

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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number: 001-15933

BLUE VALLEY BAN CORP

(Exact name of registrant as specified in its charter)

Kansas

(State or other jurisdiction of incorporation or organization)

48-1070996

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

**11935 Riley
Overland Park, Kansas**

(Address of principal executive offices)

66225-6128

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

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

American Stock Exchange

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

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

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

As of March 31, 2005 the registrant had 2,334,871 shares of Common Stock (\$1.00 par value) outstanding.

Blue Valley Ban Corp

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Part I. Financial Information

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors
Blue Valley Ban Corp
Overland Park, Kansas 66225

We have reviewed the accompanying consolidated balance sheet of Blue Valley Ban Corp as of March 31, 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 18, 2005 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Kansas City, Missouri
April 20, 2005

Blue Valley Ban Corp
Consolidated Balance Sheets
March 31, 2005 and December 31, 2004
(dollars in thousands, except share data)

Assets

	March 31, 2005	December 31, 2004
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 25,206	\$ 19,994
Federal funds sold	—	2,500
Cash and cash equivalents	<u>25,206</u>	<u>22,494</u>
Available-for-sale securities	60,558	66,350
Mortgage loans held for sale	44,745	44,144
Loans, net of allowance for loan losses of \$7,337 and \$7,333 in 2005 and 2004, respectively	513,616	499,837
Premises and equipment, net	19,757	19,988
Foreclosed assets held for sale, net	2,650	2,645
Interest receivable	2,817	2,375
Deferred income taxes	2,523	2,383
Prepaid expenses and other assets	3,711	3,538
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	8,122	7,987
Core deposit intangible asset, at amortized cost	<u>938</u>	<u>976</u>
Total assets	<u>\$ 684,643</u>	<u>\$ 672,717</u>

Blue Valley Ban Corp
Consolidated Balance Sheets
March 31, 2005 and December 31, 2004
(dollars in thousands, except share data)

Liabilities and Stockholders' Equity

	March 31, 2005	December 31, 2004
	<i>(Unaudited)</i>	
Liabilities		
Deposits		
Demand	\$ 87,254	\$ 84,764
Savings, NOW and money market	206,098	220,104
Time	239,963	217,778
Total deposits	533,315	522,646
Other interest-bearing liabilities	23,034	22,381
Long-term debt	79,862	80,088
Interest payable and other liabilities	6,253	6,218
Total liabilities	642,464	631,333
 Stockholders' Equity		
Capital stock		
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2005 – 2,334,871 shares; 2004 – 2,327,086	2,335	2,327
Additional paid-in capital	8,225	8,099
Retained earnings	32,605	31,809
Unearned compensation	(518)	(594)
Accumulated other comprehensive income		
Unrealized depreciation on available-for-sale securities, net of income tax credits of \$(312) in 2005 and \$(171) in 2004	(468)	(257)
Total stockholders' equity	42,179	41,384
Total liabilities and stockholders' equity	\$ 684,643	\$ 672,717

Blue Valley Ban Corp
Consolidated Statements of Income
Three Months Ended March 31, 2005 and 2004
(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2005	2004
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest Income		
Interest and fees on loans	\$ 8,717	\$ 6,845
Federal funds sold	21	43
Available-for-sale securities	<u>416</u>	<u>655</u>
Total interest income	<u>9,154</u>	<u>7,543</u>
Interest Expense		
Interest-bearing demand deposits	33	29
Savings and money market deposit accounts	897	649
Other time deposits	2,064	1,682
Federal funds purchased and other interest-bearing liabilities	91	30
Short-term debt	17	-
Long-term debt	<u>1,057</u>	<u>1,000</u>
Total interest expense	<u>4,159</u>	<u>3,390</u>
Net Interest Income	4,995	4,153
Provision for Loan Losses	<u>155</u>	<u>350</u>
Net Interest Income After Provision for Loan Losses	<u>4,840</u>	<u>3,803</u>
Noninterest Income		
Loans held for sale fee income	2,041	2,496
Service fees	494	565
Realized gain on sales of available-for-sale securities	-	215
Other income	<u>272</u>	<u>136</u>
Total noninterest income	<u>2,807</u>	<u>3,412</u>
Noninterest Expense		
Salaries and employee benefits	3,947	3,898
Net occupancy expense	820	767
Other operating expense	<u>1,594</u>	<u>1,497</u>
Total noninterest expense	<u>6,361</u>	<u>6,162</u>
Income Before Income Taxes	1,286	1,053
Provision for Income Taxes	<u>490</u>	<u>343</u>
Net Income	<u>\$ 796</u>	<u>\$ 710</u>
Basic Earnings Per Share	<u>\$ 0.34</u>	<u>\$ 0.31</u>
Diluted Earnings Per Share	<u>\$ 0.34</u>	<u>\$ 0.30</u>

