TEAM FINANCIAL INC /KS
Form 10-K
April 02, 2007

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, 2006 or

o 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: 000-26335

TEAM FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

KANSAS	**48-1017164**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8 West Peoria, Suite 200, Paola, Kansas, 66071
(Address of principal executive offices) (Zip Code)
Registrant s telephone, including area code: **(913) 294-9667**
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common stock, no par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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 o No x

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 x No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of the 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of $15.00 per share as reported on June 30, 2006 on the Nasdaq Global Market, was $35,608,125.

There were 3,573,459 shares of the Registrant s common stock, no par value, outstanding as of March 30, 2007.

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Portions of Registrant s definitive proxy statement for its 2007 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2006 will be incorporated by reference into Part III of this Form 10-K.

Table of Contents

		Page
	Part I	
Item 1.	Business	2
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	20
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	22
	Part II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6.	Selected Financial Data	24
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	48
Item 8.	Financial Statements and Supplementary Data	51
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	89
Item 9A.	Controls and Procedures	89
Item 9B.	Other Information	89
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	89
Item 11.	Executive Compensation	89
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	89
Item 13.	Certain Relationships and Related Transactions and Director Independence	89
Item 14.	Principal Accounting Fees and Services	90
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	90
Signatures		93

PART I

Item 1. Business

The Company and Subsidiaries

Team Financial, Inc. (the Company , management , we , our , us) is a financial holding company as defined under the Bank Holding Company of 1956, incorporated in the State of Kansas. Our principal executive offices are located at 8 West Peoria, Paola, Kansas 66071. The Company presently owns all of the outstanding capital stock of its two wholly owned banking subsidiaries, TeamBank, N.A. (TeamBank) and Colorado National Bank. Our common stock is listed on the Nasdaq Global Market under the symbol TFIN .

We offer a broad range of community banking and financial services through 18 locations in Kansas, Missouri, Nebraska and Colorado through our banking subsidiaries, TeamBank and Colorado National Bank. Our presence in Kansas consists of seven locations in the Kansas City metropolitan area and three locations in southeast Kansas. We operate two locations in western Missouri, three in metropolitan Omaha, Nebraska, and three in metropolitan Colorado Springs, Colorado. We intend to open at least two new branches in 2007, one in Falcon, Colorado during the second quarter, and one in Lee s Summit, Missouri during the third quarter.

We were formed in 1986 when our founders, along with an Employee Stock Ownership Plan (ESOP), purchased a one-bank holding company in Paola, Kansas, in a leveraged transaction. Since formation, we have grown from $85 million in assets to $756 million in assets as of December 31, 2006. This growth was achieved through a combination of bank and branch acquisitions, the establishment of new branches and by internal growth. In 1999 our common stock began trading on the Nasdaq National Market, now known as the Nasdaq Global Market, upon completion of a public offering of our common stock.

The ESOP owned 24.7% of our outstanding common stock as of December 31, 2006. Management believes the ESOP reflects our corporate culture in that employees are the integral component of a financial institution. Management intends to continue the ESOP, as it is a significant incentive to attract and retain qualified employees.

We serve the needs and cater to the economic strengths of the local communities in which we operate and strive to provide a high level of personal and professional customer service. We offer a variety of financial services to our retail and commercial banking customers including personal and corporate banking services, mortgage banking, trust and estate planning, and personal investment financial counseling services.

Our assortment of lending services includes:

- mortgages for multi-family real estate;
- commercial real estate loans;
- commercial loans to businesses, including revolving lines of credit and term loans;
- real estate development loans;
- construction lending;
- agricultural lending;
- a broad array of residential mortgage products, both fixed and adjustable rate;
- consumer loans, including home equity lines of credit, auto loans, recreational vehicle, and other secured and unsecured loans; and

- specialized financing programs to support community development.

Our assortment of deposit instruments include:

- multiple checking and NOW accounts for both personal and business accounts;
- various savings accounts, including those for minors;
- money market accounts;
- tax qualified deposit accounts such as Health Savings Accounts and Individual Retirement Accounts; and
- a broad array of certificate of deposit products.

We also support our customers by providing services such as:

- telephone and internet banking;
- debit cards and credit cards;
- functioning as a federal tax depository;
- access to merchant bankcard services; and
- various forms of electronic funds transfer.

Through our trust and estate planning and our investment financial counseling services, we offer a wide variety of mutual funds, equity investments, and fixed and variable annuities.

We participate in the wholesale capital markets through the management of our investment securities portfolio and our use of various forms of wholesale funding. Our investment securities portfolio contains a variety of instruments, including callable debentures, taxable and nontaxable debentures, fixed and adjustable rate mortgage backed securities and collateralized mortgage obligations.

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Our operations are also affected by non-interest income, such as service charges, trust fees, and gains and losses from the sale of mortgage loans. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, data processing expenses, occupancy costs, and provisions for loan losses.

Recent Developments

On February 25, 2005, we completed the sale of Team Insurance Group, Inc., our insurance agency subsidiary. This subsidiary was operated as a subsidiary of TeamBank from December of 2002 until December 2004 and offered employee benefit insurance and property and casualty insurance to businesses and individuals. We sold all the issued and outstanding shares of the subsidiary to an unaffiliated third party, for total cash consideration of $6.8 million. Our investment in this subsidiary as of February 25, 2005 was approximately $7.0 million. As a result of the sale, the operations related to this subsidiary have been reclassified in discontinued operations in the consolidated financial statements and related notes in this report. A loss on the sale of the subsidiary of approximately $164,000 was recorded in the second quarter of 2005 upon finalization of the selling price and is presented in our consolidated financial statements, net of tax, in loss from discontinued operations. The sale was effective December 31, 2004 and, therefore, the operating activities of the insurance subsidiary during 2005 were assumed by the new owners. Pursuant to the notice provisions of the agreement, the buyer had until August 25, 2006 to present any breach of warranty or representations claims. The buyer did present breach of warranty and representation claims within the allotted timeframe; however, we disagree with the buyer on the validity of those claims.

On February 6, 2007, a complaint was filed by the buyer in the United States District Court for the Northern District of Oklahoma against the Company and certain officers of the Company, claiming breach of contract, negligent misrepresentation, fraud and misrepresentation and civil conspiracy in connection with the sale of the insurance agency subsidiary that was sold to the buyer. Damages sought from the defendants include not less than $10 million in actual damages, not less than $10 million for consequential, and not less than $10 million for punitive damages. We believe the claims are without merit, and we are pursuing a vigorous defense as well as available counterclaims against the plaintiff.

During the second quarter of 2006, we redeemed all of the Team Financial Capital Trust I 9.50% Trust Preferred Securities, due August 10, 2031, at a redemption price equal to 100% of the principal amount of the Trust, or $15.5 million, plus interest accrued and unpaid through September 17, 2006. As a result of the redemption of the securities, we incurred a pretax charge, recorded as trust preferred securities redemption amortization to earnings of approximately $823,000. This charge was the unamortized portion of the offering cost that was being amortized over the original 30-year life of the debentures.

To fund the redemption, we replaced the called debentures on September 14, 2006 with Team Financial Capital Trust II, a pooled trust preferred security of $22.0 million at a variable rate of 1.65% above the 90-day LIBOR. The new trust preferred securities have a 30-year term maturing on October 7, 2035 with a call option five years after the issuance date. The new trust preferred securities did not have a placement or annual trustee fee associated with it. The Company expects to save approximately $338,000 annually, based on the reduction in interest rates at the time of restructuring.

We plan to open at least two de novo branches in 2007. We expect to open our new location in Falcon, Colorado during the second quarter of 2007 and our Lee s Summit, Missouri branch is expected to open during the third quarter of 2007. The opening of these branches is part of our strategy to continue our expansion in the Colorado Springs and Kansas City metropolitan areas.

Competition

The banking industry nationally and in our market areas is highly competitive. In our market areas, there are numerous small banks and several national and regional financial banking groups. We also compete with savings and loan associations, credit unions, leasing companies, mortgage companies, and other financial service providers. Many of these competitors have capital resources and legal lending limits substantially in excess of our capital resources and legal lending limits.

We compete for loans and deposits principally based on the availability and quality of services provided, responsiveness to customers, interest rates, loan fees and office locations. We actively solicit deposit customers and compete by offering them high quality customer service, a complete product line and competitive interest rates and terms. We believe our personalized customer service, broad product line, competitive pricing and our banking franchise enables us to compete effectively in our market areas.

In order to compete with other financial service providers, we rely upon local community involvement, personal service, and the resulting personal relationships of our staff and customers, and the development and sale of products and services tailored to meet our customers needs.

We face competition for our personnel. We compete for our personnel by offering competitive wages and benefit packages in our respective markets and by offering a pleasant work environment through our emphasis on a community banking culture. Management also believes that the ESOP contributes to our ability to effectively retain personnel in our market areas because it provides incentives for employees to continue their employment and motivation to enhance shareholder value.

We also face significant competition from other financial institutions for any potential acquisitions. This competition can increase purchase prices to levels beyond our financial capability or to levels that would not result in economical returns on our investment.

We have two wholly owned bank subsidiaries. The table below presents information concerning these subsidiaries.

Name of Bank	Number of locations	Legal Lending Limit (In millions)	Asset size at December 31, 2006
TeamBank, N.A. Paola, Kansas a national banking association	15	$ 8.2	$ 636
Colorado National Bank Colorado Springs, Colorado, a national banking association	3	1.5	124

Market Areas Served

TeamBank

TeamBank has banking locations in Kansas, Missouri, and Nebraska. TeamBank s primary Kansas service area is in the Kansas City metropolitan area.

TeamBank s Miami County branches are located in Paola, the county seat of Miami County, Osawatomie, the second largest city in the county and Spring Hill, a community developed across the Miami County and Johnson County border. TeamBank s Johnson County branches are located in Prairie Village and De Soto, Kansas. TeamBank also operates a branch in Ottawa, Kansas, the county seat of adjoining Franklin County; Iola, Kansas, the county seat of Allen County; and operates two locations in Parsons, Kansas of Labette County. TeamBank s Missouri service areas are in Barton and Vernon counties, which adjoin each other and are located in the southwest section of Missouri near the Kansas-Missouri border. TeamBank. also operates three facilities in the Omaha, Nebraska metropolitan area. The primary Nebraska service areas are in Washington and Sarpy Counties.

Colorado National Bank

Colorado National Bank, located in Colorado Springs, Colorado, serves El Paso County and Teller County, which are located along the front range of the Colorado Rocky Mountains. The bank operates two full service branches in Colorado Springs and a third branch located in Monument, Colorado, which is a community located between Denver and Colorado Springs, along the growing Interstate 25 corridor. During the second quarter of 2007, we expect to open our new location in Falcon, Colorado, which is situated just east of Colorado Springs on Highway 24.

Growth and Operating Strategies

Our operating strategy is to serve the needs and cater to the economic strengths of the local communities in which we operate and strive to provide a high level of personal and professional customer service. Our banks do this by offering a variety of financial products and services to our retail and commercial banking customers.

Our growth strategy is focused on our expansion in our existing markets through internal growth, establishing new branches and a combination of mergers and acquisitions.

Mergers and Acquisitions and Branch Location Expansion

Management believes that the consolidation in the banking industry, along with the easing of legal requirements of branch banking throughout Kansas, Missouri, Nebraska, and Colorado, increased regulatory requirements, and concerns about technology, are likely to lead owners of community banks

within these areas to explore the possibility of sale or combination with broader-based financial service companies such as ourselves. In addition, branching opportunities can arise from time to time as a result of divestiture of branches by large national and regional bank holding companies of certain overlapping branches resulting from consolidations. As a result, branch locations have become available for purchase. We completed three branch acquisitions and three bank holding company acquisitions from 1997 through 2003.

Management s strategy in assimilating mergers or acquisitions is to emphasize revenue growth and to continuously review the operations of the combined entities and streamline operations where feasible. Management does not believe that implementing wholesale cost reductions in combined institutions after an acquisition is beneficial to our long-term growth, because significant changes in community banks can have an adverse impact on customer satisfaction in the institution s community. However, from time to time, management has determined that certain human resource, operations, and accounting functions can be consolidated immediately upon acquisition to achieve greater efficiencies without compromising customer service.

On an ongoing basis, management reviews opportunities to expand through the acquisition of branches or developing de novo branches. Because of the economic growth over the past several years in the Omaha, Nebraska area, the Colorado Springs, Colorado area, as well as the Kansas City metropolitan area, management may consider further branch expansion in these areas. However, we will not rule out branch expansion in other areas experiencing economic growth.

Management considers a variety of criteria when evaluating potential merger or acquisition candidates or branching opportunities. These include:

- the market location of the potential merger or acquisition target or branch and demographics of the surrounding community;
- the financial soundness of a potential target;
- opportunities to improve the efficiency and/or asset quality of a target;
- the effect of the transaction on income per share and book value, generally seeking only those transactions that will be accretive to income within 18 months;
- whether we have sufficient management and other resources to integrate the operations of the target or branch; and
- the investment required for, and opportunity costs of, the merger or acquisition or branch.

Internal Growth

We believe that our largest source of internal growth is through our ongoing solicitation practices conducted by bank presidents, market leaders and lending officers, followed by referrals from customers. The primary reason for referrals is positive customer feedback regarding our products, customer service and response time.

