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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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	**48-1070996**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11935 Riley Overland Park, Kansas	**66225-6128**
(Address of principal executive offices)	(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 check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [√]

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

As of February 28, 2005 the registrant had 2,335,071 shares of Common Stock ($1.00 par value) outstanding, of which 1,128,092 shares were held by non-affiliates. The aggregate market value of the common shares of the registrant held by non-affiliates, computed based on the June 30, 2004 closing price of the stock, was approximately $30.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Part III – Proxy Statement for the 2005 Annual Meeting of Stockholders

BLUE VALLEY BAN CORP

FORM 10-K INDEX

Part I

Item 1: Business

The Company and Subsidiaries

Blue Valley Ban Corp. ("Blue Valley" or the "Company") is a bank holding company organized in 1989. In 2001, Blue Valley elected to become a financial holding company and such status was granted. The Company's wholly-owned subsidiary, Bank of Blue Valley (the "Bank") was also organized in 1989 to provide banking services to closely-held businesses and their owners, professionals and residents in Johnson County, Kansas, a high growth, demographically attractive area within the Kansas City, Missouri - Kansas Metropolitan Statistical Area (the "MSA"). The focus of Blue Valley has been to take advantage of the current and anticipated growth in our market area as well as to serve the needs of small and mid-sized commercial borrowers – customers that we believe currently are underserved as a result of banking consolidation in the industry generally and within our market specifically. In addition, Blue Valley has established a national presence by originating residential mortgages nationwide through the Bank's InternetMortgage.com website.

We have experienced significant internal growth since our inception. We currently have six banking center locations in Johnson County, Kansas, including our main office and a mortgage operations office in Overland Park, both of which include lobby banking centers, full-service offices in Leawood, Olathe and Shawnee, Kansas, and a supermarket banking facility in Leawood, Kansas.

Our lending activities focus on commercial lending and residential mortgage origination services, and to a lesser extent, consumer lending and leasing. We strive to identify, develop and maintain diversified lines of business which provide acceptable returns on a risk-adjusted basis. Our primary lines of business consist of commercial lending, commercial real estate lending, construction lending, lease financing, residential real estate lending, consumer lending, and home equity loans.

We also seek to develop lines of business which diversify our revenue sources, increase our non-interest income and offer additional value-added services to our customers. We develop these new or existing lines of business while monitoring related risk factors. In addition to fees generated in conjunction with our lending activities, we derive non-interest income by providing mortgage origination services, deposit and cash management services, investment brokerage services and trust services.

In addition to the Bank, we have four wholly-owned subsidiaries: Blue Valley Building Corp., which owns the buildings and real property that comprise our headquarters, mortgage operations facility and the Leawood banking center; Blue Valley Insurance Services, Inc., an insurance agency created to offer insurance products to our customers; and BVBC Capital Trust I and BVBC Capital Trust II, which were created to offer the Company's trust preferred securities and to purchase our junior subordinated debentures. On December 31, 2004, Blue Valley Insurance Services, Inc. ceased operations as we decided not to further pursue this line of business at this time.

Our Market Area

We operate primarily as a community bank, serving the banking needs of small and medium-sized companies and individuals in the Kansas City MSA generally, and in suburban Johnson County, in particular. Our trade area generally consists of Johnson County, Kansas. We believe that coupling our strategy of providing exceptional customer service and local decision making with attractive market demographics has led to a rate of growth which exceeds the national total asset and deposit growth rates of the banking industry as well as the growth experienced locally by many of our competitors.

The income levels and growth rate of Johnson County, Kansas compare favorably to national averages. Johnson County's population growth rate ranks in the top 2% of counties nationally, and its per capita income ranks in the top 1% of counties nationally. Johnson County is also a significant banking market in the State of Kansas and in the Kansas City MSA. According to available industry data, as of June 30, 2004, total deposits in Johnson

County, including those of banks, thrifts and credit unions, were approximately $11.3 billion, which represented 24.37% of total deposits in the state of Kansas and 36.44% of total deposits in the Kansas City MSA.

As our founders anticipated, the trade area surrounding our main banking facility in Overland Park, Kansas has become one of the most highly developed retail areas in the Kansas City MSA. Our Olathe, Kansas branch is located approximately 10 miles west of our main office. We opened our Olathe branch in 1994 when we acquired the deposits of a branch of a failed savings and loan association. We made this acquisition because it was located in a contiguous market area and we believed that it represented a stable deposit base. The Shawnee, Kansas banking facility is approximately 20 miles northwest of our headquarters location. We entered into the Shawnee, Kansas market in 1999 with the opening of a grocery store branch. During the first quarter of 2001, construction of our freestanding banking facility in Shawnee, Kansas was completed and operations commenced, and then in 2004, we merged our Shawnee, Kansas grocery store branch into our Shawnee, Kansas freestanding branch. The Leawood, Kansas grocery branch is approximately 5 miles southeast of our headquarters location. We opened our Leawood grocery branch during October of 2002 to provide us a physical presence and expand our market penetration in Leawood. During the second quarter of 2004, we completed construction of our freestanding banking facility in Leawood, Kansas and operations commenced. During 2003 we acquired an office building approximately 1 mile northwest of our headquarters location. At this location, we consolidated our mortgage operations and opened a banking facility.

Lending Activities

Overview. Our principal loan categories include commercial, commercial real estate, construction, leasing and residential mortgages. We also offer a variety of consumer loans. Our primary source of interest income is interest earned on our loan portfolio. As of December 31, 2004, our loans represented approximately 75.39% of our total assets, our legal lending limit to any one borrower was $15.5 million, and our largest single borrower as of that date had outstanding loans of $9.5 million.

We have been successful in expanding our loan portfolio because of the commitment of our staff and the economic growth in our area of operation. Our staff has significant experience in lending and has been successful in offering our products to both potential customers and existing customers. We believe that we have been successful in maintaining our customers because of our staff's attentiveness to their financial needs and the development of professional relationships with them. We strive to become a strategic business partner with our customers, not just a source of funds.

We conduct our lending activities pursuant to the loan policies adopted by our board of directors. These policies currently require the approval of our loan committee of all commercial credits in excess of $600,000 and all real estate credits in excess of $1.0 million. Credits up to $600,000 on commercial loans and $1.0 million on real estate loans can be approved by the Bank's President or a combination of two senior loan management officers. Our management information systems and loan review policies are designed to monitor lending sufficiently to ensure adherence to our loan policies. The following table shows the composition of our loan portfolio at December 31, 2004.

LOAN PORTFOLIO

	As of December 31, 2004	
	Amount	Percent
	(Dollars in thousands)	
Commercial	$ 117,604	23.19 %
Commercial real estate	126,205	24.88
Construction	130,631	25.76
Residential real estate	30,886	6.09
Leases	21,203	4.18
Consumer	48,950	9.65
Home equity	31,691	6.25
Total loans and leases	507,170	100.00 %
Less allowance for loan losses	7,333	
Loans receivable, net	$ 499,837	

Commercial loans. As of December 31, 2004, approximately $117.6 million, or 23.19%, of our loan portfolio represented commercial loans. The Bank has developed a strong reputation in providing and servicing small business and commercial loans. We have expanded this portfolio through the addition of commercial lending staff, their business development efforts and our reputation. Commercial loans have historically been a significant portion of our loan portfolio and we expect to continue our emphasis on this loan category.

The Bank's commercial lending activities historically have been directed to small and medium-sized companies in or near Johnson County, Kansas, with annual sales generally between $100,000 and $20 million. The Bank's commercial customers are primarily firms engaged in manufacturing, service, retail, construction, distribution and sales with significant operations in our market areas. The Bank's commercial loans are primarily secured by real estate, accounts receivable, inventory and equipment, and the Bank may seek to obtain personal guarantees for its commercial loans. As of December 31, 2004, approximately 10.87% of our commercial loans had outstanding balances in excess of $300,000, and these loans accounted for 66.72% of the total carrying value of our commercial loan portfolio. The Bank primarily underwrites its commercial loans on the basis of the borrowers' cash flow and ability to service the debt, as well as the value of any underlying collateral and the financial strength of any guarantors.

Approximately $9.3 million, or 7.87%, of our commercial loans are Small Business Administration (SBA) loans, of which $6.8 million is government guaranteed. The SBA guarantees the repayment of a portion of the principal on these loans, plus accrued interest on the guaranteed portion of the loan. Under the federal Small Business Act, the SBA may guarantee up to 85% of qualified loans of $150,000 or less and up to 75% of qualified loans in excess of $150,000, up to a maximum guarantee of $1.0 million. We are an active SBA lender in our market area and have been approved to participate in the SBA Certified Lender Program.

Commercial lending is subject to risks specific to the business of each borrower. In order to address these risks, we seek to understand the business of each borrower, place appropriate value on any personal guarantee or collateral pledged to secure the loan, and structure the loan amortization to maintain the value of any collateral during the term of the loan.

Commercial real estate loans. The Bank also makes loans to provide permanent financing for retail and office buildings, multi-family properties and churches. As of December 31, 2004, approximately $126.2 million, or 24.88%, of our loan portfolio represented commercial real estate loans. Our commercial real estate loans are underwritten on the basis of the appraised value of the property, the cash flow of the underlying property, and the financial strength of any guarantors.

Risks inherent in commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and documentation. Commercial real estate lending involves more risk than residential lending because loan balances may be greater and repayment is dependent on the borrower's operations.

We attempt to mitigate these risks by carefully assessing property values, investigating the source of cash flow servicing the loan on the property and adhering to our lending and underwriting policies and procedures.

Construction loans. Our construction loans include loans to developers, home building contractors and other companies and consumers for the construction of single-family homes, land development, and commercial buildings, such as retail and office buildings and multi-family properties. As of December 31, 2004, approximately $130.6 million, or 25.76%, of our loan portfolio represented real estate construction loans. The builder and developer loan portfolio has been a consistent and profitable component of our loan portfolio over our fifteen-year history. We attribute this success to our expertise, availability and prompt service. The Bank's experience and reputation in this area have grown, thereby enabling it to focus on relationships with a smaller number of larger builders and increasing the total value of the Bank's real estate construction portfolio. Construction loans are made to qualified builders to build houses to be sold following construction, pre-sold houses and model houses. These loans are generally underwritten based upon several factors, including the experience and current financial condition of the borrowing entity, amount of the loan to appraised value, and general conditions of the housing market. Construction loans are also made to individuals for whom houses are being constructed by builders with whom the Bank has an existing relationship. Such loans are made on the basis of the individual's financial condition, the loan to value ratio, the reputation of the builder, and whether the individual will be pre-qualified for permanent financing.

Risks related to construction lending include assessment of the market for the finished product, reasonableness of the construction budget, ability of the borrower to fund cost overruns, and the borrower's ability to liquidate and repay the loan at a point when the loan-to-value ratio is the greatest. We seek to manage these risks by, among other things, ensuring that the collateral value of the property throughout the construction process does not fall below acceptable levels, ensuring that funds disbursed are within parameters set by the original construction budget, and properly documenting each construction draw.

Residential real estate loans. Our residential real estate loan portfolio consists primarily of first and second mortgage loans on residential properties. As of December 31, 2004, $30.9 million, or 6.09%, of our loan portfolio represented residential mortgage loans. The terms of these loans typically include 2-5 year balloon payments based on a 15 to 30 year amortization, and accrue interest at a fixed or variable rate. By offering these products, we can offer credit to individuals who are self-employed or have significant income from partnerships or investments. These individuals are often unable to satisfy the underwriting criteria permitting the sale of their mortgages into the secondary market.

In addition, we also originate residential mortgage loans with the intention of selling these loans in the secondary market. During 2004, we originated approximately $883.4 million of residential mortgage loans, and we sold approximately $857.6 million in the secondary market. We originate conventional first mortgage loans through our internet website as well as through referrals from real estate brokers, builders, developers, prior customers and media advertising. We have offered customers the ability to apply for mortgage loans and to pre-qualify for mortgage loans over the Internet since 1999. In 2001, we expanded our internet mortgage application capacity with the acquisition of the internet domain name InternetMortgage.com and created a separate National Mortgage division. The timing of this expansion allowed us to establish this division in a relatively low-rate environment, and reap the benefits of a significant increase in mortgage originations and refinancing experienced from 2001 through 2003. While the volume of mortgage originations and refinancing declined in 2004, we continued to take advantage of the national presence established in previous years and originate residential mortgage loans on our InternetMortgage.com website. The origination of a mortgage loan from the date of initial application through closing normally takes 15 to 60 days. We acquire forward commitments from investors on mortgage loans that we intend to sell into the secondary market to reduce interest rate risk on mortgage loans to be sold in the secondary market.

Our mortgage loan credit review process is consistent with the standards set by traditional secondary market sources. We review appraised value and debt service ratios, and we gather data during the underwriting process in accordance with various laws and regulations governing real estate lending. Loans originated by the Bank are sold with servicing released to increase current income and reduce the costs associated with retaining servicing rights. Commitments are obtained from the purchasing investor on a loan-by-loan basis on a 30, 45 or 60-day delivery commitment. Interest rates are committed to the borrower when a rate commitment is obtained from the investor. Loans are funded by the Bank and purchased by the investor within 30 days following closing pursuant to commitments obtained at the time of origination. We sell conventional conforming loans and all loans that are non-conforming as to credit quality to secondary market investors for cash on a non-recourse basis. Consequently, foreclosure losses on all sold loans are generally the responsibility of the investor and not that of the Bank.

As with other loans to individuals, the risks related to residential mortgage loans include primarily the value of the underlying property and the financial strength and employment stability of the borrower. We attempt to manage these risks by performing a pre-funding underwriting that consists of the verification of employment and utilizes a detailed checklist of loan qualification requirements, including the source and amount of down payments, bank accounts, existing debt and overall credit.

Lease financing. Our lease portfolio includes capital leases that we have originated and leases that we have acquired from brokers or third parties. As of December 31, 2004, our lease portfolio totaled $21.2 million, or 4.18% of our total loan portfolio, consisting of $15.2 million principal amount of leases originated by us and $6.0 million principal amount of leases that we purchased. We provide lease financing for a variety of equipment and machinery, including office equipment, heavy equipment, telephone systems, tractor trailers and computers. Lease terms are generally from three to five years. Management believes this area is attractive because of its ability to provide a source of both interest and fee income. Our leases are generally underwritten based upon several factors, including the overall credit worthiness, experience and current financial condition of the lessee, the amount of the financing to collateral value, and general conditions of the market.

The primary risks related to our lease portfolio are the value of the underlying collateral and specific risks related to the business of each borrower. To address these risks, we attempt to understand the business of each borrower, value the underlying collateral appropriately and structure the loan amortization to ensure that the value of the collateral exceeds the lease balance during the term of the lease.

Consumer loans. As of December 31, 2004, our consumer loans totaled $49.0 million, or 9.65% of our total loan portfolio. A substantial part of this amount consisted of installment loans to individuals in our market area. Installment lending offered directly by the Bank in our market area includes automobile loans, recreational vehicle loans, home improvement loans, unsecured lines of credit and other loans to professionals, people employed in education, industry and government, as well as retired individuals and others. A significant portion of our consumer loan portfolio consists of indirect automobile loans offered through automobile dealerships located primarily in our trade area. As of December 31, 2004, approximately $39.8 million, or 7.82%, of our loan portfolio represented indirect installment loans. Our loans made through this program generally represent loans to purchase new or late model automobiles. There are currently 29 dealerships participating in this program.

Since 1999, we have offered customers the ability to apply for consumer loans, personal lines of credit and overdraft protection lines of credit over the Internet through our electronic banking services. To date, consumer loan applications received over the Internet have not represented a material amount of our consumer loan portfolio. Our consumer and other loans are underwritten based on the borrower's income, current debt, past credit history, collateral, and the reputation of the originating dealership with respect to indirect automobile loans.

Consumer loans are subject to the same risks as other loans to individuals, including the financial strength and employment stability of the borrower. In addition, some consumer loans are subject to the additional risk that the loan is not secured by collateral. For some of the loans that are secured, the underlying collateral may be rapidly depreciating and not provide an adequate source of repayment if we are required to repossess the collateral. We attempt to mitigate these risks by requiring a down payment and carefully verifying and documenting the borrower's credit quality, employment stability, monthly income, and with respect to indirect automobile loans, understanding and documenting the value of the collateral and the reputation of the originating dealership.

Home equity loans. As of December 31, 2004, our home equity loans totaled $31.7 million, or 6.25% of our total loan portfolio. Home equity loans are generally secured by second liens on residential real estate and are underwritten in a similar manner as our consumer loans.

Investment Activities

The objectives of our investment policy are to:

- secure the safety of principal;
- provide adequate liquidity;
- provide securities for use in pledging for public funds or repurchase agreements; and
- maximize after-tax income.

We invest primarily in direct obligations of the United States, obligations guaranteed as to principal and interest by the United States, obligations of agencies of the United States and bank-qualified obligations of state and local political subdivisions. In order to ensure the safety of principal, we typically do not invest in mortgage-backed securities, corporate debt, or other securities even though they are permitted by our investment policy. In addition, we enter into federal funds transactions with our principal correspondent banks, and depending on our liquidity position, act as a net seller or purchaser of these funds. The sale of federal funds is effectively short-term loans from us to other banks; while conversely, the purchase of federal funds is effectively short-term loans from other banks to us.