Blue Valley Ban Corp
Consolidated Statements of Stockholders' Equity
Three Months Ended March 31, 2005 and 2004

(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, 2003		\$ 2,279	\$ 7,404	\$ 30,344	\$ (399)	\$ 570	\$ 40,198
Issuance of 17,750 shares of common stock		18	258	-	-	-	276
Net income	\$ 710	-	-	710	-	-	710
Restricted stock earned, net of forfeitures	-	-	-	-	33	-	33
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of \$(45)	(67)	-	-	-	-	(67)	(67)
	<u>\$ 643</u>						
Balance, March 31, 2004		<u>\$ 2,297</u>	<u>\$ 7,662</u>	<u>\$ 31,054</u>	<u>\$ (366)</u>	<u>\$ 503</u>	<u>\$ 41,150</u>
Balance, December 31, 2004		<u>\$ 2,327</u>	<u>\$ 8,099</u>	<u>\$ 31,809</u>	<u>\$ (594)</u>	<u>\$ (257)</u>	<u>\$ 41,384</u>
Issuance of 7,785 shares of common stock		8	126	-	-	-	134
Net income	\$ 796	-	-	796	-	-	796
Restricted stock earned, net of forfeitures	-	-	-	-	76	-	76
Change in unrealized appreciation on available-for-sale securities, net of income taxes credit of \$(140)	(211)	-	-	-	-	(211)	(211)
	<u>\$ 585</u>						
Balance, March 31, 2005		<u>\$ 2,335</u>	<u>\$ 8,225</u>	<u>\$ 32,605</u>	<u>\$ (518)</u>	<u>\$ (468)</u>	<u>\$ 42,179</u>

Reclassification Disclosure:

	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>
Unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of \$(140) and \$41 for the periods ended March 31, 2005 and 2004, respectively	\$ (211)	\$ 62
Less: reclassification adjustments for appreciation included in net income, net of income taxes of \$0 and \$86 for the periods ended March 31, 2005 and 2004, respectively	<u>-</u>	<u>129</u>
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of \$(140) and \$(45) for the periods ended March 31, 2005 and 2004, respectively	<u>\$ (211)</u>	<u>\$ (67)</u>

Blue Valley Ban Corp
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2005 and 2004
(dollars in thousands, except share data)

	March 31, 2005	March 31, 2004
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash Flows From Operating Activities		
Net income	\$ 796	\$ 710
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	488	441
Amortization (accretion) of premiums and discounts on securities	(9)	(5)
Provision for loan losses	155	350
Net gain on sales of available-for-sale securities	-	(215)
Net loss on sale of foreclosed assets	-	61
Net loss on sale of premises and equipment	-	5
Restricted stock earned and forfeited	76	33
Originations of loans held for sale	(162,449)	(214,138)
Proceeds from the sale of loans held for sale	161,848	200,395
Changes in		
Interest receivable	(442)	(388)
Prepaid expenses and other assets	(286)	(335)
Interest payable and other liabilities	35	(688)
Net cash provided by (used in) operating activities	212	(13,774)
Cash Flows From Investing Activities		
Net originations of loans	(13,966)	(30,123)
Proceeds from sales of loan participations	-	3,053
Purchase of premises and equipment	(106)	(1,287)
Proceeds from the sale of foreclosed assets	27	354
Proceeds from sales of available-for-sale securities	-	6,210
Proceeds from maturities of available-for-sale securities	5,450	21,967
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	(135)	(58)
Net cash provided by (used in) investing activities	(8,730)	116
Cash Flows From Financing Activities		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	(11,516)	21,079
Net increase (decrease) in time deposits	22,185	(21,029)
Repayments of long-term debt	(226)	(1,388)
Proceeds from sale of common stock	134	276
Net increase in other borrowings	653	36
Net cash provided by (used in) financing activities	11,230	(1,026)
Increase (decrease) in Cash and Cash Equivalents	2,712	(14,684)
Cash and Cash Equivalents, Beginning of Period	22,494	50,717
Cash and Cash Equivalents, End of Period	\$ 25,206	\$ 36,033

