

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-15933

BLUE VALLEY BAN CORP

(Exact name of registrant as specified in its charter)

Kansas

(State or other jurisdiction of incorporation or organization)

48-1070996

(I.R.S. Employer Identification No.)

**11935 Riley
Overland Park, Kansas**

(Address of principal executive offices)

66225-6128

(Zip Code)

Registrant's telephone number, including area code: **(913) 338-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Guarantee with respect to the Trust Preferred Securities, \$8.00 par value, of BVBC Capital Trust I

American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [] No []

Indicate by checkmark whether the registrant is an accelerated filer. Yes [] No []

As of September 30, 2004, the registrant had 2,313,061 shares of Common Stock (\$1.00 par value) outstanding

Blue Valley Ban Corp

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Part I. Financial Information

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

Audit Committee,
Board of Directors and Shareholders
Blue Valley Ban Corp
Overland Park, Kansas

We have reviewed the accompanying consolidated balance sheet of Blue Valley Ban Corp as of September 30, 2004, and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2004 and 2003 and the consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2003 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 13, 2004 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Kansas City, Missouri
October 28, 2004

Blue Valley Ban Corp
Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(dollars in thousands, except share data)

Assets

	September 30, 2004	December 31, 2003
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 31,020	\$ 21,317
Federal funds sold	<u>27,500</u>	<u>29,400</u>
Cash and cash equivalents	58,520	50,717
Available-for-sale securities	74,605	106,036
Mortgage loans held for sale	27,673	18,297
Loans, net of allowance for loan losses of \$7,605 and \$7,051 in 2004 and 2003, respectively	470,155	417,569
Premises and equipment	20,083	18,250
Foreclosed assets held for sale, net	2,459	416
Interest receivable	2,052	1,923
Deferred income taxes	2,239	1,302
Prepaid expenses and other assets	3,170	3,593
Federal Home Loan Bank stock, Federal Reserve Bank stock and other securities	7,922	7,842
Core deposit intangible asset, at amortized cost	<u>1,014</u>	<u>1,128</u>
Total assets	<u>\$ 669,892</u>	<u>\$ 627,073</u>

Blue Valley Ban Corp
Consolidated Balance Sheets
September 30, 2004 and December 31, 2003
(dollars in thousands, except share data)

Liabilities and Stockholders' Equity

	September 30, 2004	December 31, 2003
	<i>(Unaudited)</i>	
Liabilities		
Deposits		
Demand	\$ 83,561	\$ 74,717
Savings, NOW and money market	228,828	190,631
Time	218,309	205,147
Total deposits	530,698	470,495
Other interest-bearing liabilities	24,058	23,447
Short-term debt	1,000	-
Long-term debt	66,694	88,294
Interest payable and other liabilities	5,414	4,639
Total liabilities	627,864	586,875
 Stockholders' Equity		
Capital stock		
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2004 – 2,313,061 shares; 2003 – 2,279,161 shares	2,313	2,279
Additional paid-in capital	7,777	7,404
Retained earnings	32,268	30,344
Unearned compensation	(289)	(399)
Accumulated other comprehensive income		
Unrealized appreciation (depreciation) on available -for-sale securities, net of income taxes (credit) of \$(27) in 2004 and \$380 in 2003	(41)	570
Total stockholders' equity	42,028	40,198
Total liabilities and stockholders' equity	\$ 669,892	\$ 627,073

Blue Valley Ban Corp
Consolidated Statements of Income
Three Months and Nine Months Ended September 30, 2004 and 2003
(dollars in thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest Income				
Interest and fees on loans	\$ 7,345	\$ 7,640	\$ 21,059	\$ 21,972
Federal funds sold	48	6	140	19
Available-for-sale securities	<u>624</u>	<u>445</u>	<u>1,805</u>	<u>1,550</u>
Total interest income	<u>8,017</u>	<u>8,091</u>	<u>23,004</u>	<u>23,541</u>
Interest Expense				
Interest-bearing demand deposits	43	41	115	131
Savings and money market deposit accounts	775	591	2,138	1,561
Other time deposits	1,930	1,747	5,240	5,214
Federal funds purchased and other interest-bearing liabilities	41	50	106	166
Short-term debt	-	96	-	256
Long-term debt	<u>964</u>	<u>1,014</u>	<u>2,951</u>	<u>2,786</u>
Total interest expense	<u>3,753</u>	<u>3,539</u>	<u>10,550</u>	<u>10,114</u>
Net Interest Income	4,264	4,552	12,454	13,427
Provision for Loan Losses	<u>400</u>	<u>150</u>	<u>1,050</u>	<u>1,350</u>
Net Interest Income After Provision for Loan Losses	<u>3,864</u>	<u>4,402</u>	<u>11,404</u>	<u>12,077</u>
Noninterest Income				
Loans held for sale fee income	2,106	5,974	7,992	16,979
Service fees	629	557	1,843	1,631
Realized gain on available-for-sale securities	391	-	524	-
Other income	<u>143</u>	<u>106</u>	<u>425</u>	<u>331</u>
Total noninterest income	<u>3,269</u>	<u>6,637</u>	<u>10,784</u>	<u>18,941</u>
Noninterest Expense				
Salaries and employee benefits	3,836	6,092	12,240	16,169
Net occupancy expense	903	833	2,503	2,296
Other operating expense	<u>1,688</u>	<u>1,788</u>	<u>4,758</u>	<u>4,918</u>
Total noninterest expense	<u>6,427</u>	<u>8,713</u>	<u>19,501</u>	<u>23,383</u>
Income Before Income Taxes	706	2,326	2,687	7,635
Provision for Income Taxes	<u>173</u>	<u>831</u>	<u>763</u>	<u>2,738</u>
Net Income	<u>\$ 533</u>	<u>\$ 1,495</u>	<u>\$ 1,924</u>	<u>\$ 4,897</u>
Basic Earnings Per Share	<u>\$0.23</u>	<u>\$0.66</u>	<u>\$0.84</u>	<u>\$2.19</u>
Diluted Earnings Per Share	<u>\$0.23</u>	<u>\$0.64</u>	<u>\$0.82</u>	<u>\$2.12</u>

See Accompanying Notes to Consolidated Financial Statements
and Report of Independent Registered Public Accounting Firm.

