

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 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 September 30, 2006 the registrant had 2,409,069 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 September 30, 2006, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2006 and 2005 and the condensed consolidated statements of stockholders' equity and cash flows for the nine-month periods ended September 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  
November 2, 2006

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

**Assets**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 14,565	\$ 16,493
Interest-bearing deposits in other financial institutions	380	12,163
Federal funds sold	394	11,401
Cash and cash equivalents	15,339	40,057
Available-for-sale securities	86,162	99,987
Mortgage loans held for sale	21,791	13,906
Loans, net of allowance for loan losses of \$6,693 and \$6,704 in 2006 and 2005, respectively	527,864	496,439
Premises and equipment, net	18,037	18,593
Foreclosed assets held for sale, net	682	711
Interest receivable	4,324	3,372
Deferred income taxes	2,366	2,564
Prepaid expenses and other assets	1,279	4,647
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	6,382	8,490
Core deposit intangible asset, at amortized cost	709	823
Total assets	\$ 684,935	\$ 689,589

**Blue Valley Ban Corp**  
**Condensed Consolidated Balance Sheets**  
**September 30, 2006 and December 31, 2005**

*(dollars in thousands, except share data)*

**Liabilities and Stockholders' Equity**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
<b>Liabilities</b>		
Deposits		
Demand	\$ 95,832	\$ 94,452
Savings, NOW and money market	157,279	185,234
Time	<u>276,901</u>	<u>249,655</u>
Total deposits	530,012	529,341
Other interest-bearing liabilities	30,750	26,288
Long-term debt	67,293	78,106
Interest payable and other liabilities	<u>4,685</u>	<u>9,599</u>
Total liabilities	<u>632,740</u>	<u>643,334</u>
 <b>Stockholders' Equity</b>		
Capital stock		
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2006 – 2,409,069 shares; 2005 – 2,382,046 shares	2,409	2,382
Additional paid-in capital	9,452	9,212
Retained earnings	40,606	35,782
Unearned compensation	–	(648)
Accumulated other comprehensive loss, net of income tax credits of \$(181) in 2006 and \$(315) in 2005	<u>(272)</u>	<u>(473)</u>
Total stockholders' equity	<u>52,195</u>	<u>46,255</u>
Total liabilities and stockholders' equity	<u>\$ 684,935</u>	<u>\$ 689,589</u>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 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>
<b>Interest Income</b>				
Interest and fees on loans	\$ 11,621	\$ 9,804	\$ 32,832	\$ 27,625
Federal funds sold and other short-term investments	66	110	104	291
Available-for-sale securities	<u>960</u>	<u>618</u>	<u>3,069</u>	<u>1,481</u>
Total interest income	<u>12,647</u>	<u>10,532</u>	<u>36,005</u>	<u>29,397</u>
<b>Interest Expense</b>				
Interest-bearing demand deposits	22	18	71	74
Savings and money market deposit accounts	1,180	1,000	3,274	2,879
Other time deposits	2,928	2,335	8,031	6,684
Federal funds purchased and other interest-bearing liabilities	288	143	718	360
Short-term debt	21	-	315	17
Long-term debt, net	<u>942</u>	<u>1,178</u>	<u>2,893</u>	<u>3,309</u>
Total interest expense	<u>5,381</u>	<u>4,674</u>	<u>15,302</u>	<u>13,323</u>
<b>Net Interest Income</b>	7,266	5,858	20,703	16,074
<b>Provision for Loan Losses</b>	<u>540</u>	<u>-</u>	<u>1,205</u>	<u>155</u>
<b>Net Interest Income After Provision for Loan Losses</b>	<u>6,726</u>	<u>5,858</u>	<u>19,498</u>	<u>15,919</u>
<b>Noninterest Income</b>				
Loans held for sale fee income	1,341	2,179	3,669	6,078
Service fees	664	558	1,848	1,609
Other income	<u>359</u>	<u>591</u>	<u>1,018</u>	<u>1,117</u>
Total noninterest income	<u>2,364</u>	<u>3,328</u>	<u>6,535</u>	<u>8,804</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,546	4,201	11,165	12,243
Net occupancy expense	770	838	2,281	2,467
Other operating expense	<u>1,564</u>	<u>1,589</u>	<u>4,834</u>	<u>4,873</u>
Total noninterest expense	<u>5,880</u>	<u>6,628</u>	<u>18,280</u>	<u>19,583</u>
<b>Income Before Income Taxes</b>	3,210	2,558	7,753	5,140
<b>Provision for Income Taxes</b>	<u>1,219</u>	<u>964</u>	<u>2,929</u>	<u>1,946</u>
<b>Net Income</b>	<u>\$ 1,991</u>	<u>\$ 1,594</u>	<u>\$ 4,824</u>	<u>\$ 3,194</u>
<b>Basic Earnings Per Share</b>	<u>\$0.84</u>	<u>\$0.68</u>	<u>\$2.04</u>	<u>\$1.36</u>
<b>Diluted Earnings Per Share</b>	<u>\$0.83</u>	<u>\$0.67</u>	<u>\$2.01</u>	<u>\$1.34</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**  
**Nine Months Ended September 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 34,210 shares of common stock		34	470	-	-	-	504
Net income	\$ 3,194	-	-	3,194	-	-	3,194
Restricted stock earned, net of forfeitures	-	-	-	-	218	-	218
Change in unrealized depreciation, net of income taxes (credit) of \$(20)	(176)	-	-	-	-	(176)	(176)
	<u>\$ 3,018</u>						
<b>Balance, September 30, 2005</b>		<u>\$ 2,361</u>	<u>\$ 8,569</u>	<u>\$ 35,003</u>	<u>\$ (376)</u>	<u>\$ (433)</u>	<u>\$ 45,124</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 27,023 shares of common stock		27	516	-	-	-	543
Net income	\$ 4,824	-	-	4,824	-	-	4,824
Restricted stock earned, net of forfeitures	-	-	372	-	-	-	372
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 \$48	72	-	-	-	-	72	72
Change in unrealized depreciation on available-for-sale securities, net of income taxes of \$86	129	-	-	-	-	129	129
	<u>\$ 5,025</u>						
<b>Balance, September 30, 2006</b>		<u>\$ 2,409</u>	<u>\$ 9,452</u>	<u>\$ 40,606</u>	<u>\$ -</u>	<u>\$ (272)</u>	<u>\$ 52,195</u>