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2005 and 2004
(Unaudited)

Note 1: Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the Company's consolidated financial position as of March 31, 2005, and the consolidated results of its operations, changes in stockholders' equity and cash flows for the periods ended March 31, 2005 and 2004, and are of a normal recurring nature.

Certain information and note disclosures normally included in the company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2004 Form 10-K filed with the Securities and Exchange Commission. Certain reclassifications to prior year amounts have been made to conform to current year presentation.

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

The Company applies Accounting Principles Board No. 25 and related Interpretations in accounting for its stock option plan and no compensation cost has been recognized. Pro forma compensation costs for the Company's plan are determined based on the fair value at the option grant dates using the minimum value method under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation." During the period ended March 31, 2005, the Company issued no stock options; consequently, reported and pro forma net income were identical.

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

Note 2: Earnings Per Share

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

The computation of per share earnings for the three months ended March 31, 2005 and 2004 is as follows:

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2005 and 2004
(Unaudited)

	March 31, 2005	March 31, 2004
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>(dollars in thousands, except share and per share data)</i>	
Net income, as reported	\$ <u>796</u>	\$ <u>710</u>
Add: Total stock-based employee compensation recognized in net income, net of income taxes of \$24 and \$10 for the periods ended March 31, 2005 and 2004, respectively	37	20
Less: Total stock-based compensation cost determined under the fair value based method, net of income tax credits of \$(24) and \$(10) for the periods ended March 31, 2005 and 2004, respectively.	<u>(37)</u>	<u>(20)</u>
Pro forma net income	\$ <u>796</u>	\$ <u>710</u>
Average common shares outstanding	2,331,546	2,284,577
Average common share stock options outstanding	<u>39,866</u>	<u>67,950</u>
Average diluted common shares	<u>2,371,412</u>	<u>2,352,527</u>
Basic earnings per share	<u>\$0.34</u>	<u>\$0.31</u>
Diluted earnings per share	<u>\$0.34</u>	<u>\$0.30</u>

Note 3: Long-Term Debt

Long-term debt at March 31, 2005 and December 31, 2004, consisted of the following components:

	March 31, 2005	December 31, 2004
	<i>(Unaudited)</i>	
	<i>(in thousands)</i>	
Note payable – Ban Corp (A)	\$ 4,387	\$ 4,500
Note payable – Blue Valley Building Corp. (B)	7,387	7,500
Federal Home Loan Bank advances (C)	48,500	48,500
Subordinated Debentures – BVBC Capital Trust I (D)	11,856	11,856
Subordinated Debentures – BVBC Capital Trust II (E)	<u>7,732</u>	<u>7,732</u>
Total long-term debt	\$ <u>79,862</u>	\$ <u>80,088</u>

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2005 and 2004
(Unaudited)

- (A) 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 4).
- (B) 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. This debt is guaranteed by the Company.
- (C) 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 March 31, 2005, approximately \$69,813,000 was available.
- (D) Due in 2030; interest only at 10.375% due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. The Company may prepay the subordinated debentures beginning in 2005, in whole or in part, at their face value plus accrued interest.
- (E) Due in 2033; interest only at LIBOR + 3.25% due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. Subordinated to the trust preferred securities (D) due in 2030. The Company may prepay the subordinated debentures beginning in 2008, in whole or in part, at their face value plus accrued interest.

