


# 2009 Annual Report



**Baker Boyer Bancorp**  
Walla Walla, Washington

# DEAR BAKER BOYER SHAREHOLDER

Baker Boyer continues to stand out among banks in the Pacific Northwest, as we add customers and increase our market share and profitability in one of the toughest economic environments most of us have ever seen.

Two years ago when the sub-prime fiasco was emerging, other bankers would often ask me “when will we hear about problems at Baker Boyer?” I’m pleased to say that we have avoided the challenges many are facing, and our prudence allows us to be there for our customers, shareholders and employees today when it really matters.

I remember my father telling me long ago that the money we lend belonged to our shareholders, and we had to be steadfast in expecting it to be repaid. He also emphasized that structuring loans to customers that did not set them up for an economic downturn was not helping them to succeed. It may sound simple, but our decision to follow our carefully developed philosophy of banking gives us great opportunities today.

As usual, I will talk about our 2009 financial performance in great detail, but first I want to address what I see as our opportunities going forward. I believe our highest priority, even as a successful bank, is to rebuild customer trust. The bond between banks and their customers is seriously bruised. Publicity about the government bailout of large banks, excessive executive bonuses and community bank stumbles, has given us all a black eye with consumers.

People have lost a great deal of trust in the financial industry, and we have to give them our time and attention in order to retain and rebuild it. But we can’t wait for the government or anyone else to fix the problem. We have to fix it ourselves and fixing it will require many conversations between banks and their customers.

For bankers it means more listening and being willing to serve as a trusted advisor. For customers it means understanding their own financial situation, demonstrating they have the creativity to survive in the new economy and being willing to work at developing a long term relationship.

In November I traveled with Governor Gregoire to Washington, D.C. to meet with seven key members of the Obama administration. The Governor asked me to join her because she understands that community banks serve a huge role in small business lending and local economic activity. Community banks originate half of all small business loans under \$100,000, and they make a third of all loans of \$1 million or less. It is a business that most Wall Street banks have walked away from.

The story I told in Washington and repeat every chance I get is this; Congress and the Obama Administration must support legislation that enables community banks to do our job. That means focusing on providing loans to small businesses and loans for families to purchase homes and send their kids to college.

I recently was given another wonderful opportunity to tell our story and represent Eastern Washington and Oregon interests. In January I was appointed to the board of directors of the Portland Branch of the Federal Reserve Bank of San Francisco. As directors we represent our region’s economic perspective to the Federal Reserve Bank’s district board. The information is then passed on to directors in San Francisco and the Board of Governors in Washington, D.C. This position gives me a valuable opportunity to learn and to have a small voice in the Federal Reserves actions to improve our economy and create jobs.

Support in DC for community banks is positive. But, I detect a level of uneasiness even among our customers, and we are addressing that every day. So how will the time we spend rebuilding trust in banking translate into more business and financial success for Baker Boyer? What some banks seem to have forgotten is that our business is built on trust. The institutions that reach out and make sure they are doing all they can to maintain and rebuild trust will win.



We work hard to let people know we are strong and will be here for our clients for decades to come. We have increased our communication, focusing on the fact that because of our strength, we can provide them with loans to grow their business, provide advice on how to improve their household finances and can answer questions about their retirement and financial security.

Our summer campaign entitled 'Let's Talk' resulted in an 38% increase in sold referrals, resulting in new clients and business. The following two pages highlight this very successful bank-wide effort that engaged all 175 employees. We are educating new clients on what they can expect from their banker. They can count on us to give them trusted advice and guidance. We are their partners, and we can prepare them to meet the challenges of this economic downturn. We will help them get ready for the new economic reality, but they must also take a realistic look at how the downturn has impacted their financial health and make sure that new reality is reflected in the amount they are putting aside for retirement and the amounts they borrow on credit cards, mortgage loans or business loans.

Now as promised, here's how our work impacted our financial results. For the year 2009 your bank was one of the top six most profitable commercial banks headquartered in the Pacific Northwest. We are proud to be one of them.