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

*(dollars in thousands, except share data)*

	<b>September 30, 2006</b>	<b>September 30, 2005</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 4,824	\$ 3,194
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	1,093	1,431
Amortization (accretion) of premiums and discounts on securities	(72)	(27)
Provision for loan losses	1,205	155
Deferred income taxes	111	(38)
Stock dividends on FHLB securities	(210)	-
Net loss (gain) on sale of foreclosed assets	(29)	34
Net loss (gain) on sale of premises and equipment	6	(344)
Restricted stock earned and forfeited	372	218
Originations of loans held for sale	(246,932)	(557,755)
Proceeds from the sale of loans held for sale	239,047	568,803
Changes in		
Interest receivable	(952)	(577)
Prepaid expenses and other assets	3,478	(1,101)
Interest payable and other liabilities	(4,367)	2,279
Net cash provided by (used in) operating activities	(2,426)	16,272
<b>Cash Flows From Investing Activities</b>		
Net originations of loans	(33,410)	(14,825)
Proceeds from sales of loan participations	-	6,400
Purchase of premises and equipment	(418)	(488)
Proceeds from the sale of premises and equipment	-	993
Proceeds from the sale of foreclosed assets, net of expenses	838	2,976
Proceeds from maturities of available-for-sale securities	20,110	16,245
Purchases of available-for-sale securities	(5,998)	(26,494)
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	-	(428)
Net cash used in investing activities	(16,559)	(15,621)
<b>Cash Flows From Financing Activities</b>		
Net decrease in demand deposits, money market, NOW and savings accounts	(26,575)	(5,253)
Net increase in time deposits	27,246	28,300
Repayments of long-term debt	(10,813)	(17,001)
Proceeds from long-term debt	-	21,244
Net proceeds (payments) from other financing activities	(53)	504
Net increase (decrease) in other borrowings	4,462	1,162
Net cash provided by (used in) financing activities	(5,733)	28,956
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(24,718)	29,607
<b>Cash and Cash Equivalents, Beginning of Period</b>	40,057	22,494
<b>Cash and Cash Equivalents, End of Period</b>	\$ 15,339	\$ 52,101

