

BAKER BOYER BANCORP
THIRD QUARTER
REPORT
2009



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Letter to Our Shareholders

October 29, 2009

Dear Baker Boyer Shareholder,

Baker Boyer Bank remains a bright spot in the troubled banking industry in the Northwest and across the nation. Our Return on Equity through September is 13.05%, which is over seven times higher than our peer banks, which reported an average 1.8% return through the first half of this year.

Our financial strength is allowing us to provide critical support to businesses and families at a time that many of our competitors cannot. Our lending officers and customers frequently tell me stories about how important it is that we are there to help them survive and grow in difficult economic times.

We are also making a major effort to be sure that those who are looking for a banking alternative know the Baker Boyer story, and to reach out to all the communities we serve. As a part of this effort we kicked off a campaign we call "Let's Talk" in August.

Each of our 175 employees is sharing the Baker Boyer success story. They are engaging as many people as possible to make them aware of the ways our experienced bankers and wealth management professionals can help them achieve their financial goals.

We are connecting with the owners of small businesses in need of working capital, families purchasing homes, and individuals looking for a rock solid place to put their retirement assets.

I am happy to report that the campaign is paying off in several ways. The growth in new accounts has had a very positive impact on our financial performance. Total year-to-date average deposits are up nearly 8% from last year. The growth in zero and low interest deposit accounts is also helping drive down our interest expense. New loan volume continues to grow. Year-to-date we are up 44% without loosening our credit standards. And loan yields have held up fairly well, averaging 6.6% through the third quarter versus 7.0% last year.

The result is a widening of our net interest margin from 4.6% a year ago to 4.8% in 2009. That might sound like a small improvement, but it added \$1.86 million to Net Interest Income over last year.

The management team is also working on non-interest expense control. Our largest cost category, total employee expense, is up just 3%, as a result of merit increases, the added cost of our new business banking team in Yakima, and some strategic hires in the Walla Walla Valley and the Tri-Cities. I firmly believe that rewarding our employees and adding quality people to our team are very wise investments for Baker Boyer.

The only other major cost category that is growing is Other Operating Expense, which has gone from \$3.1 million to \$3.7 million. FDIC insurance accounts for much of the increase, growing from \$36,000 in the first three quarters of 2008 to \$555,000 for the same period in 2009. I believe FDIC insurance costs will continue to grow as we are asked to help cover potential losses in the insurance fund as banks in our market are closed.

Overall, we are developing a strong momentum that will allow us to capitalize on our competitors' inability to adequately serve their clients while also making us a valuable resource to our customers and prospects.

I expect our market share to continue to grow and our revenue to increase. We are seeing signs that the economy is beginning to strengthen and that Baker Boyer will come out of this downturn an even stronger, more formidable competitor.

Please help us spread the story. As you talk to family, friends and business associates, engage them in a conversation about your bank. Let them know we are strong, that we are here to stay, and that we want to talk to them about their unique financial situation. Our proven financial guidance approach offers safe and reliable products and services during a time of continuing uncertainty.

We will handle their money with the same care and concern we take with our own, which is why we were recently able to enjoy our 140th anniversary. Challenge people to compare Baker Boyer with the competition. I guarantee they won't be disappointed if they switch, and you won't be disappointed that you recommended us.

Sincerely,

A handwritten signature in black ink that reads "Megan F. Clubb".

Megan F. Clubb
Chairman & 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 - Average ytd

(Unaudited)

	September 30,		% Chg.
	2009	2008	
ASSETS			
<i>(Dollars in Thousands)</i>			
Cash and amounts due from banks	\$ 53,859	\$ 22,515	139.2
Federal funds sold and deposits at other financial institutions	1,551	7,306	(78.8)
Total Cash and Cash Equivalents	55,410	29,821	85.8
Investment securities:			
Available-for-sale, at fair value	45,724	23,898	91.3
Held-to-maturity at cost	14,641	16,657	(12.1)
Other investments, at cost	1,880	1,880	-
Total Investments	62,245	42,435	46.7
Loans	293,852	294,868	(0.3)
Allowance for credit losses	(4,459)	(3,746)	19.0
Net Loans	289,393	291,122	(0.6)
Bank premises and equipment, net	14,635	14,663	(0.2)
Accrued interest receivable	2,699	2,473	9.1
Other assets	1,463	1,742	(16.0)
TOTAL ASSETS	\$ 425,845	\$ 382,256	11.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 73,135	\$ 69,853	4.7
Interest bearing	283,880	261,211	8.7
Total Deposits	357,015	331,064	7.8
Federal funds purchased and security repurchase agreements	18,556	9,922	87.0
Other borrowed funds	12,332	4,221	192.2
Accrued interest payable	387	618	(37.4)
Other liabilities	1,042	1,154	(9.7)
TOTAL LIABILITIES	389,332	346,979	12.2
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/09	9/30/08	
Shares authorized	4,000,000	4,000,000	
Shares issued and			
outstanding	1,299,724	1,295,161	4.058 / 4.055 / 0.1
Additional paid-in capital	600	559	7.3
Retained earnings	31,382	30,453	3.1
Accumulated other comprehensive income (loss)	472	210	124.8
TOTAL SHAREHOLDERS' EQUITY	36,512	35,277	3.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 425,844	\$ 382,256	11.4

Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		
	2009	2008	% Chg.
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 14,094	\$ 15,056	(6.4)
Federal funds sold and deposits at other financial institutions	1,037	396	161.9
Investment securities:			
Taxable	516	405	27.4
Tax-exempt	1,068	830	28.7
Other investment income and dividends	22	36	(38.9)
Total Interest and Dividend Income	16,737	16,723	0.1
Interest Expense			
Deposits	2,892	4,771	(39.4)
Federal funds purchased and security repurchase agreements	203	183	10.9
Other borrowed funds	171	158	8.2
Total Interest Expense	3,266	5,112	(36.1)
Net Interest Income	13,471	11,611	16.0
Provision for credit losses	743	218	240.8
Net Interest Income after Provision for Credit Losses	12,728	11,393	11.7
Non-Interest Income			
Wealth Management and Trust fees	3,094	3,574	(13.4)
Service charges on deposit accounts	884	885	(0.1)
Other service charges and fees	1,201	1,044	15.0
Investment securities gains (losses)	-	95	(100.0)
Other operating income	328	200	64.0
Total Non-Interest Income	5,507	5,798	(5.0)
Non-Interest Expense			
Salaries and wages	6,671	6,423	3.9
Retirement and employee benefits	1,898	1,900	(0.1)
Net occupancy expense	771	806	(4.3)
Furniture and equipment expense	443	515	(14.0)
Other operating expense	3,729	3,098	20.4
Total Non-Interest Expense	13,512	12,742	6.0
Income Before Income Taxes	4,723	4,449	6.2
Provision For Income Taxes	1,158	1,159	(0.1)
NET INCOME	\$ 3,565	\$ 3,290	8.4
Basic Earnings Per Common Share	\$ 2.78	\$ 2.56	8.6
Weighted Average Number of Shares Outstanding	1,280,997	1,283,293	