Deposit Services

The principal sources of funds for the Bank are core deposits from the local market areas surrounding the Bank's offices, including demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and time deposits of less than $100,000. Transaction accounts include interest-bearing and non-interest-bearing accounts, which provide the Bank with a source of fee income and cross-marketing opportunities as well as a low-cost source of funds. Since 2001, the Bank has realized a significant level of deposit growth from commercial checking accounts. While these accounts do not earn interest, many of them receive an earnings credit on their average balance to offset the cost of other services provided by the Bank. The Bank also offers two types of short-term investment accounts. The Bank's money market account is a daily access account that bears a higher rate than a personal interest-bearing checking account and allows for limited check-writing ability. A significant portion of our deposit growth during 2004 and 2003 has been attributable to our Money Management Account, or "short-term parking account." The Money Management Account provides a hybrid of the features available from a traditional money market account and a traditional time deposit. The account requires a minimum balance of $10,000 and allows for daily deposits but limits withdrawals to the first day and the 15th day of each month. This account typically pays a tiered rate of interest which is higher than a customer could receive on a traditional money market account but lower than the rates generally available on time deposits. We believe that the trade-off to depositors between higher interest rates but more limited access to withdrawals has proven to be an attractive product in our market areas and provides us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, as it provides us with the potential to cross-sell additional services to these account holders. Time and savings accounts also provide a relatively stable customer base and source of funding. Because of the nature and behavior of these deposit products, management reviews and analyzes our pricing strategy in comparison not only to competitor rates, but versus other alternative funding sources to determine the most advantageous source. The Bank's Funds Management policy also allows for acceptance of brokered deposits which can be utilized to support the growth of the Bank. As of December 31, 2004, the Bank had $471,000 in brokered deposits, and the Bank does not anticipate brokered deposits becoming a significant percentage of its deposit base; however, we continue to evaluate their potential role in the Bank's overall funding and liquidity strategies. In pricing deposit rates, management considers profitability, the matching of term lengths with assets, the attractiveness to customers and rates offered by our competitors.

Investment Brokerage Services

In 1999, the Bank began offering investment brokerage services through an unrelated broker-dealer. These services are currently offered at all of our locations. Four individuals responsible for providing these services are joint employees of the Bank and the registered broker-dealer. Investment brokerage services provide a source of fee income for the Bank. In 2004, the amount of our fee income generated from investment brokerage services was $326,000.

Trust Services

We began offering trust services in 1996. Until 1999, the Bank's trust services were offered exclusively through the employees of an unaffiliated trust company. The Bank hired a full-time officer in 1999 to develop the Bank's trust business. Trust services are marketed to both existing Bank customers and new customers. We believe that the ability to offer trust services as a part of our complement of financial services to new customers of the Bank presents a significant cross-marketing opportunity. The services currently offered by the Bank's trust department include the administration of self-directed individual retirement accounts, qualified retirement plans, and custodial and directed trust accounts. As of December 31, 2004, the Bank's trust department administered 229 accounts, with assets under management of approximately $118.1 million. Trust services provide the Bank with a source of fee income and additional deposits. In 2004, the amount of our fee income from trust services was $304,000.

Competition

We encounter competition primarily in seeking deposits and in obtaining loan customers. The level of competition for deposits in our market area and nationally is high. Our principal competitors for deposits are other financial institutions within a few miles of our locations including other banks, savings institutions and credit unions. Competition among these institutions is based primarily on interest rates offered, the quality of service provided, and the convenience of banking facilities. Additional competition for depositors' funds comes from U.S. government securities, private issuers of debt obligations and other providers of investment alternatives for depositors.

We compete in our lending, investment brokerage and trust activities with other financial institutions, such as banks and thrift institutions, credit unions, automobile financing companies, mortgage companies, securities firms, investment companies and other finance companies. Many of our competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks and state regulations governing state-chartered banks. As a result, these non-bank competitors have some advantages over us in providing certain products and services. Many of the financial institutions with which we compete are larger and possess greater financial resources, name recognition and market presence.

Employees

At December 31, 2004, the Bank had approximately 278 full-time employees. Blue Valley, Blue Valley Building Corp., BVBC Capital Trust I, BVBC Capital Trust II, Blue Valley Insurance Services, and Blue Valley Investment Corp. did not have any employees. None of the Bank's employees are subject to a collective bargaining agreement. We consider the Company's subsidiaries' relationship with their employees to be excellent.

Directors and Executive Officers of the Registrant

For each of our directors and our executive officers, we have set forth below their ages as of December 31, 2004, and their principal positions.

Name	Age	Positions
Directors		
Robert D. Regnier	56	President, Chief Executive Officer and Chairman of the Board of Directors of Blue Valley; President, Chief Executive Officer and Director of the Bank
Donald H. Alexander	66	Director of Blue Valley and the Bank
Wayne A. Henry, Jr.	52	Director of Blue Valley
C. Ted McCarter	68	Director of Blue Valley and Chairman of the Board of Directors of the Bank
Thomas A. McDonnell	59	Director of Blue Valley
Additional Directors of the Bank		
Harvey S. Bodker	69	Director of the Bank
Suzanne E. Dotson	58	Director of the Bank
Charles H. Hunter	62	Director of the Bank
Executive Officers who are not Directors		
Mark A. Fortino	38	Senior Vice President and Chief Financial Officer of the Bank; Chief Financial Officer of Blue Valley
Ralph J. Schramp	55	Senior Vice President – Commercial Lending and Business Development for the Bank
Gary L. Sherrer	64	Senior Vice President – Mortgage Division of the Bank
Sheila Stokes	43	Senior Vice President – Retail Division of the Bank

Regulation and Supervision

Blue Valley and its subsidiaries are extensively regulated under both federal and state laws. Laws and regulations to which Blue Valley and the Bank are subject govern, among other things, the scope of business, investments, reserve levels, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. These laws and regulations are intended primarily to protect depositors, not stockholders. Any change in applicable laws or regulations may have a material effect on Blue Valley's business and prospects, and legislative and policy changes may affect Blue Valley's operations. Blue Valley cannot predict the nature or the extent of the effects on its business and earnings that fiscal or monetary policies, economic controls or new federal or state legislation may have in the future.

The following references to statutes and regulations affecting Blue Valley and the Bank are brief summaries only and do not purport to be complete and are qualified in their entirety by reference to the statutes and regulations.

Applicable Legislation

The enactment of legislation described below has significantly affected the banking industry generally and will have an on-going effect on Blue Valley and its subsidiaries.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act was signed into law on November 12, 1999. This major banking legislation expands the permissible activities of bank holding companies such as Blue Valley by permitting them to engage in activities, or affiliate with entities that engage in activities, that are "financial in nature." Activities that the Act expressly deems to be financial in nature include, among other things, securities and insurance underwriting and agency, investment management and merchant banking. The Federal Reserve and the Treasury Department, in cooperation with one another, determine what additional activities are "financial in nature."

With certain exceptions, the Gramm-Leach-Bliley Act similarly expands the authorized activities of subsidiaries of national banks. The provisions of the Gramm-Leach-Bliley Act authorizing the expanded powers became effective March 11, 2000.

Bank holding companies that intend to engage in activities that are “financial in nature” must elect to become “financial holding companies.” Financial holding company status is only available to a bank holding company if all of its affiliated depository institutions are “well capitalized” and “well managed,” based on applicable banking regulations, and have a Community Reinvestment Act rating of at least “a satisfactory record of meeting community credit needs.” Financial holding companies and banks may continue to engage in activities that are financial in nature only if they continue to satisfy the well capitalized and well managed requirements. Bank holding companies that do not elect to be financial holding companies or that do not qualify for financial holding company status may engage only in non-banking activities deemed “closely related to banking” prior to adoption of the Gramm-Leach-Bliley Act.

The Act also calls for "functional regulation" of financial services businesses in which functionally regulated subsidiaries of bank holding companies will continue to be regulated by the regulator that ordinarily has supervised their activities. As a result, state insurance regulators will continue to oversee the activities of insurance companies and agencies, and the Securities and Exchange Commission will continue to regulate the activities of broker-dealers and investment advisers, even where the companies or agencies are affiliated with a bank holding company. Federal Reserve authority to examine and adopt rules regarding functionally regulated subsidiaries is limited.

The Gramm-Leach-Bliley Act imposed an “affirmative and continuing” obligation on all financial service providers (not just banks and their affiliates) to safeguard consumer privacy and requires federal and state regulators, including the Federal Reserve and the FDIC, to establish standards to implement this privacy obligation. With certain exceptions, the Act prohibits banks from disclosing to non-affiliated parties any non-public personal information about customers unless the bank has provided the customer with certain information and the customer has had the opportunity to prohibit the bank from sharing the information with non-affiliates. The new privacy obligations became effective July 1, 2001.

The Gramm-Leach-Bliley Act has been and may continue to be the subject of extensive rule making by federal banking regulators and others.

Economic Growth and Regulatory Paperwork Reduction Act of 1996. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 became law on September 30, 1996. This Act streamlined the non-banking activities application process for well-capitalized and well-managed bank holding companies by permitting qualified bank holding companies to commence an approved non-banking activity without prior notice to the Federal Reserve, although written notice is required within 10 days after commencing the activity. Also, the Act reduced the prior notice period to 12 days in the event of any non-banking acquisition or share purchase, assuming the size of the acquisition does not exceed 10% of risk-weighted assets of the acquiring bank holding company and the consideration does not exceed 15% of a bank holding company’s Tier 1 capital.

Bank Holding Company Regulation

Blue Valley is a registered bank holding company subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and such additional information as the Federal Reserve may require.

Investments and Activities. A bank holding company must obtain approval from the Federal Reserve before:

- Acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the bank or bank holding company (unless it already owns or controls the majority of the shares);

- Acquiring all or substantially all of the assets of another bank or bank holding company; or
- Merging or consolidating with another bank holding company.

The Federal Reserve will not approve any acquisition, merger or consolidation that would have a substantially anticompetitive result unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in reviewing acquisitions or mergers.

With certain exceptions, a bank holding company is also prohibited from:

- Acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company; and
- Engaging, directly or indirectly, in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries.

Bank holding companies may, however, engage in businesses found by the Federal Reserve to be "financial in nature," as describe above. As a financial holding company, Blue Valley is authorized to engage in the expanded activities permitted under the Gramm-Leach-Bliley Act as long as it continues to qualify for financial holding company status.

Finally, subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, and the Federal Reserve's implementing regulations, require Federal Reserve approval prior to any acquisition of "control" of a bank holding company, such as Blue Valley. In general, a person or company is presumed to have acquired control if it acquires 10% of the outstanding shares of a bank or bank holding company and is conclusively determined to have acquired control if it acquires 25% or more of the outstanding shares of a bank or bank holding company.

Source of Strength. The Federal Reserve expects Blue Valley to act as a source of financial strength and support for the Bank and to take measures to preserve and protect the Bank in situations where additional investments in the Bank may not otherwise be warranted. The Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. Blue Valley Building Corp., BVBC Capital Trust I and BVBC Capital Trust II are Blue Valley's only active direct subsidiaries that are not banks.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies and banks. If the capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The Federal Reserve's capital guidelines establish a risk-based requirement expressed as a percentage of total risk-weighted assets and a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital (which consists principally of stockholders' equity). The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3%.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions, which is Tier 1 capital less all intangible assets, well above the minimum levels.

Dividends. The Federal Reserve has issued a policy statement concerning the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weakened the bank holding company's financial health, such as by borrowing. Also, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Bank Regulations

The Bank operates under a Kansas state bank charter and is subject to regulation by the Kansas Banking Department and the Federal Reserve Bank. The Kansas Banking Department and the Federal Reserve Bank regulate or monitor all areas of the Bank's operations, including capital requirements, issuance of stock, declaration of dividends, interest rates, deposits, record keeping, establishment of branches, acquisitions, mergers, loans, investments, borrowing, security devices and procedures and employee responsibility and conduct. The Kansas Banking Department places limitations on activities of the Bank including the issuance of capital notes or debentures and the holding of real estate and personal property and requires the Bank to maintain a certain ratio of reserves against deposits. The Kansas Banking Department requires the Bank to file a report annually showing receipts and disbursements of the Bank, in addition to any periodic report requested.

Deposit Insurance. The FDIC, through its Bank Insurance Fund, insures the Bank's deposit accounts to a maximum of $100,000 for each insured depositor. The FDIC, through its Savings Association Insurance Fund, insures certain deposit accounts acquired by the Bank in 1994 from a branch of a failed savings institution. These deposit accounts are insured to a maximum of $100,000 for each insured depositor. The FDIC bases deposit insurance premiums on the perceived risk each bank presents to its deposit insurance fund. In addition, all Bank Insurance Fund-insured and Savings Association Insurance Fund-insured institutions currently pay an assessment based on insured deposits to service debt issued by the Financing Corporation, a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered, insured non-member banks, such as the Bank: (1) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3%; and (2) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. These capital requirements are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions.

The federal banking regulators also have broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends upon whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under the prompt corrective action rules, an institution is:

- "Well-capitalized" if the institution has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure;

- "Adequately capitalized" if the institution has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater;

- "Undercapitalized" if the institution has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage ratio that is less than 4%;

- "Significantly undercapitalized" if the institution has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3%; and

- "Critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The federal banking regulators must take prompt corrective action with respect to capital deficient institutions. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include:

- Placing limits on asset growth and restrictions on activities, including the establishing of new branches;

- Requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired;

- Restricting transactions with affiliates;

- Restricting the interest rate the institution may pay on deposits;

- Requiring that senior executive officers or directors be dismissed;

- Requiring the institution to divest subsidiaries;

- Prohibiting the payment of principal or interest on subordinated debt; and

- Appointing a receiver for the institution.

Companies controlling an undercapitalized institution are also required to guarantee the subsidiary institution's compliance with the capital restoration plan subject to an aggregate limitation of the lesser of 5% of the institution's assets at the time it received notice that it was undercapitalized or the amount of the capital deficiency when the institution first failed to meet the plan. The Federal Deposit Insurance Act generally requires the appointment of a conservator or receiver within 90 days after an institution becomes critically undercapitalized.

As of December 31, 2004, the Bank had capital in excess of the requirements for a "well-capitalized" institution.

Federal Deposit Insurance Corporation Improvement Act. The Bank, having over $500 million in total assets, is subject to numerous reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Act (FDICIA 112). The primary purpose of FDICIA 112 is to provide a framework for early risk identification in financial management through independent audits, more stringent reporting requirements and an effective system of internal controls.

Insider Transactions. The Bank is subject to restrictions on extensions of credit to executive officers, directors, principal stockholders or any related interest of these persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as the terms available for third parties and must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to lending limits and restrictions on overdrafts to these persons.

Community Reinvestment Act Requirements. The Community Reinvestment Act (CRA) of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. In its most recent CRA examination dated June 1, 2004, the Bank received a rating of "Satisfactory."

State Bank Activities. With limited exceptions, FDIC-insured state banks, like the Bank, may not make or retain equity investments of a rate or in an amount that are not permissible for national banks and also may not engage as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

Regulations Governing Extensions of Credit. The Bank is subject to restrictions on extensions of credit to Blue Valley and on investments in Blue Valley's securities and using those securities as collateral for loans. These regulations and restrictions may limit Blue Valley's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest and operating expenses. Further, the Bank Holding Company Act and Federal Reserve regulations prohibit a bank holding company and its subsidiaries from engaging in various tie-in arrangements in connection with extensions of credit, leases or sales of property or furnishing of services.

Reserve Requirements. The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts. Reserves of 3% must be maintained against net transaction accounts of $7.0 million to $47.6 million plus 10% must be maintained against that portion of net transaction accounts in excess $47.6 million (subject to adjustment by the Federal Reserve). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements.

Other Regulations

Interest and various other charges collected or contracted for by the Bank are subject to state usury laws and other federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions. The federal Truth in Lending Act governs disclosures of credit terms to consumer borrowers. The Home Mortgage Disclosure Act of 1975 requires financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves. The Equal Credit Opportunity Act prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit. The Fair Credit Reporting Act of 1978 governs the use and provision of information to credit reporting agencies. The Fair Debt Collection Act governs the manner in which consumer debts may be collected by collection agencies. The various federal agencies charged with the responsibility of implementing these federal laws have adopted various rules and regulations. The deposit operations of the Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act, and Regulation E issued by the Federal Reserve to implement that Act, which govern automatic deposits to and withdrawals from the use of ATMs and other electronic banking services.

Item 2: Properties

The Company's principal office occupies 2.40 acres of ground on the corner of 119th and Riley streets in Overland Park, Kansas. The construction of the building was completed in 1994 and consists of 38,031 square feet. The building and land are subject to third-party mortgage indebtedness incurred in December 2004 in the original principal amount of $2.8 million. As of December 31, 2004, the outstanding principal amount of this indebtedness was $2.8 million.

In 2001, our Olathe, Kansas banking center was moved to a more suitable property occupying 0.41 acres of ground on the southwest corner of Santa Fe and Ridgeview streets. The building consists of 2,580 square feet on the main floor, plus basement storage. We still own the old banking center property which is on the northwest corner of

Santa Fe and Ridgeview streets and occupies 0.94 acres of ground. That building consists of 4,116 square feet and we are actively marketing this property for sale.

Our facility in Shawnee, Kansas is located at Highway K-7 and 55th Street and was completed during the first quarter of 2001. The building consists of 4,000 square feet and occupies 0.85 acres of land.

