

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 June 30, 2006**

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  
None

Name of each exchange on which registered  
None

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Securities Act

Yes  No

As of June 30, 2006 the registrant had 2,403,669 shares of Common Stock (\$1.00 par value) outstanding.

**Blue Valley Ban Corp**  
**Form 10-Q Index**

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## **Part I. Financial Information**

### **Item 1. Financial Statements**

#### **Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Shareholders  
Blue Valley Ban Corp  
Overland Park, Kansas 66225

We have reviewed the accompanying condensed consolidated balance sheet of Blue Valley Ban Corp as of June 30, 2006, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and 2005 and the condensed consolidated statements of stockholders' equity and cash flows for the six-month periods ended June 30, 2006 and 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with 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 condensed 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, 2005 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 17, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005 is fairly stated, in all material respects, in relation to the condensed consolidated balance sheet from which it has been derived.

/s/ **BKD, LLP**

Kansas City, Missouri  
July 28, 2006

**Blue Valley Ban Corp**  
**Condensed Consolidated Balance Sheets**  
**June 30, 2006 and December 31, 2005**  
*(dollars in thousands, except share data)*

**Assets**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 19,202	\$ 16,493
Interest-bearing deposits in other financial institutions	291	12,163
Federal funds sold	<u>58</u>	<u>11,401</u>
Cash and cash equivalents	19,551	40,057
Available-for-sale securities	89,206	99,987
Mortgage loans held for sale	16,903	13,906
Loans, net of allowance for loan losses of \$6,735 and \$6,704 in 2006 and 2005, respectively	515,922	496,439
Premises and equipment, net	18,269	18,593
Foreclosed assets held for sale, net	449	711
Interest receivable	3,615	3,372
Deferred income taxes	2,698	2,564
Prepaid expenses and other assets	1,506	4,647
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	6,320	8,490
Core deposit intangible asset, at amortized cost	<u>747</u>	<u>823</u>
Total assets	<u>\$ 675,186</u>	<u>\$ 689,589</u>

**Blue Valley Ban Corp**  
**Condensed Consolidated Balance Sheets**  
**June 30, 2006 and December 31, 2005**  
*(dollars in thousands, except share data)*

**Liabilities and Stockholders' Equity**

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
<b>Liabilities</b>		
Deposits		
Demand	\$ 100,836	\$ 94,452
Savings, NOW and money market	171,967	185,234
Time	261,115	249,655
Total deposits	533,918	529,341
Other interest-bearing liabilities	20,092	26,288
Long-term debt	67,566	78,106
Interest payable and other liabilities	4,173	9,599
Total liabilities	625,749	643,334
 <b>Stockholders' Equity</b>		
Capital stock		
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2006 – 2,403,669 shares; 2005 – 2,382,046 shares	2,404	2,382
Additional paid-in capital	9,211	9,212
Retained earnings	38,615	35,782
Unearned compensation	–	(648)
Accumulated other comprehensive loss, net of income taxes (credit) of \$(528) in 2006 and \$(315) in 2005	(793)	(473)
Total stockholders' equity	49,437	46,255
Total liabilities and stockholders' equity	\$ 675,186	\$ 689,589

**Blue Valley Ban Corp**  
**Condensed Consolidated Statements of Income**  
**Three Months and Six Months Ended June 30, 2006 and 2005**  
*(dollars in thousands, except share data)*