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

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine Months Ended September 30, 2006 and 2005**  
**(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 September 30, 2006, and the condensed consolidated results of its operations, changes in stockholders' equity and cash flows for the periods ended September 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 condensed 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 nine-months ended September 30, 2006 and 2005 is as follows:

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine Months Ended September 30, 2006 and 2005**  
**(Unaudited)**

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 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>1,991</u>	\$ <u>1,594</u>	\$ <u>4,824</u>	\$ <u>3,194</u>
Average common shares outstanding	2,372,489	2,356,062	2,361,349	2,342,631
Average common share stock options outstanding	<u>37,904</u>	<u>38,871</u>	<u>42,057</u>	<u>40,452</u>
Average diluted common shares	<u>2,410,393</u>	<u>2,394,933</u>	<u>2,403,406</u>	<u>2,383,083</u>
Basic earnings per share	<u>\$0.84</u>	<u>\$0.68</u>	<u>\$2.04</u>	<u>\$1.36</u>
Diluted earnings per share	<u>\$0.83</u>	<u>\$0.67</u>	<u>\$2.01</u>	<u>\$1.34</u>

**Note 4: Short-Term Debt**

The Company has a \$15 million operating line of credit with a bank bearing a variable interest rate of the Federal Funds rate plus 1.63%. The line of credit is secured by stock in the Company's subsidiary bank and matures during 2007. As of September 30, 2006 and December 31, 2005, the Company had no outstanding balance on this line of credit.

**Note 5: Long-Term Debt**

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

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<i>(Unaudited)</i>	
	<i>(in thousands)</i>	
Note Payable – Blue Valley Ban Corp (A)	\$ 3,531	\$ 3,981
Note Payable – Blue Valley Building Corp. (B)	6,674	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>\$ 67,293</u>	<u>\$ 78,106</u>

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine Months Ended September 30, 2006 and 2005**  
**(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 6).
- (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 September 30, 2006, approximately \$82,702,000 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 September 30, 2006 are as follows:

	<i>(in thousands)</i>
October 1 to December 31, 2006	\$ 274
2007	1,113
2008	11,140
2009	1,169
2010	1,199
Thereafter	<u>52,398</u>
	<u>\$ 67,293</u>

**Blue Valley Ban Corp**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine Months Ended September 30, 2006 and 2005**  
**(Unaudited)**

**Note 6: 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 5*). The agreement provides for the Company to receive interest from the counterparty at the note's variable rate and to pay interest to the counterparty at a fixed rate of 5.45% on the notional amount over the term of the note. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. The hedge was fully effective through September 30, 2006. A \$72,000 unrealized gain has been recognized as a component of other comprehensive loss.

**Note 7: Subsequent Event**

On November 2<sup>nd</sup>, 2006 the Company announced the signing of a definitive Agreement and Plan of Merger for the acquisition of Unison Bancorp, Inc. ("Unison"), the holding company for Western National Bank of Lenexa, Kansas. Subsequent to the acquisition, the Company intends to merge Western National Bank with and into the Bank of Blue Valley. This transaction continues Blue Valley's expansion in Johnson County and represents its first presence in Lenexa.

Under the terms of the merger agreement, shareholders of Unison will receive aggregate consideration of approximately \$10.2 million in cash. The transaction is subject to the satisfaction of certain conditions, including Unison stockholder and regulatory approval, and is expected to close during the first quarter of 2007. Western National Bank, with assets of approximately \$40 million, is located at 95<sup>th</sup> and Lackman Road in Lenexa, Kansas.

The Company expects to fund the acquisition through excess liquidity including short-term borrowing. In addition, the Company does not anticipate the acquisition will change the bank's capital risk-rating.