Aggregate annual maturities of long-term debt at March 31, 2005 are as follows:

	<i>(in thousands)</i>
April 1 to December 31, 2005	\$ 647
2006	960
2007	1,011
2008	11,068
2009	7,127
Thereafter	<u>59,049</u>
	<u>\$ 79,862</u>

Blue Valley Ban Corp
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2005 and 2004
(Unaudited)

Note 4: 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 3*). The agreement provides for the Company to receive interest from the counterparty at the note's variable rate and to pay interest to the counterparty at a fixed rate of 5.45% on the notional amount over the term of the note. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. The hedge was fully effective through March 31, 2005. Under the cash flow hedging method, the effective portion of the gain or loss related to the derivative is recognized as a component of other comprehensive income. The ineffective portion, if any, is recognized in current earnings.

Note 5: 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 fourth quarter of 2004, the Company had recorded a \$550,000 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 6: New Accounting Standards

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.

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

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

General

Critical Accounting Policies

Our critical accounting policies are largely proscribed by accounting principles generally accepted in the United States of America. After a review of our policies, we determined that accounting for the allowance for loan losses, income taxes, and stock-based compensation are deemed critical accounting policies because of the valuation techniques used, and the sensitivity of these financial statement amounts to the methods, as well as the assumptions and estimates underlying these balances. Accounting for these critical areas requires the most subjective and complex judgments that could be subject to revision as new information becomes available. There have not been any material changes in our critical accounting policies since December 31, 2004. Further description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2004.

Results of Operations

Three months ended March 31, 2005 and 2004. Net income for the quarter ended March 31, 2005, was \$796,000, compared to net income of \$710,000 for the quarter ended March 31, 2004, representing an increase of \$86,000, or 12.11%. Diluted earnings per share increased 13.33% to \$0.34 during the first quarter of 2005 from \$0.30 in the same period of 2004. The Company's annualized return on average assets and average stockholders' equity for the three-month period ended March 31, 2005 were 0.48% and 7.70%, compared to 0.46% and 6.92%, respectively, for the same period in 2004, increases of 4.34% and 11.27%, respectively.

The principal contributing factor to our increase in net income in the current year first quarter from the prior year was an increase in net interest income resulting from a higher level of average earning assets. However, the increase in net interest income was partially offset by lower noninterest income, specifically mortgage loans held for sale fee income. Lower mortgage

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

origination volume, resulting from higher interest rates, led to a decline in mortgage loans held for sale fee income.

Net Interest Income

Fully tax equivalent (FTE) net interest income for the three-month period ended March 31, 2005 was \$5.0 million, an increase of \$788,000, or 18.68%, from \$4.2 million for the three-month period ended March 31, 2004.

FTE interest income for the current year first quarter was \$9.2 million, an increase of \$1.6 million, or 20.46%, from \$7.6 million in the prior year first quarter. FTE interest income increased due to an increase in average earning assets, particularly loans, as well as an increase in the rate earned thereon. Average earning asset volume increased from the first quarter of 2004 to the current period by \$54.9 million, or 9.65%. The overall yield on average earning assets increased by 58 basis points to 5.96% in the first quarter of 2005 compared to 5.38% in the prior year first quarter. The 58 basis point increase in yield resulted primarily from increases in market interest rates beginning in the second half of 2004.

Interest expense for the current year first quarter was \$4.2 million, an increase of \$769,000, or 22.68%, from \$3.4 million in the prior year first quarter. This increase was primarily a result of an increase in the rate paid on average interest-bearing liabilities resulting from promotional rates offered on our time deposits as well as the impact of rising market interest rates on our savings and money market deposits and short- and long-term borrowings. The rate paid on total average interest-bearing liabilities increased 42 basis points to 3.13% during the three month period ending March 31, 2005 compared to 2.71% during the same period in 2004. In addition, average interest-bearing liabilities increased \$35.9 million or 7.13% to \$538.8 million during the first quarter of 2005 compared to \$502.9 million during the prior year period. This increase was primarily the result of higher interest-bearing deposit average balances.

