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

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from __________________ to __________________

Commission file number: 001-15933

BLUE VALLEY BAN CORP.

(Exact name of registrant as specified in its charter)

Kansas	**48-1070996**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11935 Riley **Overland Park, Kansas**	**66225-6128**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Guarantee with respect to the Trust Preferred Securities, $8.00 par value, of BVBC Capital Trust I (None of which are currently outstanding)	None currently

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act Yes [ ] No [√]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes [√] No [ ]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [√]

Indicate by 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 February 29, 2008 1,396,492 shares of the Registrant's common stock were held by non-affiliates**.** The aggregate market value of these common shares, computed based on the June 30, 2007 closing price of the stock, was approximately $53.1 million. As of February 29, 2008 the registrant had 2,459,642 shares of Common Stock ($1.00 par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Part III – Proxy Statement for the 2008 Annual Meeting of Stockholders

BLUE VALLEY BAN CORP.

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Part I

Item 1: Business

The Company and Subsidiaries

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

We have experienced significant internal growth since our inception. As of December 31, 2007, we had six banking center locations in Johnson County, Kansas, including our main office and a mortgage operations office in Overland Park, both of which include lobby banking centers, and full-service offices in Leawood, Lenexa, Olathe and Shawnee, Kansas.

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

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

In addition to the Bank, as of December 31, 2007, we had three wholly-owned subsidiaries: Blue Valley Building Corp., which owns the buildings and real property that comprise our headquarters, mortgage operations facility and the Leawood banking center; and BVBC Capital Trust II and BVBC Capital Trust III, which were created to offer the Company's trust preferred securities and to purchase our junior subordinated debentures.

We also have a 49% ownership in Homeland Title, LLC. Homeland Title, LLC was established in June 2005 and provides title and settlement services.

Consolidated financial information, including a measure of profit and loss and total assets can be found in Part IV of this report.

Our Market Area

We operate primarily as a community bank, serving the banking needs of small- and medium-sized companies and individuals in the Kansas City MSA. Specifically, our trade area consists of Johnson County, Kansas. We believe that coupling our strategy of providing exceptional customer service and local decision making with attractive market demographics has led to the continued growth of our total assets and deposits.

The income levels and growth rate of Johnson County, Kansas compare favorably to national averages. Johnson County's population growth rate ranks in the top 9% of counties nationally, and its per capita income ranks in the top 2% of counties nationally. Johnson County is also a significant banking market in the State of Kansas and in the Kansas City MSA. According to available industry data, as of June 30, 2007, total deposits in Johnson

County, including those of banks, thrifts and credit unions, were approximately $14.1 billion, which represented 26.10% of total deposits in the state of Kansas and 37.85% of total deposits in the Kansas City MSA.

As our founders anticipated, the trade area surrounding our main banking facility in Overland Park, Kansas has become one of the most highly developed retail areas in the Kansas City MSA. Our Olathe, Kansas facility is located approximately 10 miles southwest of our main office and opened in 1994. The Shawnee, Kansas banking facility is approximately 20 miles northwest of our headquarters location. We entered into the Shawnee market in 1999 and in the first quarter of 2001, construction of our freestanding banking facility in Shawnee was completed and operations commenced in that facility. The Leawood, Kansas banking facility is approximately five miles southeast of our headquarters location. We entered into the Leawood market in 2002 and in the second quarter of 2004, we completed construction of our freestanding banking facility in Leawood and operations commenced in that facility. During 2003 we acquired an office building in Overland Park, Kansas approximately one mile northwest of our headquarters location. At this location, we consolidated our mortgage operations, bank operations, and opened a banking facility. The Lenexa, Kansas banking facility is approximately seven miles northwest of our headquarters location. The Lenexa facility was opened in February 2007 when we acquired Unison Bancorp, Inc., and its subsidiary, Western National Bank. We made this acquisition to continue our expansion in Johnson County and to establish our first presence in the Lenexa market.

Lending Activities

Overview. Our principal loan categories include commercial, commercial real estate, construction, leasing and residential mortgages. We also offer a variety of consumer loans and home equity loans. Our primary source of interest income is interest earned on our loan portfolio. As of December 31, 2007, our loans represented approximately 81.04% of our total assets, our legal lending limit to any one borrower was $18.6 million, and our largest single borrower as of that date had outstanding loans of $12.8 million.

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

We conduct our lending activities pursuant to the loan policies adopted by our board of directors. These policies currently require the approval of our loan committee of all commercial credits in excess of $1.5 million and all real estate credits in excess of $2.5 million. Credits up to $1.5 million on commercial loans and $2.5 million on real estate loans can be approved by the Bank's President and a combination of two senior loan management officers. Our management information systems and loan review policies are designed to monitor lending sufficiently to ensure adherence to our loan policies. The following table shows the composition of our loan portfolio at December 31, 2007.

LOAN PORTFOLIO

	As of December 31, 2007	
	Amount	Percent
	(In thousands)	
Commercial	$ 139,120	23.32 %
Commercial real estate	150,655	25.25
Construction	188,229	31.55
Lease financing	19,724	3.30
Residential real estate	37,511	6.29
Consumer	22,934	3.84
Home equity	38,473	6.45
Total loans and leases	596,646	100.00 %
Less allowance for loan losses	8,982	
Loans receivable, net	$ 587,664	

Commercial loans. As of December 31, 2007, approximately $139.1 million, or 23.32%, of our loan portfolio represented commercial loans. The Bank has developed a strong reputation in providing and servicing small business and commercial loans. We have expanded this portfolio through the addition of commercial lending staff, their business development efforts, our reputation and the acquisition of Unison Bancorp, Inc. and its subsidiary, Western National Bank, in 2007. Commercial loans have historically been a significant portion of our loan portfolio and we expect to continue our emphasis on this loan category.

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

Approximately $4.7 million, or 3.34%, of our commercial loans are Small Business Administration (SBA) loans, of which $3.5 million is government guaranteed. The SBA guarantees the repayment in the event of a default of a portion of the principal on these loans, plus accrued interest on the guaranteed portion of the loan. Under the federal Small Business Act, the SBA may guarantee up to 85% of qualified loans of $150,000 or less and up to 75% of qualified loans in excess of $150,000, up to a maximum guarantee of $2.0 million. We are an active SBA lender in our market area and have been approved to participate in the SBA Certified Lender Program.

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

Commercial real estate loans. The Bank also makes loans to provide permanent financing for retail and office buildings, multi-family properties and churches. As of December 31, 2007, approximately $150.7 million, or 25.25%, of our loan portfolio represented commercial real estate loans. Our commercial real estate loans are underwritten on the basis of the appraised value of the property, the cash flow of the underlying property, and the financial strength of any guarantors.

Risks inherent in commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and documentation. Commercial real estate lending involves more risk than residential real estate lending because loan balances may be greater and repayment is dependent on the borrower's operations. We attempt to mitigate these risks by carefully assessing property values, investigating the source of cash flow servicing the loan on the property and adhering to our lending and underwriting policies and procedures.

Construction loans. Our construction loans include loans to developers, home building contractors and other companies and consumers for the construction of single-family homes, land development, and commercial buildings, such as retail and office buildings and multi-family properties. As of December 31, 2007, approximately $188.2 million, or 31.55%, of our loan portfolio represented real estate construction loans. The builder and developer loan portfolio has been a consistent component of our loan portfolio over our history. We attribute this success to our expertise, availability and prompt service. The Bank's experience and reputation in this area have grown, thereby enabling the Bank to focus on relationships with a smaller number of larger builders and increasing the total value of the Bank's real estate construction portfolio. Construction loans are made to qualified builders to build houses to be sold following construction, pre-sold houses and model houses. These loans are generally underwritten based on several factors, including the experience and current financial condition of the borrowing entity, amount of the loan to appraised value, and general conditions of the housing market with respect to the subdivision and surrounding area, which the bank receives from a third party reporting entity. Construction loans are also made to individuals for whom houses are being constructed by builders with whom the Bank has an existing relationship. Such loans are made on the basis of the individual's financial condition, the loan to value ratio, the reputation of the builder, and whether the individual will be pre-qualified for permanent financing.

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

Lease financing. Our lease portfolio includes capital leases that we have originated and leases that we have acquired from brokers or third parties. As of December 31, 2007, our lease portfolio totaled $19.7 million, or 3.30% of our total loan portfolio, consisting of $14.4 million principal amount of leases originated by us and $5.3 million principal amount of leases that we purchased. We provide lease financing for a variety of equipment and machinery, including office equipment, heavy equipment, telephone systems, tractor trailers and computers. Lease terms are generally from three to five years. Management believes this area is attractive because of its ability to provide a source of both interest and fee income. Our leases are generally underwritten based upon several factors, including the overall credit worthiness, experience and current financial condition of the lessee, the amount of the financing to collateral value, and general conditions of the market.

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

Residential real estate loans. Our residential real estate loan portfolio consists primarily of first and second mortgage loans on residential properties. As of December 31, 2007, $37.5 million, or 6.29%, of our loan portfolio represented residential mortgage loans. The terms of these loans typically include 2-5 year balloon payments based on a 15 to 30 year amortization, and accrue interest at a fixed or variable rate. By offering these products, we can offer credit to individuals who are self-employed or have significant income from partnerships or investments. These individuals are often unable to satisfy the underwriting criteria permitting the sale of their mortgages into the secondary market.

In addition, we also originate residential mortgage loans with the intention of selling these loans in the secondary market. During 2007, we originated approximately $185.8 million of residential mortgage loans, and we sold approximately $196.6 million in the secondary market. We originate conventional first mortgage loans through our internet website as well as through referrals from real estate brokers, builders, developers, prior customers and media advertising. We have offered customers the ability to apply for mortgage loans and to pre-qualify for mortgage loans over the Internet since 1999. In 2001, we expanded our internet mortgage application capacity with the acquisition of the internet domain name InternetMortgage.com and created a separate National Mortgage division. The timing of this expansion allowed us to establish this division in a relatively low-rate environment, and reap the benefits of a significant increase in mortgage originations and refinancing experienced from 2001 through 2003. While the volume of mortgage originations and refinancing has declined since 2004, we continue to take

advantage of the national presence established in previous years and originate residential mortgage loans through our InternetMortgage.com website. The origination of a mortgage loan from the date of initial application through closing normally takes 15 to 60 days. We acquire forward commitments from investors on mortgage loans that we intend to sell into the secondary market to reduce interest rate risk on mortgage loans to be sold in the secondary market.

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

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

Consumer loans. As of December 31, 2007, our consumer loans totaled $22.9 million, or 3.84% of our total loan portfolio. A substantial part of this amount consisted of installment loans to individuals in our market area. Installment lending offered directly by the Bank in our market area includes automobile loans, recreational vehicle loans, home improvement loans, unsecured lines of credit and other loans to professionals, people employed in education, industry and government, as well as retired individuals and others. A significant portion of our consumer loan portfolio consists of indirect automobile loans offered through automobile dealerships located primarily in our trade area. As of December 31, 2007, approximately $10.7 million, or 1.79%, of our total loan portfolio represented indirect automobile loans. Our loans made through this program generally represent loans to purchase new or late model automobiles. There are currently 12 dealerships participating in this program. Our consumer and other loans are underwritten based on the borrower's income, current debt, past credit history, collateral, and the reputation of the originating dealership with respect to indirect automobile loans.

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

Home equity loans. As of December 31, 2007, our home equity loans totaled $38.5 million, or 6.45% of our total loan portfolio. Home equity loans are generally secured by second liens on residential real estate and are underwritten in a similar manner as our consumer loans.

Investment Activities

The objectives of our investment policies are to:

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

- maximize after-tax income.

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

Deposit Services

The principal sources of funds for the Bank are core deposits from the local market areas surrounding the Bank's offices, including demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and time deposits. Transaction accounts include interest-bearing and non-interest-bearing accounts, which provide the Bank with a source of fee income and cross-marketing opportunities as well as a low-cost source of funds. Since 2001, the Bank has realized a significant level of deposit growth from commercial checking accounts. While these accounts do not earn interest, many of them receive an earnings credit on their average balance to offset the cost of other services provided by the Bank. The Bank's money market account is a daily access account that bears a higher rate and allows for limited check-writing ability. This account pays a tiered rate of interest. We believe money market accounts have proven to be attractive products in our market area and provide us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, as it provides us with the potential to cross-sell additional services to these account holders. During 2007, we introduced performance checking accounts. This interest-bearing demand product has also proven to be an attractive product in our market area as it pays a higher rate than most checking accounts as long as the customer meets the requirements of at least 12 signature based debit card transactions and at least one direct deposit or ACH debit each statement cycle. The Bank realizes non-interest income from the signature based debit card transactions that, when netted against the high rate paid to the customer, results in a very attractive low cost of funds for the Bank. Time and savings accounts also provide a relatively stable customer base and source of funding. Because of the nature and behavior of these deposit products, management reviews and analyzes our pricing strategy in comparison not only to competitor rates, but also as compared to other alternative funding sources to determine the most advantageous source. The Bank has joined the Certificate of Deposit Account Registry Service ("CDARS") which effectively lets depositors receive FDIC insurance on amounts larger than $100,000. CDARS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS banks to ensure that full FDIC insurance coverage is gained on the entire deposit. The Bank's Funds Management policy allows for acceptance of brokered deposits which can be utilized to support the growth of the Bank. As of December 31, 2007, the Bank had $31.5 million in brokered deposits. The Bank does not anticipate brokered deposits becoming a significant percentage of its deposit base; however, we continue to evaluate their potential role in the Bank's overall funding and liquidity strategies. In pricing deposit rates, management considers profitability, the matching of term lengths with assets, the attractiveness to customers and rates offered by our competitors.

Investment Brokerage Services

In 1999, the Bank began offering investment brokerage services through an unrelated broker-dealer. These services are currently offered at all of our locations. Three individuals responsible for providing these services are joint employees of the Bank and the registered broker-dealer. Investment brokerage services provide a source of fee income for the Bank. In 2007, the amount of our fee income generated from investment brokerage services was $395,000.

Trust Services

We began offering trust services in 1996. Until 1999, the Bank's trust services were offered exclusively through the employees of an unaffiliated trust company. The Bank hired a full-time officer in 1999 to develop the Bank's trust business and the trust department now has three full-time officers. Trust services are marketed to both

existing Bank customers and new customers. We believe that the ability to offer trust services as a part of our financial services to new customers of the Bank presents a significant cross-marketing opportunity. The services currently offered by the Bank's trust department include the administration of personal trusts, investment management agency accounts, self-directed individual retirement accounts, qualified retirement plans, corporate trust accounts and custodial and directed trust accounts. As of December 31, 2007, the Bank's trust department administered 237 accounts, with assets under administration of approximately $104.2 million. Trust services provide the Bank with a source of fee income and additional deposits. In 2007, the amount of our fee income from trust services was $427,000.

Competition

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

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

Employees

At December 31, 2007, the Bank had approximately 214 full-time employees. The Company and its other subsidiaries did not have any employees. None of the Bank's employees are subject to a collective bargaining agreement. We consider the Bank's relationship with its employees to be excellent.

Directors and Executive Officers of the Registrant

For each of our directors and our executive officers, we have set forth below their ages as of December 31, 2007, and their principal positions.

