

(FFIEC)
**Federal Financial
Institution Examination Council
Supervisory Policy**

Revised 2011



1.800.937.2257 n Fax 405.415.7392 n www.gobaker.com

Dear Client:

To assist you in meeting the supervisory policy requirements of the five national regulatory bodies comprising the Federal Financial Institution Examination Council regarding the selection of securities dealers, we have provided the following information in accordance with the supervisory agencies' specifications:

- Background Summary – Duties and Responsibilities
- Compliance – Qualifications and Requirements of a Broker/Dealer
- Annual Statement of Financial Condition
- References
- Regulatory and Clearing Agencies
- Regulatory Disciplinary Action Disclosure
- Biographies of The Baker Groups' Managing Directors
- Officers, Account Executives and Traders

Please do not hesitate to call our toll-free number 1-800-937-2257 if you have any questions or require further information.

Sincerely,

The Baker Group LP

Background Summary

Duties and Responsibilities

The Baker Group LP is a successor firm to James Baker & Company founded in 1979. The Baker Group LP is registered with the Securities & Exchange Commission as a general securities broker/dealer and is a member of the Financial Industry Regulatory Authority, Inc., the Securities Investment Protection Corporation, the Municipal Securities Rulemaking Board, and the Securities Information Center.

The Baker Group has been providing quality investment services to community banks nationwide since 1979. The firm is a leader in the development of innovative software and management reporting services for community banks. As an independently owned investment firm, The Baker Group specializes in products and programs to address emerging needs in the areas of:

- Portfolio Management
 - Broker / Dealer Services
- Software Solutions*
 - IPA: Investment Portfolio Accounting
 - APM[®]: Advanced Portfolio Monitor[®]
 - IRRM[®]: Interest Rate Risk Monitor
 - BSM[®]: Balance Sheet Monitor[®]
- Financial Strategies Group
 - Strategic Planning
 - Regulatory Compliance and Policy Education
 - Investment Seminars
 - Quarterly Investment Strategies
 - Updated Investment and Asset/Liability Policies
 - Regular Online Educational Sessions

Since the early 1980's, The Baker Group has taken a leadership position in presenting investment management seminars. Regularly scheduled seminars are conducted to keep bank clients abreast of current market conditions, changing bank regulations, prudent security analysis and the introduction of new investment vehicles. Our staff has addressed numerous national and state banking associations and served on the faculty of various community banking schools.

The Baker Group

1. Executes, clears and settles securities transactions for clients;
2. Prepares and transmits confirmations of executed transactions to clients;
3. Prepares and sends monthly security and position statements to clients, as required;
4. Maintains the financial books and records required by law and by sound business practice

* The Baker Group LP is the sole authorized distributor for the products and services developed and provided by The Baker Group Software Solutions, Inc.

Compliance

Qualifications and Requirements of a Broker/Dealer

Membership and Registration

Financial Industry Regulatory Authority, Inc. Securities and Exchange Commission

The Baker Group LP is a member of the Financial Industry Regulatory Authority, Inc. (FINRA) Membership in the FINRA entitles a firm to participate in the investment and over-the-counter securities business on a preferential basis to distribute new issues of securities of various kinds that are underwritten and sponsored by FINRA members. By accepting these privileges, every member is obligated to subscribe to the same standards of ethical conduct. As a condition for FINRA membership, a firm must be registered with the Securities and Exchange Commission (SEC).

Securities Investor Protection Corporation

Certain broker/dealers will also be subject to federal statutory provisions requiring them to become members of the Securities Investor Protection Corporation (SIPC). Essentially, all non-bank broker/dealers registered with the SEC whose principal business is conducted within the United States, its territories or possessions must become members of the SIPC. All firms that are required to become members of the SIPC must carry a blanket fidelity bond that meets the requirements as to form, amount and type of coverage specified.

Municipal Securities Rulemaking Board

All broker/dealers that are engaged in the offer and/or sale of municipal securities are obliged to comply with the rules and regulations of the Municipal Securities Rulemaking Board (MSRB)

State Regulatory Authorities

A firm is generally subject to the requirements of the securities law and registration requirements of any or all states where it conducts a securities business.