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

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

Average Balances, Yields and Rates

	Three Months Ended March 31,					
	2005			2004		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Federal funds sold.....	\$ 3,628	\$ 21	2.38 %	\$ 18,722	\$ 43	0.91 %
Investment securities – taxable	61,854	394	2.58	83,198	529	2.56
Investment securities – non-taxable (1)	1,873	33	7.05	11,129	191	6.90
Mortgage loans held for sale.....	39,072	526	5.46	24,302	305	5.05
Loans, net of unearned discount and fees	<u>516,990</u>	<u>8,191</u>	6.43	<u>431,175</u>	<u>6,540</u>	6.10
Total earning assets.....	<u>623,417</u>	<u>9,165</u>	5.96	<u>568,526</u>	<u>7,608</u>	5.38
Cash and due from banks – non-interest bearing	20,442			20,064		
Allowance for possible loan losses	(7,285)			(7,068)		
Premises and equipment, net.....	19,854			18,925		
Other assets.....	<u>18,197</u>			<u>20,574</u>		
Total assets.....	<u>\$ 674,625</u>			<u>\$ 621,022</u>		
Liabilities and Stockholders' Equity						
Deposits-interest bearing:						
Interest-bearing demand accounts	\$ 25,920	\$ 33	0.52 %	\$ 24,244	\$ 29	0.48 %
Savings and money market deposits	186,098	897	1.95	168,663	649	1.55
Time deposits.....	<u>222,498</u>	<u>2,064</u>	3.76	<u>198,853</u>	<u>1,682</u>	3.40
Total interest-bearing deposits.....	<u>434,516</u>	<u>2,994</u>	2.79	<u>391,761</u>	<u>2,360</u>	2.42
Short-term borrowings.....	24,897	108	1.76	24,349	30	0.49
Long-term debt	<u>79,387</u>	<u>1,057</u>	5.40	<u>86,811</u>	<u>1,000</u>	4.63
Total interest-bearing liabilities	<u>538,800</u>	<u>4,159</u>	3.13	<u>502,921</u>	<u>3,390</u>	2.71
Non-interest bearing deposits.....	87,509			72,816		
Other liabilities	6,401			4,032		
Stockholders' equity	<u>41,915</u>			<u>41,252</u>		
Total liabilities and stockholders' equity	<u>\$ 674,625</u>			<u>\$ 621,022</u>		
Net interest income/spread		<u>\$ 5,006</u>	<u>2.83 %</u>		<u>\$ 4,218</u>	<u>2.67 %</u>
Net interest margin.....			<u>3.26 %</u>			<u>2.98 %</u>

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the quarters ending March 31, 2005 and 2004, the tax equivalency adjustment amounted to \$11,000 and \$65,000 respectively.

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

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

- changes in volume, reflecting changes in volume multiplied by the 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

	Three Months Ended March 31, 2005 Compared to 2004		
	Change Due to Rate	Change Due to Volume	Total Change
	<i>(Dollars in thousands)</i>		
Federal funds sold.....	\$ 67	\$ (89)	\$ (22)
Investment securities – taxable	5	(140)	(135)
Investment securities – non-taxable (1).....	4	(162)	(158)
Mortgage loans held for sale	25	196	221
Loans, net of unearned discount	334	1,317	1,651
Total interest income.....	<u>435</u>	<u>1,122</u>	<u>1,557</u>
Interest-bearing demand accounts.....	2	2	4
Savings and money market deposits	165	83	248
Time deposits.....	171	211	382
Short-term borrowings	76	2	78
Long-term debt	158	(101)	57
Total interest expense.....	<u>572</u>	<u>197</u>	<u>769</u>
Net interest income	<u>\$ (137)</u>	<u>\$ 925</u>	<u>\$ 788</u>