	<b>Three Months Ended June 30, 2006</b>	<b>2005</b>	<b>Six Months Ended June 30, 2006</b>	<b>2005</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Interest Income</b>				
Interest and fees on loans	\$ 11,015	\$ 9,104	\$ 21,212	\$ 17,821
Federal funds sold and other short-term investments	8	159	90	181
Available-for-sale securities	<u>1,008</u>	<u>448</u>	<u>2,056</u>	<u>863</u>
Total interest income	<u>12,031</u>	<u>9,711</u>	<u>23,358</u>	<u>18,865</u>
<b>Interest Expense</b>				
Interest-bearing demand deposits	26	23	49	56
Savings and money market deposit accounts	1,134	982	2,094	1,879
Other time deposits	2,616	2,284	5,103	4,349
Federal funds purchased and other interest-bearing liabilities	213	126	430	217
Short-term debt	223	-	294	17
Long-term debt, net	<u>982</u>	<u>1,074</u>	<u>1,951</u>	<u>2,131</u>
Total interest expense	<u>5,194</u>	<u>4,489</u>	<u>9,921</u>	<u>8,649</u>
<b>Net Interest Income</b>	6,837	5,222	13,437	10,216
<b>Provision for Loan Losses</b>	<u>590</u>	<u>-</u>	<u>665</u>	<u>155</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>6,247</u>	<u>5,222</u>	<u>12,772</u>	<u>10,061</u>
<b>Noninterest Income</b>				
Loans held for sale fee income	1,192	1,858	2,328	3,899
Service fees	601	557	1,184	1,051
Other income	<u>346</u>	<u>254</u>	<u>659</u>	<u>526</u>
Total noninterest income	<u>2,139</u>	<u>2,669</u>	<u>4,171</u>	<u>5,476</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,581	4,095	7,617	8,042
Net occupancy expense	754	809	1,513	1,629
Other operating expense	<u>1,619</u>	<u>1,690</u>	<u>3,270</u>	<u>3,284</u>
Total noninterest expense	<u>5,954</u>	<u>6,594</u>	<u>12,400</u>	<u>12,955</u>
<b>Income Before Income Taxes</b>	2,432	1,297	4,543	2,582
<b>Provision for Income Taxes</b>	<u>916</u>	<u>494</u>	<u>1,710</u>	<u>983</u>
<b>Net Income</b>	<u>\$ 1,516</u>	<u>\$ 803</u>	<u>\$ 2,833</u>	<u>\$ 1,599</u>
<b>Basic Earnings Per Share</b>	<u>\$0.64</u>	<u>\$0.34</u>	<u>\$1.20</u>	<u>\$0.68</u>
<b>Diluted Earnings Per Share</b>	<u>\$0.63</u>	<u>\$0.34</u>	<u>\$1.18</u>	<u>\$0.67</u>

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

**Blue Valley Ban Corp**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**Six Months Ended June 30, 2006 and 2005**

*(dollars in thousands, except share data)*

	Comprehensive Income (Loss)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Loss	Total
<b>Balance, December 31, 2004</b>		\$ 2,327	\$ 8,099	\$ 31,809	\$ (594)	\$ (257)	\$ 41,384
Issuance of 19,285 shares of common stock		19	231	-	-	-	250
Net income	\$ 1,599	-	-	1,599	-	-	1,599
Restricted stock earned, net of forfeitures	-	-	-	-	140	-	140
Change in unrealized depreciation, net of income taxes (credit) of \$(20)	(30)	-	-	-	-	(30)	(30)
	<u>\$ 1,569</u>						
<b>Balance, June 30, 2005</b>		<u>\$ 2,346</u>	<u>\$ 8,330</u>	<u>\$ 33,408</u>	<u>\$ (454)</u>	<u>\$ (287)</u>	<u>\$ 43,343</u>
<b>Balance, December 31, 2005</b>		<u>\$ 2,382</u>	<u>\$ 9,212</u>	<u>\$ 35,782</u>	<u>\$ (648)</u>	<u>\$ (473)</u>	<u>\$ 46,255</u>
Issuance of 21,623 shares of common stock		22	405	-	-	-	427
Net income	\$ 2,833	-	-	2,833	-	-	2,833
Restricted stock earned, net of forfeitures	-	-	242	-	-	-	242
Reclassification of unearned com- pensation in accordance with adoption of SFAS No. 123R	-	-	(648)	-	648	-	-
Change in derivative financial instrument, net of income taxes of \$74	111	-	-	-	-	111	111
Change in unrealized depreciation on available-for-sale securities, net of income taxes (credit) of \$(287)	(431)	-	-	-	-	(431)	(431)
	<u>\$ 2,513</u>						
<b>Balance, June 30, 2006</b>		<u>\$ 2,404</u>	<u>\$ 9,211</u>	<u>\$ 38,615</u>	<u>\$ -</u>	<u>\$ (793)</u>	<u>\$ 49,437</u>

**Blue Valley Ban Corp**  
**Condensed Consolidated Statements of Cash Flows**  
**Six Months Ended June 30, 2006 and 2005**