In January 2003, we purchased a 55,000 square foot building on 3.10 acres of ground located on the northwest corner of College Boulevard and Lowell in Overland Park, Kansas. The Bank consolidated its mortgage operations and operates a small branch at this facility. The building and land are subject to third-party mortgage indebtedness incurred in December 2004 in the original principal amount of $4.7 million. As of December 31, 2004, the outstanding principal amount of this indebtedness was $4.7 million.

During the second quarter of 2004 we opened a 7,000 square foot full-service banking center within a two-story 20,000 square foot office building on the corner of 135th Street and Mission Road in Leawood, Kansas. We also operate a 400 square foot banking center in a grocery store at 135th Street and Mission Road. The lease for this space bears a primary term through June, 2005.

In 1998, we purchased approximately 1.34 acres of undeveloped land on the corners of K-68 and US 69 Highway in Louisburg, Kansas, just south of Johnson County for potential future development as a full-service branch. We no longer believe this market is strong enough to support another bank franchise and we are actively marketing this property for sale.

Item 3: Legal Proceedings

On October 13th, 2004, we became a defendant in a lawsuit filed in the United States District Court, Kansas District by one current mortgage loan originator and twenty three former mortgage loan originators. The plaintiffs are claiming that the Bank did not compensate them appropriately for overtime hours worked in accordance with the Fair Labor Standards Act. While the plaintiffs' claims total $5.6 million, we believe the Company has meritorious defenses to the claims made and we intend to vigorously defend against these claims. In the fourth quarter of 2004, the Company took a $550,000 charge recording a liability for the estimated potential cost of this litigation. We currently do not anticipate any significant additional financial impact from this litigation. Other than this claim, there are no other pending legal proceedings that are likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

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

No matters were submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

Part II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Common Stock

We are a reporting company under the Securities Exchange Act as a result of a trust preferred securities offering we completed during July 2000. Shares of our common stock have traded on the Over-The-Counter Bulletin Board since July 2002 under the symbol "BVBC." As of February 28, 2005, there were approximately 199 stockholders of record of our common stock. The following table sets forth the high and low prices of the Company's common stock based on closing stock price quotations provided by *Yahoo.com*. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	2004		**2003**	
Fiscal Period	High	Low	High	Low
First	$ 27.00	$ 25.10	$ 25.84	$ 20.53
Second	27.95	23.75	27.83	22.42
Third	27.00	26.00	29.82	26.34
Fourth	26.75	24.00	30.07	24.85

Dividends

Our board of directors declared cash dividends on our common stock as follows:

Declaration Date	Amount Per Share	Record Date	Pay Date
December 16, 2002	$0.10	December 31, 2002	January 15, 2003
December 15, 2003	$0.15	December 31, 2003	January 30, 2004
December 17, 2004	$0.20	December 31, 2004	January 31, 2005

Because our consolidated net income consists largely of the net income of the Bank, our ability to pay dividends on our common stock is subject to our receipt of dividends from the Bank. The ability of the Bank to pay dividends to us, and our ability to pay dividends to our stockholders, is regulated by federal banking laws. In addition, if we elect to defer interest payments on our outstanding junior subordinated debentures, we will be prohibited from paying dividends on our common stock during such deferral. At December 31, 2004, approximately $12,695,000 of retained earnings were available for dividend declaration without prior regulatory approval.

Our board of directors intends to declare future dividends subject to limitations imposed by regulatory capital guidelines in addition to consideration of the Company's profitability and liquidity.

Item 6: Selected Financial Data

The following table presents our consolidated financial data as of and for the five years ended December 31, 2004, and should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is included elsewhere in this Form 10-K. The selected statements of condition and statements of income data, insofar as they relate to the five years in the five-year period ended December 31, 2004, have been derived from our audited consolidated financial statements.

	As of and for the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except share and per share data)				
Selected Statement of Income Data					
Interest income:					
Loans, including fees	$ 29,245	$ 28,293	$ 26,857	$ 27,921	$ 26,733
Federal funds sold and interest-bearing deposits	157	49	297	679	777
Securities	2,301	2,070	3,405	4,541	3,607
Total interest income	31,703	30,412	30,559	33,141	31,117
Interest expense:					
Interest-bearing demand deposits	169	165	388	815	872
Savings and money market deposit accounts	2,932	2,204	2,711	4,846	5,726
Other time deposits	7,297	6,935	7,759	9,775	7,555
Funds borrowed	4,115	4,245	3,368	2,958	2,543
Total interest expense	14,513	13,549	14,226	18,394	16,696
Net interest income	17,190	16,863	16,333	14,747	14,421
Provision for loan losses	1,965	1,350	2,920	2,400	1,950
Net interest income after provision for loan losses	15,225	15,513	13,413	12,347	12,471
Non-interest income:					
Loans held for sale fee income	10,358	19,866	16,690	6,931	1,154
NSF charges & service fees	1,326	1,283	1,026	836	655
Other service charges	1,115	924	821	796	963
Realized gain on available-for-sale securities	524	–	193	500	–
Other income	617	463	281	203	284
Total non-interest income	13,940	22,536	19,011	9,266	3,056
Non-interest expense:					
Salaries and employee benefits	16,670	19,670	16,437	10,063	5,856
Occupancy	3,433	3,137	2,101	1,574	1,124
FDIC and other insurance	175	174	161	140	177
General & administrative	6,292	6,304	5,417	3,933	3,136
Total non-interest expense	26,570	29,285	24,116	15,710	10,293
Income before income taxes	2,595	8,764	8,308	5,903	5,234
Income tax provision	665	3,130	2,912	1,960	1,757
Net income	$ 1,930	$ 5,634	$ 5,396	$ 3,943	$ 3,477
Per Share Data					
Basic earnings	$ 0.84	$ 2.51	$ 2.48	$ 1.82	$ 1.62
Diluted earnings	0.82	2.43	2.40	1.77	1.59
Dividends	0.20	0.15	0.10	-	-
Book value basic (at end of period)	17.78	17.64	15.47	13.11	11.12
Weighted average common shares outstanding:					
Basic	2,302,564	2,244,930	2,178,803	2,165,030	2,141,523
Diluted	2,360,061	2,320,840	2,252,929	2,222,166	2,191,305
Dividend payout ratio	23.80%	5.98%	4.04%	– %	– %

	2004	2003	2002	2001	2000
	As of and for the Year Ended December 31, (Dollars in thousands, except share and per share data)				
Selected Financial Condition Data (at end of period):					
Total securities	$ 66,350	$ 106,036	$ 61,720	$ 78,032	$ 78,859
Total mortgage loans held for sale	44,144	18,297	119,272	41,853	1,207
Total loans	507,170	424,620	380,082	334,075	287,669
Total assets	672,717	627,073	605,539	492,379	415,023
Total deposits	522,646	470,495	423,787	394,245	338,221
Funds borrowed	102,469	111,741	141,737	65,530	50,273
Total stockholders' equity	41,384	40,198	34,344	28,525	23,815
Trust assets under administration	118,074	90,389	44,245	41,571	35,268
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin (1)	2.91%	3.01%	3.35%	3.51%	4.35%
Non-interest income to average assets	2.16	3.62	3.55	2.02	0.84
Non-interest expense to average assets	4.11	4.71	4.51	3.43	2.84
Net overhead ratio (2)	1.96	1.08	0.95	1.41	2.00
Efficiency ratio (3)	85.35	74.33	68.23	65.42	58.89
Return on average assets (4)	0.30	0.91	1.01	0.86	0.96
Return on average equity (5)	4.69	14.85	17.34	15.26	16.84
Asset Quality Ratios:					
Non-performing loans to total loans	0.86%	0.72%	0.29%	0.92%	0.86%
Allowance for possible loan losses to:					
Total loans	1.45	1.66	1.82	1.58	1.54
Non-performing loans	168.60	230.79	618.29	171.96	179.47
Net charge-offs to average total loans	0.36	0.30	0.36	0.51	0.49
Non-performing loans to total assets	0.65	0.50	0.18	0.62	0.60
Balance Sheet Ratios:					
Loans to deposits	97.04%	90.25%	89.69%	84.74%	85.05%
Average interest-earning assets to average interest-bearing liabilities	114.38	114.61	115.64	114.50	113.30
Capital Ratios:					
Total equity to total assets	6.15%	6.42%	5.67%	5.80%	5.74%
Total capital to risk-weighted assets ratio	11.15	12.41	10.13	10.69	11.95
Tier 1 capital to risk-weighted assets ratio	9.00	10.04	8.82	8.87	9.51
Tier 1 capital to average assets ratio	8.45	8.31	7.74	7.17	7.47
Average equity to average assets ratio	6.37	6.10	5.82	5.64	5.70

(1) Net interest income, on a full tax-equivalent basis, divided by average interest-earning assets.
(2) Non-interest expense less non-interest income divided by average total assets.
(3) Non-interest expense divided by the sum of net interest income plus non-interest income.
(4) Net income divided by average total assets.
(5) Net income divided by average common equity.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following presents management's discussion and analysis of our financial condition and results of operations as of the dates and for the periods indicated. You should read this discussion in conjunction with our "Selected Consolidated Financial Data," our consolidated financial statements and the accompanying notes, and the other financial data contained elsewhere in this report.

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; potential unfavorable results of litigation, 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.

Critical Accounting Policies

Please refer to Note 1 of our consolidated financial statements where we present a listing and discussion of our most significant accounting policies. After a review of these 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 certain financial statement amounts to the methods, as well as the assumptions and estimates, underlying these policies. Accounting for these critical areas requires the most subjective and complex judgments that could be subject to revision as new information becomes available.

As presented in Note 1 and Note 3 to the consolidated financial statements, the allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio as of the balance sheet date. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The adequacy of the allowance is analyzed monthly based on internal loan reviews and qualitative measurements of our loan portfolio. Management assesses the adequacy of the allowance for loan losses based upon a number of factors including, among others:

- analytical reviews of loan loss experience in relationship to outstanding loans and commitments;
- unfunded loan commitments;
- problem and non-performing loans and other loans presenting credit concerns;
- trends in loan growth, portfolio composition and quality;
- appraisals of the value of collateral; and
- management's judgment with respect to current economic conditions and their impact on the existing loan portfolio.

The Bank computes its allowance by assigning specific reserves to impaired loans, plus a general reserve based on loss factors applied to the rest of the loan portfolio. The specific reserve on impaired loans is computed as the amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market value or the fair value of the collateral if the loan is collateral dependent. The general reserve loss factors are determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. To further assist in confirming the results of the above-described allowance computation, during 1999, the Bank refined its risk grading system by developing associated reserve factors for each risk grade.

The income tax amounts in Note 7 to the consolidated financial statements reflect the current period income tax expense for all periods presented, as well as future tax liabilities and benefits associated with differences in timing of expenses and income recognition for book and tax accounting purposes. Our current tax liability and expense amounts are determined using estimates and these estimates are subject to review and possible revision by taxing authorities.

We discuss our accounting for stock-based compensation in greater detail in Note 1 to our consolidated financial statements. Included in Note 1 is the effect on our net income in the event we change our accounting of stock options to the guidance presented by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" from our current policy, which follows Accounting Principles Board Opinion No. 25.

Overview

2004 was a challenging year for the Company. During the first half of the year, the Company endured a low short term interest rate environment which compressed our net interest margin. In addition, longer term interest rates increased slightly and stabilized which curtailed mortgage refinancings. This had an adverse effect on the mortgage origination side of our business, resulting in lower origination volumes and declining fee income. In 2004 we continued to grow loans and deposits at a robust pace and, associated with this loan growth, we increased our provision for loan and lease losses. In addition, accrued litigation costs, incremental costs associated with the opening of our Leawood, Kansas banking center, and other costs weighed on our financial performance. We expect some of these costs to be nonrecurring. During the second half of 2004, we experienced an increase in our net interest margin as five 25 basis point increases in the prime lending rate had a positive effect and eased the compression in our net interest margin. We expect that any further increases in the prime lending rate will continue to have a positive effect on our net interest margin.

Net income for 2004 was $1.9 million, a $3.7 million, or 65.75% decrease from the $5.6 million earned in 2003. Diluted earnings per share decreased 66.26% to $0.82 for the year ended December 31, 2004 from $2.43 in the previous year. The Company's returns on average assets and average stockholders' equity for 2004 were 0.30% and 4.69%, compared to 0.91% and 14.85%, respectively, for 2003.

Net interest income for 2004 was $17.2 million compared to $16.9 million earned during 2003. The increase of $327,000 or 1.93% was primarily the result of an increase in earning assets.

The provision for loan losses in 2004 was $2.0 million compared to $1.4 million in 2003. The increase in the provision in 2004 was essentially the result of an increase in loans, net charge-offs, and non-performing loans during 2004.

Non-interest income decreased 38.15% to $13.9 million in 2004 from $22.5 million in 2003. Increases in market interest rates and other demand factors resulted in a significant industry-wide decline in the volume of residential mortgage loans originated in 2004 compared to 2003, particularly refinancing volume. We experienced a similar trend which resulted in lower origination fees during 2004 than during 2003. Future market interest rate fluctuations and their resultant impact on loans held for sale fee income are difficult to project or quantify; however, it is likely that further increases in interest rates will have a detrimental impact on mortgage loan refinancing and lower loans held for sale fee income.

Total assets for the Company at December 31, 2004, were $672.7 million, an increase of $45.6 million, or 7.27%, from $627.1 million at December 31, 2003. Deposits and stockholders' equity at December 31, 2004 were $522.6 million and $41.4 million, compared with $470.5 million and $40.2 million at December 31, 2003, increases of $52.2 million, or 11.08%, and $1.2 million, or 2.95%, respectively.

Loans at December 31, 2004 totaled $507.2 million, an increase of $82.6 million, or 19.44%, compared to December 31, 2003. The loan to deposit ratio at December 31, 2004 was 97.04% compared to 90.25% at December 31, 2003. The increase in the loan to deposit ratio was due to loan growth which, on a relative basis, outpaced deposit growth. Our funding philosophy for loans not held for sale has been to primarily increase deposits from retail and commercial deposit sources and secondarily use other borrowing sources as necessary to fund loans within the limits of the Bank's capital base.

Historically, our ratio of total non-performing assets to total assets reflects the Bank's conservative underwriting policies and aggressive management of impaired loans and has resulted in low levels of nonaccrual loans. For the five years ended December 31, 2004, our average year-end ratio of non-performing loans to total loans was 0.82%. As of December 31, 2004, our ratio of non-performing loans to total loans was 0.86%, which was slightly above the historical average. Our non-performing credit relationships are regularly reviewed and closely monitored. Our philosophy has been to value non-performing loans at their estimated collectible value and to aggressively manage these situations. Generally, the Bank maintains its allowance for loan losses in excess of its non-performing loans. As of December 31, 2004, our ratio of allowance for loan losses to non-performing loans was 168.60%, compared to 230.79% at December 31, 2003.

The average net charge-off ratio was 0.40% for the five years ended December 31, 2004. Our net charge-off ratio for the year ended December 31, 2004 was 0.36%, which was below our historical average. The Bank continues to aggressively manage defaults in the loan portfolio. Management intends to vigorously pursue collection of all charged-off loans.

Net Interest Income

A primary component of our net income is our net interest income. Net interest income is determined by the spread between the fully tax equivalent (FTE) yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities, as well as the relative amounts of such assets and liabilities. FTE net interest margin is determined by dividing FTE net interest income by average interest-earning assets.

Years ended December 31, 2004 and 2003. FTE net interest income for 2004 increased to $17.4 million from $17.2 million in 2003, a $221,000, or 1.29%, increase.

FTE interest income for 2004 was $31.9 million, an increase of $1.2 million, or 3.86%, from $30.7 million in 2003, as a result of growth in earning assets. Average interest earning assets increased $24.1 million, or 4.22%, during 2004. Due to the increase in earning asset volume, loan interest and fee income increased to $29.2 million in 2004 from $28.3 million in 2002, or 3.36%. Interest income on investment securities increased by $125,000, or 5.27%, in 2004 compared to the prior year. The yield on average interest-earning assets fell to 5.36%, as compared to 5.38% in 2003, a decline of 2 basis points.

Interest expense for 2004 was $14.5 million, up $964,000, or 7.11%, from $13.5 million in 2003. The increase resulted from an increase in the level of interest bearing liabilities, primarily interest-bearing deposits, as well as an increase in the overall rate paid on our average interest-bearing liabilities. Total average interest bearing liabilities increased $22.1 million or 4.44% during 2004 mostly due to increases in money market and time deposits. The rate paid on our total average interest bearing liabilities increased to 2.79% in 2004 compared to 2.72% in 2003, an increase of 7 basis points. This increase resulted from increases in rates paid on savings deposits, money market deposits, time deposits, and long-term debt.

Years ended December 31, 2003 and 2002. FTE net interest income for 2003 increased to $17.2 million from $16.7 million in 2002, a $487,000, or 2.92%, increase.

FTE interest income for 2003 was $30.7 million, a decrease of $190,000, or 0.62%, from $30.9 million in 2002, primarily as a result of continued asset repricing in the current low interest rate environment. The yield on average interest-earning assets fell to 5.38%, as compared to 6.21% in 2002, a decline of 83 basis points. Average interest earning assets increased $73.3 million, or 14.73%, during 2003. Due to the increase in earning asset volume, loan interest and fee income increased to $28.3 million in 2003 from $26.9 million in 2002, or 5.34%. Interest income on investment securities decreased by $1.4 million, or 36.77%, in 2003 compared to the prior year. The decline in market interest rates caused many of the securities in our portfolio to be called. Generally, the resultant return in principal was reinvested at lower yields; consequently, the overall impact on the portfolio has been a decline in the yield in 2003 compared to the prior year. The effect of the increase in earning assets was generally offset by the decrease in yield.