Name	Age	Positions
Directors		
Robert D. Regnier	59	President, Chief Executive Officer and Chairman of the Board of Directors of Blue Valley; President, Chief Executive Officer and Chairman of the Board of Directors of the Bank
Donald H. Alexander	69	Director of Blue Valley and the Bank
Michael J. Brown	51	Director of Blue Valley
Thomas A. McDonnell	62	Director of Blue Valley
Anne D. St. Peter	42	Director of Blue Valley
Robert D. Taylor	60	Director of Blue Valley
Additional Directors of the Bank		
Harvey S. Bodker	72	Director of the Bank
Richard L. Bond	72	Director of the Bank
Suzanne E. Dotson	61	Director of the Bank
Charles H. Hunter	65	Director of the Bank
Executive Officers who are not Directors		
Mark A. Fortino	41	Senior Vice President and Chief Financial Officer of the Bank; Chief Financial Officer of Blue Valley
Ralph J. Schramp	58	Senior Vice President – Commercial Lending, Mortgage Originations and Business Development for the Bank
Sheila C. Stokes	46	Senior Vice President – Retail Division of the Bank

Regulation and Supervision

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

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

Applicable Legislation

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

USA PATRIOT Act. The USA PATRIOT Act of 2001 was signed into law on October 26, 2001. This legislation enhances the powers of domestic law enforcement organizations and makes numerous other changes aimed at countering the international terrorist threat to the security of the United States. Title III of the legislation most directly affects the financial services industry. It is intended to enhance the federal government's ability to fight money laundering by monitoring currency transactions and suspicious financial activities. The USA

PATRIOT Act has significant implications for depository institutions involved in the transfer of money. Under the USA PATRIOT Act, a financial institution must establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts. Financial institutions must follow regulations adopted by the Treasury Department to encourage financial institutions, their regulatory authorities, and law enforcement authorities to share information about individuals, entities, and organizations engaged in or suspected of engaging in terrorist acts or money laundering activities. Financial institutions must follow regulations setting forth minimum standards regarding customer identification. These regulations require financial institutions to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintain records of the information used to verify the person's identity, and consult lists of known or suspected terrorists and terrorist organizations provided to the financial institution by government agencies. Every financial institution must establish anti-money laundering programs, including the development of internal policies and procedures, designation of a compliance officer, employee training, and an independent audit function.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act was signed into law on November 12, 1999. This major banking legislation expands the permissible activities of bank holding companies such as Blue Valley by permitting them to engage in activities, or affiliate with entities that engage in activities, that are "financial in nature." Activities that the Act expressly deems to be financial in nature include, among other things, securities and insurance underwriting and agency, investment management and merchant banking. The Federal Reserve and the Treasury Department, in cooperation with one another, determine what additional activities are "financial in nature." With certain exceptions, the Gramm-Leach-Bliley Act similarly expands the authorized activities of subsidiaries of national banks. The provisions of the Gramm-Leach-Bliley Act authorizing the expanded powers became effective March 11, 2000.

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

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

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

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

Bank Holding Company Regulation

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

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

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

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

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

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

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

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

Source of Strength. The Federal Reserve expects Blue Valley to act as a source of financial strength and support for the Bank and to take measures to preserve and protect the Bank in situations where additional investments in the Bank may not otherwise be warranted. The Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. As of December 31, 2007, Blue Valley Building Corp., BVBC Capital Trust II, BVBC Capital Trust III, and Homeland Title, LLC are Blue Valley's only active direct subsidiaries that are not banks.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies and banks. If the capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The Federal Reserve's capital guidelines establish a risk-based requirement expressed as a percentage of total risk-weighted assets and a leverage requirement expressed as a percentage of total average assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital (which consists principally of stockholders' equity). The leverage requirement consists of a minimum ratio of Tier 1 capital to total average assets of 4%.

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

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

Bank Regulations

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

Deposit Insurance. The FDIC, through its Deposit Insurance Fund, insures the Bank's deposit accounts to a maximum of $100,000 for each insured depositor, with the exception of self-directed retirement accounts which are insured to a maximum of $250,000. The FDIC bases deposit insurance premiums on the perceived risk each bank presents to its Deposit Insurance Fund. In addition to deposit insurance premiums, institutions also pay an assessment based on insured deposits to service debt issued by the Financing Corporation, a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered, insured non-member banks, such as the Bank: (1) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total average assets of 4%; and (2) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. These capital requirements are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions.

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

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

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

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

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

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

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

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

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

- Restricting transactions with affiliates;

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

- Requiring that senior executive officers or directors be dismissed;

- Requiring the institution to divest subsidiaries;

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

- Appointing a receiver for the institution.

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

As of December 31, 2007, the Bank had capital in excess of the requirements for a "well-capitalized" institution.

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

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

Community Reinvestment Act Requirements. The Community Reinvestment Act (CRA) of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are

also considered in evaluating mergers, acquisitions and applications to open a branch or facility. In its most recent CRA examination dated June 5, 2006, the Bank received a rating of "Satisfactory."

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

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

Reserve Requirements. The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts. Reserves of 3% must be maintained against net transaction accounts of $9.3 million to $43.9 million plus 10% must be maintained against that portion of net transaction accounts in excess $43.9 million (subject to adjustment by the Federal Reserve). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements.

Other Regulations

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

Item 1A: Risk Factors

Our operations may be adversely affected if we are unable to maintain and increase our deposit base and secure adequate funding.

We fund our banking and lending activities primarily through demand, savings and time deposits and, to a lesser extent, lines of credit, sale/repurchase facilities from various financial institutions, and Federal Home Loan Bank borrowings. The success of our business depends in part on our ability to maintain and increase our deposit base and our ability to maintain access to other funding sources. Our inability to obtain funding on favorable terms, on a timely basis, or at all, would adversely affect our operations and financial condition.

The loss of our key personnel could adversely affect our operations.

We are a relatively small organization and depend on the services of all of our employees. Our growth and development to date has depended in a large part on a few key employees who have primary responsibility for maintaining personal relationships with our largest customers. The unexpected loss of services of one or more of these key employees could have a material adverse effect on our operations. Our key employees are Robert D. Regnier, Mark A. Fortino, Ralph J. Schramp, and Sheila C. Stokes. Each of these persons is an officer of the Bank. We do not have written employment or non-compete agreements with any of these key employees; however, if employment was terminated, Mr. Fortino, Mr. Schramp, and Ms. Stokes would all lose three years of Blue Valley Ban Corp. Restricted Stock Awards as well as amounts awarded in their Long-Term Retention Bonus Pools. Mr. Regnier would lose one year of Restricted Stock and amounts awarded in his Long-Term Retention Bonus Pool. We carry a $1 million “key person” life insurance policy on the life of Mr. Regnier.

Changes in interest rates may adversely affect our earnings and cost of funds.

Changes in interest rates affect our operating performance and financial condition in diverse ways. A substantial part of our profitability depends on the difference between the rates we receive on loans and investments and the rates we pay for deposits and other sources of funds. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal monetary and fiscal policies, and economic conditions generally. Historically, net interest spreads for many financial institutions have widened and narrowed in response to these and other factors, which are often collectively referred to as “interest rate risk.” We try to minimize our exposure to interest rate risk, but are unable to eliminate it.

Because our business is concentrated in the Kansas City MSA, a downturn in the economy of the Kansas City MSA may adversely affect our business.

Our success is dependent to a significant extent upon the general economic conditions in the Kansas City MSA, including Johnson County, Kansas, and, in particular, the conditions for the medium- and small-sized businesses that are the focus of our customer base. Adverse changes in economic conditions in the Kansas City MSA, including Johnson County, Kansas, could impair our ability to collect loans, reduce our growth rate and have a negative effect on our overall financial condition.

If our allowance for loan losses is insufficient to absorb losses in our loan portfolio, it will adversely affect our financial condition and results of operations.

Some borrowers may not repay loans that we make to them. This risk is inherent in the banking business. Like all financial institutions, the Company maintains an allowance for loan losses to absorb probable loan losses in our loan portfolio. The level of the allowance reflects management’s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio credit quality, economic and regulatory conditions and unidentified losses inherent in the current loan portfolio. However, we cannot predict loan losses with certainty, and we cannot assure you that our allowance will be sufficient. Loan losses in excess of our reserves would have an adverse effect on our financial condition and results of operations. The loan loss provision related to real estate construction loans has increased during the second half of the year. This increase is a result of the industry wide decline in the real estate market. If the recent trend is prolonged and losses continue to increase, our results of operations could be negatively impacted by higher loan losses in the future.

In addition, various regulatory agencies, as an integral part of the examination process, periodically review our loan portfolio. These agencies may require us to add to the allowance for loan losses based on their judgments and interpretations of information available to them at the time of their examinations. If these agencies require us to increase our allowance for loan losses, our earnings will be adversely affected in the period in which the increase occurs.

We may incur significant costs if we foreclose on environmentally contaminated real estate.

If we foreclose on a defaulted real estate loan to recover our investment, we may be subject to environmental liabilities in connection with the underlying real property. It is also possible that hazardous substances or wastes may be discovered on these properties during our ownership or after they are sold to a third party. If they are discovered on a property that we have acquired through foreclosure or otherwise, we may be required to remove those substances and clean up the property. We may have to pay for the entire cost of any removal and clean-up without the contribution of any other third parties. We may also be liable to tenants and other users of neighboring properties. These costs or liabilities may exceed the fair value of the property. In addition, we may find it difficult or impossible to sell the property prior to or following any environmental clean-up.

If we are not able to compete effectively in the highly competitive banking industry, our business will be adversely affected.

Our business is extremely competitive. Many of our competitors are, or are affiliates of, enterprises that have greater resources, name recognition and market presence than we do. Some of our competitors are not regulated as extensively as we are and, therefore, may have greater flexibility in competing for business. Some of these competitors are subject to similar regulation but have the advantages of established customer bases, higher lending limits, extensive branch networks, numerous ATMs, and more ability to absorb the costs of maintaining technology or other factors.

Item 1B: Unresolved Staff Comments

No items are reportable.

Item 2: Properties

The Company's principal office is located at 11935 Riley on the corner of 119th and Riley streets in Overland Park, Kansas. In addition to the principal office, as of December 31, 2007, the Company also owns four banking center locations and one mortgage and banking center location and leases unoccupied premises to the public.

Location	Year Occupied	Mortgage Indebtedness as of December 31, 2007	Occupancy
Overland Park Banking Center 11935 Riley Overland Park, Kansas	1994	$2.2 Million	74% One sublease occupying 26%
Olathe Banking Center 1235 E. Santa Fe Olathe, Kansas	2001	None	100%
Shawnee Banking Center 5520 Hedge Lane Terrace Shawnee, Kansas	2001	None	100%
Mortgage and Banking Center 7900 College Boulevard Overland Park, Kansas	2003	$3.8 Million	100%
Leawood Banking Center 13401 Mission Road Leawood, Kansas	2004	None	42% Five subleases occupying 58%
Lenexa Banking Center 9500 Lackman Road Lenexa, Kansas	2007	None	100%

Item 3: Legal Proceedings

We are periodically involved in routine litigation incidental to our business. We are not a party to any pending litigation that we believe is likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

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

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

Part II

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

Market for Common Stock

We are a reporting company under the Securities Exchange Act as a result of a trust preferred securities offering we completed during July 2000. Shares of our common stock have traded on the Over-The-Counter Bulletin Board since July 2002 under the symbol "BVBC." As of February 29, 2008, there were approximately 184 stockholders of record of our common stock. The following table sets forth the high and low prices of the Company's common stock based on closing stock price quotations provided by *Yahoo.com*. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2007		**2006**	
Fiscal Quarter	High	Low	High	Low
First	$ 38.25	$ 33.50	$ 32.00	$ 29.75
Second	40.00	33.50	31.00	28.15
Third	38.50	33.00	33.00	28.15
Fourth	36.00	31.00	35.00	33.00

Dividends

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

Declaration Date	Amount Per Share	Record Date	Pay Date
December 15, 2005	$0.25	December 30, 2005	January 31, 2006
December 21, 2006	$0.30	December 29, 2006	January 29, 2007
December 20, 2007	$0.36	December 31, 2007	January 31, 2008

Because our consolidated net income consists largely of the net income of the Bank, our ability to pay dividends on our common stock is subject to our receipt of dividends from the Bank. The ability of the Bank to pay dividends to us, and thus our ability to pay dividends to our stockholders, is regulated by federal banking laws. In addition, if we elect to defer interest payments on our outstanding junior subordinated debentures, we will be prohibited from paying dividends on our common stock during such deferral. At December 31, 2007, approximately $4,985,000 of retained earnings were available for dividend declaration without prior regulatory approval.

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

Item 6: Selected Financial Data

The following table presents our consolidated financial data as of and for the five years ended December 31, 2007, and should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is included elsewhere in this Form 10-K. The selected statements of financial condition and statements of income data, insofar as they relate to the five years in the five-year period ended December 31, 2007, have been derived from our audited consolidated financial statements.

	As of and for the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except share and per share data)				
Selected Statement of Income Data					
Interest income:					
Loans, including fees	$ 47,194	$ 44,537	$ 37,492	$ 29,245	$ 28,293
Federal funds sold and interest-bearing deposits	557	256	580	157	49
Securities	4,466	4,039	2,317	2,301	2,070
Total interest income	52,217	48,832	40,389	31,703	30,412
Interest expense:					
Interest-bearing demand deposits	656	97	94	169	165
Savings and money market deposit accounts	6,362	4,356	3,861	2,932	2,204
Other time deposits	13,134	11,254	9,171	7,297	6,935
Funds borrowed	5,430	5,255	4,867	4,115	4,245
Total interest expense	25,582	20,962	17,993	14,513	13,549
Net interest income	26,635	27,870	22,396	17,190	16,863
Provision for loan losses	2,855	1,255	230	1,965	1,350
Net interest income after provision for loan losses	23,780	26,615	22,166	15,225	15,513
Non-interest income:					
Loans held for sale fee income	3,160	5,046	7,408	10,358	19,866
NSF charges & service fees	1,413	1,244	1,129	1,326	1,283
Other service charges	1,417	1,247	1,037	1,115	924
Realized gain on available-for-sale securities	105	–	–	524	–
Other income	1,105	1,344	1,727	617	463
Total non-interest income	7,200	8,881	11,301	13,940	22,536
Non-interest expense:					
Salaries and employee benefits	13,570	14,737	15,986	16,670	19,670
Occupancy	3,200	3,059	3,307	3,433	3,137
General & administrative	7,447	6,578	6,841	6,467	6,478
Total non-interest expense	24,217	24,374	26,134	26,570	29,285
Income before income taxes	6,763	11,122	7,333	2,595	8,764
Income tax provision	2,275	4,199	2,764	665	3,130
Net income	$ 4,488	$ 6,923	$ 4,569	$ 1,930	$ 5,634
Per Share Data					
Basic earnings	$ 1.86	$ 2.93	$ 1.95	$ 0.84	$ 2.51
Diluted earnings	1.84	2.88	1.91	0.82	2.43
Dividends	0.36	0.30	0.25	0.20	0.15
Book value basic (at end of period)	24.34	22.45	19.42	17.78	17.64
Weighted average common shares outstanding:					
Basic	2,410,621	2,365,932	2,348,805	2,302,564	2,244,930
Diluted	2,438,203	2,407,802	2,388,531	2,360,061	2,320,840
Dividend payout ratio	19.35%	10.23%	12.82%	23.80 %	5.98 %