*(dollars in thousands, except share data)*

	<b>June 30, 2006</b>	<b>June 30, 2005</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 2,833	\$ 1,599
Adjustments to reconcile net income to net cash flow		
From operating activities:		
Depreciation and amortization	724	947
Amortization (accretion) of premiums and discounts on securities	(49)	(17)
Provision for loan losses	665	155
Deferred income taxes	152	(37)
Stock dividends on FHLB securities	(149)	-
Net loss (gain) on sale of foreclosed assets	(31)	8
Net loss (gain) on sale of premises and equipment	6	(2)
Restricted stock earned and forfeited	242	140
Originations of loans held for sale	(167,278)	(338,827)
Proceeds from the sale of loans held for sale	164,281	343,094
Changes in		
Interest receivable	(243)	(344)
Prepaid expenses and other assets	3,320	(994)
Interest payable and other liabilities	(4,904)	1,687
Net cash provided by (used in) operating activities	(431)	7,409
<b>Cash Flows From Investing Activities</b>		
Net originations of loans	(20,672)	(12,003)
Proceeds from sales of loan participations	-	6,400
Purchase of premises and equipment	(323)	(360)
Proceeds from the sale of premises and equipment	-	402
Proceeds from the sale of foreclosed assets, net of expenses	817	2,596
Proceeds from maturities of available-for-sale securities	16,110	5,815
Purchases of available-for-sale securities	(5,998)	(15,996)
Proceeds from the sale or maturities of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	2,319	-
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	-	(209)
Net cash used in investing activities	(7,747)	(13,355)
<b>Cash Flows From Financing Activities</b>		
Net decrease in demand deposits, money market, NOW and savings accounts	(6,883)	(6,129)
Net increase in time deposits	11,460	20,746
Repayments of long-term debt	(10,540)	(4,878)
Proceeds from long-term debt	-	4,388
Net proceeds (payments) from other financing activities	(169)	250
Net increase (decrease) in other borrowings	(6,196)	3,368
Net cash provided by (used in) financing activities	(12,328)	17,745
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(20,506)	11,799
<b>Cash and Cash Equivalents, Beginning of Period</b>	40,057	22,494
<b>Cash and Cash Equivalents, End of Period</b>	\$ 19,551	\$ 34,293

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

**Note 1: Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the Company's condensed consolidated financial position as of June 30, 2006, and the condensed consolidated results of its operations, changes in stockholders' equity and cash flows for the periods ended June 30, 2006 and 2005, 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2005 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 report of **BKD, LLP** commenting upon their review accompanies the consolidated financial statements included in Item 1 of Part I.

**Note 2: Stock Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004). As a result of adopting SFAS No. 123R on January 1, 2006, the Company did not record any additional compensation expense, as no stock options had been granted in recent years and options granted were fully vested prior to adoption. However, on January 1, 2006, the Company reclassified \$648,000 of unearned compensation related to previously recognized compensation for restricted share awards that had not been vested as of that date to additional paid-in capital as these awards represent equity awards as defined in SFAS No. 123R.

**Note 3: 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 and six-months ended June 30, 2006 and 2005 is as follows:

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>(amounts in thousands, except share and per share data)</i>		<i>(amounts in thousands, except share and per share data)</i>	
Net income, as reported	\$ <u>1,516</u>	\$ <u>803</u>	\$ <u>2,833</u>	\$ <u>1,599</u>
Average common shares outstanding	2,362,292	2,340,014	2,355,687	2,335,804
Average common share stock options outstanding	<u>39,047</u>	<u>42,629</u>	<u>41,070</u>	<u>41,255</u>
Average diluted common shares	<u>2,401,339</u>	<u>2,382,643</u>	<u>2,396,757</u>	<u>2,377,059</u>
Basic earnings per share	<u>\$0.64</u>	<u>\$0.34</u>	<u>\$1.20</u>	<u>\$0.68</u>
Diluted earnings per share	<u>\$0.63</u>	<u>\$0.34</u>	<u>\$1.18</u>	<u>\$0.67</u>

**Note 4: Long-Term Debt**

Long-term debt at June 30, 2006 and December 31, 2005, consisted of the following components:

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
	<i>(in thousands)</i>	
Note Payable – Blue Valley Ban Corp (A)	\$ 3,681	\$ 3,981
Note Payable – Blue Valley Building Corp. (B)	6,797	7,037
Federal Home Loan Bank advances (C)	37,500	47,500
Subordinated Debentures – BVBC Capital Trust II (D)	7,732	7,732
Subordinated Debentures – BVBC Capital Trust III (E)	<u>11,856</u>	<u>11,856</u>
Total long-term debt	<u>\$ 67,566</u>	<u>\$ 78,106</u>

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

- (A) Due in 2012, payable in quarterly installments of principal plus interest at the Federal Funds Rate plus 1.63%; 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 5).
- (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, 2011, 2013 and 2015; collateralized by various assets including mortgage-backed loans. The interest rates on the advances range from 2.62% to 5.682%. Federal Home Loan Bank advance availability is determined quarterly and at June 30, 2006, approximately \$84,935,000 was available.
- (D) 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. The Company may prepay the subordinated debentures beginning in 2008, in whole or in part, at their face value plus accrued interest.
- (E) Due in 2035; interest only at LIBOR + 1.60% 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 2033. The Company may prepay the subordinated debentures beginning in 2010, in whole or in part, at their face value plus accrued interest.

Aggregate annual maturities of long-term debt at June 30, 2006 are as follows:

	<i>(in thousands)</i>
July 1 to December 31, 2006	\$ 547
2007	1,113
2008	11,140
2009	1,169
2010	1,199
Thereafter	<u>52,398</u>
	<u>\$ 67,566</u>

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

**Note 5: Derivative Financial Instruments**

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

Management has designated the interest rate swap agreement as a cash flow hedging instrument. The hedge was fully effective through June 30, 2006. A \$111,000 unrealized gain has been recognized as a component of other comprehensive loss.

## **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, 2005, except for the adoption of *SFAS No. 123R "Accounting for Stock-Based Compensation"* on January 1, 2006. Further description of our critical accounting policies can be found in our Annual Report on Form 10-K for the year ended December 31, 2005.

#### ***Results of Operations***

*Three months ended June 30, 2006 and 2005.* Net income for the quarter ended June 30, 2006, was \$1.5 million, compared to net income of \$803,000 for the quarter ended June 30, 2005, representing an increase of \$713,000, or 88.79%. Diluted earnings per share increased 85.29% to \$0.63 during the second quarter of 2006 from \$0.34 in the same period of 2005. The Company's annualized returns on average assets and average stockholders' equity for the three-month period ended June 30, 2006 were 0.88% and 12.47%, compared to 0.46% and 7.53%, respectively, for the same period in 2005, increases of 91.30% and 65.60%, respectively.

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

The principal contributing factor to our increase in net income in the current year second quarter from the prior year was an increase in net interest income resulting from a higher yield on 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 origination volume, resulting from higher interest rates, led to a decline in mortgage loans held for sale fee income.

*Six months ended June 30, 2006 and 2005.* Net income for the six months ended June 30, 2006 was \$2.8 million, compared to net income of \$1.6 million for the six-month period ended June 30, 2005, representing an increase of \$1.2 million, or 77.17%. Diluted earnings per share increased 76.11% to \$1.18 during the six months ended June 30, 2006 from \$0.67 in the same period of 2005. The Company's annualized returns on average assets and average stockholders' equity for the six-month period ended June 30, 2006 were 0.83% and 11.96%, compared to 0.47% and 7.61%, respectively, for the same period in 2005, increases of 76.59% and 57.16%, respectively.

The principal contributing factor to our increase in net income from the six months ended June 30, 2005 to the current year was an increase in net interest income resulting from higher yields on 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 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 June 30, 2006 was \$6.8 million, an increase of \$1.6 million or 30.75%, from \$5.2 million for the three-month period ended June 30, 2005.

FTE interest income for the current year second quarter was \$12.0 million, an increase of \$2.3 million, or 23.80%, from \$9.7 million in the prior year second quarter. This increase was primarily a result of an overall increase in yields on earning assets. The overall yield on average earning assets increased by 143 basis points to 7.52% in the second quarter of 2006 compared to 6.09% in the prior year second quarter. The 143 basis point increase in yield resulted from increases in market interest rates.