Interest expense for 2003 was $13.5 million, down $677,000, or 4.76%, from $14.2 million in 2002. The decrease resulted from a decline in the rates paid on our interest bearing liabilities, primarily interest-bearing deposits. Although total average interest bearing liabilities increased $67.9 million or 15.76% during 2003 mostly due to the increases in money market and time deposits and FHLB borrowings, the rate on our total average interest bearing liabilities and deposits decreased to 2.72% and 2.50%, respectively, in 2003 compared to 3.31% and 3.08% in 2002, respectively, decreases of 59 and 58 basis points, respectively.

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 interest income from interest-earning assets and interest expense on interest-bearing liabilities and the resultant rates 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.

AVERAGE BALANCES, YIELDS AND RATES

	Year Ended December 31,								
	2004			2003			2002		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)								
Assets									
Federal funds sold	$ 15,077	$ 157	1.04 %	$ 5,500	$ 49	0.89 %	$ 18,171	$ 297	1.63 %
Investment securities – taxable	72,830	1,926	2.64	55,259	1,489	2.69	51,273	2,741	5.34
Investment securities – non-taxable (1)	8,206	569	6.93	12,885	881	6.84	14,526	1,007	6.93
Mortgage loans held for sale	35,219	1,813	5.15	86,808	4,460	5.14	63,866	3,937	6.17
Loans, net of unearned discount and fees (2)	463,833	27,432	5.91	410,593	23,833	5.80	349,879	22,920	6.55
Total earning assets	595,165	31,897	5.36	571,045	30,712	5.38	497,715	30,902	6.21
Cash and due from banks – non-interest bearing	21,152			30,453			22,910		
Allowance for possible loan losses	(7,434)			(7,592)			(5,547)		
Premises and equipment, net	19,613			16,388			9,380		
Other assets	17,366			12,129			10,546		
Total assets	$ 645,862			$ 622,423			$ 535,004		
Liabilities and Stockholders' Equity									
Deposits-interest bearing:									
Interest-bearing demand accounts	$ 28,268	$ 169	0.60 %	$ 26,415	$ 165	0.63 %	$ 29,779	$ 388	1.30 %
Savings and money market deposits	182,468	2,932	1.61	150,503	2,204	1.46	146,132	2,711	1.86
Time deposits	202,649	7,297	3.60	195,599	6,935	3.55	176,762	7,759	4.39
Total interest-bearing deposits	413,385	10,398	2.52	372,517	9,304	2.50	352,673	10,858	3.08
Short-term borrowings	26,734	211	0.79	44,230	451	1.02	21,722	266	1.22
Long-term debt	80,226	3,904	4.87	81,499	3,794	4.66	55,993	3,102	5.54
Total interest-bearing liabilities	520,345	14,513	2.79	498,246	13,549	2.72	430,388	14,226	3.31
Non-interest bearing deposits	79,171			81,269			69,550		
Other liabilities	5,202			4,959			3,952		
Stockholders' equity	41,144			37,949			31,114		
Total liabilities and stockholders' equity	$ 645,862			$ 622,423			$ 535,004		
FTE net interest income/spread		$ 17,384	2.57 %		$ 17,163	2.66 %		$ 16,676	2.90 %
FTE net interest margin			2.91 %			3.01 %			3.35 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the three years ended December 31, 2004, 2003 and 2002, the tax equivalency adjustment amounted to $194,000, $300,000, and 343,000, respectively.

(2) Includes average balances and income from loans on nonaccrual status

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 current 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

	Year Ended December 31,					
	2004 Compared to 2003			2003 Compared to 2002		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Federal funds sold	$ 8	$ 100	$ 108	$ (135)	$ (113)	$ (248)
Investment securities – taxable	(28)	465	437	(1,359)	107	(1,252)
Investment securities – non-taxable (1)	12	(324)	(312)	(14)	(112)	(126)
Mortgage loans held for sale	8	(2,655)	(2,647)	(656)	1,179	523
Loans, net of unearned discount	451	3,148	3,599	(2,611)	3,524	913
Total interest income	451	734	1,185	(4,775)	4,585	(190)
Interest-bearing demand accounts	(7)	11	4	(202)	(21)	(223)
Savings and money market deposits	214	514	728	(571)	64	(507)
Time deposits	108	254	362	(1,492)	668	(824)
Short-term borrowings	(102)	(138)	(240)	(45)	230	185
Long-term debt	172	(62)	110	(495)	1,187	692
Total interest expense	385	579	964	(2,805)	2,128	(677)
Net interest income	$ 66	$ 155	$ 221	$ (1,970)	$ 2,457	$ 487

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

Provision for Loan Losses

We make provisions for loan losses in amounts management deems necessary to maintain the allowance for loan losses at an appropriate level. During the year ended December 31, 2004, we provided $2.0 million for loan losses, as compared to $1.4 million for the year ended December 31, 2003, an increase of $615,000, or 45.56%. During 2004, our provision for loan losses increased due to overall growth in the loan portfolio as well as an increase in net charge-offs and impaired loans. The loan portfolio increased 19.44% to $507.2 million in 2004 from $424.6 million at December 31, 2003. Total impaired loans increased 26.05% to $12.8 million at December 31, 2004, with a related reserve of $1.8 million, from $10.2 million at December 31, 2003, with a related reserve of $1.5 million. Net charge-offs increased to $1.7 million in 2004 from $1.2 million in 2003. During 2003, the provision decreased due to management's assessment of an overall improvement in credit quality of the loan portfolio. The provision for loan losses decreased to $1.3 million in 2003 from $2.9 million in 2002, or 53.77%, while the loan portfolio increased to $424.6 million in 2003 from $380.1 million in 2002, or 11.71%.

The allowance for loan losses as a percentage of loans was 1.45% at December 31, 2004, as compared to 1.66% in 2003 and 1.82% in 2002. The decrease in this percentage from December 31, 2003 was primarily due to net charge-offs as well as modifications by management to the general reserve factors applied to unimpaired loans. The general reserve factors are periodically reviewed by management and during 2004 were lowered based on an assessment of the Company's historical charge-off experience for certain loan categories as well as improvements in the ability of the Company's loan review process to identify credit quality deterioration on a timely basis. The general reserve factor at December 31, 2004 was 1.13%. The general reserve factor at December 31, 2003 was 1.34%, essentially unchanged from the factor as of December 31, 2002 of 1.38%.

Overall, we increased the total balance of the allowance for loan losses in 2004 and 2003 based upon an analysis of several factors, including an analysis of impaired loans, the general reserve factor analysis referred to in our *Critical Accounting Policies* and changes in the loan mix. The allowance for loan losses represents our best estimate of probable losses that have been incurred as of the respective balance sheet dates.

Non-interest Income

The following table describes the items of our non-interest income for the periods indicated:

NON-INTEREST INCOME

	Year Ended December 31		
	2004	**2003**	**2002**
		(In thousands)	
Loans held for sale fee income	$ 10,358	$ 19,866	$ 16,690
NSF charges and service fees	1,326	1,283	1,026
Other service charges	1,115	924	821
Realized gains on available for sale securities, net	524	–	193
Other income	617	463	281
Total non-interest income	$ 13,940	$ 22,536	$ 19,011

Non-interest income decreased to $13.9 million, or 38.14%, during 2004, from $22.5 million during 2003. This decrease is attributable to a decrease in loans held for sale fee income of $9.5 million. We experienced a decline in our loans held for sale fee income due to a decline in residential mortgage origination and refinancing resulting from higher interest rates. The volume of closed residential mortgages fell to $883.4 million in 2004 from $1.5 billion and $1.3 billion in 2003 and 2002, respectively. Sustainability of the level of our loans held for sale fee income is primarily dependent upon the interest rate environment, and secondarily dependent on our ability to develop new products and alternative delivery channels. Other service charge income, which includes trust services income, investment brokerage income, merchant bankcard processing and debit card processing income, increased by $191,000 or 20.67% from 2003 to 2004. In 2004, we realized $524,000 of net gains on the sale of available-for-sale securities. We took advantage of opportunities to mitigate the risk of long-term rate volatility in our available-for-sale investment portfolio and also provide a funding source for loan growth by selling some of our longer-term bonds. Future growth of other non-interest income categories is dependent upon new product development, and growth in our customer base.

Non-interest income increased to $22.5 million, or 18.54%, during 2003, from $19.0 million during 2002. This increase is attributable to increases in loans held for sale fee income of $3.2 million and NSF charges and services fees of $257,000. We experienced growth in our loans held for sale income due to the expansion of our national and local mortgage capabilities concurrent with favorable conditions for residential mortgage origination and refinancing. Mortgage originations and refinancing continued to flourish due to the low interest rate environment which began in 2001 and persisted through 2003. The volume of closed residential mortgages grew to over $1.5 billion in 2003 from $1.3 billion and $640 million in 2002 and 2001, respectively. However, mortgage rates increased modestly during the second half of 2003, and the volume of mortgage refinancing activity declined dramatically. Other service charge income, which includes trust services income, investment brokerage income, merchant bankcard processing and debit card processing income, increased by $103,000 or 12.54% from 2002 to 2003. In 2002, we took advantage of opportunities to mitigate the risk of long-term rate volatility in our available-for-sale investment portfolio by selling some of our longer-term bonds. Due to the yield environment when we sold the securities, we realized $193,000 of net gains on the sales in 2002.

Non-interest Expense

The following table describes the items of our non-interest expense for the periods indicated.

NON-INTEREST EXPENSE

	Year Ended December 31		
	2004	**2003**	**2002**
		(In thousands)	
Salaries and employee benefits	$ 16,670	$ 19,670	$ 16,437
Occupancy	3,433	3,137	2,101
FDIC and other insurance expense	175	174	161
General and administrative	6,292	6,304	5,417
Total non-interest expenses	$ 26,570	$ 29,285	$ 24,116

Non-interest expense decreased 9.27% to $26.6 million during 2004, as compared to $29.3 million in the prior year primarily due to a decrease in salaries and employee benefits. Our salaries and employee benefits expense decreased 15.25% to $16.7 million in 2004 from $19.7 million in 2003, mainly due to a decline in incentive compensation related to mortgage origination activity, which was partially offset by the increase in staffing costs from the opening of our Leawood banking center as well as a $550,000 accrued expense recorded in 2004 to reflect the estimated potential cost of litigation related to claimed violations of the Fair Labor Standards Act (see Item 3). Occupancy expenses increased 9.43% to $3.4 million in 2004 from $3.1 million in 2003, primarily due to the opening of our Leawood banking center in May 2004 and the incremental costs associated with the operation of our College Boulevard facility for a full year.

Non-interest expense increased to $29.3 million, or 21.43%, during 2003, as compared to $24.1 million in the prior year. This increase is primarily attributable to increases in salaries and employee benefits and occupancy expenses, consistent with the Company's growth. Our salaries and employee benefits expense increased to $19.7 million in 2003, or 19.66%, from $16.4 million in 2002, mainly due to volume-related growth in incentive compensation related to mortgage origination activity as well as additional staff to facilitate our growth. We manage our staffing levels to accommodate the volume of our business. During 2003, FTEs fluctuated from approximately 257 to 313, and ended the year at approximately 278. The fluctuations in our staffing levels were primarily attributable to fluctuations in the volume of mortgage originations during the year. Occupancy expenses increased to $3.1 million, or 49.30% in 2003, from $2.1 million in 2002, primarily due to the addition of our 7900 College facility and higher telecommunication and depreciation expenses related to our growth and expansion. General and administrative expenses increased $887,000 to $6.3 million in 2003, compared to $5.4 million in 2002, principally due to increased marketing, postage/courier, and loan processing fees associated with the increased volume in the Company's mortgage origination departments.

Income Taxes

Our income tax expense during 2004 was $665,000, compared to $3.1 million during 2003, and $2.9 million during 2002. The decrease in 2004 reflects our lower earnings for the current fiscal year as well as the Company's recognition of tax reserves provided in prior tax years. Our consolidated effective income tax rates of 25.63%, 35.71% and 35.05% for the three years ended December 31, 2004, 2003, and 2002, respectively, varies from the statutory rate principally due to the effects of state income taxes and interest income earned on our municipal securities portfolio which is generally tax-exempt for federal income tax purposes.

Financial Condition

Lending Activities. Our loan portfolio is a key source of income, and since our inception, has been a principal component of our revenue growth. Our loan portfolio reflects an emphasis on commercial and commercial real estate, construction, lease financing, residential real estate, consumer and home equity lending. We emphasize commercial lending to professionals, businesses and their owners. Commercial loans and loans secured by commercial real estate accounted for 48.07% of our total loans at December 31, 2004, 46.45% of our total loans at December 31, 2003, and 43.40% of our total loans at December 31, 2002. These loans increased at an 17.82% compound annual rate during the three-year period ended December 31, 2004.

Loans were $507.2 million at December 31, 2004, an increase of $82.6 million, or 19.44%, compared to December 31, 2003. Loans at December 31, 2003 were $424.6 million, an increase of $44.5 million, or 11.71%, compared to December 31, 2002. We funded our loan growth during 2004 by selling available-for-sale securities and increasing deposits. The loan to deposit ratio increased to 97.04%, compared to 90.25% at December 31, 2003, and 89.69% at December 31, 2002.

We experienced increases in most loan categories during 2004. The growth of our commercial, commercial real estate and residential real estate portfolios is a result of the economic growth and development of our market area, coupled with the efforts and experience of our lending staff. The Company targets consumer lending lines of business in an effort to broadly diversify our risk across multiple lines of business. Historically, a significant portion of the growth in our personal lending lines was attributable to growth in our indirect automobile loan portfolio. In 2004, sales officers cultivated additional dealer relationships as well as additional business fromexisting dealers and our indirect loan portfolio grew by $19.8 million or 98.82%. The growth, which began in 2003, reversed a two-year decline when we encountered significant competition from national finance companies offering below market rate financing incentives.

The following table sets forth the composition of our loan portfolio by loan type as of the dates indicated. The amounts in the following table are shown net of discounts and other deductions.

	As of December 31,									
	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial................	$ 117,604	23.19 %	$ 109,818	25.86 %	$ 93,658	24.64 %	$ 85,311	25.54 %	$ 76,556	26.61 %
Commercial real estate.	126,205	24.88	87,438	20.59	71,295	18.76	63,756	19.08	42,267	14.69
Construction................	130,631	25.76	123,445	29.08	127,071	33.43	93,656	28.03	59,733	20.76
Lease financing...........	21,203	4.18	22,175	5.22	22,600	5.95	24,221	7.25	25,302	8.81
Residential real estate..	30,886	6.09	27,017	6.37	21,581	5.68	24,460	7.32	37,290	12.96
Consumer..................	48,950	9.65	29,701	6.99	26,750	7.04	29,895	8.96	35,864	12.47
Home equity................	31,691	6.25	25,026	5.89	17,127	4.50	12,776	3.82	10,657	3.70
Total loans and leases.................	507,170	100.00 %	424,620	100.00 %	380,082	100.00 %	334,075	100.00 %	287,669	100.00 %
Less allowance for loan losses.....................	7,333		7,051		6,914		5,267		4,440	
Loans receivable, net....	$ 499,837		$ 417,569		$ 373,168		$ 328,808		$ 283,229	

Collateral and Concentration. Management monitors concentrations of loans to individuals or businesses involved in a single industry over 5% of total loans. At December 31, 2004, 2003 and 2002, substantially all of our loans were collateralized with real estate, inventory, accounts receivable and/or other assets or were guaranteed by the Small Business Administration. Loans to individuals and businesses in the construction industry totaled $130.6 million, or 25.76%, of total loans, as of December 31, 2004. The Bank does not have any other concentrations of loans to individuals or businesses involved in a single industry exceeding 5% of total loans. The Bank's lending limit under federal law to any one borrower was $15.5 million at December 31, 2004. The Bank's largest single borrower, net of participations, at December 31, 2004 had outstanding loans of $9.5 million.