	As of and for the Year Ended December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Selected Financial Condition Data (at end of period):					
Total securities	$ 76,871	$ 87,206	$ 99,987	$ 66,350	$ 106,036
Total mortgage loans held for sale	10,978	21,805	13,906	44,144	18,297
Total loans	596,646	528,515	503,143	507,170	424,620
Total assets	736,213	692,219	689,589	672,717	627,073
Total deposits	536,370	535,864	529,341	522,646	470,495
Funds borrowed	134,942	96,577	104,394	102,469	111,741
Total stockholders' equity	58,934	53,820	46,255	41,384	40,198
Trust assets under administration	104,167	104,445	93,988	118,074	90,389
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin (1)	3.95%	4.34%	3.50%	2.91%	3.01%
Non-interest income to average assets	0.99	1.29	1.63	2.16	3.62
Non-interest expense to average assets	3.34	3.54	3.77	4.11	4.71
Net overhead ratio (2)	2.35	2.25	2.14	1.96	1.08
Efficiency ratio (3)	71.57	66.32	77.56	85.35	74.33
Return on average assets (4)	0.62	1.00	0.66	0.30	0.91
Return on average equity (5)	7.88	13.81	10.44	4.69	14.85
Asset Quality Ratios:					
Non-performing loans to total loans	4.22%	1.31%	0.87%	0.86%	0.72%
Allowance for possible loan losses to:					
Total loans	1.51	1.16	1.33	1.45	1.66
Non-performing loans	35.65	88.16	153.27	168.60	230.79
Net charge-offs to average total loans	0.06	0.35	0.17	0.36	0.30
Non-performing loans to total assets	3.42	1.00	0.63	0.65	0.50
Balance Sheet Ratios:					
Loans to deposits	111.24%	98.63%	95.05%	97.04%	90.25%
Average interest-earning assets to average interest-bearing liabilities	117.84	119.12	116.78	114.38	114.61
Capital Ratios:					
Total equity to total assets	8.01%	7.77%	6.71%	6.15%	6.42%
Total capital to risk-weighted assets ratio	11.53	12.47	12.04	11.15	12.41
Tier 1 capital to risk-weighted assets ratio	10.28	11.33	10.25	9.00	10.04
Tier 1 capital to average assets ratio	9.86	10.29	8.86	8.45	8.31
Average equity to average assets ratio	7.85	7.27	6.31	6.37	6.10

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

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

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

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

Critical Accounting Policies

Please refer to Note 1 of our consolidated financial statements where we present a listing and discussion of our most significant accounting policies. After a review of these policies, we determined that accounting for the allowance for loan losses is deemed a critical accounting policy because of the valuation techniques used, and the sensitivity of certain financial statement amounts to the methods, as well as the assumptions and estimates, underlying that policy. Accounting for this critical area requires the most subjective and complex judgments that could be subject to revision as new information becomes available.

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

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

The Bank computes its allowance by assigning specific reserves to impaired loans, plus a general reserve based on loss factors applied to the rest of the loan portfolio. The specific reserve on impaired loans is computed as the amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market value or the fair value of the collateral if the loan is collateral dependent. The general reserve loss factors are determined based on such items as management's evaluation of risk

in the portfolio, local economic conditions, and historical loss experience. The Bank has further refined its risk grading system by developing associated reserve factors for each risk grade.

Overview

The Company had a challenging year in 2007 due to the interest rate environment and the industry wide decline in the real estate market. Interest income from commercial lending continued to expand primarily due to the growth in our loan portfolio of approximately 12.89%. This growth is a result of the acquisition of Unison Bancorp, Inc. and its subsidiary, Western National Bank, in February 2007 and internal loan growth from the efforts and experience of our lending staff. The prime lending rate remained stable through most of the third quarter of 2007. During the third and fourth quarter of 2007 the prime lending rate dropped a total of 100 basis points. The drop in interest rates along with the industry wide decline in the real estate market has resulted in lower interest income on loans during the fourth quarter. The decline in the real estate market along with the growth in our loan portfolio has resulted in an increase in our provision for loan losses as compared to the prior year. The longer term interest rates have remained stable and have not declined for most of the year. This has contributed to a continued decline in the mortgage origination activity as compared with prior years and declining fee income. During 2007, our deposits have remained virtually unchanged due to the competitive rate environment. As a result, we used maturities in our investment portfolio and sold select securities to assist in funding our loan growth. We expect 2008 to be a year of opportunities for the Company as we look to expand our loan and deposit portfolios and increase our mortgage origination volume.

Net income for 2007 was $4.5 million, a $2.4 million, or 35.17%, decrease from the $6.9 million earned in 2006. Diluted earnings per share decreased 36.11% to $1.84 for the year ended December 31, 2007 from $2.88 in the previous year. The Company's returns on average assets and average stockholders' equity for 2007 were 0.62% and 7.88%, compared to 1.00% and 13.81%, respectively, for 2006.

Net interest income for 2007 was $26.6 million compared to $27.9 million earned during 2006. The decrease of $1.2 million, or 4.43%, was primarily the result of an increase in interest expense of $4.6 million during 2007. The increase was due to an increase in average interest-bearing liabilities, specifically savings and money market accounts, due to the acquisition of Unison Bancorp, Inc. and its subsidiary, Western National Bank, during the year and an increase in the overall rate paid on our deposits due to the rate environment. The increase in interest expense was partially offset by an increase in interest income of $3.4 million due to an increase in the average balance of earning assets, specifically our loans as a result of the acquisition of Unison Bancorp, Inc. and subsidiary, Western National Bank, and internal loan growth. The current credit environment has made it difficult to anticipate the future of the Company's interest margin. If interest rates remain at the current levels or continue to decline, the Company anticipates a negative impact to net interest income as a result of the repricing of assets and liabilities. The magnitude of this impact will be dependent upon the Federal Reserve's policy decisions and market movements. See page 40 for discussion of the impact of rate increases or decreases on net interest income as of December 31, 2007.

The provision for loan losses in 2007 was $2.9 million compared to $1.2 million in 2006, and $230,000 in 2005. The increase in the provision in 2007 was primarily attributed to the decline in the credit quality of the real estate and construction portfolio due to the industry wide decline in the real estate market and partly due to the internal growth within the loan portfolio.

Non-interest income decreased 18.93% to $7.2 million in 2007 from $8.9 million in 2006. Stable longer term interest rates and other demand factors resulted in an industry-wide decline in the volume of residential mortgage loans originated in 2007 compared to 2006. This trend resulted in lower origination fees during 2007 than during 2006 for our Company.

Total assets at December 31, 2007, were $736.2 million, an increase of $44.0 million, or 6.36%, from $692.2 million at December 31, 2006. Deposits and stockholders' equity at December 31, 2007 were $536.4 million and $58.9 million, compared with $535.9 million and $53.8 million at December 31, 2006, increases of $506,000, or 0.09%, and $5.1 million, or 9.50%, respectively.

Loans at December 31, 2007 totaled $596.6 million, an increase of $68.1 million, or 12.89%, compared to December 31, 2006. The loan to deposit ratio at December 31, 2007 was 111.24% compared to 98.63% at December 31, 2006. The increase in the loan to deposit ratio was due to loan growth which, on a relative basis, outpaced deposit growth. Our funding philosophy for loans not held for sale has been to primarily increase deposits from retail and commercial deposit sources and secondarily use other borrowing sources as necessary to fund loans within the limits of the Bank's capital base.

For the five years ended December 31, 2007, our average year-end ratio of non-performing loans to total loans was 1.60%. As of December 31, 2007, our ratio of non-performing loans to total loans was 4.22%, which was above our historical averages primarily due to the decline in the real estate market and its impact on our real estate and construction loan portfolio. Our non-performing credit relationships are regularly reviewed and closely monitored. Our philosophy has been to value non-performing loans at their estimated collectible value and to aggressively manage these situations. As of December 31, 2007, our ratio of allowance for loan losses to non-performing loans was 35.65%, compared to 88.16% at December 31, 2006. The Bank continues to aggressively manage defaults in the loan portfolio. Management intends to continue to vigorously pursue collection of all charged-off loans.

Net Interest Income

A primary component of our net income is our net interest income. Net interest income is determined by the spread between the fully tax equivalent (FTE) yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities, as well as the relative amounts of such assets and liabilities. FTE net interest margin is determined by dividing FTE net interest income by average interest-earning assets. The following discussion should be read along with analysis of the “Average Balances, Yields and Rates” table on the next page.

Years ended December 31, 2007 and 2006. FTE net interest income for 2007 decreased to $26.6 million from $27.9 million in 2006, a $1.2 million, or 4.45%, decrease.

FTE interest income for 2007 was $52.2 million, an increase of $3.4 million, or 6.92%, from $48.8 million in 2006, primarily as a result of an increase in the balances on average earning assets. The yield on average earning assets increased 14 basis points to 7.75% in 2007 compared to 7.61% in 2006. Average interest earning assets increased $32.0 million, or 4.99%, during 2007. Due to the increase in earning asset volume, loan interest and fee income increased to $47.2 million in 2007 from $44.5 million in 2006, a $2.7 million, or 5.97%, increase. Interest income on investment securities increased $420,000, or 10.36%, in 2007 compared to the prior year due to higher yields earned on the securities. Interest income earned on Federal Funds Sold increased $301,000 or 117.58% in 2007 compared to the prior year due primarily to higher balances on those earning assets.

Interest expense for 2007 was $25.6 million, up $4.6 million, or 22.04%, from $21.0 million in 2006. The increase resulted from increases in the balances and overall rate paid on our average interest-bearing liabilities. The rate paid on our total average interest bearing liabilities increased to 4.47% in 2007 compared to 3.89% in 2006, an increase of 58 basis points. This increase resulted from increases in rates paid on interest-bearing demand accounts, money market deposits, time deposits, short- and long-term debt. Total average interest bearing liabilities increased $33.0 million, or 6.13%, during 2007 primarily due to increases in money market deposits, time deposits and long-term borrowings.

Years ended December 31, 2006 and 2005. FTE net interest income for 2006 increased to $27.9 million from $22.4 million in 2005, a $5.5 million, or 24.33%, increase.

FTE interest income for 2006 was $48.8 million, an increase of $8.4 million, or 20.84%, from $40.4 million in 2005, primarily as a result of an increase in the yield on average earning assets. The yield on average earning assets increased 130 basis points to 7.61% in 2006 compared to 6.31% in 2005. Average interest earning assets increased $1.3 million, or 0.20%, during 2006. Due to the increase in the yield and in earning asset volume, loan interest and fee income increased to $44.5 million in 2006 from $37.5 million in 2005, a $7.0 million, or 18.79%, increase. Interest income on investment securities increased by $1.7 million, or 72.61%, in 2006 compared to the prior year due to higher average balances of investment securities and higher yields on those securities. Interest income earned

on Federal Funds Sold decreased $324,000, or 55.87%, in 2006 compared to the prior year due primarily to lower levels of those earning assets.

Interest expense for 2006 was $21.0 million, up $3.0 million, or 16.50%, from $18.0 million in 2005. The increase resulted from an increase in the overall rate paid on our average interest-bearing liabilities. The rate paid on our total average interest bearing liabilities increased to 3.89% in 2006 compared to 3.28% in 2005, an increase of 61 basis points. This increase resulted from increases in rates paid on savings deposits, money market deposits, time deposits, and short- and long-term debt. Total average interest bearing liabilities decreased $9.7 million, or 1.77%, during 2006 primarily due to decreases in money market deposits that exceeded the increases in time deposits.

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

AVERAGE BALANCES, YIELDS AND RATES

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
					(In thousands)				
Assets									
Federal funds sold and other short term investments	$ 10,902	$ 557	5.11 %	$ 5,100	$ 256	5.01 %	$ 16,076	$ 580	3.61 %
Investment securities – taxable	90,246	4,452	4.93	93,043	4,013	4.31	71,695	2,256	3.15
Investment securities – non-taxable (1)	312	21	6.66	565	40	7.03	1,317	92	6.95
Mortgage loans held for sale	9,589	609	6.35	18,067	1,145	6.34	35,232	1,903	5.40
Loans, net of unearned discount and fees (2)	563,224	46,585	8.27	525,471	43,392	8.26	516,642	35,589	6.89
Total earning assets	674,273	52,224	7.75	642,246	48,846	7.61	640,962	40,420	6.31
Cash and due from banks – non-interest bearing	17,728			18,545			22,733		
Allowance for possible loan losses	(6,962)			(6,556)			(7,067)		
Premises and equipment, net	19,072			18,300			19,304		
Other assets	20,895			16,444			18,119		
Total assets	$ 725,006			$ 688,979			$ 694,051		
Liabilities and Stockholders' Equity									
Deposits-interest bearing:									
Interest-bearing demand accounts	$ 30,719	$ 656	2.14 %	$ 24,979	$ 97	0.39 %	$ 25,104	$ 94	0.38 %
Savings and money market deposits	163,099	6,362	3.90	147,403	4,356	2.95	178,947	3,861	2.16
Time deposits	269,673	13,134	4.87	262,199	11,254	4.29	238,051	9,171	3.85
Total interest-bearing deposits	463,491	20,152	4.35	434,581	15,707	3.61	442,102	13,126	2.97
Short-term borrowings	33,610	1,319	3.93	32,047	1,365	4.26	24,511	557	2.27
Long-term debt	75,087	4,111	5.48	72,530	3,890	5.36	82,243	4,310	5.24
Total interest-bearing liabilities	572,188	25,582	4.47	539,158	20,962	3.89	548,856	17,993	3.28
Non-interest bearing deposits	91,151			93,916			93,447		
Other liabilities	4,745			5,770			7,982		
Stockholders' equity	56,922			50,135			43,766		
Total liabilities and stockholders' equity	$ 725,006			$ 688,979			$ 694,051		
FTE net interest income/spread		$ 26,642	3.28 %		$ 27,884	3.72 %		$ 22,427	3.03 %
FTE net interest margin			3.95 %			4.34 %			3.50 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the three years ended December 31, 2007, 2006 and 2005, the tax equivalency adjustment amounted to $7,000, $14,000, and $31,000, respectively.

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

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

- changes in 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

	Year Ended December 31, (In thousands)					
	2007 Compared to 2006			2006 Compared to 2005		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Federal funds sold	$ 5	$ 296	$ 301	$ 226	$ (550)	$ (324)
Investment securities – taxable	577	(138)	439	836	921	1,757
Investment securities – non-taxable (1)	(2)	(17)	(19)	1	(53)	(52)
Mortgage loans held for sale	2	(538)	(536)	330	(1,088)	(758)
Loans, net of unearned discount	70	3,123	3,193	7,074	729	7,803
Total interest income	652	2,726	3,378	8,467	(41)	8,426
Interest-bearing demand accounts	436	123	559	4	(1)	3
Savings and money market deposits	1,394	612	2,006	1,427	(932)	495
Time deposits	1,516	364	1,880	1,047	1,036	2,083
Short-term borrowings	(107)	61	(46)	487	321	808
Long-term debt	81	140	221	101	(521)	(420)
Total interest expense	3,320	1,300	4,620	3,066	(97)	2,969
Net interest income	$ (2,668)	$ 1,426	$ (1,242)	$ 5,401	$ 56	$ 5,457

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

Provision for Loan Losses

We make provisions for loan losses in amounts management deems necessary to maintain the allowance for loan losses at an appropriate level. During the year ended December 31, 2007, we provided $2.9 million for loan losses, as compared to $1.2 million for the year ended December 31, 2006, an increase of $1.6 million, or 127.49%. During 2007, our provision for loan losses increased due to the decline in the credit quality of the real estate and construction portfolio due to the industry wide decline in the real estate market and the internal growth within the loan portfolio. If the recent trend is prolonged and losses continue to increase, it could result in higher loan losses in the future. Total impaired loans increased 136.89% to $24.4 million at December 31, 2007, with a related reserve of $2.7 million, from $10.3 million at December 31, 2006, with a related reserve of $719,000. Net charge-offs decreased to $339,000 in 2007 from $1.9 million in 2006.