Our goal in continuing our expansion is to maintain a profitable, customer-focused financial institution. We believe that our existing structure, management, data and operational systems are sufficient to achieve further internal growth in asset size, revenues, and capital without proportionate increases in operating costs. This internal growth should also allow us to increase the legal lending limits of our banks, thereby enabling us to increase our ability to serve the needs of existing and new customers. Our operating strategy has always been to provide high quality community banking services to our customers and increase market share through active solicitation of new business, repeat business, referrals from customers, and continuation of selected promotional strategies.

For the most part, our banking customers seek a banking relationship with a service-oriented community banking organization. Our operational systems have been designed to facilitate personalized service. Management believes our banking locations have an atmosphere which facilitates personalized services and decision-making, yet are of sufficient financial size with broad product lines to meet customers needs. Management also believes that economic expansion in our market areas will continue to contribute to internal growth. Through our primary emphasis on customer service and our management s banking experience, we intend to continue internal growth by attracting customers and focusing on the following:

- ***Products Offered*** We offer personal and corporate banking services, trust and estate planning, mortgage origination, mortgage servicing, personal investment, and financial counseling services as well as internet and telephone banking. We offer a broad range of commercial banking services, checking accounts, ATMs, savings accounts, money market accounts, certificates of deposit, NOW accounts, Health Savings Accounts, Individual Retirement Accounts, brokerage and residential mortgage services, branch banking, and debit and credit cards. We also offer installment loans, including auto, recreational vehicle, and other secured and unsecured loans sourced directly by our branches. See Loans below for a discussion of products we provide.

- ***Operational Efficiencies*** We seek to maximize operational and support efficiencies consistent with maintaining high quality customer service. Our banks share a common information system designed to enhance customer service and improve efficiencies by providing system-wide voice and data communication connections. We have consolidated loan processing, bank administration, financial reporting, investment management, information systems, payroll and benefit management, loan review, and audits in order to operate more efficiently.

- ***Marketing Activities*** We focus on a proactive solicitation program for new business, as well as identifying and developing products and services that satisfy customer needs. We actively sponsor community events within our branch areas. We believe that active community involvement contributes to our long-term success.

Loans

We provide a broad range of commercial and retail lending services. Our banks follow a uniform credit policy, which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. In addition, we provide ongoing loan officer training and operate a centralized processing and servicing center for loans. Each loan portfolio is subject to loan review on a regular basis in accordance with our loan review process. At December 31, 2006, substantially all loans outstanding were to customers within our market areas.

Loan Administration

We maintain a loan committee approach to lending, which we believe yields positive results in both responsiveness to customer needs and asset quality. Each of our subsidiary banks and some branches have a loan committee, which meets at least once per week to review and discuss loans. Each bank and some branches also have a loan level threshold, which, if exceeded, requires the approval of our holding company loan committee, which meets on an on-call basis. Interest rates charged on loans vary with the degree of risk, maturity, costs associated with underwriting and servicing, loan amount, and the extent of other banking relationships maintained with the customer. Interest rates are further subject to competitive pressures, availability of funds and applicable government regulations.

Commercial Loans

These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit, equipment financing, and accounts receivable factoring. Commercial loans secured by collateral other than real estate generally mature within one year, have adjustable interest rates and are secured by inventory, accounts receivable, machinery, government guarantees, or other commercial assets. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. The primary repayment risk of commercial loans is the failure of the borrower s business.

Real Estate Loans

These loans include various types of loans for which we hold real property as collateral. Interest rates on these loans typically adjust annually. Real estate construction loans include commercial and residential real estate construction loans, but are principally made to builders to construct business buildings or single and multi-family residences. Real estate construction loans typically have maturities of six to 12 months, and are charged origination fees. Terms may vary depending upon many factors, including the type of project and financial condition of the borrower. It is our standard practice in making commercial loans to receive real estate as collateral in addition to other appropriate collateral. Therefore, loans categorized in the other real estate loan category can be characterized as commercial loans which are secured by real estate. The primary risks of real estate mortgage loans include the borrower s inability to pay, deterioration in real estate value and increased government planning and zoning activity that may negatively affect the value of real estate that is held as collateral.

Agricultural Loans

We make a variety of agricultural loans which are included in real estate and commercial loans. These loans relate to equipment, livestock, crops, and farmland. The primary risks of agricultural loans include the fluctuating prices of crops and livestock, as well as weather conditions.

Installment Loans

Installment loans are primarily to individuals, are typically secured by the financed assets, generally have terms of two to five years and bear interest at fixed rates. These loans usually are secured by motor vehicles or other personal assets and in some instances are unsecured. The primary risk of these loans relates to the personal financial circumstances of the borrower.

Letters of Credit

In the ordinary course of business, we issue letters of credit. See note 18 to Item 8 Financial Statements. We apply the same credit standards to these commitments as we use in all our lending activities and have included these commitments in our lending risk evaluations. Our exposure to credit loss under letters of credit is represented by the amount of these commitments.

Employees

As of December 31, 2006, we had approximately 235 full-time equivalent employees. We provide a variety of benefit programs including participation in our Employee s Stock Ownership Plan (ESOP), a 401K plan, group life, health, accident, and other insurance. Certain employees also participate in a salary continuation plan and a deferred compensation plan. Neither the Company nor any of our subsidiaries is a party to any collective bargaining agreement.

Executive Officers of the Company

The Board of Directors elects executive officers annually. The following is a list of all executive officers of the Company:

Name	Age	Position	Years Served
Robert J. Weatherbie	60	Chairman of the Board, Chief Executive Officer	34
Richard J. Tremblay	55	Chief Financial Officer	1
Sandra J. Moll	43	Chief Operating Officer	15

Directors of the Company

Name	Age	Principal Occupation	Director Since
Robert J. Weatherbie	60	Chairman of the Board, Chief Executive Officer	1986
Michael L. Gibson	60	President, Corporate Development	1986
Carolyn S. Jacobs	63	Senior Vice President and Trust Officer	1986
Denis A. Kurtenbach	71	Retired, construction management	1995
Keith B. Edquist	62	Owner/operator of North Omaha Airport	2002
Kenneth L. Smith	64	President/owner of G.K. Smith & Sons, Inc., a mechanical contracting firm	2004
Jerry D. Wiesner	50	Administrator, VP/COO of Miami County Medical Center	2005
Gregory D. Sigman	57	Certified Public Accountant, owner/CEO of Sigman & Co., PC	2006
Harold G. Sevy	56	President of W.H. Debrick Co., a construction company	2006

Principal Sources of Revenue

Our results of operations depend primarily on net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Our operations are also affected by non-interest income, such as service charges, trust fees, and gains and losses from the sale of mortgage loans. Our principal operating expenses, aside from interest expense, consist of compensation and employee benefits, occupancy costs, data processing expense, and provisions for loan losses.

Supervision and Regulation

Government Regulation

The Company is a financial holding company and is regulated under federal and state law. These laws and regulations are primarily intended to protect depositors and the deposit insurance fund of the Federal Deposit Insurance Corporation, not our shareholders. The following information is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws, regulations or regulatory policies may have a material effect on our business, operations, and prospects. We are unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on our business and earnings in the future.

The Company

General

The Company operates as a financial holding company registered with the Federal Reserve Board under the Gramm-Leach-Bliley Act (GLBA). This law permits former bank holding companies that have registered as financial holding companies to affiliate with securities firms and insurance companies and engage in other activities that are financial in nature.

No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The GLBA defines financial in nature to include securities underwriting, dealing, and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. A national bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory Community Reinvestment Act (CRA) rating.

Although it preserves the Federal Reserve Board as the umbrella supervisor of financial holding companies, the GLBA defers the administration of the non-banking activities to the customary regulators of insurers, broker-dealers, investment companies and banks. Thus, the various state and federal regulators of a financial holding company s operating subsidiaries would retain their jurisdiction and authority over such operating entities. As the umbrella supervisor, however, the Federal Reserve Board has the potential to affect the operations and activities of financial holding companies subsidiaries through its power over the financial holding company parent. The GLBA contains restrictions on financial institutions regarding the sharing of customer nonpublic personal information with nonaffiliated third parties unless the customer has had an opportunity to opt out of the disclosure. The GLBA also imposes periodic disclosure requirements concerning a financial institution s policies and practices regarding data sharing with affiliated and nonaffiliated parties.

Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has CRA rating of satisfactory or better. Our subsidiary banks received a satisfactory rating in their last CRA examinations.

Mergers and Acquisitions

As a financial holding company, we are required to obtain the prior approval of the Federal Reserve Board before acquiring direct or indirect ownership or control of more than 5% of the voting shares of a bank or financial holding company. The Federal Reserve Board will not approve any acquisition, merger, or consolidation that would have a substantial anti-competitive effect, unless the anti-competitive effects of the proposed transaction are outweighed by a greater public interest in meeting the needs and convenience of the community. The Federal Reserve Board also considers managerial resources, current and projected capital positions and other financial factors in acting on acquisition or merger applications.

Capital Adequacy

The Federal Reserve Board monitors the regulatory capital adequacy of financial holding companies. As discussed below, our banks are also subject to the regulatory capital adequacy requirements of the Federal Deposit Insurance Corporation and the Comptroller of the Currency, as applicable. The Federal Reserve Board uses a combination of risk-based guidelines and leverage ratios to evaluate our regulatory capital adequacy.

The Federal Reserve Board has adopted a system using risk-based capital adequacy guidelines to evaluate the regulatory capital adequacy of financial holding companies. The guidelines apply on a consolidated basis to financial holding companies with consolidated assets of at least $150 million. Under the risk-based

capital guidelines, different categories of assets are assigned to different risk categories based generally on the perceived credit risk of the asset. The risk weights of the particular category are multiplied by the corresponding asset balances and added together to determine a risk-weighted asset base. Some off-balance sheet items, such as loan commitments in excess of one year, mortgage loans sold with recourse and letters of credit, are added to the risk-weighted asset base by converting them to a credit equivalent and assigning them to the appropriate risk category. For purposes of the Federal Reserve Board s regulatory risk-based capital guidelines, total capital is defined as the sum of core and secondary capital elements, with secondary capital being limited to 100% of core capital. For financial holding companies, core capital, also known as Tier 1 capital, generally includes common shareholders equity, perpetual preferred stock and minority interests in consolidated subsidiaries, less goodwill and other intangible assets. No more than 25% of core capital elements may consist of cumulative preferred stock. Secondary capital, also known as Tier 2 capital, generally includes the allowance for loan losses limited to 1.25% of weighted risk assets, certain forms of perpetual preferred stock, as well as hybrid capital instruments. The Federal Reserve Board s regulatory guidelines require a minimum ratio of qualifying total capital to weighted risk assets of 8%, of which at least 4% should be in the form of core capital. At December 31, 2006, our core capital was $55.4 million.

In addition to the risk-based capital guidelines, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency use a leverage ratio as an additional tool to evaluate capital adequacy. The leverage ratio is defined by the Federal Reserve Board to be a company s core capital divided by its average total consolidated assets, and the Comptroller of the Currency s and Federal Deposit Insurance Corporation s definitions are similar. Based upon our current capital status, the applicable minimum required leverage ratio is 4%.

The table below presents certain capital ratios at December 31, 2006.

Ratio	**Actual**	**Minimum required**
Total capital to risk weighted assets	10.83 %	8.00 %
Core capital to risk weighted assets	9.82 %	4.00 %
Core capital to average assets	7.90 %	4.00 %

Failure to meet the regulatory capital guidelines may result in the initiation by the Federal Reserve Board of appropriate supervisory or enforcement actions, including but not limited to delaying or denying pending or future applications to acquire additional financial or bank holding companies.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act (the Act), signed into law in 2002, addresses issues related to corporate governance of publicly traded companies. The Act requires, among other items, certification of the quality of financial reporting by the Chief Executive Officer and Chief Financial Officer, enhanced and timely disclosure of financial reporting and strengthens the rules regarding auditor and audit committee independence. Certain provisions of the Act were effective immediately and others became effective or are in process of becoming effective through Securities and Exchange Commission rules. As of the end of fiscal year 2007, the Company expects to be subject to all provisions of the Act with the exception of the auditor s attestation report on internal control over financial reporting, which is expected to be required for fiscal year 2008. The Company anticipates increased future expenditures in order to comply with the provisions of the Act.

The Banks

General

We own and operate two national chartered banks. TeamBank and Colorado National Bank, as national banks, are subject to regulations by the Office of the Comptroller of the Currency. The deposits of the banks are insured by the Federal Deposit Insurance Corporation.

Community Reinvestment Act

Under the federal Community Reinvestment Act (CRA), financial institutions have a continuing and affirmative obligation, consistent with safe and sound operations of such institutions, to serve the convenience and needs of the communities in which they are chartered to do business, including low and moderate-income neighborhoods. The Community Reinvestment Act currently requires that regulators consider an applicant s CRA record when evaluating certain applications, including charters, branches, and relocations, as well as mergers and consolidations. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution s records of meeting the credit needs of its community. During their last examinations, ratings of at least satisfactory were received by all of our banks. As a result, management believes that the performance of our banks under the CRA will not impede regulatory approvals of any proposed acquisitions or branching opportunities.