Blue Valley Ban Corp
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2004 and 2003

(dollars in thousands, except share data)

	Comprehensive Income	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2002		\$ 2,223	\$ 6,284	\$ 25,052	\$ —	\$ 785	\$ 34,344
Issuance of 31,875 shares of common stock	—	32	602	—	—	—	634
Net income	4,897	—	—	4,897	—	—	4,897
Change in unrealized appreciation on available-for-sale securities, net of income tax credit of \$(164)	<u>(246)</u>	—	—	—	—	<u>(246)</u>	<u>(246)</u>
	<u>\$ 4,651</u>	<u>\$ 2,255</u>	<u>\$ 6,886</u>	<u>\$ 29,949</u>	<u>\$ —</u>	<u>\$ 539</u>	<u>\$ 39,629</u>
Balance, September 30, 2003		<u>\$ 2,255</u>	<u>\$ 6,886</u>	<u>\$ 29,949</u>	<u>\$ —</u>	<u>\$ 539</u>	<u>\$ 39,629</u>
	<u>\$ 768</u>						
Balance, December 31, 2003		\$ 2,279	\$ 7,404	\$ 30,344	\$ (399)	\$ 570	\$ 40,198
Issuance of 33,900 shares of common stock	—	34	373	—	—	—	407
Net income	1,924	—	—	1,924	—	—	1,924
Restricted stock earned and forfeited	—	—	—	—	110	—	110
Change in unrealized appreciation on available-for-sale securities, net of income tax credit of \$(407)	<u>(611)</u>	—	—	—	—	<u>(611)</u>	<u>(611)</u>
	<u>\$ 1,313</u>	<u>\$ 2,313</u>	<u>\$ 7,777</u>	<u>\$ 32,268</u>	<u>\$ (289)</u>	<u>\$ (41)</u>	<u>\$ 42,028</u>
Balance, September 30, 2004		<u>\$ 2,313</u>	<u>\$ 7,777</u>	<u>\$ 32,268</u>	<u>\$ (289)</u>	<u>\$ (41)</u>	<u>\$ 42,028</u>

Reclassification Disclosure

	September 30, 2004	September 30, 2003
Unrealized depreciation on available-for-sale securities, net of income tax credit of \$(198), and \$(164) for the periods ended September 30, 2004 and September 30, 2003, respectively	\$ (297)	\$ (246)
Less: reclassification adjustments for appreciation included in net income, net of income taxes of \$210 and \$0 for the periods ended September 30, 2004 and September 30, 2003, respectively	<u>314</u>	—
Change in unrealized appreciation on available-for-sale securities, net of income tax credit of \$(407) and \$(164) for the periods ended September 30, 2004 and September 30, 2004, respectively	<u>\$ (611)</u>	<u>\$ (246)</u>

Blue Valley Ban Corp
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2004 and 2003

(dollars in thousands, except share data)

	September 30, 2004	September 30, 2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash Flows From Operating Activities		
Net income	\$ 1,924	\$ 4,897
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	1,365	1,139
Amortization (accretion) of premiums and discounts on securities	(19)	34
Provision for loan losses	1,050	1,350
Net realized gain on available-for-sale securities	(524)	-
Net loss on sale of foreclosed assets	102	39
Net loss (gain) on sale of premises and equipment	5	(18)
Restricted stock earned and forfeited	110	-
Originations of loans held for sale	(688,991)	(1,385,560)
Proceeds from the sale of loans held for sale	679,616	1,442,697
Changes in		
Interest receivable	(129)	220
Prepaid expenses and other assets	(384)	(348)
Interest payable and other liabilities	775	1,341
Net cash provided by (used in) operating activities	<u>(5,100)</u>	<u>65,791</u>
Cash Flows From Investing Activities		
Net originations of loans	(59,228)	(34,995)
Proceeds from sales of loan participations	3,053	-
Purchase of premises and equipment	(2,812)	(7,977)
Proceeds from the sale of premises and equipment	-	18
Proceeds from the sale of foreclosed assets	393	610
Proceeds from sales of available-for-sale securities	21,271	-
Proceeds from maturities of available-for-sale securities	41,659	72,487
Purchases of available-for-sale securities	(31,974)	(75,527)
Proceeds from the sale or maturities of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	95	-
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	(175)	(2,250)
Net cash used in investing activities	<u>(27,718)</u>	<u>(47,634)</u>
Cash Flows From Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	47,041	8,065
Net increase in time deposits	13,162	33,118
Repayments of long-term debt	(21,600)	(4,525)
Proceeds from long-term debt	-	15,325
Net proceeds from guaranteed preferred beneficial interest in Company's subordinated debt	-	7,500
Net proceeds (payments) on short-term debt	1,000	(35,000)
Proceeds from sale of common stock	407	634
Net increase (decrease) in other borrowings	611	(14,864)
Net cash provided by financing activities	<u>40,621</u>	<u>10,253</u>
Increase in Cash and Cash Equivalents	7,803	28,410
Cash and Cash Equivalents, Beginning of Period	<u>50,717</u>	<u>27,755</u>
Cash and Cash Equivalents, End of Period	<u>\$ 58,520</u>	<u>\$ 56,165</u>

See Accompanying Notes to Consolidated Financial Statements
and Report of Independent Registered Public Accounting Firm.