During 2006, our provision for loan losses increased due to an increase in net charge-offs back to normal levels compared with historical averages and to a lesser extent some growth in the loan portfolio. During the year ended December 31, 2006, we provided $1.2 million for loan losses, as compared to $230,000 for the year ended December 31, 2005, an increase of $1.0 million, or 445.65%.

The allowance for loan losses as a percentage of loans was 1.51% at December 31, 2007, compared to 1.16% in 2006 and 1.33% in 2005. The increase in this percentage from December 31, 2006 was primarily due to the decline in the credit quality of the real estate and construction portfolio due to the industry wide decline in the real estate market and the internal growth within the loan portfolio.

Overall, we increased the total balance of the allowance for loan losses in 2007 based upon an analysis of several factors, including an analysis of impaired loans, the general reserve factor analysis referred to in our *Critical Accounting Policies*, changes in the loan mix, and charge offs that occurred during the year. The allowance for loan losses represents our best estimate of probable losses that have been incurred as of the respective balance sheet dates.

Non-interest Income

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

NON-INTEREST INCOME

	Year Ended December 31		
	2007	**2006**	**2005**
		(In thousands)	
Loans held for sale fee income	$ 3,160	$ 5,046	$ 7,408
NSF charges and service fees	1,418	1,244	1,129
Other service charges	1,412	1,247	1,037
Realized gains on available-for-sale securities, net	105	–	–
Other income	1,105	1,344	1,727
Total non-interest income	$ 7,200	$ 8,881	$ 11,301

Non-interest income decreased to $7.2 million, or 18.93%, during 2007, from $8.9 million during 2006. This decrease is attributable to a decrease in loans held for sale fee income of $1.9 million. We experienced a decline in our loans held for sale fee income resulting from a decline in residential mortgage origination volume due to the industry wide decline in the real estate market. The volume of closed residential mortgages fell to $185.8 million in 2007 from $336.3 million and $675.6 million in 2006 and 2005, respectively. Sustainability of the level of our loans held for sale fee income is primarily dependent upon the economy and interest rate environment, and secondarily dependent on our ability to develop new products and alternative delivery channels. NSF charges and service fees increased by $174,000, or 13.99%, from 2006 to 2007. This increase is primarily attributed to an increase in the number of transactional accounts. The fees assessed and collected on these accounts are based on the customer's activity. Other service charge income, which includes trust services income, investment brokerage income, merchant bankcard processing and debit card processing income, increased by $165,000, or 13.23%, from 2006 to 2007. This increase is partly attributed to income generated from signature based debit card transactions associated with our new performance checking product and partly due to the increased activity within our investment brokerage department. In 2007, we realized $105,000 of net gains on the sale of available-for-sale securities. We sold some of the bonds in our available-for-sale investment portfolio to provide additional funding for our loan growth. Future growth of other non-interest income categories is dependent upon new product development, and growth in our customer base.

Non-interest income decreased to $8.9 million, or 21.41%, during 2006, from $11.3 million during 2005. This decrease is attributable to a decrease in loans held for sale fee income of $2.4 million. We experienced a decline in our loans held for sale fee income due to a decline in residential mortgage origination and refinancing resulting from a stable interest rate environment. The volume of closed residential mortgages fell to $336.3 million in 2006 from $675.6 million and $883.4 million in 2005 and 2004, respectively. Sustainability of the level of our loans held for sale fee income is primarily dependent upon the interest rate environment, and secondarily dependent on our ability to develop new products and alternative delivery channels. Other income decreased $383,000, or 22.18%, due primarily to gains on the sale of our old Olathe banking facility realized during 2005.

Non-interest Expense

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

NON-INTEREST EXPENSE

	Year Ended December 31		
	2007	**2006**	**2005**
		(In thousands)	
Salaries and employee benefits	$ 13,570	$ 14,737	$ 15,986
Occupancy	3,200	3,059	3,307
General and administrative	7,447	6,578	6,841
Total non-interest expenses	$ 24,217	$ 24,374	$ 26,134

Non-interest expense decreased 0.64% to $24.2 million during 2007, compared to $24.4 million in the prior year primarily due to a decrease in salaries and employee benefits. Our salaries and employee benefits expense decreased 7.92% to $13.6 million in 2007 from $14.7 million in 2006, mainly due to a decline in compensation costs in our mortgage division. During 2007 we continued to restructure and reduce our mortgage division staffing due to the decline in mortgage origination volume and the decline in the real estate market. We had 214 full-time employees at December 31, 2007 compared to 224 full-time employees at December 31, 2006. Occupancy expenses increased $141,000, or 4.61%, due to increased depreciation and maintenance expenses primarily related to the addition of our Lenexa banking center in 2007 as a result of the acquisition of Unison Bancorp, Inc. and its subsidiary, Western National Bank. General and administrative expenses increased $869,000, or 13.21%, primarily due to consulting services related to the mortgage operations restructuring, as well as expenses related to the purchase of Unison Bancorp, Inc. and its subsidiary and marketing efforts focused on our new location in Lenexa.

Non-interest expense decreased 6.73% to $24.4 million during 2006, compared to $26.1 million in the prior year primarily due to a decrease in salaries and employee benefits. Our salaries and employee benefits expense decreased 7.81% to $14.7 million in 2006 from $16.0 million in 2005, mainly due to a decline in compensation costs in our mortgage division. We had 224 full-time employees at December 31, 2006 compared to 265 at December 31, 2005. The decrease in full-time equivalent employees is mainly due to the reduction in force in our mortgage operations due to a decline in mortgage volume. Occupancy expenses decreased $248,000, or 7.50%, due to decreased depreciation and maintenance expenses. General and administrative expenses decreased $263,000, or 3.85%, primarily due to decreased advertising expenses related to mortgage lead generation activities.

Income Taxes

Our income tax expense during 2007 was $2.3 million, compared to $4.2 million during 2006, and $2.8 million during 2005. The decrease in 2007 reflects our lower earnings for the current fiscal year. Our consolidated effective income tax rates of 34%, 38% and 38% for the three years ended December 31, 2007, 2006, and 2005, respectively, varies from the statutory rate principally due to the effects of state income taxes..

Financial Condition

Lending Activities. Our loan portfolio is a key source of income, and since our inception, has been a principal component of our revenue growth. Our loan portfolio reflects an emphasis on commercial and commercial real estate, construction, lease financing, residential real estate, consumer and home equity lending. We emphasize commercial lending to professionals, businesses and their owners. Commercial loans and loans secured by commercial real estate accounted for 48.57%, 44.99% and 45.12% of our total loans at December 31, 2007, 2006 and 2005, respectively.

Loans were $596.6 million at December 31, 2007, an increase of $68.1 million, or 12.89%, compared to December 31, 2006. Loans were $528.5 million at December 31, 2006, an increase of $25.4 million, or 5.04%, compared to December 31, 2005. The loan to deposit ratio increased to 111.24%, compared to 98.63% at December 31, 2006, and 95.05% at December 31, 2005.

We experienced increases in most loan categories during 2007. The growth in these categories is primarily a result of the purchase of Unison Bancorp, Inc. and its subsidiary, Western National Bank, coupled with the efforts and experience of our lending staff. The Company targets consumer lending lines of business in an effort to broadly diversify our risk across multiple lines of business. The following table sets forth the composition of our loan portfolio by loan type as of the dates indicated. The amounts in the following table are shown net of discounts and other deductions.

	As of December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
Commercial	$ 139,120	23.32 %	$ 110,849	20.97 %	$ 112,452	22.35 %	$ 117,604	23.19 %	$ 109,818	25.86 %
Commercial real estate	150,655	25.25	126,952	24.02	114,562	22.77	126,205	24.88	87,438	20.59
Construction	188,229	31.55	171,709	32.49	139,662	27.76	130,631	25.76	123,445	29.08
Lease financing	19,724	3.30	18,512	3.50	18,238	3.62	21,203	4.18	22,175	5.22
Residential real estate	37,511	6.29	34,988	6.63	39,371	7.83	30,886	6.09	27,017	6.37
Consumer	22,934	3.84	33,097	6.26	45,221	8.99	48,950	9.65	29,701	6.99
Home equity	38,473	6.45	32,408	6.13	33,637	6.68	31,691	6.25	25,026	5.89
Total loans and leases	596,646	100.00 %	528,515	100.00 %	503,143	100.00 %	507,170	100.00 %	424,620	100.00 %
Less allowance for loan losses	8,982		6,106		6,704		7,333		7,051	
Loans receivable, net	$ 587,664		$ 522,409		$ 496,439		$ 499,837		$ 417,569	

Collateral and Concentration. Management monitors concentrations of loans to individuals or businesses involved in a single industry over 5% of total loans. At December 31, 2007, 2006 and 2005, substantially all of our loans were collateralized with real estate, inventory, accounts receivable and/or other assets or were guaranteed by the Small Business Administration. Loans to individuals and businesses in the construction industry totaled $188.2 million, or 31.55%, of total loans, as of December 31, 2007. The Bank does not have any other concentrations of loans to individuals or businesses involved in a single industry exceeding 5% of total loans. The Bank's lending limit under federal law to any one borrower was $18.6 million at December 31, 2007. The Bank's largest single borrower, net of participations, at December 31, 2007 had outstanding loans of $12.8 million.

The following table presents the aggregate maturities of loans in each major category of our loan portfolio as of December 31, 2007, excluding the allowance for loan and valuation losses. Additionally, the table presents the dollar amount of all loans due more than one year after December 31, 2007 which have predetermined interest rates (fixed) or adjustable interest rates (variable). Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments or the timing of loan sales.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

	As of December 31, 2007					
					More than One Year	
	Less than one year	One to five years	Over five years	Total	Fixed	Variable
	(In thousands)					
Commercial	$ 67,820	$ 65,651	$ 5,649	$ 139,120	$ 22,594	$ 48,706
Commercial Real Estate	23,105	115,670	11,880	150,655	70,291	57,259
Construction	148,502	35,869	3,858	188,229	20,815	18,912

Non-performing Assets

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

NON-PERFORMING ASSETS

	As of December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Commercial and all other loans:					
Past due 90 days or more	$ 680	$ 802	$ 781	$ 2,008	$ 118
Nonaccrual	60	381	769	543	318
Commercial real estate loans:					
Past due 90 days or more	-	4,951	598	-	-
Nonaccrual	512	-	-	158	-
Construction loans:					
Past due 90 days or more	10,699	-	585	-	-
Nonaccrual	10,115	136	452	-	487
Lease financing:					
Past due 90 days or more	11	186	5	1	-
Nonaccrual	1,084	-	119	80	249
Residential real estate loans:					
Past due 90 days or more	1,194	-	-	153	336
Nonaccrual	189	410	1,016	1,315	437
Consumer loans:					
Past due 90 days or more	13	13	49	17	42
Nonaccrual	-	47	-	-	-
Home equity loans:					
Past due 90 days or more	637	-	-	-	-
Nonaccrual	-	-	-	75	1,068
Debt securities and other assets (excluding other real estate owned and other repossessed assets):					
Past due 90 days or more	-	-	-	-	-
Nonaccrual	-	-	-	-	-
Total non-performing loans	25,194	6,926	4,374	4,350	3,055
Foreclosed assets held for sale	2,523	717	711	2,645	416
Total non-performing assets	$ 27,717	$ 7,643	$ 5,085	$ 6,995	$ 3,471
Total non-performing loans to total loans	4.22 %	1.31 %	0.87 %	0.86 %	0.72 %
Total non-performing loans to total assets	3.42	1.00	0.63	0.65	0.49
Allowance for loan losses to non-performing loans	35.65	88.16	153.27	168.60	230.79
Non-performing assets to loans and foreclosed assets held for sale	4.63	1.44	1.01	1.37	0.82

Non-performing assets. Non-performing assets increased to $27.7 million at December 31, 2007 from $7.6 million at December 31, 2006. The increase is due to the addition of $20.8 million non-performing loans in the construction portfolio. Eight borrowing relationships make up approximately 89% of the $20.8 million, for which management is aggressively pursuing collection. The increase in non-performing assets in the construction portfolio is a result of the industry wide decline in the real estate market. If this trend continues, it could result in an increase in non-performing assets and foreclosed assets held for sale.

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

Impaired loans totaled $24.4 million at December 31, 2007, $10.3 million at December 31, 2006, and $11.1 million at December 31, 2005, with related allowances for loan losses of $2.7 million, $719,000, and $1.2 million, respectively.

Total interest income of $1.3 million, $728,000 and $742,000 was recognized on average impaired loans of $17.3 million, $12.1 million and $10.4 million for 2007, 2006 and 2005, respectively. Included in this total is cash basis interest income of $49,000, $53,000 and $15,000 recognized on nonaccrual impaired loans during 2007, 2006 and 2005, respectively.

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

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

SUMMARY OF LOAN LOSS EXPERIENCE AND RELATED INFORMATION

	As of and for the Year Ended December 31,				
	2007	2006	2005	2004	2003
			(In thousands)		
Balance at beginning of period	$ 6,106	$ 6,704	$ 7,333	$ 7,051	$ 6,914
Loans charged-off:					
Commercial loans	215	1,417	949	1,665	802
Commercial real estate loans	-	-	-	-	395
Construction loans	244	100	-	-	-
Lease financing	139	134	86	220	279
Residential real estate loans	49	318	-	18	-
Consumer loans	16	83	77	80	68
Home equity loans	-	8	16	-	10
Total loans charged-off	663	2,060	1,128	1,983	1,554
Recoveries:					
Commercial loans	294	117	154	41	77
Commercial real estate loans	1	-	3	7	10
Construction loans	-	-	-	-	-
Lease financing	9	32	76	166	219
Residential real estate loans	6	47	1	48	-
Consumer loans	14	11	35	38	35
Home equity loans	-	-	-	-	-
Total recoveries	324	207	269	300	341
Net loans charged-off	339	1,853	859	1,683	1,213
Allowance of acquired company	360	-	-	-	-
Provision for loan losses	2,855	1,255	230	1,965	1,350
Balance at end of period	$ 8,982	$ 6,106	$ 6,704	$ 7,333	$ 7,051
Loans outstanding:					
Average	$ 563,224	$ 525,471	$ 516,643	$ 463,833	$ 410,593
End of period	596,646	528,515	503,143	507,170	424,620
Ratio of allowance for loan losses to loans outstanding:					
Average	1.59 %	1.16 %	1.30 %	1.58 %	1.72 %
End of period	1.51	1.16	1.33	1.45	1.66
Ratio of net charge-offs to:					
Average loans	0.06	0.35	0.17	0.36	0.30
End of period loans	0.06	0.35	0.17	0.33	0.29

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

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,									
	2007		2006		2005		2004		2003	
	(In thousands)									
	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance
Commercial	$ 1,790	19.93 %	$ 1,386	22.70 %	$ 1,863	27.79 %	$ 3,016	41.13 %	$ 2,899	41.12 %
Commercial real estate	1,597	17.78	1,674	27.42	1,441	21.49	1,432	19.53	1,161	16.47
Construction	4,188	46.63	1,920	31.44	1,776	26.51	1,475	20.11	1,581	22.42
Lease financing	664	7.39	355	5.81	582	8.68	583	7.95	690	9.78
Residential real estate	377	4.20	402	6.58	536	7.99	209	2.85	273	3.87
Consumer	119	1.32	172	2.82	294	4.38	404	5.51	288	4.09
Home equity	247	2.75	197	3.23	212	3.16	214	2.92	159	2.25
Total	$ 8,982	100.00 %	$ 6,106	100.00 %	$ 6,704	100.00 %	$ 7,333	100.00 %	$ 7,051	100.00 %

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

Total investment securities decreased by $10.3 million, or 11.85%, during 2007, as we utilized maturing investment securities and sold approximately $6.1 million to assist in funding our loan growth.