Dividend Restrictions

Dividends paid by our subsidiary banks to us provide a substantial amount of our operating and investing cash flow. During 2006, our subsidiary banks paid $3,500,000 in dividends to us and could have paid an additional $4,100,000 without prior regulatory approval.

With respect to national banks, the directors may declare dividends of as much of the bank s undivided profits as they deem necessary , except until the bank s surplus fund equals its common capital at which time, no dividends may be declared unless the bank has carried to the surplus fund at least one-tenth of the bank s net income of the preceding half year in the case of quarterly or semiannual dividends, or at least one-tenth of its net income of the preceding two consecutive half-year periods in the case of annual dividends. However, the Comptroller of the Currency s approval is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net income of that year combined with its retained net income of the preceding two years, less any required transfers to surplus or a fund for the retirement of any preferred stock.

Examinations

The primary federal banking regulators examine our banks from time to time. Based upon an evaluation, the examining regulator may revalue a bank s assets and require that it establish specific reserves to compensate for the difference between the value determined by the regulator and the book value of the assets.

Capital Adequacy

The Federal Deposit Insurance Corporation and the Comptroller of the Currency have adopted regulations establishing minimum requirements for the capital adequacy of insured institutions. The requirements address both risk-based capital and leverage capital, with risk-based assets and core and secondary capital being determined in basically the same manner as described above for financial holding companies. The Federal Deposit Insurance Corporation or the Comptroller of the Currency may establish

higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk.

The Comptroller of the Currency risk-based capital guidelines require national banks to maintain a minimum ratio of total capital, after deductions, to weighted risk assets of 8%, and national banks and state nonmember banks must have and maintain core capital in an amount equal to at least 3% of adjusted total assets; but for all except the most highly rated banks, the minimum core leverage ratio is to be 3% plus an additional cushion of at least 100 to 200 basis points. The applicable guideline for TeamBank and Colorado National Bank is 4%.

The table below presents the regulatory capital ratios of TeamBank and Colorado National Bank at December 31, 2006.

	TeamBank		**Colorado National Bank**	
Ratio	**Actual**	**Minimum Required**	**Actual**	**Minimum Required**
Total capital to risk weighted assets	11.48 %	8.00 %	11.25 %	8.00 %
Core capital to risk weighted assets	10.45 %	4.00 %	10.32 %	4.00 %
Core capital to average assets	8.39 %	4.00 %	8.02 %	4.00 %

Banks with regulatory capital ratios below the required minimum are subject to administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

The Federal Deposit Insurance Corporation and Comptroller of the Currency have adopted regulations that define five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Currently, our banks are well capitalized. An institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, core 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. An institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, a core risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%.

The Federal Deposit Insurance Corporation Improvement Act requires the federal banking regulators to take prompt corrective action to resolve the problems of insured depository institutions, including capital-deficient institutions. In addition to requiring the submission of a capital restoration plan, the Federal Deposit Insurance Corporation Improvement Act contains broad restrictions on activities of institutions that are not adequately capitalized involving asset growth, acquisitions, branch establishment, and expansion into new lines of business. With limited exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any distribution or payment.

As an institution s capital decreases, the powers of the federal regulators become greater. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. The regulators have limited discretion in dealing with a critically undercapitalized institution and are virtually required to appoint a receiver or conservator if the capital deficiency is not promptly corrected.

Real Estate Lending Evaluations

The federal banking regulators have adopted uniform standards for the evaluation of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish loan to value ratio limitations on real estate loans, which generally are equal to or greater than the loan to value limitations established by our banks.

Deposit Insurance Premiums

Deposits of our banks are insured up to the regulatory limit by the FDIC and are subject to deposit assessments. Beginning in 2007, institutions will be placed in one of four risk categories using a two-step process based first on capital ratios and then on other relevant information. The assessment schedule for banks ranges from 5 to 43 cents per $100 of deposits, based on capital and supervisory factors. The banks insured deposits are subject to assessment payable to the Bank Insurance Fund. An institution s assessment is based on the assignment of the institution by the Federal Deposit Insurance Corporation to one of three capital groups and to one of three supervisory subgroups. The capital groups are well capitalized, adequately capitalized and undercapitalized. The three supervisory subgroups are Group A, for financially solid institutions with only a few minor weaknesses, Group B, for those institutions with weaknesses which, if uncorrected could cause substantial deterioration of the institution and increase the risk to the deposit insurance fund, and Group C, for those institutions with a substantial probability of loss to the fund absent effective corrective action. Currently, both of our banks are in the lowest risk category, Risk Category I. Beginning in 2007, we will be assessed premiums for FDIC insurance as a result of the new assessment schedule. However, to offset the new assessment, eligible insured institutions, including ours, were granted a one-time credit to be used against premiums due which may partially or totally offset the new premiums. The Company s one-time credit is approximately $493 thousand.

Interstate Banking Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 eliminated many of the historical barriers to the acquisition of banks by out-of-state financial holding companies. This law facilitates the interstate expansion and consolidation of banking organizations by permitting: (1) financial holding companies that are adequately capitalized and managed, subject to certain limitations, to acquire banks located in states outside their home states regardless of whether acquisitions are authorized under the laws of the host state; (2) the interstate merger of banks after June 1, 1997, subject to the right of individual states either to pass legislation providing for earlier effectiveness of mergers or to opt out of this authority prior to that date; (3) banks to establish new branches on an interstate basis provided that this action is specifically authorized by the laws of the host state; (4) foreign banks to establish, with approval of the appropriate regulators in the United States, branches outside their home states to the same extent that national or state banks located in that state would be authorized to do so; and (5) banks to receive deposits, renew time deposits, close loans, service loans and receive payments on loans and other obligations as agent for any bank or thrift affiliate, whether the affiliate is located in the same or different state.

Item 1A. Risk Factors

There are many risks and uncertainties that can affect our business, financial performance or share price. Set forth below are the material risks which we believe could cause our future business, operating results, financial condition or share price to be different than our expectations.

Changing regulatory structure Industry regulators such as the Federal Reserve, the Comptroller of the Currency and the Federal Deposit Insurance Corporation may modify current regulations applicable to our operations. Additionally, future changes in legislation, including legislation governing publicly traded companies could impact our operations. We cannot predict the impact of implementing any future regulatory changes on the results of our operations or financial condition.

Monetary policy and economic environment The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of financial holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Federal Reserve s monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of these policies on our business and earnings cannot be predicted.

Our growth strategy involves operating and merger and acquisition risks that may negatively impact our profits We face risks in our growth strategy, including the risks that we will be unable to expand our business through the merging with or acquisition of other financial institutions or bank branches or by internal growth, including the opening of new branch offices. Our ability to grow profitably through the opening of new branches involves risks that the growth depends primarily on our ability to identify attractive markets and acquire or establish branch locations in those markets at reasonable costs. In addition, we must attract the necessary deposits and generate sound loans in those markets.

Merging with or acquiring other financial institutions or bank branches involves these same risks, as well as additional risks, including:

- adverse change in the results of operations of the acquired entities;
- unforeseen liabilities or asset quality problems of the acquired entities;
- greater than anticipated costs of integration;
- adverse personnel relations;
- loss of customers; and
- deterioration of local economic conditions.

The risks discussed above may inhibit or restrict our strategy to grow through mergers or acquisitions and branch expansion, and may negatively impact our revenue growth and ultimately reduce profits.

If we are unable to successfully integrate mergers or acquisitions, our earnings could decrease In connection with mergers or acquisitions of other banks, bank branches or other financial service providers, we face risks in integrating and managing these businesses. We have a history of growth through acquisitions and plan to continue this strategy. We may also consider various merger proposals in the future. To integrate a merger or an acquisition operationally, we

must:

- centralize and standardize policies, procedures, practices, and processes;

15

- combine employee benefit plans;
- implement a unified investment policy and adjust the combined investment portfolio to comply with the policy;
- implement a unified loan policy and confirm lending authority;
- implement a standard loan management system; and
- implement a loan loss reserve policy.

Integrating a merger or an acquisition may detract attention from our day-to-day business and may result in unexpected costs.

Once a business is integrated, our future prospects will be subject to a number of risks, including, among others:

- our ability to compete effectively in new market areas;
- our successful retention of earning assets, including loans;
- our ability to generate new earning assets;
- our ability to attract deposits;
- our ability to achieve cost savings. Historically, we have not implemented wholesale cost cutting after acquisitions, preferring to adjust operational costs on an ongoing basis in order to preserve market share and each acquired entity s standing in its community; and
- our ability to attract and retain qualified management and other appropriate personnel.

An inability to manage these factors may have a material adverse effect on our financial condition, results of operations or share price.

Our growth may require us to raise additional capital in the future, but sufficient capital may not be available when it is needed We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our immediate foreseeable capital requirements. However, to the extent that we further expand our asset base, primarily through loan growth, we will be required to support this growth by increasing our capital. Accordingly, we may need to raise additional capital in the future to support continued asset growth.

Our ability to raise additional capital to support future loan growth will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot assure our ability to raise additional capital when needed or on economical terms. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and our business. Also, these restrictions could negatively impact our ability to further expand our operations through acquisitions or the establishment of additional branches and result in increases in operating expenses and reductions in revenues that would negatively affect our operating results.

We rely heavily on our management team, and the unexpected loss of key managers may adversely affect our operations Much of our success to date has been influenced strongly by our ability to attract and retain senior management experienced in banking and financial services. Our ability to retain executive officers, the current management teams and loan officers of our operating subsidiaries will continue to be important to the successful implementation of our strategies. It is also critical to be able to attract and retain qualified additional management and loan officers. The unexpected loss of services of any key

16

management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We may not be able to successfully implement our strategy to enter new markets Our strategic plan includes expansion into growing markets by merger, acquisition or by establishing new offices. Expansion requires a significant expenditure of capital in order to prepare the facilities for operation and additional expense in order to staff these new facilities. As our new offices mature and grow, we are able to spread our overhead costs over a broader asset base. While our new offices are generating loan activity, we may encounter unanticipated difficulties that could adversely affect future profitability. In addition, we cannot ensure that we will be able to operate and manage our operations in new markets successfully or recover our initial capital investment in these operations. To the extent that we expand, we may experience the negative effects of higher operating expenses relative to operating income from the new offices.

We may not be successful in implementing our internal growth strategy due to numerous factors, which would negatively affect earnings We intend to continue pursuing an internal growth strategy, the success of which is subject to our ability to generate an increasing level of loans and deposits at acceptable risk levels without corresponding increases in non-interest expenses. We may not be successful in our internal growth strategies due to competition, delays, and other impediments resulting from regulatory oversight, lack of qualified personnel, scarcity of branch sites or deficient site selection of bank branches. In addition, the success of our internal growth strategy will depend on maintaining sufficient regulatory capital levels and on positive economic conditions in our primary market areas.

We face intense competition in all phases of our business from other banks and financial institutions We compete for deposits with a large number of depository institutions including commercial banks, savings and loan associations, credit unions, money market funds and other financial institutions and financial intermediaries serving our operating areas. Principal competitive factors with respect to deposits include interest rates paid on deposits, customer service, convenience, and location.

We compete for loans with other banks located in our operating areas, with loan production offices of large banks headquartered in other states, as well as with savings and loan associations, credit unions, finance companies, mortgage bankers, leasing companies and other institutions. Competitive factors with respect to loans include interest rates charged, customer service and responsiveness in tailoring financial products to the needs of customers.

We face significant competition from other financial institutions in completing any potential mergers or acquisitions. Many of our competitors have substantially greater monetary resources than we do, as well as the ability to issue marketable equity securities with significantly greater value than we can to pay for part or all of the purchase price in the case of an acquisition. Many of the entities that we compete with are substantially larger in size, and many non-bank financial intermediaries are not subject to the regulatory restrictions applicable to our bank subsidiaries.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio We establish an allowance for loan losses in consultation with management of our bank subsidiaries and maintain it at a level considered adequate by management to absorb loan losses that are inherent in our loan portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control and these losses may exceed current estimates. Although management believes that our allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot ensure that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our allowance for loan losses may adversely affect our business, financial condition and results of operations.

Changes in interest rates could affect our earnings Our net interest income is our largest source of revenue. Net interest income is the difference between interest earned on loans and investments and interest paid on deposits and other borrowings. We cannot predict or control changes in interest rates, which are affected by regional and local economic conditions and the policies of regulatory authorities. While we continually take measures designed to manage the risks from changes in market interest rate, changes in interest rates can still have a material adverse effect on our earnings.

If economic conditions in general and in our primary market areas deteriorate, our revenues could decrease Our financial results may be adversely affected by changes in prevailing economic conditions, including declines in real estate values, adverse employment conditions and the monetary and fiscal policies of the federal government. Because we have a significant amount of real estate loans, declines in real estate values could adversely affect the value of property used as collateral.

In addition, substantially all of our loans are to individuals and businesses in the Kansas City metropolitan area, Eastern Kansas, Western Missouri, the Colorado Springs metropolitan area, and the Omaha, Nebraska metropolitan area. Any decline in the economy of these market areas could have an adverse impact on our revenues. There can be no assurance that positive trends or developments discussed in this report will continue or that negative trends or developments will not have significant downward effects on our revenues.