Securities Information Center

FINRA member firms, with few exceptions, are required to register as direct or indirect inquirers in the Securities Information Center's Lost and Stolen Securities Program.

Audits and Examinations by Regulatory Authorities

The firm is subject to regular audits and examinations by the FINRA, the SEC, and other regulatory authorities with which the firm is registered to conduct a securities business.

Net Capital Requirements

The firm is subject to the Securities and Exchange Commission's Uniform Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital.

Written Supervisory Procedures

Article III, Section 27 of the FINRA Rules of Fair Practice requires a firm to establish, maintain and enforce written procedures that will enable it to properly supervise its employees' activities and to assure compliance with all applicable securities laws, rules and regulations, and the FINRA rules to which it is subject.

Personnel Requirements

The FINRA prescribes two levels of qualifications and registration for broker/dealer personnel:

1. Registered representatives, generally sales personnel.
2. Principals, generally officers of the firm and other management personnel involved in the day-to-day operations of the firm's investment banking or securities business. The FINRA prescribes certain qualification requirements for members' senior management personnel.

Various personnel must demonstrate their competency to perform certain functions of the member's business operations by passing certain qualification tests. The FINRA does not require registration of personnel performing certain support functions. The firm must comply with the continuing education program for securities dealers.

Financial Reporting

Member firms are required to properly prepare and maintain certain books and records that are required pursuant to SEC Rules 17a-3 and 17a-4 for the type of securities business conducted.

Member firms are required to have their books and records examined annually by an outside auditing firm. This annual audited financial statements, as well as monthly and/or quarterly financial information, is required to be filed with the regulatory authorities on a timely basis.

The Baker Group LP

STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2010

ASSETS

Cash and cash equivalents	247,496
Federal funds sold	<u>1,390,000</u>
Total cash and cash equivalents	1,637,496
Cash and securities segregated under federal and other regulations	478,425
Receivables from brokers and dealers	4,261,183
Receivables from customers	11,995,606
Securities owned, at fair value	12,455,787
Property and equipment, net of accumulated depreciation of \$2,193,438	232,561
Cash surrender value of life insurance policies	433,382
Other assets	<u>400,022</u>
Total Assets	<u>31,894,462</u>

LIABILITIES AND PARTNERS' CAPITAL

Due to broker	580,013
Payable to customers	2,205,608
Distributions payable to partners	981,253
Accrued liabilities	<u>7,589,614</u>
Total Liabilities	<u>11,356,488</u>
PARTNERS' CAPITAL:	
General Partner	8,787,571
Limited Partners	<u>11,750,403</u>
Total partners' capital	<u>20,537,974</u>
Total liabilities and partners' capital	<u>31,894,462</u>

REFERENCES

References are available upon request.

Please call: 1.800.937.2257

Regulatory Agencies

Mr. Brian Kowalski
Regulatory Controller
Financial Industry Regulatory Authority, Inc. Risk Oversight & Operational Regulations
20 Broad Street
New York, NY 10005

For Inquiries call:
1.646.315.8807

Clearing Agencies

John Vinci
Managing Director
The Bank of New York Mellon
One Wall Street 41st Floor
New York, New York 10286

Mr. Dean Schneider
Legal Compliance
Pershing LLC – Director Brokerage Services
One Pershing Place, Ninth Floor
Jersey City, New Jersey 07399

Regulatory Disciplinary Action Disclosure

FINRA Member Firm:
The Baker Group LP
Broker/Dealer Number: 007888

Disciplinary Actions

The Baker Group – Broker/Dealer

None

The Baker Group – Investment Advisor

None

Biographies

DAVID DAUGHERTY is President and CEO and serves on the Board of Directors for The Baker Group. He has more than 20 years' investment experience with community banks. He works exclusively with community banks in the design and implementation of investment and asset/liability strategies. In the process, he evaluates interest rate risk exposure, duration analysis, and recommends specific investment instruments that help maximize the earnings need of the institution.