As of December 31, 2007, all of the securities in our investment portfolio were classified as available-for-sale in order to provide us with an additional source of liquidity when necessary and as pledging requirements permitted.

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

INVESTMENT SECURITIES PORTFOLIO COMPOSITION

	At December 31,		
	2007	2006	2005
		(In thousands)	
U.S. government sponsored agency securities	$ 75,953	$ 86,165	$ 98,667
State and municipal obligations..................................	210	360	674
Equity and other	708	681	646
Total..	$ 76,871	$ 87,206	$ 99,987

The following table sets forth the maturities, carrying value, and average yields for securities in our investment portfolio at December 31, 2007. Yields are presented on a tax equivalent basis. Expected maturities will differ from contractual maturities due to unscheduled repayments.

MATURITY OF INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities	
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield
	(In thousands)									
Available-For-Sale										
U.S. government sponsored agency	$ 7,527	4.81 %	$ 49,714	5.11 %	$ 18,712	5.62 %	$ -	- %	$ 75,953	5.18 %
State and municipal Obligations	210	6.44	-	-	-	-	-	-	210	6.44
Equity and other securities with no defined maturity	-	-	-	-	-	-	-	-	708	2.96
Total available-for-sale	$ 7,737	4.85 %	$ 49,714	5.11 %	$ 18,712	5.62 %	$ -	- %	$ 76,871	5.16 %

Deposits. Deposits grew by $506,000, or 0.09%, for the year ended December 31, 2007, compared to 2006 year-end. The primary source of deposit growth in 2007 was in money market balances, which increased by $32.9 million, and in interest-bearing demand balances, which increased $9.6 million. The increase in money market balances was primarily due to the deposits acquired in the purchase of Unison Bancorp, Inc. and its subsidiary, Western National Bank and the addition of a new money market product in 2007 offering attractive interest rates. The increase in interest-bearing demand balances during 2007 was a result of our new performance checking product. This checking account has been attractive to our market as it pays a higher rate of interest to the customer on balances up to $25,000 as long as the customer has 12 signature based debit card transactions and at least one ACH or direct deposit each statement cycle. The Bank realizes non-interest income from the signature based debit card transactions, when netted against the high rate paid to the customer, results in a very attractive low cost of funds for the Bank. The growth in these accounts is offset by the decrease in our time deposit accounts. The decrease in our time deposits was attributable to the competitive nature of our market. We have traditionally offered market-competitive rates on our deposit products and believe they provide us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, due to our ability to cross-sell additional services to these account holders. However, we continue to analyze alternative strategies to grow our deposits including opening additional banking centers in markets management considers underserved, offering new products, and obtaining brokered deposits as allowed by our Funds Management policy and as deemed prudent by management and our board of directors.

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

DEPOSITS

	Year Ended December 31,								
	2007			2006			2005		
	(In thousands)								
	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent Of Deposits	Weighted Average Rate
Demand	$ 87,927	16.39 %	— %	$ 94,823	17.69 %	— %	$ 94,452	17.85 %	— %
Savings	8,384	1.57	0.49	8,874	1.66	0.49	9,669	1.82	0.49
Interest-bearing demand	35,983	6.71	2.14	26,427	4.93	0.39	26,560	5.01	0.38
Money Market	153,619	28.64	4.09	23,071	4.31	1.13	27,583	5.21	0.57
Money Management	—	—	—	97,697	18.23	3.61	121,422	22.94	2.60
Time Deposits	250,457	46.69	4.87	284,972	53.18	3.97	249,655	47.17	3.85
Total deposits	$ 536,370	100.00 %		$ 535,864	100.00 %		$ 529,341	100.00 %	

The following table sets forth the amount of our time deposits that are greater than $100,000 by time remaining until maturity as of December 31, 2007:

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

	As of December 31, 2007	
	Amount (In thousands)	Weighted Average Rate Paid
Three months or less	$ 36,306	5.08 %
Over three months through six months	19,091	5.30
Over six months through twelve months	46,733	5.23
Over twelve months	36,922	5.02
Total	$ 139,052	5.14 %

Liquidity and Capital Resources

Liquidity. Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of marketable assets, such as residential mortgage loans or a portfolio of SBA loans. Other sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of core deposits and liquid assets, and accessibility to the money and capital markets. The funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization. Core deposits, defined as demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than $100,000 (excluding brokered deposits), were 72.36% of our total deposits at December 31, 2007, and 73.40% and 74.26% of total deposits at December 31, 2006 and 2005, respectively. Generally, the Company's funding strategy is to fund loan growth with core deposits and utilize alternative sources of funds such as advances/borrowings from the Federal Home Loan Bank of Topeka ("FHLBank"), as well as the brokered CD market to provide for additional liquidity needs and take advantage of opportunities for lower costs. FHLB borrowings are also used to fund originations of mortgage loans held for sale. Advance availability with the FHLBank is determined daily with regards to mortgage loans held for sale and quarterly with regards to overall availability and at December 31, 2007, approximately $40.2 million was available. The Company's FHLBank advance availability fluctuates depending on levels of available collateral, which includes mortgage loans held for sale. In addition, the Company uses other forms of short-term borrowings for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit (see Note 9 of the Financial Statements). The Company's Asset-Liability Management Committee utilizes a variety of liquidity monitoring tools, including an asset/liability modeling software, to analyze and manage the Company's liquidity.

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member institutions. The Bank, as a member of the FHLBank of Topeka, is required to acquire and hold shares of capital stock in the FHLBank of Topeka in an amount of 0.2% of our total assets as of December 31 of the preceding calendar year to meet the asset based stock requirement and 5.00% of our total outstanding FHLBank advances to meet the activity-based stock requirement. The Bank is currently in compliance with this requirement, with a $5.4 million investment in stock of the FHLBank of Topeka as of December 31, 2007. The Bank had $52.5 million and $37.5 million in outstanding long-term advances from the FHLBank of Topeka at December 31, 2007 and 2006, respectively.

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

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

SHORT-TERM BORROWINGS

	Amount outstanding at period end	Average amount outstanding during the period (1)	Maximum Outstanding At any Month end	Weighted average interest rate during the period	Weighted Average interest rate at period end
		(In thousands)			
At or for the year ended December 31, 2007:					
Federal Home Loan Bank borrowings	$ 25,000	$ 2,701	$ 25,000	5.10 %	4.67 %
Federal Funds purchased	–	–	–	–	–
Repurchase agreements and other interest bearing liabilities	27,956	29,873	35,472	3.78	2.82
Total	$ 52,956	$ 32,574		3.89	3.69
At or for the year ended December 31, 2006:					
Federal Home Loan Bank borrowings	$ –	$ 6,668	$ 31,500	5.13 %	– %
Federal Funds purchased	–	152	–	5.09	–
Repurchase agreements and other interest bearing liabilities	28,574	24,499	34,052	3.27	4.07
Total	$ 28,574	$ 31,319		3.67	4.07
At or for the year ended December 31, 2005:					
Federal Home Loan Bank borrowings	$ –	$ 596	$ –	2.90 %	– %
Federal Funds purchased	–	136	–	3.04	–
Repurchase agreements and other interest bearing liabilities	24,929	23,152	25,252	2.22	2.95
Total	$ 24,929	$ 23,884		2.25	2.95

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

Capital Resources. At December 31, 2007, our total stockholders' equity was $58.9 million, and our equity to asset ratio was 8.01%. At December 31, 2006, our total stockholders' equity was $53.8 million, and our equity to asset ratio was 7.77%.

The Federal Reserve Board's risk-based guidelines establish a risk-adjusted ratio, relating capital to different categories of assets and off-balance sheet exposures, such as loan commitments and standby letters of credit. These guidelines place a strong emphasis on tangible stockholder's equity as the core element of the capital base, with appropriate recognition of other components of capital. At December 31, 2007, our Tier 1 capital ratio was 10.28%, while our total risk-based capital ratio was 11.53%, both of which exceed the capital minimums established in the risk-based capital requirements.

Our risk-based capital ratios at December 31, 2007, 2006 and 2005 are presented below.

RISK-BASED CAPITAL

	December 31,		
	2007	2006	2005
		(In thousands)	
Tier 1 capital			
Stockholders' equity	$ 58,934	$ 53,820	$ 46,255
Intangible assets	(5,942)	(671)	(823)
Unrealized (appreciation) depreciation on available-for-sale securities and derivative instruments	(600)	95	473
Trust preferred securities (1)	19,000	17,972	15,576
Total Tier 1 capital	71,392	71,216	61,481
Tier 2 capital			
Qualifying allowance for loan losses	8,683	6,106	6,704
Trust preferred securities(1)	-	1,028	4,012
Total Tier 2 capital	8,683	7,134	10,716
Total risk-based capital	$ 80,075	$ 78,350	$ 72,197
Risk weighted assets	$ 694,318	$ 628,521	599,880
Ratios at end of period			
Total capital to risk-weighted assets ratio	11.53 %	12.47 %	12.04 %
Tier 1 capital to average assets ratio (leverage ratio)	9.86 %	10.29 %	8.86 %
Tier 1 capital to risk-weighted assets ratio	10.28 %	11.33 %	10.25 %
Minimum guidelines			
Total capital to risk-weighted assets ratio	8.00 %	8.00 %	8.00 %
Tier 1 capital to average assets ratio (leverage ratio)	4.00 %	4.00 %	4.00 %
Tier 1 capital to risk-weighted assets ratio	4.00 %	4.00 %	4.00 %

(1) Federal Reserve guidelines for calculation of Tier 1 capital limits the amount of cumulative trust preferred securities which can be included in Tier 1 capital to 25% of total Tier 1 capital (Tier 1 capital before reduction of intangibles). Approximately $19.0 million, $18.0 million and $15.6 million of the trust preferred securities have been included as Tier 1 capital as of December 31, 2007, 2006 and 2005, respectively. The remaining balance of the trust preferred securities have been included as Tier 2 capital.

Contractual Obligations

Our known contractual obligations outstanding as of December 31, 2007 are presented below.

		Payments due by Period (In thousands)			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Time Deposit Obligations	$ 250,457	$ 179,375	$ 60,178	$ 9,752	$ 1,152
Short-term Debt Obligations	25,000	25,000	-	-	-
Long-term Debt Obligations	80,906	11,140	2,368	24,777	42,621
Total Obligations	$ 356,363	$ 215,515	$ 62,546	$ 34,529	$ 43,773

Inflation

The consolidated financial statements and related data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as inflation. Additional discussion of the impact of interest rate changes is included in Item 7A: Qualitative and Quantitative Disclosure About Market Risk. In addition, we disclose the estimated fair value of our financial instruments in accordance with Statement of Financial Accounting Standards No. 107. See Note 18 to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. They generally have fixed expiration dates or other termination clauses. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer’s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management’s credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2007, the Company had outstanding commitments to originate loans aggregating approximately $31,074,000.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Total mortgage loans in the process of origination amounted to $3,048,000 and mortgage loans held for sale amounted to $10,978,000 at December 31, 2007. As a result, we had combined forward commitments to sell mortgage loans totaling approximately $14,027,000. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in

issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $9,280,000 at December 31, 2007.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2007 unused lines of credit borrowings aggregated approximately $202,380,000.

Recent and Future Accounting Requirements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, and the adoption had no significant impact on the Company's consolidated financial statements. The Company and subsidiaries file income tax returns in the U.S. Federal jurisdiction and the state jurisdictions of Kansas and Missouri. With few exceptions, the Company is no longer subject to U.S Federal or state income tax examinations by tax authorities for years before 2004.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB Statement No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that FASB Statement No. 157 may have on the Company's financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment to FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions."

The fair value option established by Statement 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact, if any, that FASB Statement No. 159 may have on the Company's financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*, which replaced Statement No. 141. Statement No. 141R retains the fundamental requirements of Statement No. 141, but revises certain principles, including the definition of a business combination, the recognition and measurement of assets acquired and liabilities assumed in a business combination, the accounting for goodwill, and financial statement

disclosure. This statement is effective for annual periods beginning after December 15, 2008. The Company is evaluating the impact, if any, the adoption of FASB Statement No. 141R will have on the Company's consolidated financial statements.

Item 7A: Qualitative and Quantitative Disclosure About Market Risk

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

We use an asset/liability modeling system 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 system 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's net interest income over the next twelve month period and net economic value of equity at risk at December 31, 2007 based on the indicated instantaneous and permanent changes in interest rates.

Changes in Interest Rates	Net Interest Income (next 12 months)	Net Economic Value of Equity at Risk
200 basis point rise	1.92 %	(5.92 %)
Base Rate Scenario	-	-
200 basis point decline	3.91 %	3.98 %

The above table indicates that, at December 31, 2007, in the event of a sudden and sustained increase or decrease in prevailing market rates, our net interest income would be expected to increase. The Company is at a near zero gap position. This is due to the $41.9 million increase in our money market account balances during the year as a result of the acquisition of Unison Bancorp, Inc. and subsidiary, Western National Bank, as well as internal growth. This increase in money market account balances, combined with a near zero gap position, provides the Company with greater control over the cost of its funding base and enables it to expand its net interest margin in an increasing or decreasing rate environment. The above table indicates a greater expansion of the net interest margin in a decreasing rate environment verses an increasing rate environment, and that is due to the floors the Bank has placed on its loans over the last several years. The floors would limit the decline in yield earned on the loan portfolio in a declining rate environment while the cost of funding would decrease resulting in a greater net interest margin. Another consideration with a rising interest rate scenario is the impact on mortgage loan refinancing, which would likely decline, leading to lower loans held for sale fee income, though the impact is difficult to quantify or project.

The above table also indicates that, at December 31, 2007, in the event of a sudden increase in prevailing market rates, the economic value of our equity would decrease. In other words the loss of our assets would exceed the gains on our liabilities in this interest rate scenario. Currently, under a falling rate environment, the economic value of our equity would increase. In other words the gain on our assets would exceed the loss on our liabilities in this interest rate scenario. The loss in a falling rate environment is similar to the gain in a rising rate environment mainly due to the near zero gap position of the Company.