The following table presents the aggregate maturities of loans in each major category of our loan portfolio as of December 31, 2004, excluding the allowance for loan and valuation losses. Additionally, the table presents the dollar amount of all loans due more than one year after December 31, 2004 which have predetermined interest rates (fixed) or adjustable interest rates (variable). Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments or the timing of loan sales.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

	As of December 31, 2004					
					More than One Year	
	Less than one year	One to five years	Over five years	Total	Fixed	Variable
	(In thousands)					
Commercial	$ 57,505	$ 51,255	$ 8,844	$ 117,604	$ 20,348	$ 39,751
Commercial Real Estate	24,208	82,260	19,737	126,205	51,130	50,867
Construction	97,022	30,935	2,674	130,631	5,942	27,667

Non-performing Assets

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:

NON-PERFORMING ASSETS

	As of December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Commercial and all other loans:					
Past due 90 days or more	$ 2,008	$ 118	$ 1	$ 9	$ 24
Nonaccrual	543	318	234	752	1,326
Commercial real estate loans:					
Past due 90 days or more	-	-	-	-	-
Nonaccrual	158	-	175	322	274
Construction loans:					
Past due 90 days or more	-	-	-	-	-
Nonaccrual	-	487	-	-	-
Lease financing:					
Past due 90 days or more	1	-	3	-	-
Nonaccrual	80	249	223	1,364	383
Residential real estate loans:					
Past due 90 days or more	153	336	-	-	206
Nonaccrual	1,315	437	407	503	224
Consumer loans:					
Past due 90 days or more	17	42	22	100	-
Nonaccrual	-	-	13	13	37
Home equity loans:					
Past due 90 days or more	-	-	-	-	-
Nonaccrual	75	1,068	40	-	-
Debt securities and other assets (excluding other real estate owned and other repossessed assets):					
Past due 90 days or more	-	-	-	-	-
Nonaccrual	-	-	-	-	-
Total non-performing loans	4,350	3,055	1,118	3,063	2,474
Foreclosed assets held for sale	2,645	416	614	49	334
Total non-performing assets	$ 6,995	$ 3,471	$ 1,732	$ 3,112	$ 2,808
Total non-performing loans to total loans	0.86 %	0.72 %	0.29 %	0.92 %	0.86 %
Total non-performing loans to total assets	0.65	0.49	0.18	0.62	0.60
Allowance for loan losses to non-performing loans	168.60	230.79	618.29	171.96	179.47
Non-performing assets to loans and foreclosed assets held for sale	1.37	0.82	0.46	0.93	0.97

Non-performing assets. Non-performing assets increased to $7.0 million at December 31, 2004 from $3.5 million at December 31, 2003. The increase related primarily to increases in commercial and all other loans, residential real estate loans and foreclosed assets held for sale. Commercial and all other loans past due 90 days or more increased to $2.0 million at December 31, 2004, $1.7 million of which related to loans in process of renegotiation as of that date. Subsequent to year-end, the loans were renewed and restored to a current status. Residential real estate loans on a nonaccrual status increased to $1.3 million as of December 31, 2004. $434,000 of this increase was due to mortgage loans repurchased from investors as part of a $9 million repurchase by the Company from secondary market investors. The Company repurchased the loans when it discovered that they had been underwritten with documentation altered by a former employee. The Company funded the $9 million repurchase with existing liquidity. The balance of $2.6 million of foreclosed assets held for sale pertains to one residential real estate property which the Company has marketed and anticipates selling during 2005.

Impaired Loans. A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans, and certain other loans identified by management. Accrual of interest is discontinued, and interest accrued and unpaid is removed, at the time the loans are delinquent 90 days or when management believes that full collection of principal and interest under the original loan contract is unlikely to occur. Interest is recognized for nonaccrual loans only upon receipt, and only after all principal amounts are current according to the terms of the contract.

Impaired loans totaled $12.8 million at December 31, 2004, $10.2 million at December 31, 2003, and $11.7 million at December 31, 2002, with related allowances for loan losses of $1.8 million, $1.5 million, and $1.8 million, respectively.

Total interest income of $745,000, $736,000 and $699,000 was recognized on average impaired loans of $13.8 million, $11.7 million and $9.6 million for 2004, 2003 and 2002, respectively. Included in this total is cash basis interest income of $46,000, $67,000 and $46,000 recognized on nonaccrual impaired loans during 2004, 2003 and 2002, respectively.

Allowance For Loan Losses. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off, net of recoveries. The adequacy of the allowance is analyzed monthly based on internal loan reviews and quality measurements of our loan portfolio. The Bank computes its allowance by assigning specific reserves to impaired loans, and then applies general reserves, based on loss factors, to the remainder of the loan portfolio. The loss factors are determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. Specific allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of the loan collateral.

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 Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Balance at beginning of period	$ 7,051	$ 6,914	$ 5,267	$ 4,440	$ 3,817
Loans charged-off:					
Commercial loans	1,665	802	323	1,015	343
Commercial real estate loans	-	395	323	-	-
Construction loans	-	-	-	-	-
Lease financing	220	279	870	836	1,034
Residential real estate loans	18	-	-	5	-
Consumer loans	80	68	66	80	153
Home equity loans	-	10	-	-	-
Total loans charged-off	1,983	1,554	1,582	1,936	1,530
Recoveries:					
Commercial loans	41	77	123	119	104
Commercial real estate loans	7	10	1	-	-
Construction loans	-	-	-	-	-
Lease financing	166	219	162	198	53
Residential real estate loans	48	-	-	5	-
Consumer loans	38	35	23	41	46
Home equity loans	-	-	-	-	-
Total recoveries	300	341	309	363	203
Net loans charged-off	1,683	1,213	1,273	1,573	1,327
Provision for loan losses	1,965	1,350	2,920	2,400	1,950
Balance at end of period	$ 7,333	$ 7,051	$ 6,914	$ 5,267	$ 4,440
Loans outstanding:					
Average	$ 463,833	$ 410,593	$ 349,879	$ 310,727	$ 268,227
End of period	507,170	424,620	380,082	334,075	287,669
Ratio of allowance for loan losses to loans outstanding:					
Average	1.58 %	1.72 %	1.98 %	1.70 %	1.66 %
End of period	1.45	1.66	1.82	1.58	1.54
Ratio of net charge-offs to:					
Average loans	0.36	0.30	0.36	0.51	0.49
End of period loans	0.33	0.29	0.33	0.47	0.46

The following table shows our allocation of the allowance for loan losses by specific category at the end of each of the periods shown. Management attempts to allocate specific portions of the allowance for loan losses based on specifically identifiable problem loans. However, the allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,									
	2004		2003		2002		2001		2000	
	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance
Commercial	$ 3,016	41.13 %	$ 2,899	41.12 %	$ 3,012	43.56 %	$ 1,181	22.42 %	$ 1,687	38.00
Commercial real estate	1,432	19.53	1,161	16.47	1,008	14.58	888	16.86	485	10.92
Construction	1,475	20.11	1,581	22.42	1,405	20.32	1,070	20.32	672	15.14
Lease financing	583	7.95	690	9.78	813	11.76	1,440	27.34	526	11.84
Residential real estate	209	2.85	273	3.87	293	4.24	400	7.59	399	8.99
Consumer	404	5.51	288	4.09	256	3.70	210	3.99	547	12.32
Home equity	214	2.92	159	2.25	127	1.84	78	1.48	124	2.79
Total	$ 7,333	100.00 %	$ 7,051	100.00 %	$ 6,914	100.00 %	$ 5,267	100.00 %	$ 4,440	100.00

Investment securities. The primary objectives of our investment portfolio are to secure the safety of principal, to provide adequate liquidity and to provide securities for use in pledging for public funds or repurchase agreements. Income is a secondary consideration. As a result, we generally do not invest in mortgage-backed securities and other higher yielding investments.

Total investment securities decreased by $39.7 million or 37.43% during 2004, as we utilized the liquidity provided by maturing securities to fund our loan growth. In doing so, 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 securities, realizing $524,000 in net gains on those sales.

As of December 31, 2004, all of the securities in our investment portfolio were classified as available-for-sale in order to provide us with an additional source of liquidity when necessary, and as pledging requirements permitted.

The following table presents the composition of our available for sale investment portfolio by major category at the dates indicated.

INVESTMENT SECURITIES PORTFOLIO COMPOSITION

	At December 31,		
	2004	2003	2002
		(In thousands)	
U.S. government agency securities	$ 63,561	$ 93,790	$ 47,579
State and municipal obligations	2,133	11,451	13,785
Equity and other	656	795	–
Total	$ 66,350	$ 106,036	$ 61,364

The following table sets forth the maturities, carrying value or fair value (in the case of investment securities available-for-sale), and average yields for debt securities in our investment portfolio at December 31, 2004. Yields are presented on a tax equivalent basis. Expected maturities will differ from contractual maturities due to unscheduled repayments.

MATURITY OF INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities		
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Fair Value	Average Yield
	(Dollars in thousands)										
Available for Sale											
U.S. government agency securities	$ 21,853	1.82 %	$ 41,708	2.92 %	$ -	- %	$ -	- %	$ 63,561	$ 63,561	2.54 %
State and municipal obligations	849	4.66	1,284	4.62	-	-	-	-	2,133	2,133	4.63
Equity and other securities with no defined maturity	-	-	-	-	-	-	-	-	656	656	2.95
Total available for sale	$ 22,702	1.92 %	$ 42,992	2.97 %	$ -	- %	$ -	- %	$ 66,412	$ 66,350	2.61 %

Deposits. Deposits grew by $52.2 million, or 11.08%, for the year ended December 31, 2004, compared to 2003 year-end. The primary source of deposit growth in 2004 was in money management and time deposit balances, which increased by $29.5 million and $12.6 million, respectively. The increase in the money management balances during 2004 was primarily attributable to the attractiveness of our money management account's tiered rate structure; whereby larger customer deposit balances earned a higher rate of interest. The increase in time deposit balances was primarily due to a promotional product with an attractive rate and term offered during the third quarter of 2004. We have traditionally offered market-competitive rates on our time deposit products and believe they provide us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, due to our ability to cross-sell additional services to these account holders. However, we continue to analyze alternative strategies to grow our deposits including opening additional banking centers in markets management considers underserved, offering new products, and obtaining brokered deposits as allowed by our Funds Management policy and as deemed prudent by management and our board of directors.

The following table sets forth the balances for each major category of our deposit accounts and the weighted-average interest rates paid for interest-bearing deposits for the periods indicated:

Deposits

	Year Ended December 31,								
	2004			2003			2002		
	(Dollars in thousands)								
	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent Of Deposits	Weighted Average Rate
Demand	$ 84,764	16.22 %	— %	$ 74,717	15.88 %	— %	$ 86,591	20.43 %	— %
Savings	9,100	1.74	0.49	7,740	1.64	0.62	6,037	1.42	1.39
Interest-bearing demand	36,342	6.95	0.59	26,260	5.58	0.63	30,747	7.26	1.30
Money Market	30,139	5.77	0.42	30,594	6.50	0.68	33,932	8.01	1.30
Money Management	144,523	27.65	1.93	126,037	26.79	1.79	96,837	22.85	2.05
Time Deposits	217,778	41.67	3.60	205,147	43.61	3.55	169,643	40.03	4.39
Total deposits	$ 522,646	100.00 %		$ 470,495	100.00 %		$ 423,787	100.00 %	

The following table sets forth the amount of our time deposits that are greater than $100,000 by time remaining until maturity as of December 31, 2004:

AMOUNTS AND MATURITIES OF
TIME DEPOSITS OF $100,000 OR MORE

	As of December 31, 2004	
	Amount	Weighted Average Rate Paid
	(Dollars in thousands)	
Three months or less	$ 8,357	2.27 %
Over three months through six months	5,532	2.61
Over six months through twelve months	17,590	2.95
Over twelve months	64,340	4.21
Total	$ 95,819	3.71 %

Liquidity and Capital Resources

Liquidity. 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 81.56% of our total deposits at December 31, 2004, and 76.20% and 82.54% of total deposits at December 31, 2003 and 2002, respectively. Generally, the Company's funding strategy is to utilize FHLBank borrowings to fund originations of mortgage loans held for sale and fund balances generated by other lines of business with deposits. Advance availability with the FHLBank is determined quarterly and at December 31, 2004, approximately $44.4 million was available. The Company's FHLBank advance availability fluctuates depending on levels of available collateral, which includes mortgage loans held for sale. 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.

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member institutions. The Bank, as a member of the FHLBank of Topeka, is required to acquire and hold shares of capital stock in the FHLBank of Topeka in an amount at least equal to 1.00% of the aggregate principal amount of its unpaid residential mortgage loans or 5.00% of our total outstanding FHLB advances. The Bank is currently in compliance with this requirement, with a $6.9 million investment in stock of the FHLBank of Topeka as of December 31, 2004. During 2004 and 2003, the Bank took advantage of some special advances from the FHLB to supplement its funding base. The Bank had $48.5 million and $62.5 million in outstanding long-term advances from the FHLBank of Topeka at December 31, 2004 and 2003, respectively.

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.

The following table sets forth a summary of our short-term borrowings during and as of the end of each period indicated.

SHORT-TERM BORROWINGS

	Amount outstanding at period end	Average amount outstanding during the period (1)	Maximum Outstanding At any Month end	Weighted average interest rate during the period	Weighted Average interest rate at period end
	(Dollars in thousands)				
At or for the year ended December 31, 2004:					
Federal Home Loan Bank borrowings........	$ –	$ 510	$ 6,000	2.26 %	– %
Federal Funds purchased..........................	–	1,107	–	1.96	–
Repurchase agreements...........................	21,118	24,100	25,134	0.65	1.28
Total..	$ 21,118	$ 25,717		0.73	1.28
At or for the year ended December 31, 2003:					
Federal Home Loan Bank borrowings........	$ –	$ 15,118	$ 40,000	1.29 %	– %
Federal Funds purchased..........................	–	3,674	11,000	1.22	–
Repurchase agreements...........................	22,648	23,264	25,661	0.60	0.50
Total..	$ 22,648	$ 42,056		0.90	0.50
At or for the year ended December 31, 2002:					
Federal Home Loan Bank borrowings........	$ 35,000	$ 2,236	$ 35,000	1.95 %	1.28 %
Federal Funds purchased..........................	10,000	1,043	10,000	1.93	1.81
Repurchase agreements...........................	23,688	16,962	23,688	1.08	0.67
Total..	$ 68,688	$ 20,241		1.22	0.80

(1) Calculations are based on daily averages where available and monthly averages otherwise.

Capital Resources. At December 31, 2004, our total stockholders' equity was $41.4 million, and our equity to asset ratio was 6.15%. At December 31, 2003, our total stockholders' equity was $40.2 million and our equity to asset ratio was 6.41%.

The Federal Reserve Board's risk-based guidelines establish a risk-adjusted ratio, relating capital to different categories of assets and off-balance sheet exposures, such as loan commitments and standby letters of credit. These guidelines place a strong emphasis on tangible stockholder's equity as the core element of the capital base, with appropriate recognition of other components of capital. At December 31, 2004, our Tier 1 capital ratio was 9.00%, while our total risk-based capital ratio was 11.15%, both of which exceed the capital minimums established in the risk-based capital requirements.

Contractual Obligations

Our known contractual obligations outstanding as of December 31, 2004 are presented below.

	Payments due by Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term Debt Obligations	$ 80,088	$ 873	$ 1,971	$ 18,195	$ 59,049
Operating Lease Obligations	32	32	–	–	–
Total	$ 80,120	$ 905	$ 1,971	$ 18,195	$ 59,049

Our risk-based capital ratios at December 31, 2004, 2003 and 2002 are presented below.

RISK-BASED CAPITAL

	December 31, 2004	December 31, 2003	December 31, 2002
	(Dollars in thousands)		
Tier 1 capital			
Stockholders' equity	$ 41,384	$ 40,198	$ 34,344
Intangible assets	(976)	(1,128)	(1,281)
Unrealized (appreciation) depreciation on available-for-sale securities	257	(570)	(785)
Trust preferred securities (1)	13,880	13,210	11,187
Total Tier 1 capital	54,545	51,710	43,465
Tier 2 capital			
Qualifying allowance for loan losses	7,333	6,448	6,171
Trust preferred securities(1)	5,708	5,790	313
Total Tier 2 capital	13,041	12,238	6,484
Total risk-based capital	$ 67,586	$ 63,948	$ 49,949
Risk weighted assets	$ 605,886	$ 515,201	$ 492,922
Ratios at end of period			
Total capital to risk-weighted assets ratio	11.15 %	12.41 %	10.13 %
Tier 1 capital to average assets ratio (leverage ratio)	8.45 %	8.31 %	7.74 %
Tier 1 capital to risk-weighted assets ratio	9.00 %	10.04 %	8.82 %
Minimum guidelines			
Total capital to risk-weighted assets ratio	8.00 %	8.00 %	8.00 %
Tier 1 capital to average assets ratio (leverage ratio)	4.00 %	4.00 %	4.00 %
Tier 1 capital to risk-weighted assets ratio	4.00 %	4.00 %	4.00 %

(1) Federal Reserve guidelines for calculation of Tier 1 capital limits the amount of cumulative trust preferred securities which can be included in Tier 1 capital to 25% of total Tier 1 capital (Tier 1 capital before reduction of intangibles). At December 31, 2004, approximately $13.8 million of the trust preferred securities have been included as Tier 1 capital. The balance of the trust preferred securities have been included as Tier 2 capital.

Inflation

The consolidated financial statements and related data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as prices of goods and services. Additional discussion of the impact of interest rate changes is included in Item 7A: Qualitative and Quantitative Disclosure About Market Risk. In addition, we disclose the estimated fair value of our financial instruments in accordance with Statement of Financial Accounting Standards No. 107. See Note 17 to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

The Company enters into off-balance sheet arrangements in the ordinary course of business. Our off-balance sheet arrangements generally are limited to commitments to extend credit, mortgage loans in the process of origination and forward commitments to sell those mortgage loans, letters of credit and lines of credit.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. They generally have fixed expiration dates or other termination clauses. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2004, the Company had outstanding commitments to originate loans aggregating approximately $36,980,000.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Total mortgage loans in the process of origination amounted to $57,378,000 and mortgage loans held for sale amounted to $44,144,000 at December 31, 2004 and combined had related forward commitments to sell mortgage loans amounted to approximately $101,522,000 at December 31, 2004 respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $13,604,000 at December 31, 2004.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2004 unused lines of credit borrowings aggregated approximately $168,840,000.