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

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

Provision for Loan Losses

The provision for loan losses for the first quarter of 2005 was \$155,000, compared to \$350,000 for the same period of 2004. As discussed further in the *Financial Condition* section, the decrease in the provision for loan losses recorded in the three-month period ended March 31, 2005 compared to the same period in the prior year was the result of improvements in the overall credit exposure in the loan portfolio. The Company's credit administration function performs monthly analyses on the loan portfolio to assess and report on risk levels, delinquencies, an internal ranking system and overall credit exposure. Management and the Board of Directors reviews the allowance for loan losses monthly, considering such factors as current and projected economic conditions, loan growth, the composition of the loan portfolio, loan trends and classifications, and other factors. We make provisions for loan losses in amounts that management deems necessary to maintain the allowance for loan losses at an appropriate level.

Non-interest Income

	Three Months Ended	
	March 31,	
	2005	2004
	<i>(In thousands)</i>	
Loans held for sale fee income.....	\$ 2,041	\$ 2,496
NSF charges and service fees.....	255	330
Other service charges.....	239	235
Net realized gain on investment securities.....	-	215
Other income.....	272	136
Total non-interest income.....	<u>\$ 2,807</u>	<u>\$ 3,412</u>

Non-interest income decreased \$605,000 or 17.74%, to \$2.8 million during the three-month period ended March 31, 2005, from \$3.4 million during the three-month period ended March 31, 2004. This decrease is primarily attributable to a decrease in loans held for sale fee income of \$455,000 or 18.23%. We experienced a decline in our mortgage loans held for sale fee income due to a decline in residential mortgage origination and refinancing resulting from higher interest rates. During the first quarter of 2004 we realized \$215,000 of gains on 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.

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

Non-interest Expense

	Three Months Ended March 31,	
	2005	2004
	<i>(In thousands)</i>	
Salaries and employee benefits	\$ 3,947	\$ 3,898
Occupancy	820	767
FDIC and other insurance expense	70	61
General and administrative	1,524	1,436
Total non-interest expense	<u>\$ 6,361</u>	<u>\$ 6,162</u>

Non-interest expense increased \$199,000, or 3.22%, to \$6.4 million during the three-month period ended March 31, 2005, from \$6.2 million in the prior year period. This increase is primarily attributable to an increase in general and administrative expenses, specifically mortgage promotional expenses, incurred by the Company in its efforts to broaden the sources for potential mortgage customers. Occupancy expense increased primarily due to the incremental costs associated with the operation of our Leawood Banking Center which opened during the second quarter of 2004.

Financial Condition

Total assets for the Company at March 31, 2005, were \$684.6 million, an increase of \$11.9 million, or 1.77%, compared to \$672.7 million at December 31, 2004. Deposits and stockholders' equity at March 31, 2005, were \$533.3 million and \$42.2 million, respectively, compared with \$522.6 million and \$41.4 million, respectively, at December 31, 2004, increases of \$10.7 million or 2.04%, and \$795,000 or 1.92%, respectively.

Loans at March 31, 2005 totaled \$521.0 million, reflecting an increase of \$13.8 million, or 2.71%, compared to December 31, 2004. The loan to deposit ratio at March 31, 2005 was 97.68% compared to 97.03% at December 31, 2004.

Available-for-sale securities at March 31, 2005 totaled \$60.6 million, reflecting a decrease of \$5.8 million or 8.73% compared to December 31, 2004. This decrease was the result of maturities, and calls of securities with the proceeds used to fund the growth in our loan portfolio.

Mortgage loans held for sale at March 31, 2005 totaled \$44.7 million, an increase of \$601,000, or 1.36%, compared to December 31, 2004. The Company's principal funding source for mortgage loans held for sale is short and long-term advances from the Federal Home Loan Bank. Advance availability with the Federal Home Loan Bank is determined quarterly and at March 31, 2005, approximately \$69,813,000 was available.

