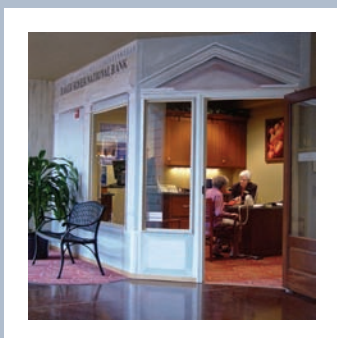
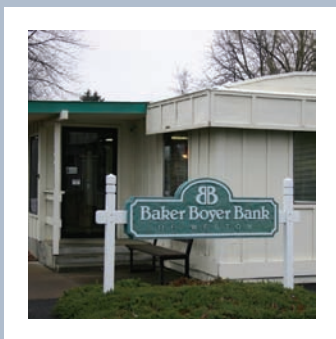
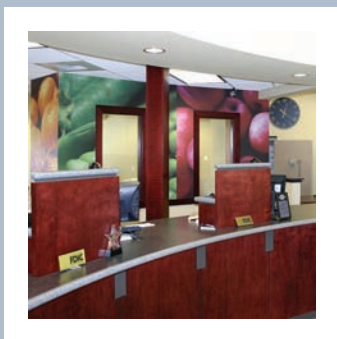
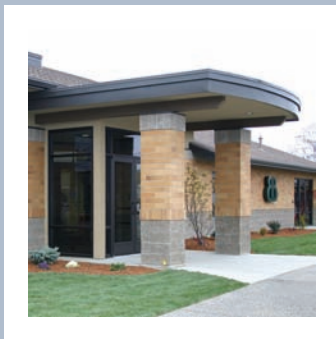
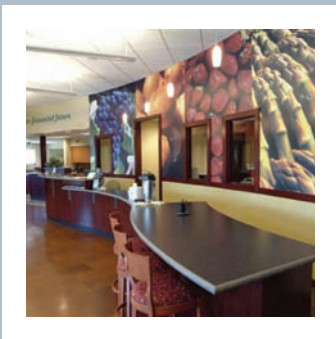
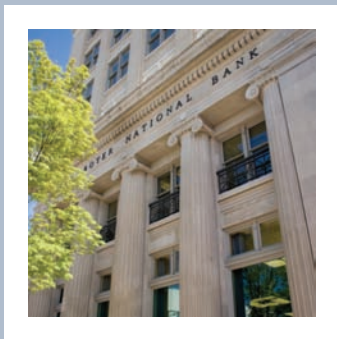


Executive Committee - pictured left to right

MEGAN F. CLUBB, Chair of the Executive Committee - President, CEO and Chairman of the Board
JON S. BREN, Executive Vice President - Wealth Management Division Manager
LYLE W. HANSEN, Executive Vice President - Banking Division Manager
MARK A. HESS, Executive Vice President - Chief Operating Officer

Other Officers

LORRAINE A. MANUEL, Auditor
JOLENE RIGGS, Vice President - Controller



MAIN OFFICE

7 W. Main Street, Walla Walla, WA 99362

EASTGATE BRANCH

1931 Isaacs, Walla Walla, WA 99362

PLAZA BRANCH

1530 Plaza Way, Walla Walla, WA 99362

COLLEGE PLACE BRANCH

603 S. College Avenue, College Place, WA 99324

MILTON-FREEWATER BRANCH

320 N. Columbia, Milton-Freewater, OR 97862

WESTON BRANCH

110 N. Water Street, Weston, OR 97886

WHEATLAND VILLAGE BRANCH

1500 S. Catherine Street, Walla Walla, WA 99362

KENNEWICK OFFICE - Tri-Cities Trust & Business Banking Center

7601 W. Clearwater, Suite 404, Kennewick, WA 99336

YAKIMA OFFICE - Investment Management & Trust Services

909 Triple Crown Way, Suite 101, Yakima, WA 98908