Our business is subject to credit risks, which may adversely affect our earnings Our loan customers may not repay their loans according to their terms, and collateral securing their loans, if any, may not have a value equal to amounts owed under their loans. Should the economic climate deteriorate, borrowers may experience difficulty in repaying their loans, and the level of non-performing loans, charge-offs, and delinquencies could rise and require further increases in the provision for loan losses which would cause our net income to decline.

Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act), including, without limitation, the statements specifically identified as forward-looking statements within this document. In addition, certain statements in our future filings with the Securities and Exchange Commission, press releases or oral and written statements made by or with our approval, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, income or loss per share, the payment or nonpayment of dividends, capital structure and other financial items, (ii) statements of plans and objectives of the Company s, management or board of directors, including those relating to products or services, (iii) statements of future economic performance and (iv) statements such as anticipates , expects , intends , plans , targets , and simi expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to: (i) the strength of the U.S. economy in general and the strength of the local economies in which operations are conducted; (ii) the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; (iii) inflation, interest rates, market and monetary fluctuations; (iv) the timely development of and acceptance of new products and services and perceived overall value of these products and services by users; (v) changes in consumer spending, borrowing, and savings habits; (vi) technological changes; (vii) mergers and acquisitions and our ability to assimilate them; (viii) the ability to increase

market share and control expenses; (ix) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, and securities) with which we must comply; (x) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board, (xi) changes in our organization, compensation, and benefits plans; (xii) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; (xiii) the risks discussed above under Item 1A. Risk Factors and (xiv) our success at managing risks involved in the foregoing.

Such forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

Item 1B. Unresolved Staff Comments

None.

19

Item 2. Properties

The table below presents property information concerning our offices at December 31, 2006.

Name and Address of Office	Type of Interest	Lease Expiration	Square Footage of Facility
Team Financial, Inc. 8 West Peoria Paola, Kansas 66071	Owned	NA	5,000
TeamBank, N.A., Paola Branch (Main Office) 1 South Pearl Paola, Kansas 66071	Owned	NA	17,951
The Investment Center at TeamBank, N.A. 11 South Pearl Paola, Kansas 66071	Owned	NA	4,500
Team Bank, N.A., East Bank, Paola Branch 1515 Baptiste Drive Paola, Kansas 66071	Owned	NA	9,630
TeamBank, N.A., DeSoto Branch 34102 Commerce Drive DeSoto, Kansas 66018	Owned	NA	6,800
TeamBank, N.A., Lamar Branch 1011 Gulf Street Lamar, Missouri 64759	Leased	2007	2,650
TeamBank, N.A., Nevada Branch 201 East Cherry Nevada, Missouri 64772	Owned	NA	16,000
TeamBank, N.A., Osawatomie Branch 6th and Brown Osawatomie, Kansas 66064	Owned	NA	4,756
TeamBank, N.A., Ottawa Branch 421 South Hickory Ottawa, Kansas 66067	Owned	NA	8,000
TeamBank, N.A., Spring Hill Branch 22330 Harrison Street Spring Hill, Kansas 66083	Owned	NA	2,800
TeamBank, N.A., Iola Branch 119 East Madison Iola, Kansas 66749	Owned	NA	13,768
TeamBank, N.A., Parsons Branch (including drive in) 1902 Main Parsons, Kansas 66357	Owned	NA	11,000

TeamBank, N.A., Prairie Village Branch 5206 West 95th Street Prairie Village, Kansas 66207	Owned	NA	3,602
TeamBank, N.A., Omaha Branch (Main Office) 1902 Harlan Drive Bellevue, Nebraska 68005	Leased	2007	4,679
TeamBank, N.A., Bellevue Branch 7001 South 36th Bellevue, Nebraska 68147	Leased	2007	1,980
TeamBank, N.A., Fort Calhoun Branch 101 N. 14th Street Fort Calhoun, Nebraska 68023	Owned	NA	4,250
Colorado National Bank, Colorado Springs Branch (Main Office) 3110 North Nevada Avenue Colorado Springs, Colorado 80907	Owned	NA	7,859
Colorado National Bank, Colorado Springs Branch 601 North Nevada Avenue Colorado Springs, Colorado 80907	Owned	NA	4,600
Colorado National Bank, Monument Branch 581 Highway 105 Monument, Colorado 80132	Owned	NA	5,150

All of the leased properties are leased from unrelated third parties.

Management intends to relocate our Ottawa branch during the second quarter of 2007 to 2040 South Princeton, Ottawa, KS 66067.

Item 3. Legal Proceedings

On September 15, 2005, a summary judgment was entered against the Company and its subsidiaries by the District Court of Douglas County, Nebraska in litigation that began in 2004 regarding a contract provision in the Company s 1999 acquisition of Ft. Calhoun State Bank, a wholly owned subsidiary of Ft. Calhoun Investment Company (FCIC), now operated as part of TeamBank. The motion for summary judgment was filed by plaintiff John C. Mitchell, acting on behalf of FCIC. The motion for summary judgment was on the basis that the Company failed to provide Mitchell with quarterly interest payments and status reports on one problem loan that had specific purchase contract provisions associated with it. Mitchell sought relief of $170,000 plus interest accrued from March 24, 2000, the closing date of the acquisition. Although this judgment is currently on appeal, it did result in a charge of $214,000 to other non-interest expense in the third quarter of 2005. We do not anticipate that any interest that may be accruing on this amount until the appeal is settled will be material to our financial position or operating results.

On February 6, 2007, a complaint was filed by International Insurance Brokers, LTD in the United States District Court for the Northern District of Oklahoma against the Company and certain officers of the Company, claiming breach of contract, negligent misrepresentation, fraud and misrepresentation and civil conspiracy in connection with the sale of the insurance agency subsidiary that was sold to International Insurance Brokers effective December 31, 2004. Damages sought from the defendants include not less than $10 million in actual damages, not less than $10 million for consequential, and not less than $10 million for punitive damages. We believe the claims are without merit, and is pursuing a vigorous defense as well as available counterclaims against the plaintiff.

We do not believe that any other pending litigation to which we are a party will have a material adverse effect on our liquidity, financial condition, or results of operations.

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

There were no matters submitted to a vote of our security holders during the fourth quarter of 2006.

PART II

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

Our common stock is traded on the Nasdaq Global Market (NASDAQ) under the symbol TFIN .

The following table sets forth, for the periods indicated, the amount of cash dividends paid on our common stock and the high and low closing prices per share of our common stock as reported by NASDAQ.

Quarter Ended	Dividends Declared per Share	Common Stock High	Common Stock Low
2006:			
December 31, 2006	$	$ 16.24	$ 15.04
September 30, 2006	0.08	16.00	14.01
June 30, 2006	0.08	15.10	13.50
March 31, 2006	0.08	14.98	13.34
Year	$ 0.24		
2005:			
December 31, 2005	$ 0.08	$ 15.16	$ 13.86
September 30, 2005	0.08	16.00	13.81
June 30, 2005	0.08	15.00	13.35
March 31, 2005	0.08	15.05	12.33
Year	$ 0.32		

At March 1, 2007 we had approximately 220 holders of record of our common stock; management estimates that the number of beneficial owners is significantly greater.

The following table summarizes information about the shares of common stock we repurchased during the fourth quarter of 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be purchased Under The Program
October 1-October 31		$		307,673
November 1-November 31	4,000	15.60	4,000	303,673
December 1- December 31				303,673
Total	4,000	$ 15.60	4,000	

The Board of Directors approved a stock repurchase program, announced October 14, 2004, authorizing the repurchase of up to 400,000 shares of our common stock. There is no expiration date on this program.

During 2006 we repurchased a total of 73,457 shares of our common stock under our stock repurchase program at an average price of $14.10 per share. Pursuant to the repurchase plan authorized by the Board of Directors, 303,673 shares of our common stock remain to be purchased under this program.

Under a separate repurchase authorization of the Board of Directors, on May 16, 2006, the Company entered into an agreement to repurchase 377,200 shares of our common stock from an unaffiliated third party for approximately $6.2 million, or $16.50 per share. The repurchase was completed on June 1, 2006. This repurchase was funded with borrowings under the Company s existing line of credit.

We have paid cash dividends on our common stock each year since 1987. Although we currently intend to continue the payment of dividends, we cannot give any assurance that we will continue to pay or declare dividends on our common stock in the future.

Kansas law permits us to pay dividends on our common stock when we are solvent and when dividend payments would not render us insolvent. Under Kansas law, dividends may be declared and paid only out of the unsecured, unrestricted earned surplus of a corporation.

Our ability to pay cash dividends on our common stock largely depends on the amount of cash dividends paid to us by our subsidiary banks. Capital distributions, including dividends by financial institutions such as our subsidiary banks, are subject to restrictions tied to the institutions earnings and capital. Generally, without prior bank regulatory approval, the subsidiary banks cannot pay dividends during any calendar year in excess of the sum of their earnings during that year and the two previous years, less any other distributions during that period. At December 31, 2006, our subsidiaries could have paid additional dividends to Team Financial, Inc. of approximately $4,100,000 without prior regulatory approval.

The following table summarizes the securities authorized for issuance under our equity compensation plans as of December 31, 2006. We have no equity compensation plans that have not been approved by our shareholders.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	367,700	$ 11.06	45,250

Item 6. Selected Financial Data

The selected consolidated information presented below should be read in conjunction with our consolidated financial statements and notes presented elsewhere in this report.

	Years ended December 31				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share data)				
Consolidated statement of operations data:					
Interest income	$ 45,139	$ 36,609	$ 31,975	$ 31,579	$ 37,113
Interest expense	21,081	15,243	12,591	13,523	16,427
Net interest income	24,058	21,366	19,384	18,056	20,686
Provision for loan losses	951	820	1,465	1,790	1,434
Non-interest income	7,212	7,706	8,150	9,808	9,839
Non-interest expenses	25,284	23,230	22,051	21,674	21,964
Income taxes	1,050	944	222	958	2,418
Net income from continuing operations, net of tax	3,985	4,078	3,796	3,442	4,709
Net income (loss) from discontinued operations, net of tax		(108)	(218)	350	(3)
Net income	3,985	3,970	3,578	3,792	4,706
Consolidated statements of financial condition data:					
Total assets	756,428	696,529	664,083	649,796	656,349
Loans receivable	486,497	420,181	378,771	348,095	340,986
Allowance for loan losses	5,715	5,424	4,898	4,506	4,611
Investment securities available for sale	170,079	181,740	183,499	212,371	216,690
Non-performing assets(1)	10,179	5,037	3,162	8,377	6,346
Deposits	562,882	507,878	467,950	446,159	455,605
Long-term borrowings	98,069	108,131	106,295	101,184	108,301
Subordinated debt	22,681	16,005	16,005	16,005	16,005
Stockholders equity	$ 50,517	$ 53,349	$ 52,854	$ 52,404	$ 51,828
Per common share:					
Shares applicable to basic income per share	3,765,118	4,038,097	4,060,587	4,095,903	4,145,820
Shares applicable to diluted income per share	3,859,442	4,094,793	4,094,714	4,131,381	4,165,400
Basic income per share from continuing operations	$ 1.06	$ 1.01	$ 0.93	$ 0.84	$ 1.14
Diluted income per share from continuing operations	1.03	1.00	0.93	0.83	1.13
Basic income (loss)per share from discontinued operations		(0.03)	(0.05)	0.09	
Diluted income (loss)per share from discontinued operations		(0.03)	(0.05)	0.09	
Basic income per share	1.06	0.98	0.88	0.93	1.14
Diluted income per share	1.03	0.97	0.87	0.92	1.13
Book value per share	14.05	13.22	13.10	12.78	12.62
Tangible book value per share	10.43	9.87	8.01	7.81	7.59
Dividends paid per common share	$ 0.24	$ 0.32	$ 0.32	$ 0.27	$ 0.22
Dividend payout ratio	22.64 %	32.65 %	36.36 %	29.03 %	19.30 %
Key ratios:					
Net interest margin(2)	3.80 %	3.64 %	3.49 %	3.30 %	3.76 %
Return on average assets	0.55 %	0.59 %	0.55 %	0.59 %	0.71 %
Return on average stockholders equity	7.98 %	7.46 %	6.84 %	7.28 %	9.57 %
Efficiency Ratio	80.86 %	79.91 %	83.56 %	79.14 %	72.29 %
Core risk based capital ratio	9.82 %	11.60 %	10.70 %	11.08 %	11.00 %
Total risk based capital ratio	10.83 %	12.72 %	11.81 %	12.16 %	12.17 %
Leverage ratio	7.90 %	8.42 %	7.43 %	7.46 %	6.88 %
Non-performing assets to total assets	1.35 %	0.72 %	0.48 %	1.29 %	0.97 %
Non-performing loans to total loans	1.92 %	1.09 %	0.73 %	2.09 %	1.34 %
Allowance for loan losses to total loans	1.17 %	1.29 %	1.29 %	1.29 %	1.35 %
Allowance for loan losses to non-performing loans	57.13 %	118.38 %	177.85 %	62.10 %	100.76 %

(1) Includes loans 90 days or more delinquent and still accruing interest, non-accrual loans, restructured loans, and other real estate owned.