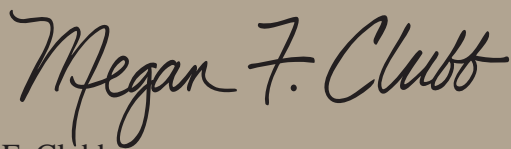
New and renewed loans, including those we originated using attractive government-backed loan programs for individuals and businesses, grew an impressive 29% year over year. Low cost core deposits, which include checking accounts and money market accounts, have grown by more than 12%. And our Wealth Management team has done an excellent job of protecting our clients' wealth. Total assets under management have grown 17% in the twelve month period ending December 31, 2009.

The result is a higher net interest margin that coupled with significant increases in market share in Banking and Wealth Management dramatically improved the core profitability of the bank. We closed the year with Earnings per Share at \$3.76 versus \$3.44 in 2008.

Total return to shareholders measured by dividends and stock appreciation grew 11% in the two-year period ending December 2009. This really stands out when you compare it to the negative -24% rate of return of the S&P 500 and negative -45% rate of return of the Russell 1000 Financial Index for the same period.

This is a great time to be part of the Baker Boyer family. Customers that have recently transferred their accounts have quickly recognized the value of the Baker Boyer experience and are spreading the word. It's a simple fact that you can expect more from our team.

I hope you take every opportunity to make sure your friends, neighbors and business associates know what a relationship with Baker Boyer could mean for them. We will handle their money with the same care and concern we take with our own. I would be delighted to get together and talk with anyone about the Baker Boyer difference. I guarantee they won't be disappointed if they switch, and you won't be disappointed that you recommended us. There has never been a better time to bank with Baker Boyer.



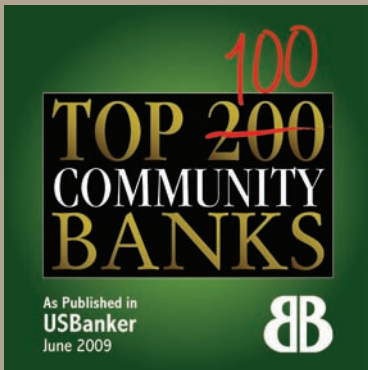
Megan F. Clubb  
Chairman and CEO



# Did you know?

In 1933, Franklin D. Roosevelt issued a four-day mandatory closure of all US banks in an effort to restore confidence in the financial markets? During this time, Baker Boyer Bank operated “out the back door,” as their commitment to customers and financial strength translated into business as usual. Perhaps even more remarkable, 75 years later, as the US financial system is suffering yet another tremendous downturn, Baker Boyer Bank remains a foundation of strength for the local economy and leader amongst peers in financial performance.

Here’s the fact. Baker Boyer Bank did not take our clients’ deposits to make risky sub-prime mortgages. Nor did we get involved in complex Mortgage Backed Security investments



which have been the culprit of financial distress. As a result of our conservative approach, Baker Boyer currently ranks #87 among thousands of community banks across the country based on financial performance. And if you have ever heard the saying “great places to work make great places to do business”, then you’ll be happy to know Seattle Business magazine ranks Baker Boyer the #15 best place to work in the State of Washington.