Interest expense for the current year second quarter was \$5.2 million, an increase of \$704,000, or 15.67%, from \$4.5 million in the prior year second quarter. This increase was primarily a result of an increase in the rate paid on average interest-bearing liabilities resulting from the impact of rising market interest rates on our time deposits, savings and money market deposits and short-term borrowings. The rate paid on total average interest-bearing liabilities increased 58 basis points to 3.83% during the three month period ending June 30, 2006 compared to 3.25% during the same period in 2005. Partially offsetting the increase in rate paid on average interest-bearing liabilities was a decrease in those liabilities. Average interest-bearing liabilities decreased \$9.8 million or 1.78% to \$543.9 million during the second quarter of 2006 compared to \$553.7 million during the prior year period.

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

FTE net interest income for the six-month period ended June 30, 2006 was \$13.4 million, an increase of \$3.2 million or 31.34%, from \$10.2 million for the six-month period ended June 30, 2005.

FTE interest income for the six months ended June 30, 2006 was \$23.4 million, an increase of \$4.5 million, or 23.72%, from \$18.9 million for the six months ended June 30, 2005. This increase was primarily a result of an overall increase in yields on earning assets. The overall yield on average earning assets increased by 134 basis points to 7.37% for the period ending June 30, 2006 compared to 6.03% for the prior year period. The 134 basis point increase in yield resulted from increases in market interest rates. In addition, average earning asset volume increased from the period ending June 30, 2005 to the current period by \$8.8 million, or 1.39%, primarily due to an increase in taxable investment securities and loans.

Interest expense for the six-month period ended June 30, 2006 was \$9.9 million, an increase of \$1.3 million, or 14.70%, from \$8.6 million in the same period of the prior year. This increase was primarily a result of an increase in the rate paid on average interest-bearing liabilities resulting from the impact of rising market interest rates on our time deposits, savings and money market deposits and short-term borrowings. The rate paid on total average interest-bearing liabilities increased 50 basis points to 3.69% during the six-month period ending June 30, 2006 compared to 3.19% during the same period in 2005.

*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**

	Six Months Ended June 30,					
	2006			2005		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
<b>Assets</b>						
Federal funds sold.....	\$ 3,686	\$ 90	4.94 %	\$ 12,928	\$ 181	2.82 %
Investment securities – taxable .....	97,867	2,042	4.21	62,928	823	2.64
Investment securities – non-taxable (1) .....	599	21	7.12	1,728	60	6.96
Mortgage loans held for sale .....	17,898	567	6.39	37,116	980	5.33
Loans, net of unearned discount and fees .....	<u>520,685</u>	<u>20,645</u>	8.00	<u>517,201</u>	<u>16,841</u>	6.57
Total earning assets.....	<u>640,735</u>	<u>23,365</u>	7.35	<u>631,901</u>	<u>18,885</u>	6.03
Cash and due from banks – non-interest bearing	20,542			22,112		
Allowance for possible loan losses .....	(6,581)			(7,257)		
Premises and equipment, net.....	18,495			19,683		
Other assets.....	<u>18,124</u>			<u>17,780</u>		
Total assets.....	<u>\$ 691,315</u>			<u>\$ 684,219</u>		
<b>Liabilities and Stockholders' Equity</b>						
Deposits-interest bearing:						
Interest-bearing demand accounts .....	\$ 26,226	\$ 49	0.38 %	\$ 26,335	\$ 56	0.43 %
Savings and money market deposits .....	156,001	2,094	2.71	184,502	1,879	2.05
Time deposits .....	<u>249,706</u>	<u>5,103</u>	4.12	<u>230,818</u>	<u>4,349</u>	3.80
Total interest-bearing deposits .....	<u>431,933</u>	<u>7,246</u>	3.38	<u>441,655</u>	<u>6,284</u>	2.87
Short-term borrowings.....	34,991	724	4.17	25,258	235	1.87
Long-term debt .....	<u>75,910</u>	<u>1,951</u>	5.18	<u>79,307</u>	<u>2,130</u>	5.42
Total interest-bearing liabilities .....	<u>542,834</u>	<u>9,921</u>	3.69	<u>546,220</u>	<u>8,649</u>	3.19
Non-interest bearing deposits.....	94,309			88,775		
Other liabilities .....	6,416			6,836		
Stockholders' equity .....	<u>47,756</u>			<u>42,388</u>		
Total liabilities and stockholders' equity	<u>\$ 691,315</u>			<u>\$ 684,219</u>		
Net interest income/spread .....		<u>\$ 13,444</u>	<u>3.68 %</u>		<u>\$ 10,236</u>	<u>2.84 %</u>
Net interest margin.....			4.24 %			3.27 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the quarters ending June 30, 2006 and 2005, the tax equivalency adjustment amounted to \$7,000 and \$20,000 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 rate, reflecting changes in rate multiplied by the prior period volume; and
- changes in volume, reflecting changes in volume multiplied by the current period rate.