(2) On a tax equivalent basis using a federal tax rate of 34%.

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

Business Environment and Risk Factors

Management s discussion and analysis should be read in conjunction with the consolidated financial statements contained within this report, including the notes thereto. Our future operating results may be affected by various trends and factors that are beyond our control. These include the factors set forth in Risk Factors and Forward-Looking Statements. Accordingly, past results and trends may not be reliable indicators of future results or trends. With the exception of historical information, the matters discussed below include forward-looking statements that involve risks and uncertainties. We caution readers that a number of important factors discussed in this report could affect our actual results and cause actual results to differ materially from those in the forward-looking statements.

Overview

We are a financial holding company offering a broad range of community banking and financial services through locations in Kansas, Missouri, Nebraska and Colorado through our wholly owned banking subsidiaries, TeamBank and Colorado National Bank. Our presence in Kansas consists of seven locations in the Kansas City metropolitan area and three locations in southeast Kansas. We operate two locations in western Missouri, three in metropolitan Omaha, Nebraska, and three in the Colorado Springs, Colorado metropolitan area. In 2007, we plan to open two new locations, one in Falcon, Colorado and one in Lee s Summit, Missouri. Our total assets over the past ten years have grown from $260.3 million at January 1, 1996 to $756.4 million at December 31, 2006.

The growth in assets and the corresponding increase in earnings were achieved primarily through purchases of branches of large banks, purchases of community banks, and branch expansions. Our branch expansion includes growth at existing branches, primarily through the addition of loan officers at those locations, as well as the opening of new branches. Accompanying the acquisition growth were increased operating expenses as well as increases in provisions for loan losses and amortization expense of intangible assets related to acquisitions, and in some instances, issuance of our common stock in conjunction with the acquisitions. Our experience is that it takes 12 to 18 months to realize meaningful net income improvements from acquisitions due to our emphasis on retaining key employees rather than the immediate implementation of cost reduction measures.

At December 31, 2006 total assets were $756.4 million, an increase of $59.9 million, or 8.6%, from $696.5 million at December 31, 2005. The increase in total assets was primarily due to an increase in loans receivable of $66.0 million. The increase in loans was offset by a decrease in investment securities of $11.3 million. At December 31, 2005 total assets were $696.5 million, an increase of $32.4 million, or 4.9%, from $664.1 million at December 31, 2004. The increase in total assets during 2005 was primarily due to an increase in loans receivable of $41.4 million offset by a decrease in assets of discontinued operations of $8.3 million.

Net income from continuing operations totaled $4.0 million for the year ended December 31, 2006 versus $4.1 million for the year ended December 31, 2005. The decrease of $100,000, or 2.4%, was primarily the result of an increase in net interest income of $2.7 million, or 12.6%, offset by a decrease in non-interest income of $494,000, or 6.4%, and an increase in non-interest expense of $2.1 million, or 8.8%. The $2.1 million increase in non-interest expense was largely due to an $823,000 charge relating to the restructuring of the trust preferred securities. See *Note 12 Subordinated Debentures* in the Notes to the consolidated financial statements for more information on the restructuring of the trust preferred securities and the related charge.

Net income from continuing operations totaled $4.1 million for the year ended December 31, 2005 versus $3.8 million for the year ended December 31, 2004. The increase of $300,000, or 7.9%, was primarily the

result of an increase in net interest income of $2.0 million, or 10.3%, a decrease in the provision for loan losses of $645,000, or 44.0%, offset by a decrease in non-interest income of $444,000, or 5.4%, an increase in non-interest expense of $1.2 million, or 5.4%, and an increase in income tax expense of $722,000, or 325.2%.

On February 25, 2005, we sold our interest in the insurance agency subsidiary. Financial information as of and for the years ended December 31, 2006, 2005 and 2004 presents the assets, liabilities and operating results of this subsidiary in discontinued operations. As a result of the sale, the operations related to the insurance agency subsidiary have been reclassified as discontinued operations in the consolidated financial statements and related notes.

For the year ended December 31, 2005, discontinued operations resulted in a net loss of $108,000 compared to a net loss of $218,000 for the year ended December 31, 2004. During the second quarter of 2005, a loss on the sale of the insurance agency subsidiary of approximately $164,000 was recorded upon finalization of the selling price and is presented, net of the tax effect, in discontinued operations in the accompanying consolidated financial statements and related notes. The sale was effective December 31, 2004 and, therefore, the operations of the insurance subsidiary during 2005 were assumed by the new owners. Pursuant to the notice provisions of the agreement, the buyer presented its breach of warranty and representation claims in August, 2006, and in February 2007, filed a complaint in the United States District Court for the Northern District of Oklahoma against Team Financial, Inc., TeamBank, N.A. Asset Corporation, Mystic Capital Advisors Group, LLC, Robert J. Weatherbie, Michael L. Gibson and Kevin Donoghue. The complaint asserts claims for breach of contract, negligent misrepresentation, fraud and misrepresentation and civil conspiracy in connection with the sale of the insurance agency subsidiary that was sold to the buyer, effective December 31, 2004. The Company believes the claims are without merit, and it will pursue a vigorous defense as well as pursue available counterclaims against the plaintiff. See our discussion under *Discontinued Operations* and *Litigation* for further information.

Critical Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements and related notes, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period presented. Actual results could differ significantly from those estimates.

Allowance for Loan Losses

One of our critical accounting policies relates to the allowance for loan losses and involves significant management valuation judgments. We perform periodic and systematic detailed reviews considering historical loss experience, the volume and type of lending conducted, the status of past due principal and interest payments, an evaluation of economic conditions, particularly as such conditions relate to our market areas, and other factors related to the collectibility of our loan portfolio. Based upon these factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for probable loan losses based upon a percentage of the outstanding balances and for specific loans if their ultimate collectibility is considered questionable. Since certain lending activities involve greater risks, the percentage applied to specific loan types may vary. The allowance provided is subject to review by our regulators. Management believes that the allowance is adequate for probable loan losses inherent in the loan portfolio. Though management uses available information to provide appropriate allowances for inherent losses on loans, future additions to the allowance may be necessary based on borrowers circumstances and changes in economic conditions.

Impairment of Goodwill Analysis

The provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), require that goodwill be evaluated for impairment annually or more frequently if conditions indicate impairment may have occurred. The evaluation of possible impairment of intangible assets involves judgment based upon short-term and long-term projections of future performance. The Company has completed its most recent evaluation of goodwill of continuing operations and determined that no impairment exists for the year ended December 31, 2006. There was no impairment of goodwill in 2005. Net loss from discontinued operations included an impairment of goodwill of $174,000 during the year ended December 31, 2004 as a result of the annual impairment testing and the sale of the insurance agency.

Deferred Income Taxes

The provisions of Statement of Financial Accounting Standards, No. 109, Accounting for Income Taxes (SFAS 109), establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns related to deferred income. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. 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.

Analysis of the Results of Operations

Net Interest Income from Continuing Operations

Our income is derived primarily from net interest income, which is the difference between interest income, principally from loans, investment securities, federal funds sold, and interest bearing deposits, and interest expense, principally on customer deposits and other borrowings. Changes in net interest income result from changes in volume and interest rates earned and expensed. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities.

The following tables set forth the average balances of interest-earning assets and interest-bearing liabilities associated with continuing operations, as well as the amount of interest income or interest expense from continuing operations and the average rate for each category of interest-earning assets and interest-bearing liabilities on a tax-equivalent basis assuming a 34% tax rate for the periods indicated.

	Year ended December 31, 2006			**Year ended December 31, 2005**			**Year ended December 31, 2004**		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(Dollars in thousands)								
Interest earning assets:									
Loans receivable, net(1)(2)(3)	$ 458,102	$ 35,761	7.81 %	$ 403,234	$ 27,778	6.89 %	$ 365,587	$ 23,308	6.38 %
Investment securities-taxable	156,319	7,832	5.01 %	165,320	7,352	4.45 %	176,571	7,364	4.17 %
Investment securities-nontaxable(4)	28,217	1,794	6.36 %	30,135	1,968	6.53 %	31,765	2,064	6.50 %
Federal funds sold and interest-bearing deposits	9,328	459	4.92 %	9,367	266	2.84 %	5,227	54	1.03 %
Other assets	545	49	8.99 %	480	45	9.38 %	480	46	9.58 %
Total interest earning assets	$ 652,511	$ 45,895	7.03 %	$ 608,536	$ 37,409	6.15 %	$ 579,630	$ 32,836	5.67 %
Interest bearing liabilities:									
Savings deposits and interest bearing checking	$ 188,365	$ 3,582	1.90 %	$ 181,265	$ 1,973	1.09 %	$ 184,916	$ 1,275	0.69 %
Time deposits	262,696	11,059	4.21 %	226,889	6,823	3.01 %	198,123	4,630	2.34 %
Federal funds purchased and securities sold under agreements to repurchase	4,496	171	3.80 %	5,347	136	2.54 %	10,481	143	1.36 %
Notes payable and Federal Home Loan									
Bank advances	110,864	4,681	4.22 %	112,946	4,758	4.21 %	115,205	4,990	4.33 %
Subordinated debentures	18,174	1,588	8.74 %	16,005	1,553	9.70 %	16,005	1,553	9.70 %
Total interest bearing liabilities	$ 584,595	$ 21,081	3.61 %	$ 542,452	$ 15,243	2.81 %	$ 524,730	$ 12,591	2.40 %
Net interest income (tax equivalent)		$ 24,814			$ 22,166			$ 20,245	
Interest rate spread			3.42 %			3.34 %			3.27 %
Net interest earning assets	$ 67,916			$ 66,084			$ 54,900		
Net interest margin(4)			3.80 %			3.64 %			3.49 %
Ratio of average interest bearing liabilities to average interest earning assets	89.59 %			89.14 %			90.53 %		

(1) Loans are net of deferred costs, less fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) Interest income includes loan fees. These fees for the years ended December 31, 2006, 2005, and 2004 were $1,269,000, $1,230,000, and $967,000, respectively.

(4) Yield is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2006, 2005, and 2004 were $756,000, $800,000, and $861,000, respectively.

Net interest margin increased to 3.80% for the year ended December 31, 2006 compared to 3.64% and 3.49% for the years ended 2005 and 2004, respectively. The increase in net interest margin resulted from higher average rates earned on interest-earning assets than average rates paid on interest-bearing liabilities, largely due to an increase in the yield on loans receivable.

Total interest income on a tax equivalent basis from continuing operations for 2006 was $45.9 million, representing an increase of $8.5 million, or 22.7%, from $37.4 million for 2005. The increase was primarily the result of an $8.0 million increase in interest income on loans receivable.

Interest income on loans receivable increased due to a 92 basis point increase in the average yield on loans receivable to 7.81% in 2006 from 6.89% in 2005, coupled with an increase of $54.9 million in the average loan receivable balance to $458.1 million in 2006 from $403.2 million in 2005. The increase in the yield of loans receivable reflects the increase in the rates applied to loans that re-priced in 2006 as required by the notes terms and the pricing of newly originated loans at higher rates.

The average yield on taxable investment securities increased 56 basis points from 4.45% in 2005 to 5.01% in 2006, contributing to an $480 thousand increase in interest income. Offsetting the increase in interest income due to higher yields was a decrease in average balances of approximately $9.0 million, resulting in a decrease in interest income of approximately $400 thousand. The net decrease in interest income as a result of the higher average yield and lower average balance was $480 thousand. Cash flow from the reduction of investment securities was redirected to fund loan growth.

Total interest expense from continuing operations was $21.1 million for 2006, a $5.9 million, or a 38.8% increase from $15.2 million in 2005. The increase was primarily related to the increase in average rates paid on time deposits to 4.21% in 2006 from 3.01% in 2005, representing a 120 basis point increase. Branch CD promotions contributed the majority of the increase in average balances and the corresponding increase in rates paid on those deposits. The average rates paid on interest bearing savings and checking deposits increased 81 basis points from 1.09% in 2005 to 1.90% in 2006.

As a result of the changes described above, net interest income on a tax equivalent basis from continuing operations increased to $24.8 million during 2006, representing an increase of $2.6 million, or 11.7%, compared to $22.2 million in 2005.

Interest income on loans receivable increased due to a 51 basis point increase in the average yield on the loans receivable to 6.89% in 2005 from 6.38% in 2004, coupled with an increase of $37.6 million in the average loan receivable balance to $403.2 million in 2005 from $365.6 million in 2004. The increase in the yield of loans receivable reflects the increase in the rates applied to loans that re-priced in 2005 as required by the notes terms and the pricing of newly originated loans at higher rates.

The average yield on taxable investment securities increased 28 basis points from 4.17% in 2004 to 4.45% in 2005, contributing to a $500 thousand increase in interest income. Offsetting the increase in interest income due to higher yields was a decrease in average balances of approximately $11.3 million, resulting in a decrease in interest income of approximately $500 thousand. However, the net decrease in interest income as a result of the higher average yield and lower average balance was $12 thousand.