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the Company's consolidated financial position as of September 30, 2004, and the consolidated results of its operations, changes in stockholders' equity and cash flows for the periods ended September 30, 2004 and 2003, and are of a normal recurring nature.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2003 Form 10-K filed with the Securities and Exchange Commission. Certain reclassifications to prior year amounts have been made to conform to current year presentation.

The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

The Company applies Accounting Principles Board No. 25 and related Interpretations in accounting for its stock option plan and no compensation cost has been recognized. Pro forma compensation costs for the Company's plan are determined based on the fair value at the option grant dates using the minimum value method under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation." During the period ended September 30, 2004, the Company issued no stock options; consequently, reported and pro forma net income were identical.

During the period ended September 30, 2004, the Company applied the provisions of Financial Accounting Standards Board Interpretation 46 (Revised), *Consolidation of Variable Interest Entities*, to its trust preferred securities. The primary impact of this change was to report the Company's subordinated debt to the trust on the face of the accompanying balance sheet rather than the minority interest in the trust, as previously presented. This change has been made for all periods presented. This change did not have a material impact on the Company's total assets, liabilities, stockholders' equity or results of operations.

The report of **BKD, LLP** on its review accompanies the consolidated financial statements included in Item 1 of Part I.

Note 2: Earnings Per Share

Basic earnings per share is computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted average common shares and all potential dilutive common shares outstanding during the period.

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

The computation of per share earnings for the three and nine-months ended September 30, 2004 and 2003 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>(amounts in thousands, except share and per share data)</i>		<i>(amounts in thousands, except share and per share data)</i>	
Net income, as reported	\$ 533	\$ 1,495	\$ 1,924	\$ 4,897
Add: Total stock-based employee compensation recognized in net income, net of income taxes of \$10 and \$33 for the three- and nine-month periods ended September 30, 2004, respectively	21	-	63	-
Less: Total stock-based compensation cost determined under the fair value based method, net of income tax credit of \$(10) and \$(33) for the three- and nine-month periods ended September 30, 2004, respectively	(21)	-	(63)	-
Pro forma net income	<u>\$ 533</u>	<u>\$ 1,495</u>	<u>\$ 1,924</u>	<u>\$ 4,897</u>
Average common shares outstanding	2,309,341	2,254,139	2,298,286	2,238,536
Average common share stock options outstanding	<u>55,441</u>	<u>79,381</u>	<u>59,331</u>	<u>74,467</u>
Average diluted common shares	<u>2,364,782</u>	<u>2,333,520</u>	<u>2,357,617</u>	<u>2,313,003</u>
Basic earnings per share	<u>\$0.23</u>	<u>\$0.66</u>	<u>\$0.84</u>	<u>\$2.19</u>
Diluted earnings per share	<u>\$0.23</u>	<u>\$0.64</u>	<u>\$0.82</u>	<u>\$2.12</u>

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

Note 3: Short-Term Debt

Short-term debt at September 30, 2004 and December 31, 2003, consisted of the following components:

	September 30, 2004	December 31, 2003
	<i>(Unaudited)</i>	
	<i>(in thousands)</i>	
Note Payable - other (a)	\$ 1,000	\$ —
Total Short-term debt	<u>\$ 1,000</u>	<u>\$ —</u>

- (a) Revolving line of credit collateralized by common stock of the Company's subsidiary bank. Interest accrues at the Federal Funds Rate plus 1.68%.

Note 4: Long-Term Debt

Long-term debt at September 30, 2004 and December 31, 2003, consisted of the following components:

	September 30, 2004	December 31, 2003
	<i>(Unaudited)</i>	
	<i>(in thousands)</i>	
Note Payable - other (A)	\$ —	\$ 1,281
Note Payable - bank (B)	4,606	4,925
Federal Home Loan Bank advances (C)	42,500	62,500
Trust Preferred Securities – BVBC Capital Trust I (D)	11,856	11,856
Trust Preferred Securities – BVBC Capital Trust II (E)	<u>7,732</u>	<u>7,732</u>
Total long-term debt	<u>\$ 66,694</u>	<u>\$ 88,294</u>

- (A) Due in August 2009, payable in monthly installments of \$23,175, plus interest at 7.5%; collateralized by land, building and assignment of future rents. This note was paid off during the first quarter of 2004.
- (B) Due in December 2012, payable in quarterly installments of principal plus interest at the Federal Funds Rate plus 1.68%; collateralized by common stock of the Company's subsidiary bank. The interest rate on this note has been fixed by the use of a swap

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

agreement (*see Note 5*).

- (C) Due in 2008, 2010, 2011 and 2013; collateralized by various assets including mortgage-backed loans. The interest rates on the advances range from 1.84% to 5.682%.
- (D) Due in 2030; interest only at 10.375% due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust.
- (E) Due in 2033; interest only at LIBOR + 3.25% due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. Subordinated to the trust preferred securities (D) due in 2030.

Aggregate annual maturities of long-term debt at September 30, 2004 are as follows:

	<i>(in thousands)</i>
October 1 to December 31, 2004	\$ 106
2005	450
2006	475
2007	500
2008	10,530
Thereafter	<u>54,633</u>
	<u>\$ 66,694</u>

Note 5: Derivative Financial Instruments

As a strategy to reduce the exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement for a portion of its floating rate debt (*see Note 4*). The agreement provides for the Company to receive interest from the counterparty at the note's variable rate and to pay interest to the counterparty at a fixed rate of 5.45% on the notional amount over the term of the note. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. The hedge was fully effective through September 30, 2004. Under the cash flow hedging method, the effective portion of the gain or loss related to the derivative is recognized as a component of other comprehensive income. The ineffective portion, if any, is recognized in current earnings.