### Changes in Interest Income and Expense Volume and Rate Variances

	Six Months Ended June 30, 2006 Compared to 2005		
	Change Due to Rate	Change Due to Volume	Total Change
	(Dollars in thousands)		
Federal funds sold and other short-term investments.....	\$ 136	\$ (227)	\$ (91)
Investment securities – taxable .....	489	730	1,219
Investment securities – non-taxable (1).....	1	(40)	(39)
Mortgage loans held for sale.....	196	(609)	(413)
Loans, net of unearned discount and fees .....	3,666	138	3,804
Total interest income.....	<u>4,488</u>	<u>(8)</u>	<u>4,480</u>
Interest-bearing demand accounts.....	(7)	–	(7)
Savings and money market deposits .....	598	(383)	215
Time deposits.....	368	386	754
Short-term borrowings.....	288	201	489
Long-term debt .....	(92)	(87)	(179)
Total interest expense.....	<u>1,155</u>	<u>117</u>	<u>1,272</u>
Net interest income .....	<u>\$ 3,333</u>	<u>\$ (125)</u>	<u>\$ 3,208</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 second quarter of 2006 was \$590,000, compared to \$0 for the same period of 2005. For the six-months ended June 30, 2006 and 2005, the provision was \$655,000 and \$155,000, respectively. The increase in the provision for loan losses recorded in the three- and six-month periods ended June 30, 2006 compared to the same periods in the prior year was the result of growth 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 June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Loans held for sale fee income .....	\$ 1,192	\$ 1,858	\$ 2,328	\$ 3,899
NSF charges and service fees .....	306	302	591	557
Other service charges.....	295	255	593	494
Other income .....	346	254	659	526
Total non-interest income .....	<u>\$ 2,139</u>	<u>\$ 2,669</u>	<u>\$ 4,171</u>	<u>\$ 5,476</u>

Non-interest income decreased \$530,000, or 19.86%, to \$2.1 million during the three-month period ended June 30, 2006, from \$2.7 million during the three-month period ended June 30, 2005. Non-interest income for the six-months ended June 30, 2006 was \$4.2 million, a decrease of \$1.3 million, or 23.84%, from \$5.5 million for the six-months ended June 30, 2005. These decreases are attributable primarily to decreases in loans held for sale fee income. Loans held for sale fee income decreased \$666,000, or 35.85%, and \$1.6 million, or 40.30%, for the three-month and six-month periods ended June 30, 2006, respectively. 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.

### Non-interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands)			
Salaries and employee benefits.....	\$ 3,581	\$ 4,095	\$ 7,617	\$ 8,042
Occupancy .....	754	809	1,513	1,629
General and administrative .....	1,619	1,690	3,270	3,284
Total non-interest expense .....	<u>\$ 5,954</u>	<u>\$ 6,594</u>	<u>\$ 12,400</u>	<u>\$ 12,955</u>