The following table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2007, based on the information and assumptions set forth below.

INTEREST-RATE SENSITIVITY ANALYSIS

	Expected Maturity or Repricing Date (In thousands)						
	0-90 Days	91-365 Days	1 year	1 to 2 years	2 to 5 years	Thereafter	Total
Interest-Earning Assets:							
Fixed Rate Loans	$ 33,446	$ 73,392	$ 106,838	$ 44,157	$ 92,036	$ 31,207	$ 274,238
Average Interest Rate	7.58 %	7.50 %	7.53 %	7.61 %	7.86 %	7.52 %	7.65 %
Variable Rate Loans	305,338	16,931	322,269	5,592	5,525	-	333,386
Average Interest Rate	7.54 %	7.88 %	7.56 %	7.61 %	7.90 %	- %	7.57 %
Fixed Rate Investments	2,500	5,210	7,710	10,997	38,186	18,286	75,179
Average Interest Rate	4.30 %	5.03 %	4.79 %	4.96 %	5.16 %	5.66 %	5.22 %
Variable Rate Investments	-	-	-	-	-	-	-
Average Interest Rate	-	-	-	-	-	-	-
Interest Bearing Deposits	312	-	312	-	-	-	312
Average Interest Rate	4.06 %	-	4.06 %	-	-	-	4.06 %
Federal Funds Sold	-	-	-	-	-	-	-
Average Interest Rate	- %	-	- %	-	-	-	- %
Total interest-earning assets	$ 341,596	$ 95,533	$ 437,129	$ 60,746	$ 135,747	$ 49,493	$ 683,115
Interest-Bearing Liabilities:							
Interest-bearing demand	$ 35,983	$ -	$ 35,983	$ -	$ -	$ -	$ 35,983
Average Interest Rate	2.14 %	-	2.14 %	-	-	-	2.14 %
Savings and money market	162,003	-	162,003	-	-	-	162,003
Average Interest Rate	3.90 %	-	3.90 %	-	-	-	3.90 %
Time deposits	62,696	116,679	179,375	49,117	20,813	1,152	250,457
Average Interest Rate	4.84 %	5.01 %	4.95 %	5.19 %	4.32 %	4.31 %	4.94 %
Funds borrowed	91,256	31,008	122,264	1,169	8,477	3,032	134,942
Average Interest Rate	4.61 %	4.55 %	4.60 %	5.32 %	4.58 %	5.19 %	4.62 %
Total interest-bearing liabilities	$ 351,938	$ 147,687	$ 499,625	$ 50,286	$ 29,290	$ 4,184	$ 583,385
Cumulative:							
Rate sensitive assets (RSA)	$ 341,596	$ 437,129	$ 437,129	$ 497,875	$ 633,622	$ 683,115	$ 683,115
Rate sensitive liabilities (RSL)	351,938	499,625	499,625	549,911	579,201	583,385	583,385
GAP (GAP = RSA – RSL)	(10,342)	(62,496)	(62,496)	(52,036)	54,421	99,730	99,730
RSA/RSL	97.06 %	87.49 %	87.49 %	90.54 %	109.40 %	117.10 %	
RSA/Total assets	46.40	59.37	59.37	67.62	86.06	92.79	
RSL/Total assets	47.80	67.86	67.86	74.69	78.67	79.24	
GAP/Total assets	(1.40)	(8.49)	(8.49)	(7.07)	7.39	13.55	
GAP/RSA	(3.03)	(14.30)	(14.30)	(10.45)	8.59	14.60	

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

Disclosures about fair values of financial instruments, which reflect changes in market prices and rates, can be found in note 18 to the consolidated financial statements included in this report.

Item 8: Financial Statements and Supplementary Data

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

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

No items are reportable.

Item 9A: Controls and Procedures

Management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2007. Based upon the evaluation, management concluded that the Company's disclosure controls and procedures are effective to ensure that all material information requiring disclosure in this annual report was made known to them in a timely manner.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. During the year, the Company made no significant changes in internal controls over financial reporting or in other factors that could materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting:

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report to this annual report.

Item 9B: Other Information

No items are reportable.

Part III

Item 10: Directors, Executive Officers and Corporate Governance

Information regarding the Company's directors and executive officers is included in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders and is hereby incorporated by reference.

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

The Company has adopted a code of conduct that applies to our principal executive, financial, and accounting officers. A copy of our code of conduct can be obtained free of charge by contacting us directly at:

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

We intend to disclose any amendments to, or waivers from, any provision of our code of conduct that applies to our chief executive officer, chief financial officer, or chief accounting officer by posting such information to our website located at www.BankBV.com.

Item 11: Executive Compensation

This information is included in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders and is hereby incorporated by reference.

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

This information is included in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 13: Certain Relationships, Related Transactions, and Director Independence

The Bank periodically makes loans to our executive officers and directors, the members of their immediate families and companies with which they are affiliated.. As of December 31, 2007, the Bank had aggregate loans outstanding to such persons of approximately $20.3 million, which represented 34.42% of our stockholders' equity of $58.9 million on that date. These loans:

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

Information regarding Director Independence is included in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 14: Principal Accounting Fees and Services

This information is included in the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders and is hereby incorporated by reference.

Part IV

Item 15: Exhibits, Financial Statement Schedules

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

(b) The exhibits listed in the accompanying exhibit index are filed as part of this Form 10-K.

(c) None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 2008 By: /s/ Robert D. Regnier
Robert D. Regnier, President,
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities listed on the dates indicated

Date: March 26, 2008 By: /s/ Robert D. Regnier
Robert D. Regnier, President,
Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 26, 2008 By: /s/ Mark A. Fortino
Mark A. Fortino, Chief Financial Officer
(Principal Financial [and Accounting] Officer)

Date: March 26, 2008 By: /s/ Donald H. Alexander
Donald H. Alexander, Director

Date: March 26, 2008 By: /s/ Michael J. Brown
Michael J. Brown, Director

Date: March 26, 2008 By: /s/ Thomas A. McDonnell
Thomas A. McDonnell, Director

Date: March 26, 2008 By: /s/ Anne D. St. Peter
Anne D. St. Peter, Director

Date: March 26, 2008 By: /s/ Robert D. Taylor
Robert D. Taylor, Director

Exhibits

3.1	Amended and Restated Articles of Incorporation of Blue Valley Ban Corp. *
3.2	Bylaws, as amended, of Blue Valley Ban Corp. *
4.1	1998 Equity Incentive Plan. *
4.2	1994 Stock Option Plan. *
4.3	Form of Agreement as to Expenses and Liabilities. *
4.4	Form of Indenture dated April 10, 2003, between Blue Valley Ban Corp. and Wilmington Trust Company **
4.5	Amended and Restated Declaration of Trust dated April 10, 2003 **
4.6	Guarantee Agreement dated April 10, 2003 **
4.7	Fee Agreement dated April 10, 2003 **
4.8	Specimen of Floating Rate Junior Subordinated Debt Security **
4.9	Form of Indenture dated as of July 29, 2005 between Blue Valley Ban Corp. and Wilmington Trust Company***
4.10	Amended and Restated Declaration of Trust dated July 29, 2005***
4.11	Guarantee Agreement dated July 29, 2005***
10.1	Promissory Note of Blue Valley Building dated July 15, 1994. *
10.2	Mortgage, Assignment of Leases and Rents and Security Agreement between Blue Valley Building and Businessmen's Assurance Company of America, dated July 15, 1994. *
10.3	Assignment of Leases and Rents between Blue Valley Building and Businessmen's Assurance Company of America dated July 15, 1994. *
10.4	Line of Credit Note with JP Morgan Chase dated June 15, 2005 ****
10.5	Term Note with JP Morgan Chase dated June 15, 2005 ****
10.6	Agreement and Plan of Merger between Unison Bancorp, Inc., BVBC Acquisition I, Inc. and Blue Valley Ban Corp., dated as of November 2, 2006*****
10.7	Acquisition Agreement and Plan of Merger among Northland National Bank, Blue Valley Ban Corp. and Western National Bank, dated as of March 2, 2007*****
10.8	Purchase and Assumption Agreement among Northland National Bank, Bank of Blue Valley and Blue Valley Ban Corp., dated as of March 2, 2007*****
11.1	Statement regarding computation of per share earnings. Please see p. F-12.
21.1	Subsidiaries of Blue Valley Ban Corp.

23.3 Consent of BKD, LLP.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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

*** Filed with the Commission on July 29, 2005 as an Exhibit to Blue Valley's Current Report on Form 8-K. Exhibit incorporated herein by reference.

**** Filed with the Commission on March 24, 2005 as an Exhibit to Blue Valley's Annual Report on Form 10-K. Exhibit incorporated herein by reference.

***** Filed with the Commission on March 28, 2007 as an Exhibit to Blue Valley's Annual Report on Form 10-K. Exhibit incorporated herein by reference.

BLUE VALLEY BAN CORP.

DECEMBER 31, 2007, 2006 AND 2005

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Blue Valley Ban Corp. (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Valley Ban Corp. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 25, 2008

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006
(In thousands, except share data)

ASSETS

	2007	2006
Cash and due from banks	$ 17,827	$ 21,499
Interest bearing deposits in other financial institutions	312	356
Federal funds sold	-	5,375
Cash and cash equivalents	18,139	27,230
Available-for-sale securities	76,871	87,206
Mortgage loans held for sale	10,978	21,805
Loans, net of allowance for loan losses of $8,982 and $6,106 in 2007 and 2006, respectively	587,664	522,409
Premises and equipment, net	18,778	17,953
Foreclosed assets held for sale, net	2,523	717
Interest receivable	4,621	4,200
Deferred income taxes	2,083	2,276
Prepaid expenses and other assets	1,571	1,305
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,043	6,447
Goodwill	4,821	290
Core deposit intangible asset, at amortized cost	1,121	381
Total assets	$ 736,213	$ 692,219

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2007	2006
LIABILITIES		
Deposits		
Demand	$ 87,927	$ 94,823
Savings, NOW and money market	197,986	156,069
Time	250,457	284,972
Total deposits	536,370	535,864
Other interest-bearing liabilities	29,036	29,558
Short-term debt	25,000	–
Long-term debt	80,906	67,019
Interest payable and other liabilities	5,967	5,958
Total liabilities	677,279	638,399
STOCKHOLDERS' EQUITY		
Capital stock		
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2007 – 2,439,655 shares; 2006 – 2,409,490 shares	2,440	2,409
Additional paid-in capital	10,312	9,561
Retained earnings	45,592	41,982
Accumulated other comprehensive income (loss), net of income tax (credits) of $394 in 2007 and $(88) in 2006	590	(132)
Total stockholders' equity	58,934	53,820
Total liabilities and stockholders' equity	$ 736,213	$ 692,219

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands, except per share data)

	2007	2006	2005
INTEREST INCOME			
Interest and fees on loans	$ 47,194	$ 44,537	$ 37,492
Federal funds sold and other short-term investments	557	256	580
Available-for-sale securities	4,466	4,039	2,317
Total interest income	52,217	48,832	40,389
INTEREST EXPENSE			
Interest-bearing demand deposits	656	97	94
Savings and money market deposit accounts	6,362	4,356	3,861
Other time deposits	13,134	11,254	9,171
Federal funds purchased and other interest-bearing liabilities	1,181	1,023	540
Short-term debt	138	342	17
Long-term debt, net	4,111	3,890	4,310
Total interest expense	25,582	20,962	17,993
NET INTEREST INCOME	26,635	27,870	22,396
PROVISION FOR LOAN LOSSES	2,855	1,255	230
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,780	26,615	22,166
NONINTEREST INCOME			
Loans held for sale fee income	3,160	5,046	7,408
Service fees	2,830	2,491	2,166
Gains on available for sale securities, net	105	–	–
Other income	1,105	1,344	1,727
Total noninterest income	7,200	8,881	11,301
NONINTEREST EXPENSE			
Salaries and employee benefits	13,570	14,737	15,986
Net occupancy expense	3,200	3,059	3,307
Other operating expense	7,447	6,578	6,841
Total noninterest expense	24,217	24,374	26,134
INCOME BEFORE INCOME TAXES	6,763	11,122	7,333
PROVISION FOR INCOME TAXES	2,275	4,199	2,764
NET INCOME	$ 4,488	$ 6,923	$ 4,569
BASIC EARNINGS PER SHARE	$ 1.86	$ 2.93	$ 1.95
DILUTED EARNINGS PER SHARE	$ 1.84	$ 2.88	$ 1.91
DIVIDENDS PER SHARE	$ 0.36	$ 0.30	$ 0.25

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(In thousands, except share data)

	Comprehensive Income	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2004		$ 2,327	$ 8,099	$31,809	$ (594)	$ (257)	$41,384
Issuance of 54,960 shares of common stock		55	1,113		(355)		813
Dividends on common stock ($0.25 per share)				(596)			(596)
Net income	4,569			4,569			4,569
Restricted stock earned, net of forfeitures					301		301
Change in unrealized depreciation on available-for-sale securities, net of income taxes (credit) of $(144)	(216)					(216)	(216)
	$ 4,353						
BALANCE, DECEMBER 31, 2005		$ 2,382	$ 9,212	$35,782	$ (648)	$ (473)	$46,255
Issuance of 27,444 shares of common stock		27	512				539
Dividends on common stock ($0.30 per share)				(723)			(723)
Net income	6,923			6,923			6,923
Restricted stock earned, net of forfeitures			485				485
Reclassification of unearned compensation in accordance with adoption of SFAS No. 123R		–	(648)		648		–
Change in derivative financial instrument, net of income taxes of $51	76					76	76
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $177	265					265	265
	$ 7,264						
BALANCE, DECEMBER 31, 2006		$ 2,409	$ 9,561	$41,982	$ –	$ (132)	$53,820
Issuance of 10,182 shares of restricted stock, net of forfeitures		10	292				302
Issuance of 15,425 shares of common stock through stock options exercised		16	327				343
Issuance of 4,558 shares of common stock for the employee stock purchase plan		5	132				137
Dividends on common stock ($0.36 per share)				(878)			(878)
Net income	4,488			4,488			4,488
Change in derivative financial instrument, net of income taxes (credit) of $(47)	(70)					(70)	(70)
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $528	792					792	792
	$ 5,210						
BALANCE, DECEMBER 31, 2007		$ 2,440	$10,312	$45,592	$ –	$ 590	$58,934