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

Note 6: Mortgage Loans Held for Sale Charge and Subsequent Events

In the third quarter of 2004, the Company recorded a reduction in its Loans Held for Sale Income of \$350,000 and also recorded an offsetting Other Liability to account for the anticipated refund of fee income on residential mortgage loans underwritten with documentation altered by a former employee of the Company. Because the affected loans were sold to investors, it is probable that the Company will either repurchase these loans and refund the \$350,000 of fee income that was earned on these loans when they were sold to investors or indemnify the investor. Through the date of this report, the Company had repurchased approximately \$9 million of these loans into the Company's existing residential mortgage loan portfolio. The anticipated repurchase of the remaining \$ 5 million of affected loans is expected to be made in the fourth quarter of 2004 with liquidity currently available and is not expected to have a significant impact on the Company's overall liquidity position. Although the exact amount is not currently determinable, the Company will record an appropriate charge to the provision for loan losses upon the repurchase of these mortgage loans. Almost all of the affected mortgage loans are currently paying as agreed, and therefore the Company expects minimal credit losses from these loans. The Company expects the anticipated repurchase to have an immaterial impact on its earnings in the fourth quarter of 2004.

Management of the Company, pursuant to an operational risk assessment of the situation, has put procedures in place to prevent such documentation issues in the future.

On October 14th, the Company became a co-defendant in a class action lawsuit. The plaintiffs are eighteen former mortgage loan originators claiming that the Company did not compensate them appropriately for overtime in accordance with United States Department of Labor rules. The Company believes that these claims are without merit and intends to vigorously defend against them. In addition, the Company is exploring whether any financial implications are covered by the Company's insurance policies. At this time, the Company has no estimate of the financial implications of this suit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company is unable to predict the actual results of its future plans or strategies with certainty. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing; a deterioration of general economic conditions or the demand for housing in the Company's market areas; a deterioration in the demand for mortgage financing; legislative or regulatory changes; adverse developments in the Company's loan or investment portfolio; any inability to obtain funding on favorable terms; the loss of key personnel; significant increases in competition; and the possible dilutive effect of potential acquisitions or expansions. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

General

Critical Accounting Policies

Our critical accounting policies are largely proscribed by accounting principles generally accepted in the United States of America. After a review of our policies, we determined that accounting for the allowance for loan losses, income taxes, and stock-based compensation are deemed critical accounting policies because of the valuation techniques used, and the sensitivity of these financial statement amounts to the methods, as well as the assumptions and estimates underlying these balances. Accounting for these critical areas requires the most subjective and complex judgments that could be subject to revision as new information becomes available. There have not been any material changes in our critical accounting policies since December 31, 2003. Further description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2003.

Results of Operations

Three months ended September 30, 2004 and 2003. Net income for the quarter ended September 30, 2004, was \$533,000, compared to net income of \$1.5 million for the quarter ended September 30, 2003, representing a decrease of \$962,000, or 64.35%. Diluted earnings per share decreased 64.07% to \$0.23 during the third quarter of 2004 from \$0.64 in the same period of 2003. The Company's annualized return on average assets and average stockholders' equity for the three-month period ended September 30, 2004 were 0.32% and 5.16%, compared to 0.89% and 15.31%, respectively, for the same period in 2003, decreases of 64.05% and 66.30%, respectively.

The principal contributing factors to our decrease in net income in the current year third quarter from the prior year were a decrease in non-interest income resulting from a decline in loans held

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

for sale fee income and a decrease in net interest income resulting from lower levels of earnings assets as well as an increase in the average rate paid on total interest-bearing liabilities. The strong demand for residential mortgage loan originations, particularly refinancing, experienced by the Company since 2001 decelerated as mortgage interest rates rose during the second half of 2003. The effects of lower mortgage origination volume continued into the third quarter of 2004 and had an adverse impact on our net income.

Nine months ended September 30, 2004 and 2003. Net income for the nine months ended September 30, 2004 was \$1.9 million, compared to net income of \$4.9 million for the nine-month period ended September 30, 2003, representing a decrease of \$3.0 million, or 60.72%. Diluted earnings per share decreased 61.33% to \$0.82 during the nine months ended September 30, 2004 from \$2.12 in the same period of 2003. The Company's annualized returns on average assets and average stockholders' equity for the nine-month period ended September 30, 2004 were 0.40% and 6.27%, compared to 1.05% and 17.62%, respectively, for the same period in 2003, decreases of 61.91% and 64.42%, respectively.

The principal contributing factors to our decrease in net income from the nine months ended September 30, 2003 to the current year were a decrease in non-interest income, specifically loans held for sale fee income, and a decrease in net interest income resulting from a change in the mix of earning assets.

Net interest income

Fully tax equivalent (FTE) net interest income for the three-month period ended September 30, 2004 was \$4.3 million, a decrease of \$312,000 or 6.75%, from \$4.6 million for the three-month period ended September 30, 2003.

FTE interest income for the current year third quarter was \$8.1 million, a decrease of \$99,000, or 1.22%, from \$8.2 million in the prior year third quarter. This decrease was primarily a result of an overall decrease in average earning assets. Average earning asset volume decreased from the third quarter of 2003 to the current period by \$25.8 million, or 4.08%. Partially offsetting the decrease in average earning assets was an increase in yield on interest-earning assets. The yield on average earning assets increased 15 basis points to 5.28% in the third quarter of 2004, compared to 5.13% in the prior year third quarter. The 15 basis point increase in yield resulted primarily from increases in market interest rates during the third quarter of 2004.