## **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 September 30, 2006 and 2005.* Net income for the quarter ended September 30, 2006, was \$2.0 million, compared to net income of \$1.6 million for the quarter ended September 30, 2005, representing an increase of \$397,000, or 24.90%. Diluted earnings per share increased 31.74% to \$0.83 during the third quarter of 2006 from \$0.63 in the same period of 2005. The Company's annualized returns on average assets and average stockholders' equity for the three-month period ended September 30, 2006 were 1.16% and 15.43%, compared to 0.90% and 14.34%, respectively, for the same period in 2005, increases of 28.88% and 7.60%, 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 third 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.

*Nine months ended September 30, 2006 and 2005.* Net income for the nine months ended September 30, 2006 was \$4.8 million, compared to net income of \$3.2 million for the nine-month period ended September 30, 2005, representing an increase of \$1.6 million, or 51.03%. Diluted earnings per share increased 50.00% to \$2.01 during the nine months ended September 30, 2006 from \$1.34 in the same period of 2005. The Company's annualized returns on average assets and average stockholders' equity for the nine-month period ended September 30, 2006 were 0.94% and 13.17%, compared to 0.62% and 9.92%, respectively, for the same period in 2005, increases of 51.61% and 32.76%, respectively.

The principal contributing factor to our increase in net income from the nine months ended September 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 September 30, 2006 was \$7.3 million, an increase of \$1.4 million or 23.95%, from \$5.9 million for the three-month period ended September 30, 2005.

FTE interest income for the current year third quarter was \$12.7 million, an increase of \$2.1 million, or 20.05%, from \$10.5 million in the prior year third 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 149 basis points to 7.88% in the third quarter of 2006 compared to 6.39% in the prior year third quarter. The 149 basis point increase in yield resulted from increases in market interest rates. Partially offsetting the increase in yield on average earning assets was a decrease in those assets. Average earning assets decreased \$17.1 million or 2.62% to \$636.7 million during the third quarter of 2006 compared to \$653.8 million during the prior year period primarily due to a decrease in mortgage loans held for sale due to lower origination volume.

Interest expense for the current year third quarter was \$5.4 million, an increase of \$707,000, or 15.12%, from \$4.7 million in the prior year third quarter. This increase was primarily a result of an increase in the rate paid on average interest-bearing liabilities resulting from 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 68 basis points to 4.02% during the three month period ending September 30, 2006 compared to 3.34% 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 \$24.4 million or 4.41% to \$530.8 million during the third quarter of 2006 compared to \$555.3 million

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during the prior year period. More specifically, savings, NOW and money market account average balances declined from \$178.2 million during the third quarter of 2005 to \$144.7 million during the current year third quarter, a decline of \$33.5 million or 18.78%, primarily due to strong market competition in those products.

FTE net interest income for the nine-month period ended September 30, 2006 was \$20.7 million, an increase of \$4.6 million or 28.65%, from \$16.1 million for the nine-month period ended September 30, 2005.

FTE interest income for the nine months ended September 30, 2006 was \$36.0 million, an increase of \$6.6 million, or 22.40%, from \$29.4 million for the nine months ended September 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 138 basis points to 7.53% for the period ending September 30, 2006 compared to 6.15% for the prior year period. The 138 basis point increase in yield resulted from increases in market interest rates. In addition, while average earning asset volume increased only slightly from the period ending September 30, 2005 to the current period, the change in mix of earning assets was beneficial as increases in loans and investment securities were offset by decreases in federal funds sold and mortgage loans held for sale.

Interest expense for the nine-month period ended September 30, 2006 was \$15.3 million, an increase of \$2.0 million, or 14.85%, from \$13.3 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 56 basis points to 3.80% during the nine-month period ending September 30, 2006 compared to 3.24% 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.