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

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

Non-Performing Assets

	As of		
	March 31, 2005	March 31, 2004	December 31, 2004
	<i>(Dollars in thousands)</i>		
Commercial and all other loans:			
Past due 90 days or more	\$ 870	\$ 317	\$ 2,008
Nonaccrual	446	359	543
Commercial real estate loans:			
Past due 90 days or more	175	—	—
Nonaccrual	—	—	158
Construction loans:			
Past due 90 days or more	3,188	—	—
Nonaccrual	—	—	—
Lease financing:			
Past due 90 days or more	33	—	1
Nonaccrual	78	245	80
Residential real estate loans:			
Past due 90 days or more	153	146	153
Nonaccrual	185	1,391	1,315
Consumer loans:			
Past due 90 days or more	12	13	17
Nonaccrual	—	—	—
Home equity loans:			
Past due 90 days or more	—	—	—
Nonaccrual	75	1,068	75
Debt securities and other assets (exclude other real estate owned and other repossessed assets)			
Past due 90 days or more	—	—	—
Nonaccrual	—	—	—
Total non-performing loans	<u>5,215</u>	<u>3,539</u>	<u>4,350</u>
Foreclosed assets held for sale	<u>2650</u>	<u>12</u>	<u>2,645</u>
Total non-performing assets	<u>\$ 7,865</u>	<u>\$ 3,551</u>	<u>\$ 6,995</u>
Total nonperforming loans to total loans	0.97%	0.78%	0.86%
Total nonperforming loans to total assets	0.73%	0.57%	0.65%
Allowance for loan losses to nonperforming loans	145.90%	209.96%	168.60%
Nonperforming assets to loans and foreclosed assets held for sale	1.47%	0.79%	1.37%

As of March 31, 2005, non-performing loans equaled 0.97% of total loans, representing an increase in non-performing loans from December 31, 2004. The balance of Construction loans at March 31, 2005 and Commercial and all other loans at December 31, 2004, respectively, includes \$2.8 million and \$1.7 million which related to loans, to unrelated borrowers, in the process of renegotiation as of those dates. Although total nonperforming loans at March 31, 2005 increased compared to December 31, 2004, the overall credit exposure in the Company's total loan portfolio continued to improve. Consequently, management lowered the general reserve factors based upon 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. As such, the Company recorded a lower provision for loan losses during the three month period ending March 31, 2005 compared to the three month period ending

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

March 31, 2004. The level of loans charged-off decreased during the first quarter of 2005. Consequently, the Company experienced an annualized ratio of net charge-offs to average loans of 0.12% for the quarter ending March 31, 2005 compared to a ratio of net charge-offs to average loans of 0.36% for the year ending December 31, 2004. We closely monitor non-performing credit relationships and our philosophy has been to value non-performing loans at their estimated collectible value and to aggressively manage these situations. Generally, the Bank maintains its allowance for loan losses in excess of its non-performing loans. As of March 31, 2005, our ratio of allowance for loan losses to non-performing loans was 145.90%.

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		
	Three months ended March 31, 2005	Three months ended March 31, 2004	Year ended December 31, 2004
	<i>(Dollars in thousands)</i>		
Balance at Beginning of Period	\$ 7,333	\$ 7,051	\$ 7,051
Loans Charged Off			
Commercial loans	197	13	1,665
Commercial real estate loans	—	—	—
Construction loans	—	—	—
Lease financing	—	50	220
Residential real estate loans	—	—	18
Consumer loans	28	37	80
Home equity loans	—	—	—
Total loans charged-off	<u>225</u>	<u>100</u>	<u>1,983</u>
Recoveries			
Commercial loans	4	9	41
Commercial real estate loans	—	7	7
Construction loans	—	—	—
Lease financing	58	60	166
Residential real estate loans	—	48	48
Consumer loans	12	6	38
Home equity loans	—	—	—
Total recoveries	<u>74</u>	<u>130</u>	<u>300</u>
Net Loans Charged Off (Recovered)	151	(30)	1,683
Provision for Loan Losses	<u>155</u>	<u>350</u>	<u>1,965</u>
Balance at End of Period	<u>\$ 7,337</u>	<u>\$ 7,431</u>	<u>\$ 7,333</u>
Loans Outstanding			
Average	\$ 516,990	\$ 431,175	\$ 463,833
End of period	520,953	451,708	507,170