Interest expense for the current year third quarter was \$3.8 million, an increase of \$214,000, or 6.04%, from \$3.5 million in the prior year third quarter. This increase was primarily a result of an increase in the rate paid on average interest-bearing liabilities resulting from promotional rates offered on our time deposits. The rate paid on total average interest-bearing liabilities increased 17 basis points to 2.80% during the three-month period ended September 30, 2004 compared to 2.63% during the same period in 2003. Partially offsetting the effect of this increase in rate was a decline in the balance of average interest-bearing liabilities. Average interest-bearing liabilities decreased \$3.0 million or 0.57% to \$530.9 million during the third quarter of 2004 compared to \$533.9 million during the prior year period. This decrease was primarily the result of lower short- and long-term debt average balances which were partially offset by an increase in interest-bearing deposit average balances.

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FTE net interest income for the nine-month period ended September 30, 2004 was \$12.6 million, a decrease of \$1.0 million or 7.51%, from \$13.7 million for the nine-month period ended September 30, 2003.

FTE interest income for the nine months ended September 30, 2004 was \$23.2 million, a decrease of \$589,000, or 2.48%, from \$23.8 million for the nine months ended September 30, 2003. This decrease primarily resulted from a change in the mix of earning assets. The yield on average earning assets declined 18 basis points to 5.28% for the first nine months of 2004, compared to 5.46% for the first nine months of 2003. The 18 basis point decrease in yield resulted primarily from decreases in market interest rates during 2003 and the impact of the low interest rates on new and repriced assets during 2003 and 2004. Partially offsetting the decrease in yield was an increase in average earning asset volume. Average earning asset volume increased from September 30, 2003 to the current period by \$4.5 million, or 0.76%.

Interest expense for the nine-month period ended September 30, 2004 was \$10.5 million, an increase of \$436,000, or 4.31%, from \$10.1 million in the same period of the prior year. The increase is attributable to an increase in average interest-bearing liabilities. Average interest-bearing deposits increased by \$41.2 million, or 11.29% from the prior year while other interest-bearing liabilities, comprised of short-term borrowings and long-term debt, decreased by \$21.5 million or 16.43%. The rate paid on total average interest-bearing liabilities increased 1 basis point to 2.74% during the nine-month period ended September 30, 2004 compared to 2.73% during the same period in 2003.

Average Balance Sheets. The following table sets forth, for the periods and as of the dates indicated, information regarding our average balances of assets and liabilities as well as the dollar amounts of FTE interest income from interest-earning assets and interest expense on interest-bearing liabilities and the resultant yields or costs. Ratio, yield and rate information are based on average daily balances where available; otherwise, average monthly balances have been used. Nonaccrual loans are included in the calculation of average balances for loans for the periods indicated.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

Average Balances, Yields and Rates

	Nine Months Ended September 30,					
	2004			2003		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets						
Federal funds sold	\$ 18,946	\$ 140	0.99 %	\$ 2,696	\$ 19	0.94 %
Investment securities – taxable	73,826	1,459	2.64	51,262	1,102	2.87
Investment securities – non-taxable (1)	10,112	525	6.94	13,246	680	6.86
Mortgage loans held for sale	32,385	1,252	5.16	107,101	3,765	4.70
Loans, net of unearned discount and fees	451,698	19,807	5.86	408,194	18,206	5.96
Total earning assets.....	586,967	23,183	5.28	582,499	23,772	5.46
Cash and due from banks – non-interest bearing.....	21,467			19,050		
Allowance for possible loan losses	(7,367)			(7,732)		
Premises and equipment, net.....	19,489			15,920		
Other assets	17,346			11,599		
Total assets.....	\$ 637,902			\$ 621,336		
Liabilities and Stockholders' Equity						
Deposits-interest bearing:						
Interest-bearing demand accounts	\$ 27,663	\$ 115	0.56 %	\$ 26,847	\$ 131	0.65 %
Savings and money market deposits	181,201	2,138	1.58	145,288	1,561	1.44
Time deposits.....	197,158	5,240	3.55	192,695	5,214	3.62
Total interest-bearing deposits.....	406,022	7,493	2.47	364,830	6,906	2.53
Short-term borrowings	25,443	106	0.56	51,207	422	1.10
Long-term debt	83,778	2,951	4.71	79,472	2,786	4.69
Total interest-bearing liabilities	515,243	10,550	2.74	495,509	10,114	2.73
Non-interest bearing deposits.....	76,662			83,642		
Other liabilities	4,981			5,013		
Stockholders' equity	41,016			37,172		
Total liabilities and stockholders' equity	\$ 637,902			\$ 621,336		
Net interest income/spread		\$ 12,633	2.54 %		\$ 13,658	2.73 %
Net interest margin.....			2.87 %			3.13 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the nine months ending September 30, 2004 and 2003, the tax equivalency adjustment amounted to \$179,000 and \$231,000 respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

Analysis of Changes in Net Interest Income Due to Changes in Interest Rates and Volumes. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase or decrease related to changes in balances and changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to:

- changes in volume, reflecting changes in volume multiplied by the prior period rate; and
- changes in rate, reflecting changes in rate multiplied by the prior period volume.