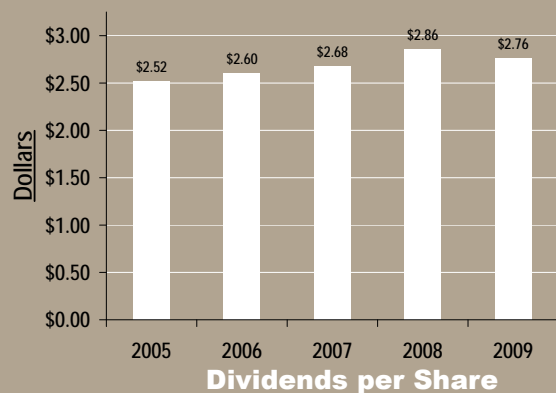
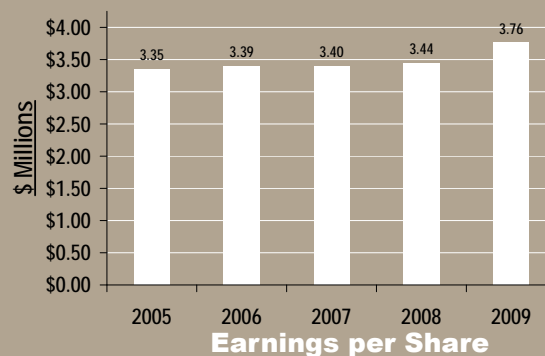
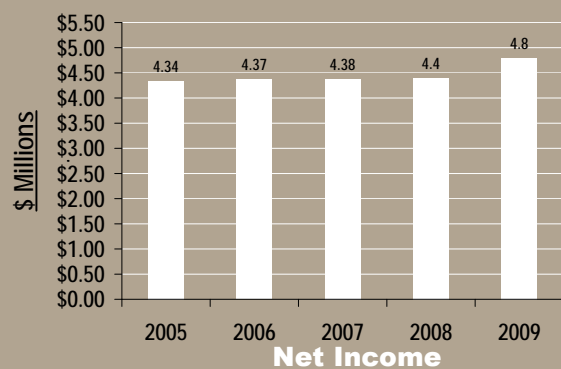
You may be asking yourself “what does this mean for me?” Well, in all honesty, our financial strength means that we can continue to concentrate on what matters most. While other institutions are struggling with issues, Baker Boyer remains focused on providing our customers with sound financial advice and offering valuable services to clients. Baker Boyer Bank is in a prime position to focus on all of your financial needs. Whether you are looking for easy-to-use online banking, looking to buy a house, searching for expert savings advice, or simply looking for somewhere safe to store your hard-earned money, we would love to welcome you to the Baker Boyer family. If you ever find yourself with needs or questions, we’d love to help you find solutions. We want you to feel welcome to contact us at any time.

## ...Let's Talk!

(Dollars in Thousands Except Per Share Amounts)

	<u>12/31/09</u>	<u>12/31/08</u>	<u>% Change</u>
<b>Year-to-Date</b>			
Net Income	\$4,819	\$4,407	0.2
Cash Dividends Paid	3,586	3,709	(3.3)
Return on Avg. Assets	1.12%	1.13%	
Return on Avg. Shareholders' Equity	13.11%	12.47%	
Average Number of Shares Outstanding	1,281,220	1,282,586	
<b>Per Share</b>			
Earnings*	\$3.76	\$3.44	9.3
Cash Dividends Paid	2.76	2.86	(3.5)
Book Value	28.84	27.50	4.9
<b>At December 31,</b>			
Total Assets	\$449,284	\$426,636	5.3
Total Loans	298,077	293,898	1.4
Allowance for Loan Losses	5,183	4,217	22.9
Total Investment Securities	62,260	48,198	29.2
Total Deposits	390,026	369,846	5.5
Total Shareholders' Equity	37,489	35,617	5.3
<b>Daily Average for the Year</b>			
Assets	\$430,229	\$389,374	10.5
Loans - Net	290,989	290,493	0.2
Investment Securities	62,645	42,545	47.2
Deposits	362,669	335,850	8.0
Shareholders' Equity	36,756	35,335	4.0