Before joining The Baker Group, David served as President and Director at a regional investment banking firm.

David has presented investment seminars across the country, most recently to the Community Bankers Association of Illinois, Community Bankers Association of North Dakota, and the Community Bankers Association of Indiana.

David holds a Bachelor of Business Administration degree in Finance from the University of Oklahoma. He is registered as an investment advisor, principal and representative with the Financial Industry Regulatory Authority, Inc. He is also a registered principal with the Municipal Securities Rulemaking Board. He is a past member of the FINRA Business Consultive Committee and a past member of the Financial Industry Regulatory Authority's 5th Business Conduct Committee and the FINRA's small firm's committee.

RICK HANSING is a Managing Director and serves on the Board of Directors. He works with banks in the areas of investments and asset/liability management. He also assists clients in a broad range of other areas including education, portfolio management, interest rate risk management, strategic planning, liability and loan pricing, and regulatory and accounting issues.

Rick received his Bachelor of Business Administration Degree from the University of Oklahoma. He is a registered representative investment advisor and a General Securities Principal with the Financial Industry Regulatory Authority, Inc.

ERIC HARLAND is a Managing Director and serves on the Board of Directors for The Baker Group. He has more than 15 years investment experience as a fixed-income strategist working with Community Banks. He works with financial institutions in the design and implementation of key investment and asset/liability strategies. Eric offers assistance to clients in a broad range of areas including evaluation of interest rate risk and duration exposure, exam preparation, liquidity management, ALCO & Board education. Eric specializes in helping community banks develop these strategies while offering assistance in selection of investment instruments that maximize bank earnings and performance while meeting the overall risk management needs of each institution. Eric's focus is to develop strategies that build long-term shareholder value.

Originally from Oklahoma, Eric relocated his family to Springfield, IL in 1998 to open The Baker Group's new regional office. After ten years in Springfield he has recently relocated back to our headquarters in Oklahoma.

Eric regularly presents investment seminars across the country, most recently to the Community Bankers Association of Illinois, Western Illinois Association of Bank Management, as well as multiple CEO forums and bank groups. Eric has also served on the faculty of the Midwest School for Community Bankers teaching investment and asset/liability management.

He is a registered representative and general securities principal with the Financial Industries Regulatory Authority (FINRA).

CARL H. HOLLIDAY is a Managing Director of The Baker Group. As a founding member, he serves on the Board of Directors and acts in the capacity of Vice President of The Baker Group since joining the firm in 1979. Carl is a registered investment advisor, principal and representative with the Financial Industry Regulatory Authority, Inc. and principal with the Municipal Securities Rulemaking Board.

Carl works with institutional clients in structuring fixed-income and securities portfolios, utilizing his experience in the areas of asset/liability management, duration, security selection, financial trends, and liquidity risk analysis. Carl also works with individuals and trust accounts structuring their fixed-income portfolios based on their tax position and risk horizon.

In addition to the institutional clients, Carl is an equity portfolio manager structuring portfolios for high net worth individuals and foundations. This includes asset allocation responsibilities and stock selection.

Previously employed in the institutional investment department of a major Oklahoma bank, Carl was responsible for the portfolios of more than 100 correspondent banks. His responsibilities required knowledge of a number of investment areas including government and municipal bond trading, institutional sales, municipal underwriting, portfolio analysis, money market sales, cash management, and mortgage-back securities trading. Carl earned a Bachelor of Business Administration Degree in Finance from the University of Oklahoma. He is a graduate of the National School of Bank Investments.

EDWARD A. KREI is a Managing Director and serves on the Board of Directors. He provides services relating to investment portfolio management, balance sheet strategies and strategic planning. He is a frequent speaker at banking and investment conferences. Ed is a faculty member of numerous banking schools and serves as an instructor for bank regulatory agencies.

Ed is a registered principal and representative with the Financial Industry Regulatory Authority, Inc. and principal with the Municipal Securities Rulemaking Board. He received his Bachelor of Business Administration Degree in Accounting from the University of Mississippi and was gold medallist on the CPA examination in Tennessee.