Changes in Interest Income and Expense Volume and Rate Variances

	Nine Months Ended September 30, 2004 Compared to 2003		
	Change Due to Rate	Change Due to Volume	Total Change
	(Dollars in thousands)		
Federal funds sold	\$ 1	\$ 120	\$ 121
Investment securities – taxable	(91)	448	357
Investment securities – non-taxable (1)	8	(163)	(155)
Mortgage loans held for sale	372	(2,885)	(2,513)
Loans, net of unearned discount	(327)	1,928	1,601
Total interest income.....	<u>(37)</u>	<u>(552)</u>	<u>(589)</u>
Interest-bearing demand accounts.....	(19)	3	(16)
Savings and money market deposits.....	152	425	577
Time deposits.....	(121)	147	26
Short-term borrowings	(209)	(107)	(316)
Long-term debt.....	12	153	165
Total interest expense.....	<u>(185)</u>	<u>621</u>	<u>436</u>
Net interest income	<u>\$ 148</u>	<u>\$ (1,173)</u>	<u>\$ (1,025)</u>

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

Provision for Loan Losses

The provision for loan losses for the third quarter of 2004 was \$400,000, compared to \$150,000 for the same period of 2003. For the nine-months ended September 30, 2004 and 2003, the provision was \$1.1 million and \$1.4 million, respectively. The increase in the provision for loan losses recorded in the three-month period ended September 30, 2004 compared to the same period in the prior year was the result of growth in our loan portfolio. The decrease in the provision for loan losses recorded in the nine-month period ended September 30, 2004 compared to the same period in the prior year was the result of improvements in the overall credit exposure in the loan portfolio. The Company's credit administration function performs monthly analyses on the loan portfolio to assess and report on risk levels, delinquencies, an internal ranking system and overall credit exposure. Management and the Board of Directors reviews the allowance for loan losses monthly, considering such factors as current and projected economic conditions, loan growth, the composition of the loan portfolio, loan trends and classifications, and other factors. We make provisions for loan losses in amounts that management deems necessary to maintain the allowance for loan losses at an appropriate level.

Non-interest Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	(In thousands)			
Loans held for sale fee income	\$ 2,106	\$ 5,974	\$ 7,992	\$ 16,979
NSF charges and service fees	334	333	1,005	943
Other service charges	295	224	838	688
Net realized gain on investment securities	391	–	524	–
Other income	143	106	425	331
Total non-interest income	<u>\$ 3,269</u>	<u>\$ 6,637</u>	<u>\$ 10,784</u>	<u>\$ 18,941</u>

Non-interest income decreased \$3.4 million, or 50.75%, to \$3.3 million during the three-month period ended September 30, 2004, from \$6.6 million during the three-month period ended September 30, 2003. Non-interest income for the nine-months ended September 30, 2004 was \$10.8 million, a decrease of \$8.2 million, or 43.07%, from \$18.9 million for the nine-months ended September 30, 2003. These decreases are attributable primarily to decreases in loans held for sale fee income. Loans held for sale fee income decreased \$3.9 million, or 64.75%, and \$9.0 million, or 52.93%, for the three-month and nine-month periods ended September 30, 2004, respectively. During 2002 and the first half of 2003, we experienced significant growth in our loans held for sale fee income due to the expansion of our National and Local mortgage divisions concurrent with a relatively low interest rate environment. The low interest rate environment resulted in a surge of mortgage refinancing activity. However, during the second half of 2003 and early in the first half of 2004, mortgage interest rates increased causing a decline in the volume of mortgage origination activity, particularly refinancing volume. In addition, as discussed in Note 6 to the Consolidated Financial Statements, the Company recorded a \$350,000 reduction in its Loans Held for Sale Fee Income to account for the anticipated refund of fee income on residential mortgage loans underwritten with documentation altered by a former employee of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

During 2004, we took advantage of opportunities to mitigate the risk of longer-term rate volatility in our available-for-sale investment portfolio and sold approximately \$20.7 million of available-for-sale investment securities and realized \$524,000 in net gains on those sales. Included in this amount are \$391,000 of gains realized during the third quarter of 2004 from sales of \$14.7 million of available-for-sale securities.

Non-interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands)			
Salaries and employee benefits.....	\$ 3,836	\$ 6,092	\$ 12,240	\$ 16,169
Occupancy	903	833	2,503	2,296
FDIC and other insurance expense.....	59	59	180	178
General and administrative	1,629	1,729	4,578	4,740
Total non-interest expense.....	<u>\$ 6,427</u>	<u>\$ 8,713</u>	<u>\$ 19,501</u>	<u>\$ 23,383</u>

Non-interest expense decreased to \$6.4 million, or 26.24%, during the three-month period ended September 30, 2004 and to \$19.5 million, or 16.61%, during the nine-month period ended September 30, 2004, from \$8.7 million and \$23.4 million in the prior year periods, respectively. These decreases are attributable primarily to a decrease in salaries and employee benefits expense which decreased \$2.3 million, or 37.04%, during the third quarter of 2004 and \$3.9 million, or 24.30%, during the nine-month period ended September 30, 2004, compared to the prior year periods. Salaries and employee benefits expense decreased primarily due to decreased volume-based incentive compensation in our mortgage operations. We had 273 full-time equivalent employees at September 30, 2004 compared to 288 at September 30, 2003.

Financial Condition

Total assets for the Company at September 30, 2004, were \$669.9 million, an increase of \$42.8 million, or 6.82%, compared to \$627.1 million at December 31, 2003. Deposits and stockholders' equity at September 30, 2004, were \$530.7 million and \$42.0 million, respectively, compared with \$470.5 million and \$40.2 million, respectively, at December 31, 2003, increases of \$60.2 million, or 12.79%, and \$1.8 million, or 4.55%, respectively.

Loans at September 30, 2004 totaled \$477.8 million, reflecting an increase of \$53.1 million, or 12.51%, compared to December 31, 2003. The loan to deposit ratio at September 30, 2004 was 90.02% compared to 90.25% at December 31, 2003.