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

Non-interest expense decreased \$640,000, or 9.71%, to \$6.0 million during the three-month period ended June 30, 2006 compared to \$6.6 million in the prior year period. For the six-month period ended June 30, 2006, non-interest expense decreased \$555,000, or 4.29% to \$12.4 million compared to \$13.0 million in the prior year period. These decreases are attributable primarily to a decrease in salaries and employee benefits expense which decreased \$514,000, or 12.56%, during the second quarter of 2006 and \$425,000, or 5.29%, during the six-month period ended June 30, 2006, compared to the prior year periods. Salaries and employee benefits expense decreased due to decreased volume-based incentive compensation in our mortgage operations. In addition, we had 251 full-time equivalent employees at June 30, 2006 compared to 275 at June 30, 2005. The decrease in full-time equivalent employees is mainly due to a reduction in force in our mortgage operation due to the decline in mortgage volume. For the three- and six-month periods ended June 30, 2006, occupancy expenses decreased \$55,000, or 6.80%, and \$116,000, or 7.13%, respectively. For the three- and six-month periods ended June 30, 2006, general and administrative expenses decreased \$71,000, or 4.21%, and \$14,000, or 0.43%, respectively.

### ***Financial Condition***

Total assets for the Company at June 30, 2006, were \$675.2 million, a decrease of \$14.4 million, or 2.09%, compared to \$689.6 million at December 31, 2005. Deposits and stockholders' equity at June 30, 2006, were \$533.9 million and \$49.4 million, respectively, compared with \$529.3 million and \$46.3 million, respectively, at December 31, 2005, increases of \$4.6 million, or 0.86%, and \$3.2 million, or 6.87%, respectively.

Loans at June 30, 2006 totaled \$522.7 million, reflecting an increase of \$19.5 million, or 3.87%, compared to December 31, 2005. The loan to deposit ratio at June 30, 2006 was 97.89% compared to 95.05% at December 31, 2005.

Available-for-sale securities at June 30, 2006 totaled \$89.2 million, reflecting a decrease of \$10.8 million or 10.79% compared to December 31, 2005.

Mortgage loans held for sale at June 30, 2006 totaled \$16.9 million, an increase of \$3.0 million, or 21.55% compared to December 31, 2005. 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 June 30, 2006, approximately \$84,935,000 was available.

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:

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

**Non-Performing Assets**

	As of		
	June 30, 2006	June 30, 2005	December 31, 2005
	<i>(Dollars in thousands)</i>		
<b>Commercial and all other loans:</b>			
Past due 90 days or more	\$ 437	\$ 545	\$ 781
Nonaccrual	1,392	599	769
<b>Commercial real estate loans:</b>			
Past due 90 days or more	—	—	598
Nonaccrual	—	—	—
<b>Construction loans:</b>			
Past due 90 days or more	—	650	585
Nonaccrual	—	—	452
<b>Lease financing:</b>			
Past due 90 days or more	29	—	5
Nonaccrual	13	441	119
<b>Residential real estate loans:</b>			
Past due 90 days or more	—	330	—
Nonaccrual	828	1,135	1,016
<b>Consumer loans:</b>			
Past due 90 days or more	17	69	49
Nonaccrual	—	—	—
<b>Home equity loans:</b>			
Past due 90 days or more	35	24	—
Nonaccrual	—	75	—
<b>Debt securities and other assets (excluding other real estate owned and other repossessed assets)</b>			
Past due 90 days or more	—	—	—
Nonaccrual	—	—	—
Total non-performing loans	<u>2,751</u>	<u>3,868</u>	<u>4,374</u>
<b>Foreclosed assets held for sale</b>	<u>449</u>	<u>83</u>	<u>711</u>
Total non-performing assets	<u>\$ 3,200</u>	<u>\$ 3,951</u>	<u>\$ 5,085</u>
Total nonperforming loans to total loans	0.53%	0.76%	0.87%
Total nonperforming loans to total assets	0.41%	0.56%	0.63%
Allowance for loan losses to nonperforming loans	244.85%	178.20%	153.27%
Nonperforming assets to loans and foreclosed assets held for sale	0.61%	0.77%	1.01%

As of June 30, 2006, non-performing loans equaled 0.53% of total loans, reflecting a decrease in non-performing loans from December 31, 2005. The overall credit exposure in the Company's total loan portfolio continued to improve. However, the level of loans charged-off increased slightly during the first half of 2006. Consequently, the Company experienced an annualized ratio of net charge-offs to average loans of 0.24% for the period ended June 30, 2006 compared to 0.17% for the year ended December 31, 2005. 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 June 30, 2006, our ratio of allowance for loan losses to non-performing loans was 244.85%.