Total interest expense from continuing operations was $15.2 million for 2005, a $2.6 million, or 20.6%, increase from $12.6 million in 2004. The increase was primarily related to the increase in average rates paid on time deposits to 3.01% in 2005 from 2.34% in 2004, representing a 67 basis point increase. An increase of approximately $28.8 million in the average balances of time deposits as a result of branch CD promotions also contributed to a $673 thousand increase in interest expense. Additionally, the average rates paid on interest bearing savings and checking deposits increased from 0.69% in 2004 to 1.09% in 2005, an increase of 40 basis points.

As a result of the changes described above, net interest income on a tax equivalent basis from continuing operations increased to $22.2 million during 2005, representing an increase of $2.0 million, or 9.9%, compared to $20.2 million in 2004.

The average rate paid on our subordinated debentures, which we restructured in September 2006, was 8.74% for 2006 compared to 9.70% for 2005. Pursuant to the provisions of Financial Accounting Standards Board Interpretation No. 46 Revised (FIN 46R), *Consolidation of Variable Interest Entities*, the Trust is not consolidated in the consolidated financial statements. See *Note 12 Subordinated Debentures* in the notes to the consolidated financial statements for a full discussion on the restructured trust preferred securities.

The following table presents the components of changes in our net interest income from continuing operations, on a tax equivalent basis, attributed to volume and rate. Changes in interest income or interest expense attributable to volume changes are calculated by multiplying the change in volume by the prior fiscal year s average interest rate. The changes in interest income or interest expense attributable to changes in interest rates are calculated by multiplying the change in interest rate by the prior fiscal year s average volume. The changes in interest income or interest expense attributable to the combined impact of changes in volume and change in interest rate are calculated by multiplying the change in rate by the change in volume.

	Year ended December 31, 2006 Compared To Year ended December 31, 2005 Increase (decrease) due to			**Year ended December 31, 2005 Compared To Year ended December 31, 2004 Increase (decrease) due to**		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**Net**
	(In thousands)			**(In thousands)**		
Interest income:						
Loans receivable, net(1)(2)(3)	$ 3,780	$ 4,203	$ 7,983	$ 2,402	$ 2,068	$ 4,470
Investment securities-taxable	(400)	880	480	(469)	457	(12)
Investment securities-nontaxable(4)	(125)	(49)	(174)	(106)	10	(96)
Federal funds sold and interest-bearing deposits	(1)	194	193	43	169	212
Other assets	6	(2)	4		(1)	(1)
Total interest income	3,260	5,226	8,486	1,870	2,703	4,573
Interest expense:						
Savings deposits and interest bearing checking	77	1,532	1,609	(25)	723	698
Time deposits	1,077	3,159	4,236	673	1,520	2,193
Federal funds purchased and securities sold under agreements to repurchase	(22)	57	35	(70)	63	(7)
Notes Payable and Federal Home Loan Bank Advances	(88)	11	(77)	(98)	(134)	(232)
Subordinated debentures	210	(175)	35			
Total interest expense	1,254	4,584	5,838	480	2,172	2,652
Net change in net interest income	$ 2,006	$ 642	$ 2,648	$ 1,390	$ 531	$ 1,921

(1) Loans are net of deferred costs, less fees.

(2) Non-accruing loans are included in the computation of average balances.

(3) Interest income includes loan fees. These fees for the years ended December 31, 2006, 2005, and 2004 were $1,269,000, $1,230,000 and $967,000, respectively.

(4) Income is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2006, 2005, and 2004 were $756,000, $800,000 and $861,000, respectively.

Provision for Loan Losses

A provision for losses on loans represents management s determination of the amount necessary to be charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical loss experience, the volume and type of lending conducted, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to our market areas, and other factors related to the collectibility of our loan portfolio. It is management s practice to review the allowance on a monthly basis to determine the level of provision to be recognized in the allowance, and after considering the above factors, management recorded a provision for loan losses on loans totaling $1.0 million for the year ended 2006, $0.8 million for the year ended 2005, and $1.5 million for the year ended 2004. The increase in the provision recorded in 2006 compared to 2005 was primarily a result of increased loan balances in 2006 compared to 2005. Though loan balances increased proportionately more than the provision in 2006, and non-performing loans also increased, additional loan loss allowances were deemed not necessary because the additional non-performing credits are well-secured. The provision recorded for the year ended 2005 decreased from 2004 primarily as a result of the increased levels of loans secured by real estate which are secured by higher collateral values, therefore, not necessitating large amounts of loan loss reserves.

Non-Interest Income from Continuing Operations

The following table sets forth non-interest income from continuing operations for the indicated periods.

	Years ended December 31		
	2006	**2005**	**2004**
	(In thousands)		
Service charges	$ 3,658	$ 3,891	$ 3,952
Trust fees	720	702	664
Brokerage service revenue	230	167	234
Gain on sales of mortgage loans	584	887	1,264
Loss on sales of investment securities	(157)	(1)	(50)
Mortgage servicing fees, net of amortization	204	248	290
Merchant processing fees	35	65	188
ATM and debit card fees	527	444	368
Income from investment in bank owned life insurance	884	842	821
Other	527	461	419
Total non-interest income	$ 7,212	$ 7,706	$ 8,150

Non-interest income from continuing operations was $7.2 million for 2006, a $0.5 million, or 6.4%, decrease from 2005. This decrease was primarily a result of a decrease of gain on sales of mortgage loans resulting in a $0.3 million, or 34.2%, decrease in 2006 compared to 2005. The continued decrease in gain on sales of mortgage loans was the result of the steady decrease in volume of loans refinanced and originated and sold due to the stabilizing interest rate environment and higher rates than in previous years. We do not expect gain on sales of mortgage loans to increase materially unless interest rates decrease significantly. Further decreases in gain on sales of mortgage loans could occur in the event that long-term interest rates increase. Service charges decreased approximately $233,000 for the year ended 2006 compared to the year ended 2005 due to decreased volume of overdraft fees and decreased service charges, primarily due to the loss of one large retail account; however, this loss also lowered the associated processing costs. The Company incurred $157,000 loss on the sales of investment securities during 2006, due to decisions to restructure certain investments maintained in our portfolio in order to achieve higher yields in the future.

Non-interest income from continuing operations decreased $500 thousand during 2005 to $7.7 million, compared to $8.2 million during 2004. The decrease was primarily the result of a $400 thousand, or 30% decrease in gain on sales of mortgage loans as a result of the decrease in volume of loans refinanced and originated and sold due to the continued decline in mortgage banking activity as a result of the higher interest rate environment as compared to the interest rate environment of prior years. Also contributing to the decrease was a $100 thousand, or 65%, decrease in merchant processing fees from $188 thousand in 2004 to $65 thousand in 2005. The decrease in merchant processing fees was a result of selling our merchant processing portfolio in the fourth quarter of 2004. Since the sale of the portfolio, all merchant processing fee income is a result of a referral program with the vendor.

Non-Interest Expense from Continuing Operations

The following table presents non-interest expense for the indicated periods:

	Years ended December 31		
	2006	**2005**	**2004**
	(In thousands)		
Salaries and employee benefits	$ 12,299	$ 11,406	$ 10,638
Occupancy and equipment	3,127	2,759	2,765
Data processing	2,937	2,851	2,528
Professional fees	1,435	1,348	1,179
Marketing	408	378	355
Supplies	350	322	378
Intangible asset amortization	579	616	798
Trust preferred securities redemption amortization	823		
Other	3,326	3,550	3,410
Total non-interest expenses	$ 25,284	$ 23,230	$ 22,051

Non-interest expense from continuing operations was $25.3 million for the year ended 2006, an increase of $2.1 million, or 9.0%, compared to $23.2 million for the year ended 2005. Salaries and employee benefits increased approximately $900,000, or 7.9%, as a result of hiring additional personnel and increased compensation expense. Part of the increase in compensation expense was related to the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments*, (SFAS No. 123(R)) in January 2006. Stock-based compensation expense increased $218,000 during 2006 compared to 2005, largely due to the adoption of this accounting standard. Occupancy and equipment increased approximately $400,000 during 2006 primarily due to increased building and equipment maintenance and repair costs and a $91,000 write-down of the value of one of our buildings that will be sold. The largest contribution to the increase in non-interest expense was the $823,000 charge taken as a result of the restructuring of the Trust Preferred Securities. See *Note (12) Subordinated Debentures* in the notes to the consolidated financial statements for more information on the restructuring of the Trust Preferred Securities and the related charge.

Non-interest expense from continuing operations was $23.2 million for the year ended 2005, an increase of $1.2 million, or 5.4%, compared to $22.1 million for the year ended 2004. Salaries and employee benefits increased $768,000, or 7.2%, over 2004 primarily due to an increase in bonuses earned in 2005 of approximately $634,000 as compared to 2004. Data processing expense increased approximately $323,000 due to increases in computer license expense and other computer support. Additionally, professional fees increased $169,000, or 14.3%, primarily due to increased internal audit expenses. These increases were offset by a decrease in intangible asset amortization of $182,000, or 22.8%, primarily due to a reduction of the valuation allowance on mortgage servicing rights based on our valuation of the fair value of the mortgage servicing assets.

Income Tax Expense from Continuing Operations

We recorded income tax expense from continuing operations of $1,050,000 for 2006 compared to $944,000 for 2005, representing an increase of $106,000. The effective tax rate from continuing operations for 2006 and 2005 was 20.9% and 18.8%, respectively. An increase in taxable income contributed to the higher effective tax rate in 2006 compared to 2005. The effective tax rate was less than the statutory federal rate of 34.0% in 2006 and 2005 primarily due to municipal interest income and non-taxable income from our investment in bank owned life insurance.

We recorded income tax expense from continuing operations of $944,000 for the year ended 2005 compared to $222,000 for the year ended 2004, representing an increase of $722,000. The effective tax rate from continuing operations for 2005 and 2004 was 18.8% and 5.5%, respectively. An increase in taxable income contributed to the higher effective tax rate in 2005 compared to 2004. The lower effective tax rate in 2004 was a result of approximately $165,000 due to the completion of the year ended December 31, 2003 income tax returns and the reconciliation of actual tax liabilities to those previously estimated in the tax provision and approximately $291,000 due to the reversal of previously provided tax reserves from closed tax years. Otherwise, the effective tax rate was less than the statutory federal rate of 34.0% in 2005 and 2004 primarily due to municipal interest income and non-taxable income from our investment in bank owned life insurance.

Discontinued Operations

On February 25, 2005, we completed the sale of our insurance agency subsidiary for $6,836,000. Our investment in the subsidiary as of February 25, 2005 was approximately $7,000,000. A loss on the sale of the subsidiary of approximately $164,000 was recorded in the second quarter of 2005 upon finalization of the selling price and is presented, net of tax, as loss from discontinued operations in the accompanying consolidated financial statements. The sale was effective December 31, 2004. As a result of the sale, the insurance agency s operations have been classified as a discontinued operation in the consolidated financial statements.

The insurance agency subsidiary was purchased on December 18, 2002 and operated as a subsidiary until its sale. Total consideration paid for the insurance agency when purchased in 2002 was $6,850,000. Cash of $5,000,000 was paid at closing. Additional consideration of $1,850,000 plus interest was paid to the previous owners because certain revenue contingencies were met during the years ended 2003 and 2004.

Certain revenue contingencies for both 2003 and 2004 were achieved resulting in additional cash consideration of $925,000 plus interest paid to the previous owners during the first quarter of 2004 for the 2003 fiscal year achievement and $925,000 was paid in the first quarter of 2005 for the 2004 fiscal year achievements. The 2005 payment was accrued at December 31, 2004 and included in the payables of TeamBank. Goodwill increased by $1,850,000 during 2004 as a result of these contingent payments. In compliance with annual impairment testing required by Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we recognized an impairment on goodwill of $174,000 during the fourth quarter of 2004.

Summarized results of operations related to the insurance agency are as follows for the year ended December 31, 2004.

	Year ended December 31, 2004 (In thousands)
Insurance agency commissions	$ 4,153
Other income	193
Total income	4,346
Salary and employee benefits	3,092
Occupancy and equipment	338
Professional fees	90
Marketing	126
Supplies	39
Intangible asset amortization	170
Goodwill impairment	174
Intangible asset write-off	119
Other	455
Total expenses	4,603
Net loss from discontinued operations before income taxes	(257)
Income tax benefit	(39)
Net loss from discontinued operations, net of tax	$ (218)

In August, 2006, the buyer of the insurance agency presented breach of warranty and representation claims, and on February 6, 2007 filed a complaint in the United States District Court for the Northern District of Oklahoma against certain officers of the Company, Team Financial, Inc., TeamBank, N.A. Asset Corporation, Mystic Capital Advisors Group, LLC, Robert Weatherbie, Michael Gibson and Kevin Donoghue. The complaint asserts claims for breach of contract, negligent misrepresentation, fraud and misrepresentation and civil conspiracy in connection with the sale of the insurance agency subsidiary that was sold to the buyer effective December 31, 2004. The Company believes the claims are without merit, and is pursuing a vigorous defense as well as pursuing available counterclaims against the plaintiff.

Comprehensive Income

Comprehensive income is the total of net income and other comprehensive income. Our other comprehensive income is composed of the change in equity resulting from an increase or decrease in the market value of our available for sale investment securities, due to the changes in interest rates, net of tax.