Mortgage loans held for sale at September 30, 2004 totaled \$27.7 million, an increase of \$9.4 million, or 51.24% compared to December 31, 2003. The Company's principal funding source for mortgage loans held for sale is deposits and advances from the Federal Home Loan Bank. Advance availability with the Federal Home Loan Bank is determined quarterly and at September 30, 2004, approximately \$36.2 million was available. The Company's Federal Home Loan Bank advance availability fluctuates depending on levels of available collateral, which includes mortgage loans held for sale.

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Non-performing assets consist primarily of loans past due 90 days or more, nonaccrual loans and foreclosed real estate. The following table sets forth our non-performing assets as of the dates indicated:

	As of		
	September 30, 2004	2003	December 31, 2003
	<i>(Dollars in thousands)</i>		
Real estate loans:			
Past due 90 days or more	\$ —	\$ 1,538	\$ 337
Nonaccrual	476	—	1,991
Installment loans:			
Past due 90 days or more	—	1	4
Nonaccrual	—	—	—
Credit cards and related plans:			
Past due 90 days or more	—	4	39
Nonaccrual	—	—	—
Commercial (time and demand) and all other loans:			
Past due 90 days or more	583	788	117
Nonaccrual	1,860	1,440	318
Lease financing receivables:			
Past due 90 days or more	1	27	—
Nonaccrual	310	141	249
Debt securities and other assets (exclude other real estate owned and other repossessed assets):			
Past due 90 days or more	—	—	—
Nonaccrual	—	—	—
Total non-performing loans	<u>3,230</u>	<u>3,939</u>	<u>3,055</u>
Foreclosed assets held for sale	<u>2,459</u>	<u>652</u>	<u>416</u>
Total non-performing assets	<u>\$ 5,689</u>	<u>\$ 4,591</u>	<u>\$ 3,471</u>
Total nonperforming loans to total loans	0.68%	0.95%	0.72%
Total nonperforming loans to total assets	0.48%	0.63%	0.50%
Allowance for loan losses to nonperforming loans	235.45%	192.87%	230.79%
Nonperforming assets to loans and foreclosed assets held for sale	1.18%	1.11%	0.82%

As of September 30, 2004, non-performing loans equaled 0.68% of total loans, reflecting a decrease in non-performing loans from December 31, 2003. The overall credit exposure in the Company's total loan portfolio continued to improve; consequently, the Company recorded a lower provision for loan losses during the nine month period ending September 30, 2004 compared to the nine month period ending September 30, 2003. The level of loans charged-off decreased during the third quarter of 2004, as evidenced by the decrease in our ratio of net charge-offs to average loans, to 0.14% for the period ending September 30, 2004 compared to 0.30% for the period ending December 31, 2003. We closely monitor non-performing credit relationships and our philosophy has been to value non-performing loans at their estimated collectible value and to aggressively manage these situations. Generally, the Company maintains its allowance for loan losses in excess

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

of its non-performing loans. As of September 30, 2004, our ratio of allowance for loan losses to non-performing loans was 235.45%. At September 30, 2004, the \$2.5 million balance of foreclosed assets held for sale represents one property acquired during the third quarter of 2004. The following table sets forth information regarding changes in our allowance for loan and valuation losses for the periods indicated.

Summary of Loan Loss Experience and Related Information

	As of and for the		
	Nine months ended September 30,		Year ended December 31,
	2004	2003	2003
	<i>(Dollars in thousands)</i>		
Balance at Beginning of Period	\$ 7,051	\$ 6,914	\$ 6,914
Loans charged-off			
Commercial real estate	—	392	395
Residential real estate	18	—	—
Commercial	445	260	802
Personal	73	64	68
Home Equity	—	10	10
Construction	—	3	—
Leases	215	202	279
Total loans charged-off	<u>751</u>	<u>931</u>	<u>1,554</u>
Recoveries:			
Commercial real estate	7	5	10
Residential real estate	48	2	—
Commercial	26	72	77
Personal	35	32	35
Home Equity	—	—	—
Construction	—	3	—
Leases	139	150	219
Total recoveries	<u>255</u>	<u>264</u>	<u>341</u>
Net Loans Charged-Off	496	667	1,213
Provision for Loan Losses	<u>1,050</u>	<u>1,350</u>	<u>1,350</u>
Balance at End of Period	<u>\$ 7,605</u>	<u>\$ 7,597</u>	<u>\$ 7,051</u>
Loans Outstanding:			
Average	\$ 451,698	\$ 408,194	\$ 410,593
End of period	477,760	413,724	424,620
Ratio of Allowance for Loan Losses to Loans Outstanding:			
Average	1.68%	1.86%	1.72%
End of period	1.59%	1.84%	1.66%
Ratio of Annualized Net Charge-offs to			
Average loans	0.15%	0.21%	0.30%
End of period loans	0.14%	0.22%	0.29%

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The allowance for loan losses as a percent of total loans decreased to 1.59% as of September 30, 2004, compared to 1.66% at December 31, 2003. As of September 30, 2004, net charge-offs equaled 0.14% of average total loans on an annualized basis.

Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of marketable assets, such as residential mortgage loans or a portfolio of SBA loans. Other sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of core deposits and liquid assets, and accessibility to the money and capital markets. The funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization. Core deposits, defined as demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than \$100,000 (excluding brokered deposits), were 81.88% and 82.54% of our total deposits at September 30, 2004, and December 31, 2003, respectively. Generally, the Company's funding strategy is to utilize Federal Home Loan Bank borrowings to fund originations of mortgage loans held for sale and fund balances generated by other lines of business with deposits. In addition, the Company uses other forms of short-term borrowings for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit. The Company's Asset-Liability Management Committee utilizes a variety of liquidity monitoring tools, including an asset/liability modeling service, to analyze and manage the Company's liquidity.