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### Average Balances, Yields and Rates

	Nine Months Ended September 30,					
	2006			2005		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
<b>Assets</b>						
Federal funds sold.....	\$ 4,172	\$ 156	5.01 %	\$ 12,159	\$ 291	3.19 %
Investment securities – taxable .....	94,236	2,996	4.25	67,469	1,430	2.83
Investment securities – non-taxable (1) .....	586	31	7.08	1,489	77	6.95
Mortgage loans held for sale .....	17,110	817	6.39	39,791	1,577	5.30
Loans, net of unearned discount and fees .....	<u>523,373</u>	<u>32,015</u>	8.18	<u>518,456</u>	<u>26,048</u>	6.72
Total earning assets.....	<u>639,477</u>	<u>36,015</u>	7.53	<u>639,364</u>	<u>29,423</u>	6.15
Cash and due from banks – non-interest bearing	19,348			21,480		
Allowance for possible loan losses .....	(6,573)			(7,122)		
Premises and equipment, net.....	18,388			19,493		
Other assets.....	<u>16,979</u>			<u>17,750</u>		
Total assets.....	<u>\$ 687,619</u>			<u>\$ 690,965</u>		
<b>Liabilities and Stockholders' Equity</b>						
Deposits-interest bearing:						
Interest-bearing demand accounts .....	\$ 25,185	\$ 71	0.38 %	\$ 25,472	\$ 74	0.39 %
Savings and money market deposits .....	152,193	3,274	2.88	182,695	2,879	2.11
Time deposits .....	<u>255,842</u>	<u>8,031</u>	4.20	<u>234,450</u>	<u>6,684</u>	3.81
Total interest-bearing deposits .....	<u>433,220</u>	<u>11,376</u>	3.51	<u>442,617</u>	<u>9,637</u>	2.91
Short-term borrowings.....	32,695	1,033	4.22	24,636	377	2.05
Long-term debt .....	<u>72,872</u>	<u>2,893</u>	5.31	<u>82,060</u>	<u>3,309</u>	5.39
Total interest-bearing liabilities .....	<u>538,787</u>	<u>15,302</u>	3.80	<u>549,313</u>	<u>13,323</u>	3.24
Non-interest bearing deposits.....	94,004			91,104		
Other liabilities .....	5,858			7,492		
Stockholders' equity .....	<u>48,970</u>			<u>43,056</u>		
Total liabilities and stockholders' equity	<u>\$ 687,619</u>			<u>\$ 690,965</u>		
Net interest income/spread .....		<u>\$ 20,713</u>	<u>3.73 %</u>		<u>\$ 16,100</u>	<u>2.91 %</u>
Net interest margin.....			4.33 %			3.37 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the quarters ending September 30, 2006 and 2005, the tax equivalency adjustment amounted to \$10,000 and \$26,000 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

	Nine Months Ended September 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.....	\$ 165	\$ (300)	\$ (135)
Investment securities – taxable .....	715	851	1,566
Investment securities – non-taxable (1).....	2	(48)	(46)
Mortgage loans held for sale.....	324	(1,084)	(760)
Loans, net of unearned discount and fees .....	5,666	301	5,967
Total interest income.....	<u>6,872</u>	<u>(280)</u>	<u>6,592</u>
Interest-bearing demand accounts.....	(2)	(1)	(3)
Savings and money market deposits .....	1,051	(656)	395
Time deposits.....	675	672	1,347
Short-term borrowings.....	402	254	656
Long-term debt .....	(51)	(365)	(416)
Total interest expense.....	<u>2,075</u>	<u>(96)</u>	<u>1,979</u>
Net interest income .....	<u>\$ 4,797</u>	<u>\$ (184)</u>	<u>\$ 4,613</u>

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

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### Provision for Loan Losses

The provision for loan losses for the third quarter of 2006 was \$540,000, compared to \$0 for the same period of 2005. For the nine-months ended September 30, 2006 and 2005, the provision was \$1.2 million and \$155,000, respectively. The increase in the provision for loan losses recorded in the three- and nine-month periods ended September 30, 2006 compared to the same periods in the prior year was the result of a couple of large credits which management is aggressively pursuing collection on and 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Loans held for sale fee income .....	\$ 1,341	\$ 2,179	\$ 3,669	\$ 6,078
NSF charges and service fees .....	319	281	910	839
Other service charges.....	345	277	938	770
Other income .....	359	591	1,018	1,117
Total non-interest income .....	<u>\$ 2,364</u>	<u>\$ 3,328</u>	<u>\$ 6,535</u>	<u>\$ 8,804</u>