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

Ratio of Allowance for Loan Losses to Loans Outstanding

Average	1.42%	1.72%	1.58%
End of period	1.41%	1.65%	1.45%

Ratio of Net Charge-Offs (Recoveries) to

Average loans	0.12%	(0.03%)	0.36%
End of period loans	0.12%	(0.03%)	0.33%

The allowance for loan losses as a percent of total loans decreased slightly to 1.41% as of March 31, 2005, compared to 1.45% as of December 31, 2004.

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 77.16% and 81.56% of our total deposits at March 31, 2005, and December 31, 2004, respectively. The change in the percentage of core deposits to total deposits during the first quarter of 2005 was the result of the Company raising \$23.0 million of additional funding through the brokered deposit market. Generally, the Company's funding strategy is to utilize Federal Home Loan Bank borrowings to fund originations of mortgage loans held for sale and fund balances generated by other lines of business with deposits. In addition, the Company uses other forms of short-term borrowings for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit. The Company's Asset-Liability Management Committee utilizes a variety of liquidity monitoring tools, including an asset/liability modeling service, to analyze and manage the Company's liquidity.

Management has established internal guidelines and analytical tools to measure liquid assets, alternative sources of liquidity, as well as relevant ratios concerning asset levels and purchased funds.

At March 31, 2005, our total stockholders' equity was \$42.2 million and our equity to asset ratio was 6.16%. At March 31, 2005, our Tier 1 capital ratio was 8.94% compared to 9.00% at December 31, 2004, while our total risk-based capital ratio was 10.97% compared to 11.15% at December 31, 2004. As of March 31, 2005, we had capital in excess of the requirements for a "well-capitalized" institution.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

We strive to maintain a position such that current changes in interest rates will not affect net interest income or the economic value of equity by more than 5%, per 50 basis points. The following table sets forth the estimated percentage change in the Bank of Blue Valley's net interest income over the next twelve month period and net economic value of equity at risk at March 31, 2005 based on the indicated instantaneous and permanent changes in interest rates.

<u>Changes in Interest Rates</u>	<u>Net Interest Income (next 12 months)</u>	<u>Net Economic Value of Equity at Risk</u>
300 basis point rise	30.73%	3.05%
200 basis point rise	19.99%	2.06%
100 basis point rise	10.22%	1.14%
Base Rate Scenario	-	-
50 basis point decline	(4.95%)	(2.50%)
100 basis point decline	(9.34%)	(1.98%)
200 basis point decline	(22.33%)	(3.42%)

The above table indicates that, at March 31, 2005, 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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

(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 March 31, 2005, in the event of a sudden decrease in prevailing market rates, the economic value of our equity would decrease. Given our current asset/liability position, a 50, 100 or 200 basis point decline in interest rates will result in a lower economic value of our equity as the change in estimated loss on liabilities exceeds the change in estimated gain on assets in these interest rate scenarios. Currently, under a falling rate environment, the Company's estimated market value of loans could increase as a result of fixed rate loans, net of possible prepayments. The estimated market value of investment securities could also rise as our portfolio contains higher yielding securities. However, the estimated market value increase in fixed rate loans and investment securities is offset by time deposits unable to reprice to lower rates immediately and fixed-rate callable advances from FHLB. The likelihood of advances being called in a decreasing rate environment is diminished resulting in the advances existing until final maturity, which has the effect of lowering the economic value of equity.

Item 4. Controls and Procedures

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

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

Part II: Other Information

Item 1. Legal Proceedings

Not applicable

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

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

EXHIBITS

11. Computation of Earnings Per Share. Please see p. 9.
15. Letter regarding Unaudited Interim Financial Information
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of the 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

Signatures

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

Blue Valley Ban Corp

Date: May 12, 2005

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

Date: May 12, 2005

By: /s/ Mark A. Fortino
Mark A. Fortino, Chief Financial Officer