Management has established internal guidelines and analytical tools to measure liquid assets, alternative sources of liquidity, as well as relevant ratios concerning asset levels and purchased funds. These indicators are reported to the board of directors monthly, and at September 30, 2004, the Bank was within the established guidelines.

At September 30, 2004, our total stockholders' equity was \$42.0 million and our equity to asset ratio was 6.27%. At September 30, 2004, our Tier 1 capital ratio was 9.45% compared to 10.04% at December 31, 2003, while our total risk-based capital ratio was 11.66% compared to 12.41% at December 31, 2003. As of September 30, 2004, we had capital in excess of the requirements for a "well-capitalized" institution.

Subsequent Event

See Note 6 to the Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a continuing part of our financial strategy, we attempt to manage the impact of fluctuations in market interest rates on our net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Our funds management policy is established by our Bank Board of Directors and monitored by our Asset/Liability Management Committee. Our funds management policy sets standards within which we are expected to operate. These standards include guidelines for exposure to interest rate fluctuations, liquidity, loan limits as a percentage of funding sources, exposure to correspondent banks and brokers, and reliance on non-core deposits. Our funds management policy also establishes the reporting requirements to our Bank Board of Directors. Our investment policy complements our funds management policy by establishing criteria by which we may purchase securities. These criteria include approved types of securities, brokerage sources, terms of investment, quality standards, and diversification.

We use an asset/liability modeling service to analyze the Company's current sensitivity to instantaneous and permanent changes in interest rates. The system simulates the Company's asset and liability base and projects future net interest income results under several interest rate assumptions. This allows management to view how changes in interest rates will affect the spread between the yield received on assets and the cost of deposits and borrowed funds.

The asset/liability modeling service is also used to analyze the net economic value of equity at risk under instantaneous shifts in interest rates. The "net economic value of equity at risk" is defined as the market value of assets less the market value of liabilities plus/minus the market value of any off-balance sheet positions. By effectively looking at the present value of all future cash flows on or off the balance sheet, the net economic value of equity modeling takes a longer-term view of interest rate risk.

We strive to maintain a position such that current changes in interest rates will not affect net interest income or the economic value of equity by more than 5%, per 50 basis points. The following table sets forth the estimated percentage change in the Bank of Blue Valley's net interest income over the next twelve month period and net economic value of equity at risk at September 30, 2004 based on the indicated instantaneous and permanent changes in interest rates.

<u>Changes in Interest Rates</u>	<u>Net Interest Income (next 12 months)</u>	<u>Net Economic Value of Equity at Risk</u>
300 basis point rise	23.96 %	5.72 %
200 basis point rise	16.11 %	4.00 %
100 basis point rise	8.27 %	2.13 %
Base Rate Scenario	-	-
25 basis point decline	(4.18 %)	0.00 %
50 basis point decline	(8.92 %)	(0.04 %)
75 basis point decline	(13.39 %)	(0.06 %)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The above table indicates that, at September 30, 2004, in the event of a sudden and sustained increase in prevailing market rates, our net interest income would be expected to increase as our assets would be expected to reprice quicker than our liabilities, while a decrease in rates would indicate just the opposite. Generally, in the decreasing rate scenarios, not only would adjustable rate assets (loans) reprice to lower rates faster than our liabilities, but our liabilities - long-term Federal Home Loan Bank of Topeka (FHLB) advances and existing time deposits - would not decrease in rate as much as market rates. In addition, fixed rate loans might experience an increase in prepayments, further decreasing yields on earning assets and causing net interest income to decrease. Another consideration with a rising interest rate scenario is the impact on mortgage loan refinancing, which would likely decline, leading to lower loans held for sale fee income, though the impact is difficult to quantify or project.

The above table also indicates that, at September 30, 2004, in the event of a sudden decrease in prevailing market rates, the economic value of our equity would decrease. Given our current asset/liability position, a 25, 50 or 75 basis point decline in interest rates will result in a lower or unchanged economic value of our equity as the change in estimated loss on liabilities exceeds the change in estimated gain on assets in these interest rate scenarios. Currently, under a falling rate environment, the Company's estimated market value of loans could increase as a result of fixed rate loans, net of possible prepayments. The estimated market value of investment securities could also rise as our portfolio contains higher yielding securities. However, the estimated market value increase in fixed rate loans and investment securities is offset by time deposits unable to reprice to lower rates immediately and fixed-rate callable advances from FHLB. The likelihood of advances being called in a decreasing rate environment is diminished resulting in the advances existing until final maturity, which has the effect of lowering the economic value of equity.

Item 4. Controls and Procedures

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, and within 90 days of the date of this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer of the Company (the “Certifying Officers”) have conducted evaluations of the Company’s disclosure controls and procedures. As defined under Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the term “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed the Company’s disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, (18 U.S.C. 1350), each of the Certifying Officers executed an Officer’s Certification included in this Quarterly Report on 10-Q.

As of the date of this Quarterly Report on Form 10-Q, there have not been any significant changes in the Company’s internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Part II: Other Information

Item 1. Legal Proceedings

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(F) EXHIBITS

- 11. Computation of Earnings Per Share. Please see p. 9.
- 15. Letter regarding Unaudited Interim Financial Information
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of the Treasurer pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of the Chief Executive Officer and Treasurer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Blue Valley Ban Corp

Date: November 15, 2004

By: /s/ Robert D. Regnier
Robert D. Regnier, President and
Chief Executive Officer

Date: November 15, 2004

By: /s/ Mark A. Fortino
Mark A. Fortino, Treasurer