Comprehensive income was $4.5 million for the year ended 2006, an increase of $2.8 million from $1.7 million for the year ended 2005. The increase was primarily the result of a $2.7 million increase in other comprehensive income due to the increase in unrealized gains on investment securities during 2006 compared to the unrealized losses experienced during 2005.

Comprehensive income was $1.7 million for the year ended 2005, a decrease of $1.0 million from $2.7 million for the year ended 2004. The decrease was primarily the result of a $1.4 million decrease in other comprehensive income as unrealized losses experienced during 2005 increased compared to the unrealized losses experienced during 2004.

Analysis of Financial Condition

Overview

Total assets were $756.4 million at December 31, 2006, an increase of $59.9 million, or 8.6%, from $696.5 million in total assets as of December 31, 2005. The increase in total assets was primarily due to an increase in loans receivable of $66.3 million, offset by a decrease in investment securities available for sale of $11.7 million.

Total assets were $696.5 million at December 31, 2005, compared to $664.1 million as of December 31, 2004, an increase of $32.4 million, or 4.9%. The increase in total assets was primarily due to an increase in loans receivable of $41.4 million. Offsetting this increase was a decrease in assets of discontinued operations of $8.3 million.

Loan Portfolio Composition

The following tables present the composition of our loan portfolio by type of loan at the dates indicated.

	December 31									
	2006		2005		2004		2003		2002	
	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total	Principal Balance	Percent of Total
	(Dollars in thousands)									
Loans secured by real estate										
One to four family	$ 84,078	17.5 %	$ 86,880	20.9 %	$ 87,633	23.4 %	$ 93,711	27.3 %	$ 102,673	30.5 %
Construction and land development	136,835	28.5	80,918	19.5	49,388	13.2	43,748	12.7	38,717	11.5
Commercial	145,747	30.3	136,318	32.9	122,007	32.6	103,568	30.2	84,751	25.2
Other	34,305	7.1	36,738	8.9	17,781	4.8	15,161	4.4	13,891	4.1
Total	400,965	83.4	340,854	82.2	276,809	74.0	256,188	74.6	240,032	71.4
Commercial and agricultural	67,403	14.0	63,080	15.2	82,889	22.2	70,734	20.6	71,835	21.4
Installment and other	18,661	3.9	17,176	4.1	19,863	5.3	21,819	6.4	29,716	8.8
Gross Loans	487,029	101.3	421,110	101.5	379,561	101.5	348,741	101.5	341,583	101.5
Less unearned fees	(532)	(0.1)	(929)	(0.2)	(790)	(0.2)	(646)	(0.2)	(597)	(0.2)
Total loans receivable	486,497	101.2	420,181	101.3	378,771	101.3	348,095	101.3	340,986	101.4
Less allowance for loan losses	(5,715)	(1.2)	(5,424)	(1.3)	(4,898)	(1.3)	(4,506)	(1.3)	(4,611)	(1.4)
Total net loans receivable	$ 480,782	100.0 %	$ 414,757	100.0 %	$ 373,873	100.0 %	$ 343,589	100.0 %	$ 336,375	100.0 %

Total loans receivable were $486.5 million at December 31, 2006 compared to $420.2 million at December 31, 2005, representing an increase of $66.3 million, or 15.8%. The increase in total loans receivable was primarily due to increases in construction and land development and commercial real estate loans. The internal loan growth in these areas produced an increase of $55.9 million and $9.4 million, respectively, during 2006. Slightly offsetting the increase in our construction and land development and commercial real estate loans was a decrease in our one to four family loans and our farmland loans of $2.8 million and $2.9 million, respectively. Installment loans have continued to decrease as a percentage of our loan portfolio over the past several years as we have placed more emphasis on growing our small to mid-size business lending. At December 31, 2006 installment loans were $10.3 million, representing a $1.5 million decrease, or 12.7%, from installment loans at December 31, 2005 of $11.8 million.

Loans secured by real estate

Loans secured by real estate represent our largest loan category. At December 31, 2006 these loans totaled $401.0 million, a $60.1 million, or 17.6%, an increase from $340.9 million at December 31, 2005. The increase was generated from a $55.9 million, or 69.1% increase in construction and land development loans and a $9.4 million increase in commercial real estate loans. Other loans secured by real estate decreased $2.4 million from $36.7 million at December 31, 2005. The decline in our one to four family loan portfolio experienced in recent years continued in 2006 as this portfolio declined $2.8 million, or 3.2%. Included in one to four family loans were loans held for sale of $2.6 million at December 31, 2006 and $1.8 million at December 31, 2005. We typically sell fixed rate one to four family loans to the secondary

market instead of holding such loans in our one to four family portfolio. We occasionally retain the servicing rights on these loans. Capitalized servicing rights are recorded at the time the loan is sold, thereby increasing the gain on sale by such amount. The balance of our mortgage servicing rights was $320,000 at December 31, 2006 compared to $403,000 at December 31, 2005.

Non-farm, non-residential commercial loans secured by real estate increased $9.4 million, or 6.9%, to $145.7 million at December 31, 2006 from $136.3 million at December 31, 2005. We have experienced steady growth in this area over the last five years. We anticipate continued growth in this loan portfolio with our continued emphasis on small to mid-size business loans in our metropolitan markets.

At December 31, 2005, loans secured by real estate totaled $340.9 million, a $64.1 million, or 23.2%, increase from $276.8 million at December 31, 2004. The increase was generated from a $31.5 million, or 63.8% increase in construction and land development loans and a $14.3 million, or 11.7%, increase in commercial real estate loans. Other loans secured by real estate increased $18.9 million from $17.8 million at December 31, 2004. The decline in our one to four family loan portfolio seen in recent years slowed in 2005 as this portfolio declined only $753,000, or 0.9%. At December 31, 2005, the balance of real estate loans held for sale was $1.8 million, representing a $1.3 million decrease from the balance at December 31, 2004 of $3.1 million.

Commercial and Agricultural

Commercial and agricultural loans were $67.4 million at December 31, 2006, an increase of $4.3 million, or 6.8%, from $63.1 million at December 31, 2005. Commercial loans include loans to service, retail, wholesale, and light manufacturing businesses. Agricultural loans include loans to farmers for production and other agricultural needs.

Commercial loans were $60.2 million at December 31, 2006, compared to $55.1 million at December 31, 2005, an increase of $5.1 million, or 9.3%. At December 31, 2005, commercial loans were $55.1 million compared to $68.0 million at December 31, 2004, a decrease of $12.9 million, or 19.0%.

At December 31, 2006, agricultural loans were $7.2 million compared to $8.0 million at December 31, 2005, a decrease of $0.8 million, or 10.0%. Agricultural loans at December 31, 2005 decreased $6.9 million or 46.3% from $14.9 million at December 31, 2004.

Installment and Other

Installment and other loans include automobile and other personal loans, leases and loans to state and political subdivisions. The majority of these loans are installment loans with fixed interest rates. Installment and other loans were $18.7 million at December 31, 2006, an increase of $1.5 million, or 8.7% from $17.2 million at December 31, 2005. At December 31, 2005, installment and other loans decreased $2.7 million, or 13.6%, from $19.9 million at December 31, 2004. Installment and other loans have been decreasing as a percentage of total loans over the past several years as we have placed less emphasis in this area and more emphasis on our small to mid-size business loans in our markets.

Loan Maturities

The following tables present, at December 31, 2006 and 2005, loans by maturity in each major category of our portfolio based on contractual schedules. Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments. Loan renewals are re-evaluated using substantially the same credit procedures that are used when loans are made.

	December 31, 2006					
	One Year or Less (In thousands)	Over One Year Through Five Years Fixed Rate	Variable	Over Five Years Fixed Rate	Variable	Total
Loans secured by real estate:						
One to four family	$ 14,128	$ 9,518	$ 2,672	$ 12,055	$ 45,705	$ 84,078
Construction and land development	114,612	8,627	11,350	62	2,184	136,835
Commercial	20,273	46,257	12,464	5,383	61,370	145,747
Other	13,978	1,761	1,321	2,359	14,886	34,305
Total	162,991	66,163	27,807	19,859	124,145	400,965
Commercial and agricultural	39,068	9,698	5,822	5,309	7,505	67,402
Installment and other	4,018	10,768		1,710	2,166	18,662
Gross Loans	206,077	86,629	33,629	26,878	133,816	487,029
Less unearned fees	630	(66)	(32)			532
Total loans receivable	$ 205,447	$ 86,695	$ 33,661	$ 26,878	$ 133,816	$ 486,497

	December 31, 2005					
	One Year or Less (In thousands)	Over One Year Through Five Years Fixed Rate	Variable	Over Five Years Fixed Rate	Variable	Total
Loans secured by real estate:						
One to four family	$ 10,573	$ 7,924	$ 6,734	$ 13,099	$ 48,550	$ 86,880
Construction and land development	66,095	9,945	2,876		2,002	80,918
Commercial	31,523	28,151	9,515	5,758	61,371	136,318
Other	10,723	4,570	5,224	1,886	14,335	36,738
Total	118,914	50,590	24,349	20,743	126,258	340,854
Commercial and agricultural	32,545	15,222	6,906	2,533	5,874	63,080
Installment and other	3,890	10,444		1,815	1,027	17,176
Gross Loans	155,349	76,256	31,255	25,091	133,159	421,110
Less unearned fees	929					929
Total loans receivable	$ 154,420	$ 76,256	$ 31,255	$ 25,091	$ 133,159	$ 420,181

Non-performing assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans consist of loans 90 days or more delinquent and still accruing interest, non-accrual loans, and restructured loans. Loans are generally placed on non-accrual status when principal or interest is 90 days or more past due, or when, in the opinion of management, a reasonable doubt exists as to the collectibility of interest, regardless of the delinquency status of a loan, the accrual of interest income is typically discontinued and any interest accrued to date is reversed through a charge to interest income, unless the loans are well-secured and in the process of collection. While a loan is on non-accrual status, it is our policy that interest income is recognized only after payment in full of the past due principal. However, in some instances, we will collect interest on a cash basis for loans that are on non-accrual and recognize interest income when

there is no doubt, in the opinion of management, that the interest and principal will be collected in full based on the collateral values and management s analysis of the collectibility of the loan.

The following table presents information concerning the non-performing assets at the dates indicated.

	December 31				
	2006	2005	2004	2003	2002
	(Dollars in thousands)				
Non-accrual loans	$ 7,918	$ 2,343	$ 1,281	$ 5,481	$ 3,413
Loans 90 days past due and still accruing	434	1,184	420	641	1,163
Restructured loans	1,010	1,055	1,053	1,138	
Non-performing loans	9,362	4,582	2,754	7,260	4,576
Other real estate owned	817	455	408	1,117	1,770
Total non-performing assets	$ 10,179	$ 5,037	$ 3,162	$ 8,377	$ 6,346
Non-performing loans as a percentage of total loans	1.92 %	1.09 %	0.73 %	2.09 %	1.34 %
Non-performing assets as a percentage of total assets	1.35 %	0.72 %	0.48 %	1.29 %	0.97 %

Total non-performing assets were $10.2 million at December 31, 2006 compared to $5.0 million at December 31, 2005, representing an increase of $5.2 million, or 102.0%. The increase in non-performing assets was due to an increase in non-accrual loans of $5.6 million and an increase in other real estate owned of $362,000. Loans 90 days past due and still accruing decreased $750,000 largely as a result of one relationship with an industrial distribution company for $375,000 that has since become current in 2007.

Non-performing loans increased $4.8 million, or 104.3%, to $9.4 million at December 31, 2006 from $4.6 million at December 31, 2005. The increase in non-performing loans was a result of an increase in non-accrual loans of $5.6 million. This increase was primarily due to a group of loans in our Missouri market from a diversified commercial customer totaling $4.9 million being on non-accrual status. The loans were placed on non-accrual status during the fourth quarter of 2006 based on their delinquent status. The loans are well-secured with real estate currently valued at $7.9 million. These loans were placed on non-accrual status during the fourth quarter of 2006 based on their delinquent status. To avoid foreclosure, the borrower agreed to make monthly payments on $4.3 million of these loans. The borrower has made the required monthly payments, and the interest payments were recorded on a cash basis to interest income. Subsequent to December 31, 2006, the borrower paid off approximately $2.2 million of the impaired loans. Currently, all loans with this customer are in good standing. Also included in non-accrual loans is an agriculture loan for approximately $500,000, which is 90% FSA guaranteed, so our exposure is only 10% of the loan.

Also included in the $7.9 million of non-accrual loans at December 31, 2006 were several small loan relationships, the largest of which was approximately $400,000 to an engineering company and subsequent to December 31, 2006, has been resolved. Non-accrual loans had approximately $176,000 specific reserves included in the allowance for loan losses at December 31, 2006. We do not anticipate losses on these credits in excess of the specific reserves. Restructured loans at December 31, 2006 consisted of ten relationships. The largest relationship included an agricultural loan restructured through Farmer Home Administration of approximately $532,000.

In addition to the non-accrual loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. These loans are primarily classified as substandard for regulatory purposes under the Company s internal rating system. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, they may never become non-performing. Such loans totaled $24.6 million at December 31, 2006.