Recent and Future Accounting Requirements

In 2003, the Financial Accounting Standards Board ("FASB") issued its Interpretation No. 46 (FIN 46 revised), *Consolidation of Variable Interest Entities*. This new Interpretation addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
    a. The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights;
    b. The obligation to absorb the expected losses of the entity; or,

c. The right to receive the expected residual returns of the entity.

3. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company's initial application of the Interpretation required deconsolidation of the Company's investment in BVBC Capital Trusts I and II, and did not have a material impact on the financial statements of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share Based Payment*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, and focuses primarily on accounting for transactions in which an entity obtains employee services. The SFAS requires a public entity to measure the cost of employee services received in exchange for its equity instruments based on the fair value at the grant date (with limited exceptions) and recognize that cost over the service period. SFAS 123 (revised 2004) revises SFAS No. 123, "*Accounting for Stock-Based Compensation*," and supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*." The provisions of SFAS 123 (revised 2004) will be effective for the Company's first interim reporting period beginning after June 15, 2005. The Company does not believe that the adoption of SFAS 123 (revised 2004) will have a material impact on the consolidated financial statements.

In March 2004, the FASB Emerging Issues Task Force (EITF) reached consensus on Issue 03-01 (EITF 03-01), "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*." EITF 03-01, as originally proposed, included new guidance for evaluating and recording impairment losses on debt and equity investments available for sale as well as disclosure requirements about impairments which have not been recognized as other-than temporary. In September, 2004, the FASB deferred the effective date of the EITF's guidance on evaluating and recognizing an other-than-temporary impairment. This deferral did not, however, change the disclosure guidance effective for fiscal years ending after December 15, 2003. The deferred guidance, when issued, may impact the Company's financial reporting including the assessment and accounting treatment for declines in market value of debt securities.

In December, 2003, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from a purchaser's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired individually, in pools or as part of business combinations and does not apply to loans originated by the entity. SOP 03-3 prohibits the recognition of the excess of contractual cash flows as an adjustment of yield, loss accrual or valuation allowance at the time of purchase, requires that subsequent increases in expected cash flows be recognized prospectively through an adjustment of yield and requires that subsequent decreases in expected cash flows be recognized as an impairment. The SOP also prohibits the creation or transfer of an acquiree's valuation allowance to an acquirer's in the initial accounting of loans acquired in a transfer. SOP 03-3 is effective for loans and debt securities acquired by the Company in years beginning after December 15, 2004. The Company does not believe that the adoption of SOP 03-3 will have a material impact on the consolidated financial statements.

Item 7A: Qualitative and Quantitative Disclosure 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 that 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 our net interest income over the next twelve-month period and our economic value of equity at risk at December 31, 2004 based on the indicated instantaneous and permanent changes in interest rates.

Changes in Interest Rates	**Net Interest Income (next 12 months)**	**Net Economic Value of Equity at Risk**
300 basis point rise	29.50%	1.81%
200 basis point rise	18.67%	1.28%
100 basis point rise	9.75%	0.71%
Base Rate Scenario	-	-
25 basis point decline	(2.71%)	0.37%
50 basis point decline	(5.54%)	0.70%
100 basis point decline	(12.32%)	1.33%

The above table indicates that, at December 31, 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 December 31, 2004, in the event of a sudden decrease in prevailing market rates, the economic value of our equity would increase. Given our current asset/liability position, a 25, 50 or 100 basis point decline in interest rates will result in a higher economic value of our equity as the change in estimated gain on assets exceeds the change in estimated loss on liabilities 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.

The following table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2004, based on the information and assumptions set forth below.

INTEREST-RATE SENSITIVITY ANALYSIS

	Expected Maturity Date								
			Fiscal Year Ending December 31,						
	0-90 Days	91-365 Days	2005	2006	2007	2008	2009	Thereafter	Total
Interest-Earning Assets:									
Fixed Rate Loans	$ 11,855	$ 21,141	$ 32,996	$ 33,604	$ 29,501	$ 27,584	$ 37,175	$ 16,850	$ 177,710
Average Interest Rate	6.13 %	6.95 %	6.66 %	6.41 %	7.01 %	6.51 %	6.05 %	9.02 %	6.74 %
Variable Rate Loans	361,763	4,508	366,271	-	-	-	-	-	366,271
Average Interest Rate	5.57 %	5.41 %	5.56 %	-	-	-	-	-	5.56 %
Fixed Rate Investments	2,445	20,256	22,701	32,564	9,215	1,214	-	-	65,694
Average Interest Rate	1.96 %	1.93 %	1.94 %	2.07 %	3.17 %	4.08 %	- %	- %	2.21 %
Variable Rate Investments	-	-	-	-	-	-	-	-	-
Average Interest Rate	-	-	-	-	-	-	-	-	-
Federal Funds Sold	2,500	-	2,500	-	-	-	-	-	2,500
Average Interest Rate	1.90 %	-	1.90 %	-	-	-	-	-	1.90 %
Total interest-earning assets	$ 378,563	$ 45,905	$ 424,468	$ 66,168	$ 38,716	$ 28,798	$ 37,175	$ 16,850	$ 612,175
Interest-Bearing Liabilities:									
Interest-bearing demand	$ 36,314	$ -	$ 36,314	$ -	$ -	$ -	$ -	$ -	$ 36,314
Average Interest Rate	0.88 %	-	0.88 %	-	-	-	-	-	0.88 %
Savings and money market	183,790	-	183,790	-	-	-	-	-	183,790
Average Interest Rate	1.74 %	-	1.74 %	-	-	-	-	-	1.74 %
Time deposits	23,767	38,140	61,907	25,508	88,223	7,095	11,661	23,384	217,778
Average Interest Rate	2.46 %	2.83 %	2.69 %	4.04 %	4.24 %	3.89 %	4.18 %	4.07 %	3.74 %
Funds borrowed	22,568	686	23,254	960	1,011	11,068	7,127	59,049	102,469
Average Interest Rate	1.25 %	5.32 %	1.37 %	5.32 %	5.32 %	5.15 %	3.04 %	5.41 %	4.30 %
Total interest-bearing liabilities	$ 266,439	$ 38,826	$ 305,265	$ 26,468	$ 89,234	$ 18,163	$ 18,788	$ 82,433	$ 540,351
Cumulative:									
Rate sensitive assets (RSA)	$ 378,563	$ 424,468	$ 424,468	$ 490,636	$ 529,352	$ 558,150	$ 595,326	$ 612,175	$ 612,175
Rate sensitive liabilities (RSL)	266,439	305,265	305,265	331,733	420,967	439,130	457,918	540,351	540,351
GAP (GAP = RSA – RSL)	112,124	119,203	119,203	158,903	108,385	119,020	137,407	71,824	71,824
RSA/RSL	142.08 %	139.05 %	139.05 %	147.90 %	125.75 %	127.10 %	130.01 %	113.29 %	
RSA/Total assets	56.27	63.10	63.10	72.93	78.69	82.97	88.50	91.00	
RSL/Total assets	39.61	45.38	45.38	49.31	62.58	65.28	68.07	80.32	
GAP/Total assets	16.67	17.72	17.72	23.62	16.11	17.69	20.43	10.68	
GAP/RSA	29.62	28.08	28.08	32.39	20.48	21.32	23.08	11.73	

Certain assumptions are contained in the above table which affect the presentation. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities lag behind changes in market interest rates.

Disclosures about fair values of financial instruments, which reflect changes in market prices and rates, can be found in note 17 to the consolidated financial statements included in this report.

Item 8: Consolidated Financial Statements of Blue Valley Ban Corp

See index to Blue Valley Ban Corp financial statements on page F-1.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No items are reportable.

Item 9A: Controls and Procedures

Management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2004. Based upon the evaluation, management concluded that the Company's disclosure controls and procedures are effective to ensure that all material information requiring disclosure in this annual report was made known to them in a timely manner.

The Company made no significant changes in internal controls over financial reporting or in other factors that could materially affect the Company's internal control over financial reporting.

Item 9B: Other Information

.None

Part III

Item 10: Directors and Executive Officers of the Registrant

Information regarding the Company's directors and executive officers is included in the Company's Proxy Statement for the 2005 Annual Meeting of Stockholders and is hereby incorporated by reference.

Information regarding the Bank's directors and executive officers is included in Part I of this Form 10-K under the caption "Directors and Executive Officers of the Registrant."

The Company has adopted a code of conduct that applies to our senior financial officers. A copy of our code of conduct can be obtained by contacting us directly at:

Investor Relations
11935 Riley
Overland Park, KS 66213
913.338.1000
Email: ir@bankbv.com

Item 11: Executive Compensation

This information is included in the Company's Proxy Statement for the 2005 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This information is included in the Company's Proxy Statement for the 2005 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 13: Certain Relationships and Related Transactions

The Bank periodically makes loans to our executive officers and directors, the members of their immediate families and companies that they are affiliated with. As of December 31, 2004, the Bank had aggregate loans outstanding to such persons of approximately $14.2 million, which represented 34.30% of our stockholders' equity of $41.4 million on that date. These loans:

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons; and
- did not involve more than the normal risk of collectibility or present other unfavorable features.

Item 14: Principal Accounting Fees and Services

This information is included in the Company's Proxy Statement for the 2005 Annual Meeting of Stockholders and is hereby incorporated by reference.

Part IV

Item 15: Exhibits, Financial Statement Schedules

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

(b) 3. The financial statements and financial statement schedules listed in the accompanying index to consolidated financial statements and financial statement schedules are filed as part of this Form 10-K.The exhibits listed in the accompanying exhibit index are filed as part of this Form 10-K.

(c) None

Exhibits

3.1 Amended and Restated Articles of Incorporation of Blue Valley Ban Corp. *

3.2 Bylaws, as amended, of Blue Valley Ban Corp. *

4.1 1998 Equity Incentive Plan. *

4.2 1994 Stock Option Plan. *

4.3 Form of Indenture of Blue Valley Ban Corp. **

4.4 Form of Junior Subordinated Debentures, due September 30, 2030. **

4.5 Certificate of Trust of BVBC Capital Trust I. *

4.6 Form of Amended and Restated Trust Agreement of BVBC Capital Trust I. **

4.7 Form of Cumulative Preferred Security Certificate for BVBC Capital Trust I. *

4.8 Form of Trust preferred securities Guarantee Agreement of Blue Valley Ban Corp relating to the Cumulative Trust preferred securities. *

4.9 Form of Agreement as to Expenses and Liabilities. *

4.10 Form of Indenture dated April 10, 2003, between Blue Valley Ban Corp and Wilmington Trust Company ***

4.11 Amended and Restated Declaration of Trust dated April 10, 2003 ***

4.12 Guarantee Agreement dated April 10, 2003 ***

4.13 Fee Agreement dated April 10, 2003 ***

4.14	Specimen of Floating Rate Junior Subordinated Debt Security ***
10.1	Promissory Note of Blue Valley Building dated July 15, 1994. *
10.2	Mortgage, Assignment of Leases and Rents and Security Agreement between Blue Valley Building and Businessmen's Assurance Company of America, dated July 15, 1994. *
10.3	Assignment of Leases and Rents between Blue Valley Building and Businessmen's Assurance Company of America dated July 15, 1994. *
11.1	Statement regarding computation of per share earnings. Please see p. F-12.
21.1	Subsidiaries of Blue Valley Ban Corp.
23.3	Consent of BKD, LLP.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with the Commission on April 10, 2000 as an Exhibit to Blue Valley's Registration Statement on Form S-1, Amendment No. 1, File No. 333-34328. Exhibit incorporated herein by reference.

** Filed with the Commission on June 29, 2000 as an Exhibit to Blue Valley's Registration Statement on Form S-1, Amendment No. 3, File No. 333-34328. Exhibit incorporated herein by reference.

*** Filed with the Commission on March 19, 2004 as an Exhibit to Blue Valley’s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

Date: March 18, 2005 By: /s/ Robert D. Regnier
Robert D. Regnier, President,
Chief Executive Officer and Director

Date: March 18, 2005 By: /s/ Mark A. Fortino
Mark A. Fortino, Chief Financial Officer

Date: March 18, 2005 By: /s/ Donald H. Alexander
Donald H. Alexander, Director

Date: March 18, 2005 By: /s/ Wayne A. Henry, Jr.
Wayne A. Henry, Jr., Director

Date: March 18, 2005 By: /s/ C. Ted McCarter
C. Ted McCarter, Director

Date: March 18, 2005 By: /s/ Thomas A. McDonnell
Thomas A. McDonnell, Director

BLUE VALLEY BAN CORP

DECEMBER 31, 2004, 2003 AND 2002

CONTENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Blue Valley Ban Corp
Overland Park, Kansas

We have audited the accompanying consolidated balance sheets of Blue Valley Ban Corp (the “Company”) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Valley Ban Corp as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
February 18, 2005

BLUE VALLEY BAN CORP

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003
(dollars in thousands, except share data)

ASSETS

	2004	2003
Cash and due from banks	$ 19,994	$ 21,317
Federal funds sold	2,500	29,400
Cash and cash equivalents	22,494	50,717
Available-for-sale securities	66,350	106,036
Mortgage loans held for sale	44,144	18,297
Loans, net of allowance for loan losses of $7,333 and $7,051 in 2004 and 2003, respectively	499,837	417,569
Premises and equipment, net	19,988	18,250
Foreclosed assets held for sale, net	2,645	416
Interest receivable	2,375	1,923
Deferred income taxes	2,383	1,302
Prepaid expenses and other assets	3,538	3,593
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,987	7,842
Core deposit intangible asset, at amortized cost	976	1,128
Total assets	$ 672,717	$ 627,073

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003
(dollars in thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2004	2003
LIABILITIES		
Deposits		
Demand	$ 84,764	$ 74,717
Savings, NOW and money market	220,104	190,631
Time	217,778	205,147
Total deposits	522,646	470,495
Other interest-bearing liabilities	22,381	23,447
Long-term debt	80,088	88,294
Interest payable and other liabilities	6,218	4,639
Total liabilities	631,333	586,875
STOCKHOLDERS' EQUITY		
Capital stock		
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2004 – 2,327,086 shares; 2003 – 2,279,161 shares	2,327	2,279
Additional paid-in capital	8,099	7,404
Retained earnings	31,809	30,344
Unearned compensation	(594)	(399)
Accumulated other comprehensive income		
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $(171) in 2004 and $380 in 2003	(257)	570
Total stockholders' equity	41,384	40,198
Total liabilities and stockholders' equity	$ 672,717	$ 627,073

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(dollars in thousands, except per share data)

	2004	2003	2002
INTEREST INCOME			
Interest and fees on loans	$ 29,245	$ 28,293	$ 26,857
Federal funds sold	157	49	297
Available-for-sale securities	2,301	2,070	3,405
Total interest income	31,703	30,412	30,559
INTEREST EXPENSE			
Interest-bearing demand deposits	169	165	388
Savings and money market deposit accounts	2,932	2,204	2,711
Other time deposits	7,297	6,935	7,759
Federal funds purchased and other interest-bearing liabilities	186	195	223
Short-term debt	25	256	43
Long-term debt	3,904	3,794	3,102
Total interest expense	14,513	13,549	14,226
NET INTEREST INCOME	17,190	16,863	16,333
PROVISION FOR LOAN LOSSES	1,965	1,350	2,920
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,225	15,513	13,413
NONINTEREST INCOME			
Loans held for sale fee income	10,358	19,866	16,690
Service fees	2,441	2,207	1,847
Gains on available for sale securities, net	524	–	193
Other income	617	463	281
Total noninterest income	13,940	22,536	19,011
NONINTEREST EXPENSE			
Salaries and employee benefits	16,670	19,670	16,437
Net occupancy expense	3,433	3,137	2,101
Other operating expense	6,467	6,478	5,578
Total noninterest expense	26,570	29,285	24,116
INCOME BEFORE INCOME TAXES	2,595	8,764	8,308
PROVISION FOR INCOME TAXES	665	3,130	2,912
NET INCOME	$ 1,930	$ 5,634	$ 5,396
BASIC EARNINGS PER SHARE	$ 0.84	$ 2.51	$ 2.48
DILUTED EARNINGS PER SHARE	$ 0.82	$ 2.43	$ 2.40
DIVIDENDS PER SHARE	$ 0.20	$ 0.15	$ 0.10

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(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, 2001		$ 2,175	$ 5,641	$19,878	$ -	$ 831	$ 28,525
Issuance of 47,535 shares of common stock		48	643				691
Dividends on common stock ($0.10 per share)				(222)			(222)
Net income	5,396			5,396			5,396
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(30)	(46)					(46)	(46)
	$ 5,350						
BALANCE, DECEMBER 31, 2002		$ 2,223	$ 6,284	$25,052	$ -	$ 785	$34,344
Issuance of 56,450 shares of common stock		56	1,120		(399)		777
Dividends on common stock ($0.15 per share)				(342)			(342)
Net income	5,634			5,634			5,634
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(143)	(215)					(215)	(215)
	$ 5,419						
BALANCE, DECEMBER 31, 2003		$ 2,279	$ 7,404	$30,344	$ (399)	$ 570	$40,198
Issuance of 47,925 shares of common stock		48	695		(338)		405
Dividends on common stock ($0.20 per share)				(465)			(465)
Net income	1,930			1,930			1,930
Restricted stock earned, net of forfeitures					143		143
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(552)	(827)					(827)	(827)
	$ 1,103						
BALANCE, DECEMBER 31, 2004		$ 2,327	$ 8,099	$31,809	$ (594)	$ (257)	$41,384