MIKE MACKEY is a Managing Director and serves on the Board of Directors. He works primarily with banks in areas of investments and asset/liability management. He also assists clients in a broad range of other areas including education, portfolio management evaluation, interest rate risk, strategic planning and regulatory issues.

Mike focuses on identifying the specific objectives of clients and tailoring investment portfolios to achieve their goals. In that process, he evaluates the relative values of a broad range of investment products and helps clients select those that compliment their investment portfolios.

Mike received his Bachelor's Degree in Oral Communications from the University of Central Oklahoma. He is registered as an investment advisor, principal and representative with the Financial Industry Regulatory Authority, Inc.

TERRY McELWEE is a Managing Director and serves on the Board of Directors for The Baker Group. He works exclusively with community banks in the design and implementation of investment and asset/liability strategies. He also assists clients in a broad range of other areas including education, portfolio management evaluation, interest rate risk, strategic planning and regulatory issues.

Terry focuses on identifying the objectives of clients and then tailoring a long term strategic investment/asset liability plan. In that process, he evaluates the relative value of a broad range of investment products and helps clients select those that compliment their investment portfolios and overall balance sheet. Terry has presented investment and asset /liability seminars to many banking organizations including Community Bankers Association of Illinois.

Terry earned a Bachelor of Arts Degree in Political Science from The University of Illinois at Springfield. He is registered as a general securities representative and general securities principal with FINRA and assists in the management of the Springfield, Illinois office.

DOUGLAS W. McQUEEN is Chairman of the Board of The Baker Group. His knowledge of finance, banking and investments is well recognized in business communities. Doug joined the firm at its inception in 1979 as a Vice President and Director.

Doug's experience with the firm includes pioneering efforts in the development of the concept of asset/liability management, investment advisor and consultant. He works with individual and institutional accounts throughout the United States in the critical areas of portfolio management, evaluation of asset/liability exposure, liability and loan pricing, and hedging strategies. As a Managing Director, Doug is in charge of trading in U.S. Government securities, agencies and mortgage-backed securities.

Before joining the firm, Doug was an officer of a national bank in Oklahoma City where he handled the cash management position of the bank and was actively engaged in municipal and government bond sales, bond trading and municipal underwriting.

Doug earned a Bachelor of Science Degree in Business from the University of Colorado where he majored in accounting. He has also completed the bank investment course of the American Institute of Banking. Doug is a registered investment advisor, principal and representative with the Financial Industry Regulatory Authority, Inc. and principal with the Municipal Securities Rulemaking Board. In 1991 Doug was elected to serve as a member of the Financial Industry Regulatory Authority, Inc. District No. 5 Business Conduct Committee.

PHIL STENSETH, CFA is a Managing Director of The Baker Group and serves on the Board of Directors. He is responsible for directing the firm's fixed income trading operation. He is instrumental in the firm's development of bank investment portfolio and interest rate risk management strategies, researching new investment products, monitoring bank regulatory and compliance issues. Additionally, Phil has revised and continues to enhance the firm's proprietary software programs designed to assist clients in the management of their investment portfolio (APM[®]) and the overall interest rate risk of their bank (IRRM[®]).

Phil regularly conducts educational seminars for banking groups and associations nationwide. He has addressed various bank trade associations and serves as a faculty member of several national and regional banking schools. Phil has been frequently published in many banking journals and periodicals.

Phil holds a Bachelor of Science degree in Finance from the University of Arizona and is a Chartered Financial Analyst (CFA). He is a member of the Association for Investment Management and Research (AIMR) and the Financial Analysts Society. Additionally, Phil is registered as a general securities representative, general securities principal, Investment Advisor, municipal securities principal with MSRB, and options principal with the Financial Industry Regulatory Authority, Inc.

