

BAKER BOYER BANCORP
THIRD QUARTER
REPORT
2011



Post Office Box 2175
Walla Walla, WA 99362-0175
(509) 525-2000

Board of Directors

Megan F. Clubb, Chair	Charles H. Eglin
Peter Allen	Dave Gordon
D. F. Baker	Fred Kimball
Jon S. Bren	Stephen G. Kimball
Lynne Bush	Susan C. Pratt
David B. Campbell	John R. Valaas



Letter to Our Shareholders

October 18, 2011

Dear Baker Boyer Shareholder:

Our unique business banking, personal banking and wealth management strategy continues to be a winner despite today's challenging environment. Net income of \$4.5M is twenty percent ahead of last year at this time. Equally impressive, our Return on Equity through September is 14.9%. This level of return on investment is more than two times higher than the return on investment our peer banks reported through the first half of this year averaging only 6.1%.

With this solid financial strength we continue to support businesses and families when they need us most. This is the fundamental reason why we are outperforming our competitors...our clients are confident that we are protecting them in the short-term and guiding them to a brighter financial future. It is this service commitment that differentiates Baker Boyer from the standard industry practices of pushing customers into impersonal electronic channels and then nickel-and-diming them with transaction fees.

Our outstanding financial performance is a result of our big-picture outlook. It's easy to get caught up in improving services, efficiencies, and processes—without reflecting how they affect clients. At the end of the day, if changes we make do not help us build relationships with our clients, they play second fiddle to matters that do help.

Customers frequently tell me stories about how important it is that we are here to help them survive and grow in difficult economic times. While we were very proud of ranking 23rd in the nation on financial performance and being named the best mid-sized company to work for in the state this year, we wondered whether these accomplishments were important to our customers—so we asked them:

“They know what I want and what I need. They’ve taken time to make sure that they know my business inside and out.”
—Bruce Bacon, President, Glacier Sales (Yakima)

“I just feel like it’s a partnership—it’s a team relationship—and I just feel part of the family.”
—Lura Powell, Former Director, PNNL (Tri-Cities)

These quotes came from a short video we recently produced. I encourage you to take a few minutes to look at the video on our website, www.bakerboyer.com, to see how different and valued the Baker Boyer experience is.

We are 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 of the communities we serve. As a part of this effort we kicked off a campaign asking each of our 175 employees to share the Baker Boyer success story utilizing the new testimonial video.

We are working 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. Please help us spread their affirmation of Baker Boyer's highly valuable services. As you talk to family, friends and business associates, engage them in a conversation about your bank. And share our new testimonial video by encouraging them to check out our website, by linking the video in your emails or by posting the video on social media sites like Facebook.

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 your bank.

Sincerely,

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

Megan F. Clubb
Chairman & CEO

Consolidated Balance Sheet - Average ytd

(Unaudited)

	September 30,		% Chg.
	2011	2010	
<i>(Dollars in Thousands)</i>			
ASSETS			
Cash and amounts due from banks	\$ 53,499	\$ 71,255	(24.9)
Federal funds sold and deposits at other financial institutions	-	128	(100.0)
Total Cash and Cash Equivalents	53,499	71,383	(25.1)
Investment securities:			
Available-for-sale, at fair value	101,634	64,482	57.6
Held-to-maturity at cost	7,303	11,767	(37.9)
Other investments, at cost	1,891	1,892	(0.1)
Total Investments	110,828	78,141	41.8
Loans	304,762	303,092	0.6
Allowance for credit losses	(5,838)	(5,338)	9.4
Net Loans	298,924	297,754	0.4
Bank premises and equipment, net	14,816	15,283	(3.1)
Accrued interest receivable	2,663	2,625	1.4
Other assets	3,402	3,254	4.5
TOTAL ASSETS	\$ 484,132	\$ 468,440	3.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits			
Noninterest bearing	\$ 92,277	\$ 78,988	16.8
Interest bearing	326,630	325,403	0.4
Total Deposits	418,907	404,391	3.6
Federal funds purchased and security repurchase agreements	20,641	20,352	1.4
Other borrowed funds	3,164	4,200	(24.7)
Accrued interest payable	187	297	(37.0)
Other liabilities	408	799	(48.9)
TOTAL LIABILITIES	443,307	430,039	3.1
SHAREHOLDERS' EQUITY			
Common stock (no par value, stated value \$3.125 per share)			
	9/30/11	09/30/10	
Shares authorized	4,000,000	4,000,000	
Shares issued and outstanding	1,306,370	1,302,723	0.4
Additional paid-in capital	1,077	848	27.0
Retained earnings	35,023	32,668	7.2
Accumulated other comprehensive income (loss)	646	822	(21.4)
TOTAL SHAREHOLDERS' EQUITY	40,825	38,401	6.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 484,132	\$ 468,440	3.3

Consolidated Statements of Income

(Unaudited)

	Nine Months Ending September 30,		% Chg.
	2011	2010	
<i>(Dollars in Thousands, except per share amounts)</i>			
Interest and Dividend Income			
Loans, including fees	\$ 13,942	\$ 14,065	(0.9)
Federal funds sold and deposits at other financial institutions	302	646	(53.3)
Investment securities:			
Taxable	297	252	17.9
Tax-exempt	1,371	1,267	8.2
Other investment income and dividends	19	20	(5.0)
Total Interest and Dividend Income	15,931	16,250	(2.0)
Interest Expense			
Deposits	1,439	2,332	(38.3)
Federal funds purchased and security repurchase agreements	63	148	(57.4)
Other borrowed funds	103	136	(24.3)
Total Interest Expense	1,605	2,616	(38.6)
Net Interest Income	14,326	13,634	5.1
Provision for credit losses	1,160	768	51.0
Net Interest Income after Provision for Credit Losses	13,166	12,866	2.3
Non-Interest Income			
Wealth Management and Trust fees	3,917	3,542	10.6
Investor Services	889	804	10.6
Service charges on deposit accounts	748	867	(13.7)
Other service charges and fees	1,176	856	37.4
Other operating income	480	442	8.6
Total Non-Interest Income	7,210	6,511	10.7
Non-Interest Expense			
Salaries, wages, and other compensation	7,133	7,262	(1.8)
Retirement and employee benefits	2,082	2,113	(1.5)
Net occupancy expense	756	742	1.9
Furniture and equipment expense	446	423	5.4
Other operating expense	3,810	3,795	0.4
Total Non-Interest Expense	14,227	14,335	(0.8)
Income Before Income Taxes	6,149	5,042	22.0
Provision For Income Taxes	1,602	1,264	26.7
NET INCOME	\$ 4,547	\$ 3,778	20.4
Basic Earnings Per Common Share	\$ 3.52	\$ 2.94	19.9
Weighted Average Number of Shares Outstanding	1,291,153	1,286,505	