	December 31, 2004	December 31, 2003	December 31, 2002
Reclassification Disclosure			
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $(342), $(143) and $47 for the periods ended December 31, 2004, 2003 and 2002, respectively	$ (513)	$ (215)	$ 70
Less: reclassification adjustments for appreciation included in net income, net of income taxes of $210, $0 and $77 for the periods ended December 31, 2004, 2003 and 2002, respectively	(314)	-	(116)
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(552), $(143), and $(30) for the periods ended December 31, 2004, 2003 and 2002, respectively	$ (827)	$ (215)	$ (46)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(dollars in thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,930	$ 5,634	$ 5,396
Adjustments to reconcile net income to net cash flow from operating activities:			
Depreciation and amortization	1,863	1,579	1,114
Amortization (accretion) of premiums and discounts on securities	(28)	38	42
Provision for loan losses	1,965	1,350	2,920
Deferred income taxes	(530)	529	(754)
Stock dividend on FHLB securities	(240)	-	-
Net gain on available-for-sale securities	(524)	-	(193)
Net loss on sale of foreclosed assets	104	58	121
Net (gain) loss on sale of premises and equipment	5	(18)	35
Restricted stock earned and forfeited	143	-	-
Originations of loans held for sale	(883,406)	(1,544,916)	(1,305,219)
Proceeds from the sale of loans held for sale	857,560	1,645,891	1,227,800
Changes in:			
Interest receivable	(452)	91	500
Prepaid expenses and other assets	(305)	(1,353)	(617)
Interest payable and other liabilities	1,114	(1,374)	1,370
Net cash provided by (used in) operating activities	(20,801)	107,509	(67,485)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net originations of loans	(90,650)	(46,439)	(58,127)
Proceeds from sales of loan participations	3,635	-	9,135
Purchase of premises and equipment	(3,094)	(9,099)	(3,060)
Proceeds from sale of premises and equipment	-	18	12
Proceeds from the sale of foreclosed assets	448	828	1,026
Proceeds from sales of available-for-sale securities	21,270	-	13,183
Proceeds from maturities of available-for-sale securities	49,564	80,168	65,198
Purchases of available-for-sale securities	(31,974)	(124,936)	(61,994)
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	-	(2,345)	(2,625)
Proceeds from the sale of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	95	-	893
Net cash used in investing activities	(50,706)	(101,805)	(36,359)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits, money market, NOW and savings accounts	39,520	11,204	22,579
Net increase in time deposits	12,631	35,504	6,963
Repayments of long-term debt	(21,706)	(4,670)	(162)
Proceeds from long-term debt	13,500	22,825	22,095
Net proceeds (payments) on short-term debt	-	(35,000)	35,000
Proceeds from sale of common stock	405	777	691
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	(1,066)	(13,382)	19,274
Net cash provided by financing activities	43,284	17,258	106,440
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,223)	22,962	2,596
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	50,717	27,755	25,159
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 22,494	$ 50,717	$ 27,755
SUPPLEMENTAL CASH FLOWS INFORMATION			
Loans transferred to foreclosed assets held for sale	$ 2,781	$ 688	$ 1,712
Restricted stock issued	$ 338	$ 399	$ –
Cash dividends declared on common stock	$ 465	$ 342	$ –
Interest paid	$ 14,511	$ 13,195	$ 14,638
Income taxes paid (net of refunds)	$ 635	$ 4,771	$ 2,535

See Notes to Consolidated Financial Statements

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a holding company for Bank of Blue Valley (the Bank), Blue Valley Building Corporation, Blue Valley Insurance Services, Inc., BVBC Capital Trust I and BVBC Capital Trust II through 100% ownership of each.

The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Johnson County, Kansas. The Bank also originates residential mortgages locally and nationwide through its InternetMortgage.com website. The Bank is subject to competition from other financial institutions. The Bank also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The Blue Valley Building Corporation is primarily engaged in leasing real property at its facilities in Overland Park and Leawood, Kansas.

BVBC Capital Trust I and II are Delaware business trusts created in 2000 and 2003, respectively, to offer trust preferred securities and to purchase the Company's prior subordinated debentures. The Trusts have terms of 35 years, but may dissolve earlier as provided in their trust agreements.

Blue Valley Insurance Services, Inc. was an insurance agency offering insurance products to our customers. During December 2004, the Company ceased all the operations within this entity.

Operating Segment

The Company provides community banking services through its subsidiary bank, including such products and services as loans; time deposits, checking and savings accounts; mortgage originations; trust services; and investment services. These activities are reported as a single operating segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Management believes that the allowances for loan losses and the valuation of foreclosed assets held for sale are adequate. While management uses available information to recognize losses on loans and foreclosed assets held for sale, changes in economic conditions may necessitate revision of these estimates in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for loan losses and valuation of foreclosed assets held for sale. Such agencies may require the Company to recognize additional losses based on their judgments of information available to them at the time of their examination.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation

The consolidated financial statements include the accounts of Blue Valley Ban Corp and its 100% owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2004, cash equivalents consisted of federal funds sold.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2004 was $806,000.

Investment in Debt Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income using a method which approximates the level-yield method over the period to maturity.

Interest on investments in debt securities is included in income when earned.

Other Investments

The Company, as a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems, is required to maintain an investment in capital stock of both the FHLB and FRB. No ready market exists for either stock, and the stocks have no quoted market value. Such stock is recorded at cost.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Forward commitments to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Amounts paid to investors to obtain forward commitments, if any, are deferred until such time as the related loans are sold. The fair values of the forward commitments are not recognized in the financial statements if their terms match those of the underlying mortgage. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid, commitment fees paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance is management's estimate of probable losses which have occurred as of the balance sheet date based on management's evaluation of risk in the loan portfolio. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance is evaluated on a monthly basis by management based on management's periodic review of the collectibility of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The Bank computes its allowance by assigning specific reserves to impaired loans, and then applies general reserve factors to the rest of the loan portfolio. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management when determining impairment include payment status, collateral value and probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets Held for Sale

Assets acquired by foreclosure or in settlement of debt and held for sale are valued at their estimated fair value as of the date of foreclosure, and a related valuation allowance is provided for estimated costs to sell the assets. Management evaluates the value of foreclosed assets held for sale periodically and increases the valuation allowance for any subsequent declines in fair value. Increases in the valuation allowance and gains/losses on sales of foreclosed assets are included in non-interest expenses, net.

Core Deposit Intangible Assets

Unamortized core deposit intangible assets aggregated $976,000 and $1,128,000 (originally $2,576,000) at December 31, 2004 and 2003, respectively, and are amortized over a 15-year period using the straight-line method. Amortization expense related to core deposit intangible assets was $152,000 for each of the years 2004, 2003 and 2002. Expected amortization for each of the next five years is $152,000 and $216,000 in total thereafter.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee Income

Loan origination fees, net of direct origination costs, are recognized as income using the level-yield method over the term of the loans.

Reclassification

Certain reclassifications have been made to the 2003 and 2002 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on net income. During the period ended December 31, 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.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effect of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

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 year. The computation of per share earnings is as follows:

	2004	2003	2002
	(in thousands, except share and per share data)		
Net income, as reported	$ 1,930	$ 5,634	$ 5,396
Add: Total stock-based employee compensation recognized in net income, net of income taxes of $44 for the year ended December 31, 2004	84	–	–
Less: Total stock-based compensation cost determined under the fair value based method, net of income tax credit of $(44) for the year ended December 31, 2004	(84)	-	-
Pro forma net income	$ 1,930	$ 5,634	$ 5,396
Average common shares outstanding	2,302,564	2,244,930	2,178,803
Average common share stock options outstanding	57,497	75,910	74,126
Average diluted common shares	2,360,061	2,320,840	2,252,929
Basic earnings per share	$ 0.84	$ 2.51	$ 2.48
Diluted earnings per share	$ 0.82	$ 2.43	$ 2.40

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for the plan and no compensation cost has been recognized. Had compensation cost for the Company's stock options issued under its Equity Incentive Plan been determined based on the fair value at the grant dates using the minimum value method under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

		2004	2003	2002
		(in thousands, except per share data)		
Net income	As reported	$ 1,930	$ 5,634	$ 5,396
	Pro forma	$ 1,930	$ 5,618	$ 5,344
Basic earnings per share	As reported	$ 0.84	$ 2.51	$ 2.48
	Pro forma	$ 0.84	$ 2.50	$ 2.45
Diluted earnings per share	As reported	$ 0.82	$ 2.43	$ 2.40
	Pro forma	$ 0.82	$ 2.42	$ 2.37

The expected life of options outstanding is based on the historical experience of the Company. During 2004 and 2003, the Company issued no stock options. The fair value of options granted in 2002 was estimated at $49,000 on the date of the grant using the minimum value method with an assumed dividend per share of $0.10, risk-free interest rate of 1.75% and an expected life of two years.

NOTE 2: AVAILABLE-FOR-SALE SECURITIES

The amortized cost and approximate fair value of available-for-sale securities are as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
		(dollars in thousands)		
U.S. Government agencies	$ 63,950	$ 6	$ (395)	$ 63,561
State and political subdivisions	2,110	23	–	2,133
Equity and other	718	–	(62)	656
	$ 66,778	$ 29	$ (457)	$ 66,350

NOTE 2: AVAILABLE-FOR-SALE SECURITIES (Continued)

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(dollars in thousands)			
U.S. Government agencies	$ 93,408	$ 471	$ (89)	$ 93,790
State and political subdivisions	10,878	573	–	11,451
Equity and other	800	–	(5)	795
	$105,086	$ 1,044	$ (94)	$ 106,036

Maturities of available-for-sale debt instruments at December 31, 2004:

	Amortized Cost	Approximate Fair Value
	(dollars in thousands)	
In one year or less	$ 22,843	$ 22,701
After one through five years	43,217	42,993
After five years	–	–
Total	66,060	65,694
Equity and other securities	718	656
	$ 66,778	$ 66,350

The book value and approximate fair value of securities pledged as collateral to secure public deposits amounted to $58,594,000 at December 31, 2004 and $45,159,000 at December 31, 2003.

The Company enters into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are book-entry securities. During the period, securities held in safekeeping were pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2004, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity. Securities sold under agreements to repurchase averaged $24,100,000 and $23,264,000 during 2004 and 2003, and the maximum amounts outstanding at any month-end were $25,134,000 and $25,661,000, respectively. The carrying value of securities pledged to secure agreements to repurchase amounted to $33,761,000 and $28,178,000 at December 31, 2004 and 2003, respectively.

Gross gains of $606,000, $0 and $193,000 were realized in 2004, 2003 and 2002, respectively, and no gross losses were realized in 2004, 2003 and 2002, respectively, from sales of available-for-sale securities. During 2004, the Company recorded an $82,000 loss on an investment security for an impairment which was determined to be other than temporary.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2004 was $56,571,000, or approximately 86% of the Company's investment in debt securities portfolio. Total fair value of these investments at December 31, 2003 was $23,897,000, or approximately 23% of the Company's investment in debt securities portfolio. These declines primarily result from fluctuations in market yields.

Based on evaluation of available information and evidence, particularly recent volatility in market yields on debt securities, management believes the declines in fair value for these securities are temporary. Should the

NOTE 2: AVAILABLE-FOR-SALE SECURITIES (Continued)

impairment of any of these become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified. At December 31, 2004 and 2003, the Company owned securities with a fair value of $18.8 million and $0, respectively, which had gross unrealized losses outstanding longer than 12 months of $159,000 and $0, respectively. All of the securities with unrealized losses outstanding longer than 12 months at December 31, 2004 were U.S. Government Agency securities.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2004 and 2003 include the following:

	2004	2003
	(dollars in thousands)	
Commercial loans	$ 117,604	$ 109,818
Commercial real estate loans	126,205	87,438
Construction loans	130,631	123,445
Lease financing	21,203	22,175
Residential real estate loans	30,886	27,017
Consumer loans	48,950	29,701
Home equity loans	31,691	25,026
Total loans	507,170	424,620
Less: Allowance for loan losses	7,333	7,051
Net loans	$ 499,837	$ 417,569

Activity in the allowance for loan losses was as follows:

	2004	2003	2002
		(dollars in thousands)	
Balance, beginning of year	$ 7,051	$ 6,914	$ 5,267
Provision charged to expense	1,965	1,350	2,920
Losses charged off, net of recoveries of $300,000, $341,000 and $309,000 for 2004, 2003 and 2002, respectively	(1,683)	(1,213)	(1,273)
Balance, end of year	$ 7,333	$ 7,051	$ 6,914

Impaired loans totaled $12,847,000 and $10,192,000 at December 31, 2004 and 2003, respectively, with related allowances for loan losses of $1,754,000 and $1,497,000, respectively. At December 31, 2004 and 2003, accruing loans delinquent 90 days or more totaled $2,179,000 and $497,000 respectively. Non-accrual loans were $2,171,000 and $2,558,000 at December 31, 2004 and 2003, respectively.

Total interest income of $745,000, $736,000 and $699,000 was recognized on average impaired loans of $13,841,000, $11,746,000 and $9,585,000 for 2004, 2003 and 2002, respectively. Included in this total is cash-basis interest income of $46,000, $67,000 and $46,000 recognized on impaired loans on nonaccrual during 2004, 2003 and 2002, respectively.

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of these assets are as follows:

	2004	2003
	(dollars in thousands)	
Land	$ 4,724	$ 1,820
Building and improvements	14,375	13,400
Furniture and equipment	5,853	5,115
Land improvements, net	285	1,876
	25,237	22,211
Less accumulated depreciation	5,249	3,961
Total premises and equipment	$ 19,988	$ 18,250

NOTE 5: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of $100,000 or more were $95,819,000 on December 31, 2004 and $106,669,000 on December 31, 2003. The Company acquires brokered deposits in the normal course of business. At December 31, 2004 and 2003, brokered deposits of $471,000 and $35,805,000, respectively, were included in the Company's time deposit balance.

At December 31, 2004, the scheduled maturities of time deposits are as follows:

	(dollars in thousands)
2005	$ 61,901
2006	25,037
2007	88,224
2008	7,093
2009	12,137
2010 and thereafter	23,386
	$ 217,778

NOTE 6: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2012. Minimum future rent receivable under noncancellable operating leases at December 31, 2004 was as follows:

	(dollars in thousands)
2005	$ 325
2006	179
2007	179
2008	126
2009	78
2010 and thereafter	220
	$ 1,107

NOTE 6: OPERATING LEASES (Continued)

The Company leases space from others under noncancellable operating leases expiring in 2005. The minimum rental commitment payable under these noncancellable operating leases at December 31, 2004 was $32,000. Consolidated rental and operating lease expenses were $289,000 in 2004, $289,000 in 2003 and $236,000 in 2002.

NOTE 7: INCOME TAXES

The provision for income taxes consists of the following:

	2004	2003	2002
		(dollars in thousands)	
Taxes currently payable	$ 1,195	$ 2,601	$ 3,666
Deferred income taxes	(530)	529	(754)
	$ 665	$ 3,130	$ 2,912

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2004	2003	2002
		(dollars in thousands)	
Computed at the statutory rate (34%)	$ 882	$ 2,980	$ 2,825
Increase (decrease) resulting from:			
Tax-exempt interest	(167)	(225)	(235)
State income taxes	103	232	293
Other	(153)	143	29
Actual tax provision	$ 665	$ 3,130	$ 2,912

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2004 and 2003 consolidated balance sheets are as follows:

NOTE 7: INCOME TAXES (Continued)

	2004	2003
	(dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,597	$ 2,135
Accrued compensated absences	41	41
Accumulated depreciation on available-for-sale securities	171	–
Mark to market – Mortgage loans held for sale	139	82
Other	269	–
	3,217	2,258
Deferred tax liabilities:		
Accumulated depreciation	(696)	(363)
Accumulated appreciation on available-for-sale securities	–	(380)
FHLBank stock basis	(138)	–
Other	–	(213)
	(834)	(956)
Net deferred tax asset	$ 2,383	$ 1,302

NOTE 8: SHORT TERM DEBT

The Company has an $8 million operating line of credit with a bank bearing a variable interest rate of the Federal Funds rate plus 1.68%. The line is of credit is secured by stock in the Company's subsidiary bank and matures during 2005. As of December 31, 2004 and 2003, the Company had no outstanding balance on this line of credit.

NOTE 9: LONG TERM DEBT

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

	2004	2003
	(dollars in thousands)	
Note payable – other (A)	$ –	$ 1,281
Note payable – bank (B)	4,500	4,925
Note payable – Blue Valley Building Corp. (C)	7,500	–
Federal Home Loan Bank advances (D)	48,500	62,500
Subordinated Debentures – BVBC Capital Trust I (E)	11,856	11,856
Subordinated Debentures – BVBC Capital Trust II (F)	7,732	7,732
Total long-term debt	$ 80,088	$ 88,294

NOTE 9: LONG TERM DEBT (Continued)

(A) Due in August 2009; payable in monthly installments of $23,175 including 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 at 5.45% by the use of a swap agreement (see Note 9).

(C) Two notes due in 2017; payable in monthly installments totaling $70,084 including interest at 5.19%; collateralized by land, buildings, and assignment of future rents.

(D) Due in 2008, 2009, 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%. Federal Home Loan Bank advance availability is determined quarterly and at December 31, 2004, approximately $44,383,000 was available.