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

(In thousands)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,488	$ 6,923	$ 4,569
Adjustments to reconcile net income to net cash flow			
From operating activities:			
Depreciation and amortization	1,606	1,471	1,857
Accretion of premiums on securities	(30)	(92)	(44)
Provision for loan losses	2,855	1,255	230
Provision for other real estate	5	40	—
Deferred income taxes	(1,134)	260	149
Stock dividend on FHLB securities	(264)	(275)	(353)
Net gain on available-for-sale securities	(105)	—	—
Net (gain) loss on sale of foreclosed assets	97	(12)	34
Net (gain) loss on sale of premises and equipment	—	6	(344)
Restricted stock earned and forfeited	316	485	301
Compensation expense related to the employee stock purchase plan	17	19	—
Originations of loans held for sale	(185,809)	(336,254)	(675,636)
Proceeds from the sale of loans held for sale	196,636	328,355	705,874
Changes in:			
Interest receivable	(232)	(828)	(997)
Prepaid expenses and other assets	248	3,455	(1,546)
Interest payable and other liabilities	(172)	(3,987)	3,293
Net cash provided by operating activities	18,522	821	37,387
CASH FLOWS FROM INVESTING ACTIVITIES			
Net originations of loans	(55,168)	(28,689)	(4,334)
Proceeds from sales of loan participations	13,235	500	6,400
Purchase of premises and equipment	(649)	(671)	(707)
Proceeds from sale of premises and equipment	—	—	993
Proceeds from the sale of foreclosed assets, net of expenses	1,133	930	3,002
Proceeds from sales of available-for-sale securities	6,105	—	—
Proceeds from maturities of available-for-sale securities	55,250	36,310	26,440
Purchases of available-for-sale securities	(47,970)	(22,995)	(60,393)
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	(314)	—	(150)
Proceeds from the redemption of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	686	2,319	—
Sale of Western National Bank charter and other assets	392	—	—
Purchase of Unison Bancorp, Inc. and subsidiary, net of cash received	(6,255)	—	—
Proceeds from other investing activities	123	—	—
Net cash used in investing activities	(33,432)	(12,296)	(28,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in demand deposits, money market, NOW and savings accounts	7,042	(28,794)	(25,182)
Net (decrease) increase in time deposits	(37,777)	35,317	31,877
Net (decrease) increase in federal funds purchased and other interest-bearing liabilities	(1,426)	3,270	3,907
Net proceeds from short-term debt	25,000	—	—
Repayments of long-term debt	(1,763)	(21,087)	(23,269)
Proceeds from long-term debt	15,000	10,000	21,244
Dividends paid on common stock	(723)	(596)	(465)
Net proceeds the sale of additional stock	466	538	813
Net cash provided by (used in) financing activities	5,819	(1,352)	8,925
Increase (decrease) in cash and cash equivalents	(9,091)	(12,827)	17,563
Cash and cash equivalents, beginning of year	27,230	40,057	22,494
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,139	$ 27,230	$ 40,057
SUPPLEMENTAL CASH FLOWS INFORMATION			
Loans transferred to foreclosed assets held for sale	$ 3,023	$ 964	$ 1,102
Restricted stock issued	$ 10	$ —	$ 355
Cash dividends declared on common stock	$ 878	$ 723	$ 596
Interest paid	$ 25,175	$ 20,587	$ 17,742
Income taxes paid (net of refunds)	$ 561	$ 4,035	$ 1,289
Assets acquired and liabilities assumed (see Note 21)	$ 33,668	$ —	$ —

See Notes to Consolidated Financial Statements

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

Nature of Operations

The Company is a holding company for Bank of Blue Valley (the Bank), Blue Valley Building Corp., BVBC Capital Trust II and BVBC Capital Trust III through 100% ownership of each. In addition, the Company owns 49% of Homeland Title, LLC.

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

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

BVBC Capital Trust II and III are Delaware business trusts created in 2003 and 2005, respectively, to offer trust preferred securities and to purchase the Company's junior subordinated debentures. The Trusts have terms of 30 years, but may dissolve earlier as provided in their trust agreements.

Homeland Title, LLC is a company providing title and settlement services.

Operating Segment

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

Use of Estimates

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

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

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

Principles of Consolidation

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

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

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007, cash equivalents consisted of federal funds sold.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2007 was $698,000.

Investment in Securities

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

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

Other Investments

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

The Company uses the equity method of accounting for Homeland Title, LLC. As such, the Company's investment in Homeland Title, LLC is included in Other Assets and its share of Homeland Title, LLC's net income is included in Other Income.

Mortgage Loans Held for Sale

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

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported using the interest method and includes amortization of net deferred loan fees over the loan term. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is generally accounted for on a cost recovery basis, meaning interest is not recognized until the full past due balance has been collected. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

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

Premises and Equipment

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

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

Foreclosed Assets Held for Sale

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

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount an impairment of goodwill is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements. As a result of routine annual assessments, no impairment of goodwill was recorded in 2007. The changes in carrying value of goodwill for years ended December 31, 2007 and 2006:

	2007 (In thousands)
Balance as of January 1, 2007	$ 290
Goodwill relating to acquisition of Unison Bancorp, Inc. and subsidiary in 2007	4,531
Balance as of December 31, 2007	$ 4,821

Core Deposit Intangible Assets

Intangible assets are being amortized on the straight-line basis over periods ranging from seven to 15 years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Fee Income

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

Reclassification

Certain reclassifications have been made to the 2006 and 2005 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on net income.

Income Taxes

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

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

Earnings Per Share

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

	2007	2006	2005
	(In thousands, except share and per share data)		
Net income	$ 4,488	$ 6,923	$ 4,569
Average common shares outstanding	2,410,621	2,365,932	2,348,805
Average common share stock options outstanding	27,582	41,870	39,726
Average diluted common shares	2,438,203	2,407,802	2,388,531
Basic earnings per share	$ 1.86	$ 2.93	$ 1.95
Diluted earnings per share	$ 1.84	$ 2.88	$ 1.91

Accounting for 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.

Recent and Future Accounting Requirements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, and the adoption had no significant impact on the Company's consolidated financial statements. The Company and subsidiaries file income tax returns in the U.S. Federal jurisdiction and the state jurisdictions of Kansas and Missouri. With few exceptions, the Company is no longer subject to U.S Federal or state income tax examinations by tax authorities for years before 2004.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FASB Statement No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that FASB Statement No. 157 may have on the Company's financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment to FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain*

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

Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions."

The fair value option established by Statement 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact, if any, that FASB Statement No. 159 may have on the Company's financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*, which replaced Statement No. 141. Statement No. 141R retains the fundamental requirements of Statement No. 141, but revises certain principles, including the definition of a business combination, the recognition and measurement of assets acquired and liabilities assumed in a business combination, the accounting for goodwill, and financial statement disclosure. This statement is effective for annual periods beginning after December 15, 2008. The Company is evaluating the impact, if any, the adoption of FASB Statement No. 141R will have on the Company's consolidated financial statements.

NOTE 2: AVAILABLE-FOR-SALE SECURITIES

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

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government sponsored agencies	$ 74,969	$ 985	$ (1)	$ 75,953
State and political subdivisions	210	–	–	210
Equity and other securities	718	–	(10)	708
	$ 75,897	$ 985	$ (11)	$ 76,871

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Government sponsored agencies	$ 86,475	$ 65	$ (375)	$ 86,165
State and political subdivisions	360	–	–	360
Equity and other	718	–	(37)	681
	$ 87,553	$ 65	$ (412)	$ 87,206

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

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2007, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 7,710	$ 7,737
Due after one through five years	49,183	49,714
Due after five years	18,286	18,712
Total	75,179	76,163
Equity and other securities	718	708
	$ 75,897	$ 76,871

The book value and estimated fair value of securities pledged as collateral to secure public deposits amounted to $10,998,000 and $11,152,000 at December 31, 2007 and $30,993,000 and $30,916,000 at December 31, 2006.

The Company enters into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are book-entry securities. During the period, securities held in safekeeping were pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2007, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity. Information on sales of securities under agreements to repurchase is as follows:

	2007	2006
	(In thousands)	
Balance as of December 31	$27,956	$28,574
Carrying value of securities pledged to secure agreements to repurchases at December 31	$47,657	$40,309
Average balance during the year of securities sold under agreements to repurchase	$29,873	$24,499
Maximum amount outstanding at any month-end during the year	$35,472	$34,052

Gross gains of $105,000, $0, and $0 were realized in 2007, 2006 and 2005, respectively, and no gross losses were realized in 2007, 2006 and 2005, respectively, from sales of available-for-sale securities.

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. These declines in fair value resulted primarily from increases in market interest rates. Based on evaluation of available information and evidence, particularly recent volatility in market yields on debt securities, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

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

Unrealized losses and fair value, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position are as follows:

December 31, 2007
(In thousands)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Government sponsored agencies	$ –	$ –	$ 2,499	$ 1	$ 2,499	$ 1
State and political subdivisions	–	–	–	–	–	–
Equity and other securities	–	–	708	10	708	10
Total temporarily impaired securities	$ –	$ –	$ 3,207	$ 11	$ 3,207	$ 11

December 31, 2006
(In thousands)

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Government sponsored agencies	$ 37,855	$ 134	$ 36,251	$ 241	$ 74,106	$ 375
State and political subdivisions	–	–	–	–	–	–
Equity and other securities	–	–	681	37	681	37
Total temporarily impaired securities	$ 37,855	$ 134	$ 36,932	$ 278	$ 74,787	$ 412

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2007 and 2006 include the following:

	2007	2006
	(In thousands)	
Commercial loans	$ 139,120	$ 110,849
Commercial real estate loans	150,655	126,952
Construction loans	188,229	171,709
Lease financing	19,724	18,512
Residential real estate loans	37,511	34,988
Consumer loans	22,934	33,097
Home equity loans	38,473	32,408
Total loans	596,646	528,515
Less: Allowance for loan losses	8,982	6,106
Net loans	$ 587,664	$ 522,409

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Activity in the allowance for loan losses was as follows:

	2007	2006	2005
		(In thousands)	
Balance, beginning of year	$ 6,106	$ 6,704	$ 7,333
Provision charged to expense	2,855	1,255	230
Allowance of acquired company	360	–	–
Losses charged off, net of recoveries of $324,000, $207,000 and $269,000 for 2007, 2006 and 2005, respectively	(339)	(1,853)	(859)
Balance, end of year	$ 8,982	$ 6,106	$ 6,704

Impaired loans totaled $24.4 million and $10.3 million at December 31, 2007 and 2006, respectively, with related allowances for loan losses of $2.7 million and $719,000, respectively. At December 31, 2007 and 2006, accruing loans delinquent 90 days or more totaled $13.2 million and $5.9 million respectively. Non-accrual loans were $12.0 million and $973,000 at December 31, 2007 and 2006, respectively.

Total interest income of $1.3 million, $728,000 and $742,000 was recognized on average impaired loans of $17.3 million, $12.1 million and $10.4 million for 2007, 2006 and 2005, respectively. Included in this total is cash-basis interest income of $49,000, $53,000 and $15,000 recognized on impaired loans on nonaccrual during 2007, 2006 and 2005, respectively.

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of these assets are as follows:

	2007	2006
	(In thousands)	
Land	$ 4,885	$ 4,185
Building and improvements	15,626	14,749
Furniture and equipment	7,183	6,604
Land improvements, net	285	285
	27,979	25,823
Less accumulated depreciation	9,201	7,870
Total premises and equipment	$ 18,778	$ 17,953

NOTE 5: CORE DEPOSIT INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2007 and 2006 were:

	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core Deposit Intangible	$ 3,286	$ (2,165)	$ 2,286	$ (1,905)

Amortization expense for the years ended December 31, 2007 and 2006, was $260,000 and $152,000, respectively. Estimated amortization expense for each of the following five years is:

	(In thousands)
2008	$ 295
2009	219
2010	143
2011	143
2012	143

NOTE 6: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of $100,000 or more were $139,052,000 on December 31, 2007 and $165,278,000 on December 31, 2006. The Company acquires brokered deposits in the normal course of business. At December 31, 2007 and 2006, brokered deposits of $31,471,000 and $31,771,000, respectively, were included in the Company's time deposit balance.

At December 31, 2007, the scheduled maturities of time deposits are as follows:

	(In thousands)
2008	$ 179,375
2009	49,117
2010	11,061
2011	5,071
2012	4,681
2013 and thereafter	1,152
	$ 250,457

NOTE 7: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2012. Minimum future rent receivable under noncancellable operating leases at December 31, 2007 was as follows:

	(In thousands)
2008	322
2009	120
2010	88
2011	78
2012	65
	$ 673

The Company leases space from others under operating leases expiring in 2010. Consolidated rental and operating lease expenses were $35,000, $0 and $34,000 in 2007, 2006 and 2005, respectively. The Company had no leased space from others during 2006. Minimum rental commitments payable under operating leases at December 31, 2007 was as follows:

	(In thousands)
2008	45
2009	45
2010	19
	$ 109

NOTE 8: INCOME TAXES

The provision for income taxes consists of the following:

	2007	2006 (In thousands)	2005
Taxes currently payable	$ 3,409	$ 3,939	$ 2,615
Deferred income taxes	(1,134)	260	149
	$ 2,275	$ 4,199	$ 2,764

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

	2007	2006 (In thousands)	2005
Computed at the statutory rate (34%)	$ 2,299	$ 3,793	$ 2,493
Increase (decrease) resulting from:			
Tax-exempt interest	(28)	(32)	(54)
State income taxes	200	251	232
Other	(196)	187	93
Actual tax provision	$ 2,275	$ 4,199	$ 2,764

NOTE 8: INCOME TAXES (Continued)

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2007 and 2006 consolidated balance sheets are as follows:

	2007	2006
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,279	$2,343
Accumulated depreciation on available-for-sale securities	–	139
Deferred compensation	171	41
Offering costs	231	241
Nonaccrual loan interest	52	–
Net Operating Loss carried from Unison Bancorp Inc. and subsidiary acquisition	77	–
Other	129	693
	3,939	3,457
Deferred tax liabilities:		
Accumulated depreciation	(465)	(503)
FHLBank stock basis	(464)	(380)
Accumulated appreciation on available-for-sale securities	(394)	–
Prepaid intangibles	(168)	(157)
Core Deposit Intangible related to Unison Bancorp Inc. and subsidiary acquisition	(304)	–
Other	(61)	(141)
	(1,856)	(1,181)
Net deferred tax asset	$ 2,083	$2,276

NOTE 9: SHORT TERM DEBT

Short-term debt at December 31, 2007 and 2006 consisted of the following components:

	2007	2006
	(In thousands)	
Federal Home Loan Bank advance (A)	$ 25,000	$ –
JP Morgan Chase operating line of credit (B)	–	–
Total short-term debt	$ 25,000	$ –

(A) Payable on demand; collateralized by various assets including mortgage-backed loans. The variable interest rate was 4.67% on December 31, 2007.

(B) Line of credit matures May 31, 2008; collateralized by stock in the Company's subsidiary bank. The line of credit bears a variable interest rate of the Federal Funds rate plus 1.63%.

NOTE 10: LONG TERM DEBT

Long-term debt at December 31, 2007 and 2006 consisted of the following components:

	2007	2006
	(In thousands)	
Note payable – Ban Corp (A)	$ 2,781	$ 3,381
Note payable – Blue Valley Building Corp. (B)	6,037	6,550
Federal Home Loan Bank advances (C)	52,500	37,500
Subordinated Debentures – BVBC Capital Trust II (D)	7,732	7,732
Subordinated Debentures – BVBC Capital Trust III (E)	11,856	11,856
Total long-term debt	$ 80,906	$ 67,019

(A) Due in December 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 11).