Non-interest income decreased \$964,000, or 28.97%, to \$2.4 million during the three-month period ended September 30, 2006, from \$3.3 million during the three-month period ended September 30, 2005. Non-interest income for the nine-months ended September 30, 2006 was \$6.5 million, a decrease of \$2.3 million, or 25.78%, from \$8.8 million for the nine-months ended September 30, 2005. These decreases are attributable primarily to decreases in loans held for sale fee income. Loans held for sale fee income decreased \$838,000, or 38.46%, and \$2.4 million, or 39.64%, for the three-month and nine-month periods ended September 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Salaries and employee benefits.....	\$ 3,546	\$ 4,201	\$ 11,165	\$ 12,243
Occupancy .....	770	838	2,281	2,467
General and administrative .....	1,564	1,589	4,834	4,873
Total non-interest expense .....	<u>\$ 5,880</u>	<u>\$ 6,628</u>	<u>\$ 18,280</u>	<u>\$ 19,583</u>

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

Non-interest expense decreased \$748,000, or 11.29%, to \$5.9 million during the three-month period ended September 30, 2006 compared to \$6.6 million in the prior year period. For the nine-month period ended September 30, 2006, non-interest expense decreased \$1.3 million, or 6.66% to \$18.3 million compared to \$19.6 million in the prior year period. These decreases are attributable primarily to a decrease in salaries and employee benefits expense which decreased \$655,000, or 15.60%, during the third quarter of 2006 and \$1.1 million, or 8.81%, during the nine-month period ended September 30, 2006, compared to the prior year periods. Salaries and employee benefits expense decreased due to lower compensation costs in our mortgage division. We had 237 full-time equivalent employees at September 30, 2006 compared to 264 at September 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 nine-month periods ended September 30, 2006, occupancy expenses decreased \$68,000, or 8.12%, and \$186,000, or 7.54%, respectively. For the three- and nine-month periods ended September 30, 2006, general and administrative expenses decreased \$25,000, or 1.58%, and \$39,000, or 0.81%, respectively.

### ***Financial Condition***

Total assets for the Company at September 30, 2006, were \$684.9 million, a decrease of \$4.7 million, or 0.68%, compared to \$689.6 million at December 31, 2005. Deposits and stockholders' equity at September 30, 2006, were \$530.0 million and \$52.2 million, respectively, compared with \$529.3 million and \$46.3 million, respectively, at December 31, 2005, increases of \$671,000, or 0.12%, and \$5.9 million, or 12.84%, respectively.

Loans at September 30, 2006 totaled \$534.6 million, reflecting an increase of \$31.4 million, or 6.24%, compared to December 31, 2005 with the majority of the loan growth occurring towards the end of the quarter. The loan to deposit ratio at September 30, 2006 was 100.85% compared to 95.05% at December 31, 2005.

Available-for-sale securities at September 30, 2006 totaled \$86.2 million, reflecting a decrease of \$13.8 million or 13.83% compared to December 31, 2005 with more securities maturing during the third quarter, resulting in a higher average balance for the nine-month period ending September 30, 2006.

Mortgage loans held for sale at September 30, 2006 totaled \$21.8 million, an increase of \$7.9 million, or 56.70% compared to December 31, 2005. Mortgage loans held for sale balance are seasonally lower during the winter months which accounts for this increase. 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 September 30, 2006, approximately \$82,702,000 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:

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### Non-Performing Assets

	As of		
	September 30, 2006	September 30, 2005	December 31, 2005
	<i>(Dollars in thousands)</i>		
<b>Commercial and all other loans:</b>			
Past due 90 days or more	\$ 609	\$ 2,513	\$ 781
Nonaccrual	873	760	769
<b>Commercial real estate loans:</b>			
Past due 90 days or more	9,155	460	598
Nonaccrual	—	—	—
<b>Construction loans:</b>			
Past due 90 days or more	487	309	585
Nonaccrual	136	325	452
<b>Lease financing:</b>			
Past due 90 days or more	104	—	5
Nonaccrual	1	145	119
<b>Residential real estate loans:</b>			
Past due 90 days or more	—	80	—
Nonaccrual	554	902	1,016
<b>Consumer loans:</b>			
Past due 90 days or more	12	66	49
Nonaccrual	—	—	—
<b>Home equity loans:</b>			
Past due 90 days or more	35	—	—
Nonaccrual	—	—	—
<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>11,966</u>	<u>5,560</u>	<u>4,374</u>
<b>Foreclosed assets held for sale</b>	<u>682</u>	<u>723</u>	<u>711</u>
Total non-performing assets	<u>\$ 12,648</u>	<u>\$ 6,282</u>	<u>\$ 5,085</u>
Total nonperforming loans to total loans	2.24%	1.08%	0.87%
Total nonperforming loans to total assets	1.75%	0.79%	0.63%
Allowance for loan losses to nonperforming loans	55.94%	124.22%	153.27%
Nonperforming assets to loans and foreclosed assets held for sale	2.36%	1.22%	1.01%

As of September 30, 2006, non-performing loans equaled 2.24% of total loans, reflecting an increase in non-performing loans from December 31, 2005. The overall credit exposure in the Company's total loan portfolio worsened during the third quarter of 2006 as two large commercial real estate loan relationships became 90 days or more past due. 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. We expect one of these past due commercial real estate relationships totaling approximately \$5.5 million to be made current during the fourth quarter of 2006.

The level of loans charged-off increased during the first three quarters of 2006. Consequently, the Company experienced an annualized ratio of net charge-offs to average loans of 0.31% for the period ended September 30, 2006. The 0.31% ratio is comparable with historical charge off ratios, however it is higher than the historically low ratio of 0.17% achieved for the year ended December

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31, 2005. Generally, the Bank maintains its allowance for loan losses in excess of its non-performing loans. However, due to the factors noted above, as of September 30, 2006, our ratio of allowance for loan losses to non-performing loans was 55.94%.

The following table sets forth information regarding changes in our allowance for loan and valuation losses for the periods indicated.

### Summary of Loan Loss Experience and Related Information

	As of and for the		
	Nine months ended September 30,		Year ended December 31,
	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	850	638	949
Commercial real estate loans	—	—	—
Construction loans	100	—	—
Lease financing	105	66	86
Residential real estate loans	263	—	—
Consumer loans	53	56	77
Home equity loans	8	16	16
Total loans charged-off	<u>1,379</u>	<u>776</u>	<u>1,128</u>
<b>Recoveries:</b>			
Commercial loans	78	92	154
Commercial real estate loans	—	—	3
Construction loans	—	—	—
Lease financing	32	72	76
Residential real estate loans	44	—	1
Consumer loans	9	30	35
Home equity loans	—	—	—
Total recoveries	<u>163</u>	<u>194</u>	<u>269</u>
<b>Net Loans Charged-Off</b>	1,216	582	859
<b>Provision for Loan Losses</b>	<u>1,205</u>	<u>155</u>	<u>230</u>
<b>Balance at End of Period</b>	<u>\$ 6,693</u>	<u>\$ 6,906</u>	<u>\$ 6,704</u>
<b>Loans Outstanding:</b>			
Average	\$ 523,373	\$ 518,456	\$ 516,643
End of period	534,557	513,924	503,143
<b>Ratio of Allowance for Loan Losses to Loans Outstanding:</b>			
Average	1.28%	1.33%	1.30%
End of period	1.25%	1.34%	1.33%

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

### Ratio of Annualized Net Charge-offs to

Average loans	0.31%	0.15%	0.17%
End of period loans	0.30%	0.15%	0.17%

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 69.56% and 74.26% of our total deposits at September 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 September 30, 2006, our total stockholders' equity was \$52.2 million and our equity to asset ratio was 7.62%. At September 30, 2005, our Tier 1 capital ratio was 10.07% compared to 8.86% at December 31, 2005, while our total risk-based capital ratio was 12.38% compared to 12.04% at December 31, 2005. As of September 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 September 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	15.73 %	(0.18 %)
Base Rate Scenario	-	-
200 basis point decline	(7.55 %)	(5.85 %)

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

The above table indicates that, at September 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 September 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**

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: November 13, 2006

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

Date: November 13, 2006

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