DANIEL R. TONSETH is a Managing Director of The Baker Group and serves on the Board of Directors. He works with institutional accounts throughout the United States in the design and implementation of investment and asset/liability strategies. In that process, he evaluates interest rate risk exposure and duration analysis to recommend specific investment instruments that maximize the earnings needs of the institution.

Dan has conducted numerous educational seminars to banking associations and money managers nationwide, most recently to the Community Bankers Association of Indiana and the Picasso Group of Denver.

Dan earned a Bachelor of Science Degree in Business from Miami University where he majored in Finance. He is a registered investment advisor, a registered representative with the Financial Industry Regulatory Authority, Inc. and general securities principal.

The Baker Group's Office Locations

MAIN OFFICE

1601 Northwest Expressway, Suite 2000
Oklahoma City, Oklahoma 73118
405.415.7200
1.800.937.2257

1700 Rio Grande Street, Suite 120
Austin, Texas 78701
512.320.0307
1.888.480.0301

8365 Keystone Crossing Blvd. Suite 100
Indianapolis, Indiana 46240
317.567.0016
1.800.406.0016

2975 West Executive Parkway, Suite 139
Lehi, Utah 84043
801.990.1701
1.800.288.9411

901 Community Drive
Springfield, Illinois 62703
217.241.0835
1.888.333.7704

Officers, Account Executives and Traders

Douglas W. McQueen	President and Managing Director
David A. Daugherty	Managing Director
Rick Hansing	Managing Director
Eric Harland	Managing Director
Carl H. Holliday	Managing Director
Edward A. Krei	Managing Director
Mike Mackey	Managing Director
Terry McElwee	Managing Director
Philip C. Stenseth, CFA	Managing Director
Daniel R. Tonseth	Managing Director
Brian Affolder	Vice President and Account Executive
Charles Amis	Vice President and Account Executive
Brian Bates	Associate Partner and Account Executive
Tim Beloat	Associate Partner and Account Executive
John Bloss	Vice President Account Executive
Jeff Caughron	Associate Partner and Account Executive
Ruth Carey	Vice President and Account Executive
Mike Crake	Vice President and Senior Trader
Taylor Currie	Account Executive
Brown Douglas	Account Executive
Chris Dykstra	Account Executive
Susan K. Evans	Vice President and Chief Compliance Officer
John Goodman	Associate Partner and Account Executive
Adam Goodrich	Vice President and Trader
Gerry Hart	Vice President and Account Executive
Ryan Hayhurst	Associate Partner
Buck Held	Account Executive
Ronald Hill	Vice President and Account Executive
Carl Huxley	Vice President and Account Executive
Mike Johnston	Account Executive
Kenneth W. Judd	Vice-President and Account Executive
Jantz Kinzer	Vice President and Account Executive
Justin Kinzer	Account Executive
Todd Mettenbrink	Vice President and Senior Trader
Roy Moore	Vice President and Account Executive
Lester Murray	Vice President and Account Executive
Greg Nieto	Director of Public Finance Division
Robert H. Northwood	Senior Partner
Steve Porter	Senior Partner
Jeff Oakes	Vice President and Account Executive
John Parker II	Vice President and Account Executive
Scott Peters	Associate Partner and Account Executive
Dan Pilcher	Vice President, Senior Trader, and Account Executive
Gerry Skousen	Associate Partner and Account Executive
Craig Stanley	Senior Partner
Wayne Story	Account Executive
Josh Swanson	Vice President and Account Executive
Jason Vlcek	Vice President and Account Executive
Jon Virostek	Vice President and Account Executive
Chris Wilson	Vice President
Kathryn P. Wilson	Vice President and Chief Financial Officer
Dee Wint	Vice President and Account Executive

Traders

Michael J. Crake
Eric Fischer
Adam Goodrich
Douglas W. McQueen
Todd M. Mettenbrink
Dan Pilcher
Philip C. Stenseth

Education / Marketing / Conventions

Jeff Caughron
Laurie Claus
Ryan Hayhurst
Skoshi Heron
Ed Krei
Lester Murray

Kayli Smith
Philip C. Stenseth
Drew Simmons
Chris Wilson