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

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		
	Six months ended June 30,		Year ended December 31,
	2006	2005	2005
	<i>(Dollars in thousands)</i>		
<b>Balance at Beginning of Period</b>	\$ 6,704	\$ 7,333	\$ 7,333
<b>Loans charged-off</b>			
Commercial loans	299	638	949
Commercial real estate loans	—	—	—
Construction loans	100	—	—
Lease financing	98	21	86
Residential real estate loans	196	—	—
Consumer loans	38	38	77
Home equity loans	8	—	16
Total loans charged-off	<u>739</u>	<u>698</u>	<u>1,128</u>
<b>Recoveries:</b>			
Commercial loans	67	11	154
Commercial real estate loans	—	—	3
Construction loans	—	—	—
Lease financing	30	67	76
Residential real estate loans	—	—	1
Consumer loans	8	24	35
Home equity loans	—	—	—
Total recoveries	<u>105</u>	<u>102</u>	<u>269</u>
<b>Net Loans Charged-Off</b>	634	595	859
<b>Provision for Loan Losses</b>	<u>665</u>	<u>155</u>	<u>230</u>
<b>Balance at End of Period</b>	<u>\$ 6,735</u>	<u>\$ 6,893</u>	<u>\$ 6,704</u>
<b>Loans Outstanding:</b>			
Average	\$ 520,685	\$ 517,201	\$ 516,643
End of period	522,657	512,136	503,143
<b>Ratio of Allowance for Loan Losses to Loans Outstanding:</b>			
Average	1.29%	1.33%	1.30%
End of period	1.29%	1.35%	1.33%
<b>Ratio of Annualized Net Charge-offs to</b>			
Average loans	0.24%	0.23%	0.17%
End of period loans	0.24%	0.23%	0.17%

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

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 71.57% and 74.26% of our total deposits at June 30, 2006, and December 31, 2005, respectively. Generally, the Company's funding strategy is to utilize Federal Home Loan Bank of Topeka 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 June 30, 2006, our total stockholders' equity was \$49.4 million and our equity to asset ratio was 7.32%. At June 30, 2006, our Tier 1 capital ratio was 9.58% compared to 8.86% at December 31, 2005, while our total risk-based capital ratio was 12.19% compared to 12.04% at December 31, 2005. As of June 30, 2006, 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 June 30, 2006 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>
200 basis point rise	12.58 %	2.23 %
Base Rate Scenario	-	-
200 basis point decline	(12.21 %)	(6.62 %)

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The above table indicates that, at June 30, 2006, 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 June 30, 2006, 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 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, and within 90 days of the date of this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer of the Company (the “Certifying Officers”) have conducted evaluations of the Company’s disclosure controls and procedures. As defined under Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the term “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed the Company’s disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, (18 U.S.C. 1350), each of the Certifying Officers executed an Officer’s Certification included in this Quarterly Report on 10-Q.

As of the date of this Quarterly Report on Form 10-Q, there have not been any other 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 1A. Risk Factors

No changes

### 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

On May 10, 2006, the Company held its Annual Meeting of Stockholders. There were 2,387,969 shares outstanding and entitled to vote at the Annual Meeting, of which 1,918,407 shares were represented in person or by proxy. The following items were submitted at the Annual Meeting for consideration by the stockholders:

#### 1. Election of Directors

Robert D. Regnier was elected at the Annual Meeting to serve a three year term or until his successor is duly elected and qualified. The voting results for both were as follows:

Shares Voted For:	1,918,407
Shares Voted Against	0
Shares Abstained	0

Thomas A. McDonnell was elected at the Annual Meeting to serve a three year term or until his successor is duly elected and qualified. The voting results for both were as follows:

Shares Voted For:	1,912,816
Shares Voted Against	175
Shares Abstained	5,416

The directors of the Company whose terms of office extended beyond the date of the Annual Meeting include:

Don H. Alexander  
Michael J. Brown  
Wayne A. Henry, Jr.  
Robert D. Taylor

## **Part II: Other Information**

### **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: August 11, 2006

By: /s/ Robert D. Regnier  
Robert D. Regnier, President and  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 11, 2006

By: /s/ Mark A. Fortino  
Mark A. Fortino, Chief Financial Officer  
(Principal Financial [and Accounting] Officer)