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



	2009	2008	2007	2006	2005
<b>PER SHARE</b>					
Earnings*	\$3.76	\$3.44	\$3.40	\$3.39	\$3.35
Cash dividends	2.76	2.86	2.68	2.60	2.52
Book value, year-end	28.84	27.50	26.83	26.05	25.24
<b>FOR THE YEAR (Dollars in Thousands)</b>					
Net income	\$4,819	\$4,407	\$4,375	\$4,374	\$4,339
Cash dividends	3,586	3,709	3,477	3,377	3,275
<b>PERFORMANCE MEASURES</b>					
Return on average assets	1.12%	1.13%	1.16%	1.19%	1.14%
Return on average equity	13.11	12.47	12.85	13.17	13.31
Yield on average earning assets fully taxable equivalent	5.72	6.47	7.08	6.70	6.01
Average cost of interest bearing liabilities	1.34	2.30	3.17	2.60	1.75
Net interest margin - fully taxable equivalent.	4.68	4.66	4.59	4.67	4.63
Average equity to average assets ratio	8.54	9.07	9.05	9.00	8.59
Dividend payout ratio	74.41	84.16	79.47	77.21	75.48
Net charge-offs to average loans	0.06	0.11	0.03	0.05	0.41
Year-end ratio of allowance for loan losses to total loans	1.74	1.43	1.27	1.32	1.24
<b>NUMBER OF FULL-TIME EQUIVALENT EMPLOYEES AT YEAR-END</b>					
	175	170	175	180	179

Audit fees paid by the Company for the audit provided by Moss Adams LLP for fiscal years ending 2009 and 2008 were approximately \$62,800 and \$62,900, respectively. Tax fees paid to Moss Adams LLP for 2009 and 2008, were approximately \$9,800 and \$8,900, respectively.

\*Earnings per share are calculated on the weighted average number of shares outstanding, adjusted for stock dividends and stock splits. The weighted average number of shares outstanding was as follows:

2009	1,281,220
2008	1,282,586
2007	1,285,348
2006	1,289,428
2005	1,293,999

*Dollars in Thousands*

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and amount due from banks	\$3,953	\$10,710
Interest-bearing deposits at other financial institutions	52,421	19,376
Federal funds sold	1,178	5,712
Securities available for sale, at fair value	46,377	25,942
Securities held to maturity, at cost	14,385	16,413
Other Investments, at cost	1,883	1,880
Loans	295,615	294,274
Allowance for credit losses	(4,626)	(3,782)
<b>Net Loans</b>	<b>290,989</b>	<b>290,492</b>
Premises and equipment, net	14,831	14,617
Accrued interest receivable	2,704	2,500
Other assets	1,507	1,731
<b>Total Assets</b>	<b>\$430,228</b>	<b>\$389,373</b>
 <b>Liabilities and Shareholders' Equity</b>		
Deposits		
Demand, non-interest-bearing	\$74,954	\$70,405
Savings and interest-bearing demand	180,979	157,888
Time	106,736	107,557
<b>Total Deposits</b>	<b>362,669</b>	<b>335,850</b>
Federal funds purchased and security repurchase agreements	18,755	10,922
Other borrowed funds	10,625	5,494
Accrued interest payable	373	582
Other liabilities	1,050	1,191
<b>Total Liabilities</b>	<b>393,472</b>	<b>354,039</b>
<b>Shareholders' Equity</b>		
Common stock (no par value, stated value \$3.125 per share)	4,059	4,053
Additional paid-in capital	633	541
Retained earnings	31,538	30,557
Accumulated other comprehensive income	526	184
<b>Total Shareholders' Equity</b>	<b>36,756</b>	<b>35,335</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$430,228</b>	<b>\$389,374</b>

**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**

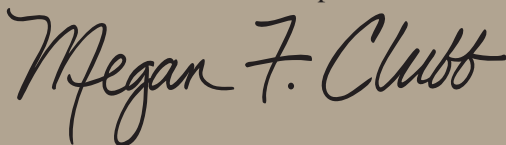
Baker Boyer Bancorp is a Washington corporation registered under the Bank Holding Company Act of 1956 as a bank holding company. The Company's shares are not registered under the Securities Exchange Act of 1934. As of April 1994, the Company's shares were listed on the Over-The-Counter (OTC) Bulletin Board under the symbol BBBK. As of December 31, 2009, there were 1,299,724 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 29, 2010, 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  
*Not Pictured:* Charles H. Eglin, John R. Valaas



*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 - Wealth Management & Business Banking

1149 N. Edison Street, Suite A, Kennewick, WA 99336

YAKIMA OFFICE - Wealth Management & Business Banking

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