(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, 2012, 2013, 2015 and 2016; 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 December 31, 2007, approximately $40,202,000 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 December 31, 2007 are as follows:

	(In thousands)
2008	$ 11,140
2009	1,169
2010	1,199
2011	8,731
2012	16,046
Thereafter	42,621
	$ 80,906

NOTE 11: 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 10). The agreement provides for the Company to receive interest from the counterparty at an amount which offsets the note's variable rate and to pay interest to the counterparty at a fixed rate of 5.45% on the notional amount over the term of the note. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. The hedge was fully effective through December 31, 2007. A $70,000 unrealized loss has been recognized as a component of other comprehensive income (loss) in 2007.

NOTE 12: REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 12: REGULATORY MATTERS (Continued)

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:			(In thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated	$80,075	11.53%	$55,545	8.00%	N/A	
Bank Only	$73,947	10.89%	$54,329	8.00%	$67,911	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$71,392	10.28%	$27,773	4.00%	N/A	
Bank Only	$65,452	9.64%	$27,165	4.00%	$40,747	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$71,392	9.86%	$28,953	4.00%	N/A	
Bank Only	$65,452	9.23%	$28,360	4.00%	$35,450	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006:			(In thousands)			
Total Capital (to Risk Weighted Assets)						
Consolidated	$78,350	12.47%	$50,194	8.00%	N/A	
Bank Only	$73,225	11.95%	$49,007	8.00%	$61,259	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$71,216	11.33%	$25,097	4.00%	N/A	
Bank Only	$67,119	10.96%	$24,503	4.00%	$36,755	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$71,216	10.29%	$27,559	4.00%	N/A	
Bank Only	$67,119	9.91%	$27,081	4.00%	$33,851	5.00%

The Bank is subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval. At December 31, 2007, approximately $4,985,000 of retained earnings were available for dividend declaration without prior regulatory approval.

NOTE 13: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2007 and 2006, the Company had loans outstanding to executive officers, directors and to companies in which the Bank's executive officers or directors were principal owners, in the amounts of $20,288,000 and $10,773,000, respectively. Related party transactions for 2007 and 2006 were as follows:

	2007	2006
	(In thousands)	
Balance, beginning of year	$ 10,773	$ 12,258
New loans	19,035	7,651
Repayments and reclassifications	(9,520)	(9,136)
Balance, end of year	$ 20,288	$ 10,773

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

NOTE 14: PROFIT SHARING AND 401(K) PLANS

The Company's profit sharing and 401(k) plans cover substantially all employees. Contributions to the profit sharing plan are determined annually by the Board of Directors, and participant interests are vested over a five-year period. The Company's 401(k) plan permits participants to make contributions by salary reduction, based on which the Company matches a ratable portion. The Company's matching contributions to the 401(k) plan are vested immediately. Combined Company contributions charged to expense for 2007, 2006 and 2005 were $782,000, $743,000 and $698,000, respectively.

NOTE 15: EQUITY INCENTIVE COMPENSATION

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

Under the fixed option provisions of the Plan, the Company may grant options for shares of common stock that vest two years from the date of grant to its employees.. At December 31, 2007, the Company had 221,709 shares available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

During 2007, 2006 and 2005, the Company granted no stock options, but did grant 13,600, 0 and 12,400 shares of restricted common stock, respectively. Recipients of the restricted stock grant who are employees vest in the stock after three years from the date of the grant. Recipients of the restricted stock grant who are directors vest in the stock after one year from the date of the grant. The non vested shares were 18,000, 10,800, and 36,350 as of December 31, 2007, 2006 and 2005, respectively. The cost basis of the restricted shares granted, equal to the fair value of the Company's stock on the date of grant, will be amortized to compensation expense ratably over the applicable vesting period. The amount of unrecognized compensation costs was $230,200, $162,800, and $648,000 as of December 31, 2007, 2006, and 2005, respectively. During 2007, 2006 and 2005, 2,025, 2,400 and 2,925 shares of restricted stock were forfeited, respectively.

NOTE 15: EQUITY INCENTIVE COMPENSATION (Continued)

A summary of the status of option shares under the plan at December 31, 2007, 2006 and 2005, and changes during the years then ended, is presented below:

	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	84,300	$ 19.11	111,400	$ 18.38	155,000	$ 17.80
Exercised	(15,425)	15.42	(27,100)	16.12	(41,425)	16.00
Forfeited	(2,550)	25.00	–	–	(2,175)	22.47
Outstanding, end of year	66,325	$ 19.73	84,300	$ 19.11	111,400	$ 18.38
Options exercisable, end of year	66,325	$ 19.73	84,300	$ 19.11	111,400	$ 18.38

The weighted-average remaining contractual life of option shares at December 31, 2007 was 3.74 years. Exercise prices ranged from $7.50 to $25.00. Information about options outstanding and exercisable as of December 31, 2007 is set forth in the following table.

Options Outstanding and Exercisable			
Exercise Prices	Number Outstanding and Exercisable at 12/31/07	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 11.25	2,800	1 year	$ 11.25
14.38	6,500	2 years	14.38
16.50	13,550	3 years	16.50
19.50	23,000	4 years	19.50
25.00	20,475	5 years	25.00
	66,325		

NOTE 16: EMPLOYEE STOCK PURCHASE PLAN

The 2004 Blue Valley Ban Corp. employee stock purchase plan ("ESPP") provides the right to subscribe to 100,000 shares of common stock to substantially all employees of the Company and subsidiaries, except those who are 5% or greater shareholders of the Company. The purchase price for shares under the plan is determined by the Company's Board of Directors (or a designated Committee thereof) and was set to 85% of the market price on either the grant date or the offering date, whichever is lower, for the plan year beginning in February, 2004. Expense associated with the plan recognized in 2007 and 2006 was approximately $17,000 and $19,000, respectively. Information about employee stock purchase plan activity as of December 31, 2007 and 2006 is set forth in the following table.

Employee Stock Purchase Plan Activity		
Plan year ending January	Shares purchased	Purchase Price
2007	4,558	$25.50
2006	4,073	$19.55

NOTE 17: OTHER INCOME/EXPENSE

Other income consists of the following:

	2007	2006	2005
		(In thousands)	
Rental income	$ 481	$ 459	$ 365
Other income	624	885	1,362
Total	$ 1,105	$ 1,344	$ 1,727

Other operating expenses consist of the following:

	2007	2006	2005
		(In thousands)	
Advertising	$ 998	$ 1,080	$ 1,413
Loan processing fees	484	904	232
Data processing	1,077	889	863
Professional fees	1,271	631	790
Other expense	3,617	3,074	3,543
Total	$ 7,447	$ 6,578	$ 6,841

NOTE 18: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents

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

Available-for-Sale Securities

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

Mortgage Loans Held for Sale

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

Loans

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

Federal Home Loan Bank Stock, Federal Reserve Bank Stock, and other securities

The carrying amounts for these securities approximate their fair value.

NOTE 18: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Deposits

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

Securities Sold Under Agreement to Repurchase and Other Interest-Bearing Liabilities

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

Short-Term and Long-Term Debt

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

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

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

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

NOTE 18: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 18,139	$ 18,139	$ 27,230	$ 27,230
Available-for-sale securities	76,871	76,871	87,206	87,206
Mortgage loans held for sale	10,978	10,978	21,805	21,805
Interest receivable	4,621	4,621	4,200	4,200
Loans, net of allowance for loan losses	587,664	590,500	522,409	516,011
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,043	7,043	6,447	6,447
Financial liabilities:				
Deposits	536,370	537,412	535,864	535,643
Securities Sold Under Agreement to Repurchase and Other Interest-Bearing Liabilities	29,036	29,036	29,558	29,558
Short-term debt	25,000	25,000	–	–
Long-term debt	80,906	81,963	67,019	64,702
Interest payable	2,459	2,459	2,053	2,053
Unrecognized financial instruments (net of amortization):				
Commitments to extend credit	–	–	–	–
Letters of credit	–	–	–	–
Lines of credit	–	–	–	–
Forward commitments	–	–	–	–

NOTE 19: COMMITMENTS AND CREDIT RISKS

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

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

At December 31, 2007 and 2006, the Company had outstanding commitments to originate loans aggregating approximately $31,074,000 and $38,025,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

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

NOTE 19: COMMITMENTS AND CREDIT RISKS (Continued)

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

Total mortgage loans in the process of origination amounted to $3,048,000 and $14,041,000 and mortgage loans held for sale amounted to $10,978,000 and $21,805,000 at December 31, 2007 and 2006, respectively. Related forward commitments to sell mortgage loans amounted to approximately $14,027,000 and $35,846,000 at December 31, 2007 and 2006, respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

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

The Company had total outstanding letters of credit amounting to $9,280,000 and $15,498,000 at December 31, 2007 and 2006, respectively.

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

At December 31, 2007 and 2006, unused lines of credit borrowings aggregated approximately $202,380,000 and $187,066,000, respectively.

Additionally, the Company periodically has excess funds, which are loaned to other banks as federal funds sold. At December 31, 2007 there were no federal funds sold balances. At December 31, 2006 federal funds sold totaling $5,375,000 were loaned to various banks, as approved by the Board of Directors, with the largest balance at any one bank being $5,375,000 on that date.

NOTE 20: SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

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

	2007				2006			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 12,713	$ 13,143	$ 13,605	$ 12,756	$ 12,827	$ 12,647	$ 12,031	$ 11,327
Interest expense	6,297	6,734	6,561	5,990	5,660	5,381	5,194	4,727
Net interest income	6,416	6,409	7,044	6,766	7,167	7,266	6,837	6,600
Provision for loan losses	1,865	590	-	400	50	540	590	75
Net interest income after provision for loan losses	$ 4,551	$ 5,819	$ 7,044	$ 6,366	$ 7,117	$ 6,726	$ 6,247	$ 6,525
Noninterest income	1,636	1,761	1,806	1,997	2,346	2,364	2,139	2,032
Noninterest expense	5,474	5,848	6,311	6,584	6,094	5,880	5,954	6,446
Income before income taxes	713	1,732	2,539	1,779	3,369	3,210	2,432	2,111
Income taxes (1)	35	646	979	615	1,270	1,219	916	794
Net income	$ 678	$ 1,086	$ 1,560	$ 1,164	$ 2,099	$ 1,991	$ 1,516	$ 1,317
Net Income per Share Data								
Basic	$ 0.28	$ 0.45	$ 0.65	$ 0.48	$ 0.89	$ 0.84	$ 0.64	$ 0.56
Diluted	$ 0.28	$ 0.44	$ 0.64	$ 0.48	$ 0.87	$ 0.83	$ 0.63	$ 0.55
Balance Sheet								
Total assets	$ 736,213	$ 730,449	$ 738,187	$ 739,864	$ 692,219	$ 684,935	$ 675,186	$ 705,682
Total loans, net	587,664	554,161	547,405	552,288	522,409	527,864	515,922	522,492
Stockholders' equity	58,934	58,788	56,887	55,419	53,820	52,195	49,437	47,742

(1) Income taxes were adjusted in the 4th Quarter to correct the effective rate taken during the previous quarters in 2007.

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

NOTE 21: BUSINESS ACQUISITION

On February 16, 2007, the Company acquired 100% of the outstanding common stock of Unison Bancorp, Inc. (“Unison”) and its subsidiary, Western National Bank of Lenexa, Kansas (“Western”) for $10,180,000 in cash and merged Unison into the Company. On March 29, 2007, the Company sold Western to Northland National Bank, Kansas City, Missouri, and simultaneously the Company’s subsidiary, Bank of Blue Valley, purchased the assets and assumed the liabilities of Western, with the exception of the bank charter and some miscellaneous assets and received $392,000 cash as a net result. As a result of the acquisition, the Company will have an opportunity to continue its expansion in Johnson County and this represents its first presence in Lenexa. Their results of operations have been included in the consolidated financial statements since February 16, 2007.

NOTE 21: BUSINESS ACQUISITION (Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	(In thousands)
Cash and cash equivalents	$ 4,134
Available-for-sale securities	1,594
Loans	29,200
Premises and equipment	1,508
Core deposits intangible	1,000
Western National Bank charter - intangible	325
Goodwill	4,531
Other assets	1,660
Total assets	43,952
Deposits	31,241
Other interest-bearing liabilities	903
Long-term debt	650
Other liabilities	874
Total liabilities assumed	33,668
Net assets acquired	$ 10,284

The Company acquired identifiable intangibles which consisted of the core deposit base of $1,000,000, which has a useful life of approximately seven years and is being amortized using the straight-line method and the bank charter, which was subsequently sold to Northland National Bank on March 29, 2007. Since the transaction was structured as a stock acquisition the tax bases of the assets and liabilities carried over from the acquiree. As a result, the $1,000,000 core deposit intangible and $4,531,000 of goodwill are not considered deductible for income tax purposes.

NOTE 22: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2007 and 2006

	2007	2006
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 1,261	$ 922
Investments in subsidiaries:		
Bank of Blue Valley	71,988	67,619
Blue Valley Building Corp.	8,437	8,141
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	374	704
Total Assets	$ 82,648	$ 77,974
LIABILITIES		
Long-term debt	$ 2,781	$ 3,381
Subordinated debentures	19,588	19,588
Other liabilities	1,345	1,185
Total Liabilities	23,714	24,154
STOCKHOLDERS' EQUITY		
Common stock	2,440	2,409
Additional paid-in capital	10,312	9,561
Retained earnings	45,592	41,982
Accumulated other comprehensive loss, net of income tax (credits) of $394 and $(88) at 2007 and 2006, respectively	590	(132)
Total Stockholders' Equity	58,934	53,820
Total Liabilities and Stockholders' Equity	$ 82,648	$ 77,974

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

Condensed Statements of Income
Years Ended December 31, 2007, 2006 and 2005

	2007	2006	2005
		(In thousands)	
Income			
Dividends from subsidiaries	$ 12,495	$ 2,104	$ 52
Other income	15	65	64
	12,510	2,169	116
Expenses	2,174	2,252	2,572
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	10,336	(83)	(2,456)
Credit for income taxes	(818)	(729)	(835)
Income (loss) before equity in undistributed net income of subsidiaries	11,154	646	(1,621)
Equity in undistributed (distributions in excess of) net income of subsidiaries	(6,666)	6,277	6,190
Net income	$ 4,488	$ 6,923	$ 4,569

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

Condensed Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

	2007	2006 (In thousands)	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,488	$ 6,923	$ 4,569
Items not requiring (providing) cash:			
Deferred income taxes	(42)	(2,982)	835
Equity in undistributed (distributions in excess of) net income of subsidiaries	6,666	(6,277)	(6,190)
Restricted stock earned	316	485	301
Changes in:			
Other assets	255	5,866	(1,515)
Other liabilities	52	(3,399)	1,089
Net cash provided by (used in) operating activities	11,735	616	(911)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital contributed to subsidiary	(5,764)	–	(12)
Purchase of Unison Bancorp, Inc. and subsidiary	(10,284)	–	–
Proceeds from sale of assets and liabilities of Western National Bank	5,834	–	–
Sale of Western National Bank charter	325	–	–
Net cash used in investing activities	(9,889)	–	(12)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term debt	(1,250)	(600)	(12,375)
Proceeds from long-term debt	–	–	11,856
Dividends paid on common stock	(723)	(596)	(465)
Proceeds from sale of common stock	466	538	813
Net cash used in financing activities	(1,507)	(658)	(171)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	339	(42)	(1,094)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	922	964	2,058
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,261	$ 922	$ 964