(E) 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. The Company may prepay the subordinated debentures beginning in 2005, in whole or in part, at their face value plus accrued interest.

(F) 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 subordinated debentures (E) due in 2030. The Company may prepay the Trust Preferred Securities beginning in 2008, in whole or in part, at their face value plus accrued interest.

Aggregate annual maturities of long-term debt at December 31, 2004 are as follows:

	(dollars in thousands)
2005	$ 873
2006	960
2007	1,011
2008	11,068
2009	7,127
Thereafter	59,049
	$ 80,088

NOTE 10: 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 9). The agreement provides for the Company to receive interest from the counterparty at an amount which offsets 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 December 31, 2004. Under the cash flow hedging method, the effective portion of the

NOTE 10: DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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.

NOTE 11: REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2004, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company and the Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004:			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated	$67,586	11.15%	$48,471	8.00%	N/A	
Bank Only	$62,180	10.58%	$47,031	8.00%	$58,789	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$54,545	9.00%	$24,235	4.00%	N/A	
Bank Only	$54,847	9.33%	$23,515	4.00%	$35,273	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$54,545	8.45%	$25,834	4.00%	N/A	
Bank Only	$54,847	8.43%	$26,031	4.00%	$32,539	5.00%

NOTE 11: REGULATORY MATTERS (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2003:			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated	$63,948	12.41%	$41,216	8.00%	N/A	
Bank Only	$55,957	11.20%	$39,973	8.00%	$49,967	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$51,710	10.04%	$20,608	4.00%	N/A	
Bank Only	$49,702	9.95%	$19,987	4.00%	$29,980	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$51,710	8.31%	$24,897	4.00%	N/A	
Bank Only	$49,702	8.15%	$24,382	4.00%	$30,478	5.00%

The Bank is subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval. At December 31, 2004, approximately $12,695,000 of retained earnings were available for dividend declaration without prior regulatory approval.

NOTE 12: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2004 and 2003, the Company had loans outstanding to executive officers, directors and to companies in which the Bank's executive officers or directors were principal owners, in the amounts of $14,195,000 and $5,976,000, respectively. Related party transactions for 2004 and 2003 were as follows:

	2004	2003
	(dollars in thousands)	
Balance, beginning of year	$ 5,976	$ 8,083
New loans	10,270	2,582
Repayments and reclassifications	(2,051)	(4,689)
Balance, end of year	$ 14,195	$ 5,976

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than the normal risk of collectibility or present other unfavorable features.

NOTE 13: PROFIT SHARING AND 401(K) PLANS

The Company's profit sharing and 401(k) plans cover substantially all employees. Contributions to the profit sharing plan are determined annually by the Board of Directors, and participant interests are vested over a five-year period. The Company's 401(k) plan permits participants to make contributions by salary reduction, based on which the Company matches a ratable portion. The Company's matching contributions to the 401(k) plan are vested immediately. Combined Company contributions charged to expense for 2004, 2003 and 2002 were $658,000, $681,000 and $527,000, respectively.

NOTE 14: EQUITY INCENTIVE COMPENSATION

The Company has an Equity Incentive Plan (the "Plan") which allows the Company to issue equity incentive compensation awards to its employees and directors in the forms of stock options, restricted shares or deferred share units.

Under the fixed option provisions of the Plan, the Company may grant options that vest two years from the date of grant to its employees for shares of common stock. At December 31, 2004, the Company had 235,634 shares available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

During 2004 and 2003, the Company granted no stock options, but did grant 14,100 and 13,275 shares of restricted common stock, respectively. Recipients of the restricted stock grant who are employees vest in the stock after three years from the date of the grant. Recipients of the restricted stock grant who are Directors vest in the stock after three years for the 2003 grant and two years for the 2004 grant. The basis of the restricted shares granted, equal to the fair value of the Company's stock on the date of grant, will be amortized to compensation expense ratably over the applicable vesting period. During 2004 and 2003, 500 and 0 shares of restricted stock were forfeited, respectively.

A summary of the status of option shares under the plan at December 31, 2004, 2003 and 2002, and changes during the years then ended, is presented below:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	188,300	$ 16.70	235,575	$ 17.02	235,760	$ 14.77
Granted	–	–	–	–	51,600	25.00
Exercised	(31,825)	10.96	(41,675)	17.77	(45,035)	14.25
Forfeited	(1,475)	25.00	(5,600)	22.30	(6,750)	17.94
Outstanding, end of year	155,000	$ 17.80	188,300	$ 16.70	235,575	$ 17.02
Options exercisable, end of year	155,000	$ 17.80	164,350	$ 15.49	172,525	$ 15.26

NOTE 14: EQUITY INCENTIVE COMPENSATION (Continued)

The weighted-average remaining contractual life of option shares at December 31, 2004 was 6.09 years. Exercise prices ranged from $5.10 to $25.00. Information about options outstanding and exercisable as of December 31, 2004 is set forth in the following table.

Range of Exercise Prices	Options Outstanding and Exercisable Number Outstanding and Exercisable at 12/31/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 5.10 to $ 5.10	3,000	1 year	$ 5.10
6.25 to 6.25	7,000	2 years	6.25
7.50 to 7.50	5,000	3 years	7.50
11.25 to 11.25	11,200	4 years	11.25
14.38 to 14.38	17,325	5 years	14.38
16.50 to 16.50	29,600	6 years	16.50
19.50 to 19.50	45,000	7 years	19.50
25.00 to 25.00	36,875	8 years	25.00
	155,000		

NOTE 15: EMPLOYEE STOCK PURCHASE PLAN

The 2004 Blue Valley Ban Corp employee stock purchase plan (“ESPP”) provides the right to subscribe to 100,000 shares of common stock to substantially all employees of the Company and subsidiaries, except those who are 5% or greater shareholders of the Company. The purchase price for shares under the plan is determined by the Company’s Board of Directors (or a designated Committee thereof) and was set to 85% of the market price on either the grant date or the offering date, whichever is lower, for the plan year beginning in February, 2004.

NOTE 16: OTHER INCOME/EXPENSE

Other operating expenses consist of the following:

	2004	2003	2002
		(dollars in thousands)	
Advertising	$ 1,315	$ 1,277	$ 920
Data processing	712	556	530
Professional fees	815	810	628
Other expense	3,625	3,835	3,500
Total	$ 6,467	$ 6,478	$ 5,578

Other income consists of the following:

	2004	2003	2002
		(dollars in thousands)	
Rental income	$ 192	$ 154	$ 142
Other income	425	309	139
Total	$ 617	$ 463	$ 281

NOTE 17: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents

For these short-term instruments, the carrying amount approximates fair value.

Available-for-Sale Securities

Fair values for available-for-sale securities, which also are the amounts recognized in the consolidated balance sheets, equal quoted market prices if available. If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities.

Mortgage Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

The fair value of demand deposits, savings accounts, NOW accounts and certain money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Securities Sold Under Agreement to Repurchase and Other Liabilities

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Short-Term and Long-Term Debt

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit, Letters of Credit and Lines of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

NOTE 17: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:		(dollars in thousands)		
Cash and cash equivalents	$ 22,494	$ 22,494	$ 50,717	$ 50,717
Available-for-sale securities	66,350	66,350	106,036	106,036
Mortgage loans held for sale	44,144	44,144	18,297	18,301
Interest receivable	2,375	2,375	1,923	1,923
Loans, net of allowance for loan losses	499,837	497,809	417,569	421,350
Financial liabilities:				
Deposits	522,646	521,936	470,495	471,704
Other bearing liabilities	22,381	22,381	23,447	23,447
Long-term debt	80,088	81,265	88,294	91,628
Interest payable	1,190	1,190	1,309	1,309
Unrecognized financial instruments (net of amortization):				
Commitments to extend credit	–	–	–	–
Letters of credit	–	–	–	–
Lines of credit	–	–	–	–
Forward commitments	–	–	–	–

NOTE 18: COMMITMENTS AND CREDIT RISKS

The Company extends credit for commercial real estate mortgages, residential mortgages, working capital financing and consumer loans to businesses and residents principally in southern Johnson County. The Bank also purchases indirect leases from various leasing companies throughout Kansas and Missouri.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2004 and 2003, the Company had outstanding commitments to originate loans aggregating approximately $36,980,000 and $32,913,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $6,075,000 and $6,650,000 at December 31, 2004 and 2003, respectively, with the remainder at floating market rates.

NOTE 18: COMMITMENTS AND CREDIT RISKS (Continued)

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market.

Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale.

Total mortgage loans in the process of origination amounted to $57,378,000 and $47,965,000 and mortgage loans held for sale amounted to $44,144,000 and $18,297,000 at December 31, 2004 and 2003, respectively. Related forward commitments to sell mortgage loans amounted to approximately $101,522,000 and $66,262,000 at December 31, 2004 and 2003, respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company had total outstanding letters of credit amounting to $13,604,000 and $20,228,000 at December 31, 2004 and 2003, respectively.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments.

At December 31, 2004 and 2003, unused lines of credit borrowings aggregated approximately $168,840,000 and $131,995,000, respectively.

Additionally, the Company periodically has excess funds, which are loaned to other banks as federal funds sold. At December 31, 2004 and 2003, federal funds sold totaling $2,500,000 and $29,400,000, respectively, were loaned to various banks, as approved by the Board of Directors, with the largest balance at any one bank being $2,500,000 and $25,400,000 on those dates, respectively.

NOTE 19: SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table presents the unaudited results of operations for the past two years by quarter. See discussion on earnings per share in "Note 1: Nature of Operations and Summary of Significant Accounting Policies" in the Company's Consolidated Financial Statements.

	2004				2003			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Dollars in thousands, except per share data)							
Operations								
Net interest income after provision for loan losses	$ 3,821	$ 3,865	$ 3,736	$ 3,803	$ 3,436	$ 4,402	$ 3,792	$ 3,883
Noninterest income	3,155	3,270	4,103	3,412	3,595	6,637	6,606	5,698
Noninterest expense	7,069	6,428	6,911	6,162	5,902	8,713	7,858	6,812
Income before income taxes	(93)	707	928	1,053	1,129	1,129	2,326	2,540
Income taxes	(99)	174	247	343	393	393	831	913
Net income	$ 6	$ 533	$ 681	$ 710	$ 736	$ 1,495	$ 1,627	$ 1,776
Net Income per Share Data								
Basic	$ 0.00	$ 0.23	$ 0.30	$ 0.31	$ 0.32	$ 0.66	$ 0.73	$ 0.80
Diluted	$ 0.00	$ 0.23	$ 0.29	$ 0.30	$ 0.31	$ 0.64	$ 0.71	$ 0.77
Balance Sheet								
Total assets	$ 672,717	$ 669,892	$ 637,353	$ 626,036	$ 627,073	$ 622,015	$ 628,697	$ 591,764
Total loans, net	499,837	470,155	448,785	444,277	417,569	406,127	406,954	396,531
Stockholders' equity	41,384	42,028	41,388	41,150	40,198	39,627	38,342	36,248

Net income or the fourth quarter of 2004 was adversely affected by higher noninterest expenses compared to the prior year period. The increase in noninterest expense during the quarter relates primarily to nonrecurring accrued expenses related to the cost of litigation, incremental costs associated with the opening of the Leawood, Kansas Banking Center, and other expenses.

The above unaudited financial information reflects all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented.

NOTE 20: NEW ACCOUNTING STANDARDS

In 2003, the Financial Accounting Standards Board (“FASB”) issued its Interpretation No. 46 (FIN 46 revised), *Consolidation of Variable Interest Entities*. This new Interpretation addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics:

1. The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders.
2. The equity investors lack one or more of the following essential characteristics of a controlling financial interest:
   a. The direct or indirect ability to make decisions about the entity’s activities through voting rights or similar rights;
   b. The obligation to absorb the expected losses of the entity; or,
   c. The right to receive the expected residual returns of the entity.
3. The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

NOTE 20: NEW ACCOUNTING STANDARDS (Continued)

The Company's initial application of the Interpretation required deconsolidation of the Company's investment in BVBC Capital Trusts I and II, and did not have a material impact on the financial statements of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share Based Payment*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, and focuses primarily on accounting for transactions in which an entity obtains employee services. The SFAS requires a public entity to measure the cost of employee services received in exchange for its equity instruments based on the fair value at the grant date (with limited exceptions) and recognize that cost over the service period. SFAS 123 (revised 2004) revises SFAS No. 123, "*Accounting for Stock-Based Compensation*," and supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*." The provisions of SFAS 123 (revised 2004) will be effective for the Company's financial statements issued after June 15, 2005. The Company does not believe that the adoption of SFAS 123 (revised 2004) will have a material impact on the consolidated financial statements.

In March 2004, the FASB Emerging Issues Task Force (EITF) reached consensus on Issue 03-01 (EITF 03-01), "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*." EITF 03-01, as originally proposed, included new guidance for evaluating and recording impairment losses on debt and equity investments available for sale as well as disclosure requirements about impairments which have not been recognized as other-than temporary. In September, 2004, the FASB deferred the effective date of the EITF's guidance on evaluating and recognizing an other-than-temporary impairment. This deferral did not, however, change the disclosure guidance effective for fiscal years ending after December 15, 2003. The deferred guidance, when issued, may impact the Company's financial reporting including the assessment and accounting treatment for declines in market value of debt securities.

In December, 2003, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from a purchaser's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired individually, in pools or as part of business combinations and does not apply to loans originated by the entity. SOP 03-3 prohibits the recognition of the excess of contractual cash flows as an adjustment of yield, loss accrual or valuation allowance at the time of purchase, requires that subsequent increases in expected cash flows be recognized prospectively through an adjustment of yield and requires that subsequent decreases in expected cash flows be recognized as an impairment. The SOP also prohibits the creation or transfer of an acquiree's valuation allowance to an acquirer's in the initial accounting of loans acquired in a transfer. SOP 03-3 is effective for loans and debt securities acquired by the Company in years beginning after December 15, 2004. The Company does not believe that the adoption of SOP 03-3 will have a material impact on the consolidated financial statements.

NOTE 21: LEGAL PROCEEDINGS

On October 13th, 2004, we became a defendant in a lawsuit filed in the United States District Court, Kansas District by one current mortgage loan originator and twenty three former mortgage loan originators. The plaintiffs are claiming that the Bank did not compensate them appropriately for overtime hours worked in accordance with the Fair Labor Standards Act. While the plaintiffs' claims total $5.6 million, we believe the Company has meritorious defenses to the claims made and we intend to vigorously defend against these claims. In the fourth quarter of 2004, the Company took a $550,000 charge recording a liability for the estimated potential cost of this litigation. We currently do not anticipate any significant additional financial impact from this litigation. Other than this claim, there are no other pending legal proceedings that are likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

NOTE 22: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2004 and 2003

	2004	2003
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 2,058	$ 806
Investments in subsidiaries:		
Bank of Blue Valley	55,566	51,400
Blue Valley Building Corp.	7,648	11,863
Blue Valley Insurance Services, Inc.	18	46
BVBC Capital Trust I	356	356
BVBC Capital Trust II	232	232
Other assets	2,781	2,279
Total Assets	$ 68,659	$ 66,982
LIABILITIES		
Long-term debt	$ 4,500	$ 4,925
Subordinated debentures	19,588	19,588
Other liabilities	3,187	2,271
Total Liabilities	27,275	26,784
STOCKHOLDERS' EQUITY		
Common stock	2,327	2,279
Additional paid-in capital	8,099	7,404
Retained earnings	31,809	30,344
Unearned compensation	(594)	(399)
Unrealized appreciation on available-for-sale securities, net of income taxes of $380 and $523 at 2003 and 2002, respectively	(257)	570
Total Stockholders' Equity	41,384	40,198
Total Liabilities and Stockholders' Equity	$ 68,659	$ 66,982

NOTE 22: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Income
Years Ended December 31, 2004, 2003 and 2002

	2004	2003 (In thousands)	2002
Income			
Dividends from subsidiaries	$ 11,328	$ 445	$ 137
Other income	7	39	3
	11,335	484	140
Expenses	2,514	2,189	1,588
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	8,821	(1,705)	(1,448)
Credit for income taxes	(1,086)	(716)	(539)
Income (loss) before equity in undistributed net income of subsidiaries	9,907	(989)	(909)
Equity in undistributed (distributions in excess of) net income of subsidiaries	(7,977)	6,623	6,305
Net income	$ 1,930	$ 5,634	$ 5,396

NOTE 22: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2004, 2003 and 2002

	2004	2003 (In thousands)	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,930	$ 5,634	$ 5,396
Items not requiring (providing) cash:			
Deferred income taxes	836	82	30
Equity in undistributed income of subsidiaries	7,977	(6,623)	(6,305)
Restricted stock earned	143	–	–
Changes in:			
Other assets	(1,338)	(517)	(431)
Other liabilities	451	504	571
Net cash provided by (used in) operating activities	9,999	(920)	(739)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital contributed to subsidiary	(8,727)	(7,943)	(2,018)
Net cash used in investing activities	(8,727)	(7,943)	(2,018)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term debt	(425)	(4,495)	–
Proceeds from long-term debt	–	13,057	2,095
Proceeds from sale of common stock	405	777	691
Net cash provided by (used in) financing activities	(20)	9,339	2,786
INCREASE IN CASH AND CASH EQUIVALENTS	1,252	476	29
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	806	330	301
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,058	$ 806	$ 330