Other real estate owned was $817,000 at December 31, 2006 compared to $455,000 at December 31, 2005. Other real estate owned consisted of eight properties, consisting of three commercial buildings, three single family dwellings and two vacant lots at December 31, 2006. The properties are all located within our market areas. Management is working to sell the real estate as soon as practicable. During the year ended December 31, 2006, eleven properties held in other real estate owned were sold at a total net gain of approximately $37,000.

Non-performing assets as a percent of total assets were 1.35% at December 31, 2006, compared to 0.72% at December 31, 2005, and 0.48% at December 31, 2004. Non-performing assets will generally increase in times of economic uncertainty or stress. Management believes the level of non-performing assets may increase if economic weaknesses are experienced in 2007, although the magnitude of any increase in non-performing loans is not determinable.

Impaired loans

We consider a loan to be impaired when it is deemed probable by management that we will be unable to collect all contractual principal and interest payments in accordance with the terms of the original loan agreement. However, when determining whether a loan is impaired, management also considers the loan documentation, the current ratio of the loan s balance to collateral value, and the borrower s present financial position. Included as impaired loans are all loans contractually delinquent 90 days or more, all loans upon which accrual of interest has been suspended, all restructured loans, and all loans for which management has significant doubts as to the ultimate collectibility of principal and interest.

At December 31, 2006, we had impaired loans totaling $14.5 million, which have related specific reserves of $1.9 million. This compares to $8.6 million of impaired loans, which had related specific reserves of $2.9 million at December 31, 2005. The increase in impaired loans was the result of the increase in non-accrual loans described above. The average recorded investment in impaired loans was $12.6 million during 2006 and $12.2 million during 2005. Interest income recognized on impaired loans during the period the loans were considered to be impaired for 2006 and 2005 approximated $605,000 and $813,000, respectively. Impaired loans will generally increase in times of economic uncertainty or stress. Management believes the level of impaired loans could increase if economic weaknesses are experienced in our market area during 2007.

Allowance for Loan Losses

Credit losses are inherent in the lending business. The risk of loss will vary with general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and the quality of the collateral of the loan.

Management maintains our allowance for loan losses based on historical experience, an evaluation of economic conditions and regular review of delinquencies and loan portfolio quality. Based upon these factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and maintains an allowance for probable loan losses based upon a percentage of the outstanding balances and for specific loans if their ultimate collectibility is considered questionable. Since certain lending activities involve greater risks, the percentage applied to specific loan types may vary. The allowance is increased by provisions for loan losses and reduced by loans charged off, net of recoveries.

We actively manage our past due and non-performing loans in an effort to minimize credit losses and monitor asset quality to maintain an adequate loan loss allowance. Although management believes our allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future loan losses. Further, although management uses the most current information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to non-performing or performing loans. Accordingly, there can be no assurance that our allowance for loan losses will be adequate to cover loan losses or that significant increases to the allowance will not be required in the future if economic conditions should worsen. Material additions to the allowance for loan

losses would result in a decrease of our net income and capital and could result in an inability to pay dividends, among other adverse consequences.

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

	Year ended December 31				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in thousands)				
Average total loans	$ 458,123	$ 403,234	$ 365,587	$ 341,782	$ 335,194
Total loans at end of year	486,497	420,181	378,771	348,095	340,986
Allowance at beginning of year	5,424	4,898	4,506	4,611	4,392
Loans charged off:					
Real estate:					
One to four family	(117)	(87)	(307)	(229)	(238)
Construction	(20)		(200)		(18)
Other	(59)		(218)	(2)	(103)
Commercial	(441)	(293)	(267)	(1,296)	(561)
Lease financing receivables			(16)	(32)	(20)
Installment and other	(234)	(331)	(298)	(688)	(635)
Total charge-offs	(871)	(711)	(1,306)	(2,247)	(1,575)
Recoveries:					
Real estate:					
One to four family	16	39	16	49	13
Construction		5	3	7	29
Other	5	7		80	19
Commercial	76	175	38	35	38
Lease financing receivables		1	6		22
Installment and other	114	190	170	181	239
Total recoveries	211	417	233	352	360
Net charge-offs	(660)	(294)	(1,073)	(1,895)	(1,215)
Provision for loan losses	951	820	1,465	1,790	1,434
Allowance at end of year	$ 5,715	$ 5,424	$ 4,898	$ 4,506	$ 4,611
Ratio of net charge-offs to average total loans	0.14 %	0.07 %	0.29 %	0.55 %	0.36 %
Allowance to total loans at end of year	1.17 %	1.29 %	1.29 %	1.29 %	1.35 %
Allowance to non-performing loans	57.1 %	118.4 %	177.9 %	62.10 %	100.76 %

The decrease in the allowance as a percent of non-performing loans was due to higher collateral values securing the non-performing loans in 2006 compared to 2005. Net charge-offs were $660,000 for 2006 compared to $294,000 for 2005. Net charge-offs for 2006 consisted of several credits. The largest charge-off during 2006 was approximately $174,000 for a commercial loan.

Net charge-offs for 2005 consisted of several small credits. The largest charge-off during 2005 was approximately $99,000 for a commercial loan.

Lending personnel are responsible for continuous monitoring of the loan portfolio. Additionally we have a separate loan review process, which reviews the loan portfolio on a quarterly basis to determine compliance with loan policy, including the appropriateness of risk ratings assigned to individual loans, as well as the adequacy of the allowance for loan losses. The allowance for loan losses is based primarily on management s estimates of probable loan losses from the foregoing processes and historical experience.

The following table presents an allocation of the allowance for loan losses by loan category as of the dates indicated. The allocation table should not be interpreted as an indication of the specific amounts, by loan classification, to be charged to the allowance. The table has been derived in part by applying historical loan loss ratios to both internally classified loans and the portfolio as a whole to determine the allocation of the loan losses attributable to each category of loans.

	December 31 2006		**2005**		**2004**		**2003**		**2002**	
	Amount of Gross Allowance	**Loans in Category as a Percentage of Total** Loans	**Amount of Gross** Allowance	**Loans in Category as a Percent age of Total** Loans	**Amount of Gross** Allowance	**Loans in Category as a Percentage of Total** Loans	**Amount of Gross** Allowance	**Loans in Category as a Percentage of Total** Loans	**Amount of Gross** Allowance	**Loans in** Category as a Percentage of Total Loans
	(Dollars in thousands)									
Loans secured by real estate:										
One to four family	$ 345	17.3 %	$ 417	20.7 %	$ 423	23.1 %	$ 397	27.0 %	$ 16	30.1 %
Construction and land development	1,214	28.1 %	705	19.3	402	13.0	635	13.0	575	11.3
Commercial & other	624	37.1 %	1,035	41.1	1,137	36.9	944	34.0	784	28.8
Commercial and agricultural	2,619	13.9 %	2,588	15.0	2,331	21.9	1,638	20.0	2,102	21.1
Lease financing receivables	18	0.6 %	6	0.3	9	0.4	8		14	
Installment and other	593	3.0 %	582	3.6	393	4.7	602	6.0	864	8.7
Unallocated	302		91		203		282		256	
	$ 5,715	100.0 %	$ 5,424	100.0 %	$ 4,898	100.0 %	$ 4,506	100.0 %	$ 4,611	100.0 %

The provision for loan losses takes into account many factors such as our historical experience with loan losses and an evaluation of the risks in the loan portfolio at any given time, including changes in economic, operating, and other conditions of borrowers, the economies in our areas of operations and to a lesser extent, the national economy. The Company relies on quarterly economic trend reports for the Kansas City metropolitan market and the Colorado Springs metropolitan market. The allowance for loan losses allocated to construction and land development increased approximately $509,000 at December 31, 2006 compared to December 31, 2005 due to an increase in the allocation of the allowance associated with historical trends and economic for our market conditions coupled with an increased balance in this category in 2006 compared to 2005. The allowance for loan losses allocated to commercial and other loans secured by real estate decreased $411,000 due to the decreases in the allowance required based on historical and economic trends for our market compared to the prior year. The allowance for loan losses allocated to commercial and agricultural loans increased approximately $31,000 due to an increase in specific reserves of $138,000, offset by a decrease in historic and economic reserves allocated to commercial and agriculture loans at 2006 compared to 2005.

Investments

We invest a portion of our available funds in short-term and long-term instruments, including federal funds sold and investment securities. Our investment portfolio is designed to provide liquidity for cash flow requirements, to assist in managing interest rate risk, and to provide collateral for certain public deposits and other borrowing arrangements. At December 31, 2006 and 2005, the investment portfolio was comprised principally of mortgage-backed securities, obligations of U.S. government agencies and obligations of states and political subdivisions. Total investment securities at December 31, 2006 of $179.1 million represented a decrease of $11.3 million from total investment securities of $190.4 million at December 31, 2005. The decrease was primarily a result of a decrease in the securities of government-sponsored entities of $6.1 million, the proceeds of which were used to fund the loan portfolio growth.

We initiated a long-term balance sheet management strategy starting in the fourth quarter of 2001 to increase the asset sensitivity of our balance sheet with the expectation of benefiting from an anticipated increase in interest rates and to borrow long-term borrowings during the period of historically low interest rates.

Under this strategy we borrowed $87.0 million in Federal Home Loan advances and purchased short-term investment securities and funded loans. The Federal Home Loan Bank borrowings, which carry an average rate of 4.09%, upon origination consisted of $69.0 million in 10-year fixed rate advances convertible to floating rate advances if LIBOR increases to a range of 6.0% to 7.50% within the 10 years, $10.0 million in 5-year fixed rate advances convertible to floating rate advances if LIBOR increases to 7.50% within the 5 years, $5.0 million in 10-year floating rate advances and $3.0 million in 3-year fixed rate advances. As of December 31, 2006, we had outstanding balances of $85 million on these Federal Home Loan Bank borrowings.

A decreasing interest rate environment may cause an unfavorable impact on net interest income and net interest margin and an increasing interest rate environment may increase net interest income and net interest margin over the remaining borrowing period.

The following table presents our investment portfolio at December 31, 2006 and 2005. Other investments is comprised of Federal Home Loan Bank of Topeka common stock, Federal Reserve Bank common stock and certain equity securities, all of which carry no stated maturity.

	2006	**2005**
	(In thousands)	
Investment securities available for sale (at fair value):		
Government-sponsored entities	$ 53,913	$ 59,986
Obligations of state and political subdivisions	27,967	29,733
Mortgage-backed securities	82,850	85,422
Other	5,185	6,443
Total investment securities available for sale	169,915	181,584
Equity securities		
Marketable	164	156
Non-marketable	9,061	8,669
Total investment securities	$ 179,140	$ 190,409

The following tables set forth a summary of the contractual maturities in the investment portfolio at December 31, 2006 and December 31, 2005.

	December 31, 2006									
	One year or less		Over one years through five years		Over five years through ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Government-sponsored entities	$ 1,691	4.58 %	$ 14,725	3.69 %	$ 25,742	5.06 %	$ 11,755	5.07 %	$ 53,913	4.67 %
Obligations of states and political subdivisions	1,169	3.99	6,764	4.48	11,807	4.11	8,227	4.30	27,967	4.25
Other							5,185	4.71	5,185	4.71
	2,860		21,489		37,549		25,167		87,065	
Mortgage-backed securities									82,850	5.07
Equity securities(1)									9,225	
Total investment securities	$ 2,860		$ 21,489		$ 37,549		$ 25,167		$ 179,140	

	December 31, 2005									
	One year or less		Over one years through five years		Over five years through ten years		Over ten years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Government-sponsored entities	$ 11,065	3.22 %	$ 19,719	3.50 %	$ 20,048	4.78 %	$ 9,154	4.58 %	$ 59,986	4.04 %
Obligations of states and political subdivisions	989	4.73	4,691	4.31	14,604	4.33	9,449	4.18	29,733	4.29
Other			463	6.75	432	7.80	5,548	4.98	6,443	5.30
	12,054		24,873		35,084		24,151		96,162	
Mortgage-backed securities									85,422	4.90
Equity securities(1)									8,825	
Total investment securities	$ 12,054		$ 24,873		$ 35,084		$ 24,151		$ 190,409	

(1) Equity securities consists principally of Federal Home Loan Bank of Topeka common stock and Federal Reserve Bank stock, which have no stated maturity

Deposits

Deposits are the major source of our funds for lending and other investments. Deposits are attracted principally from within our primary market areas through the offering of a broad variety of deposit instruments for individual and corporate customers. At December 31, 2006, total deposits totaled $562.9 million, a $55.0 million, or 10.8% increase from $507.9 million at December 31, 2005. The increase was a result of an increase in certificates of deposits of $39.6 million, primarily due to branch promotional campaigns and an increase in public funds in the fourth quarter of 2006. In addition to the deposits raised through our branches, we also obtained $13 million in brokered CD s in order to meet funding requirements. Average balance for checking, savings and money market deposits was $266.6 million for 2006 compared to $255.2 million for the same accounts in 2005.

The following table sets forth the average balances and weighted average rates for categories of deposits for the periods indicated.

	For the years ended December 31					
	2006		2005		2004	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Non-interest-bearing demand	$ 78,266		$ 73,972		$ 68,256	
Interest-bearing demand and money market	157,862	2.12 %	148,059	1.18 %	151,871	0.70 %
Savings	30,503	0.75 %	33,206	0.67 %	33,045	0.64 %
Time	262,296	4.21 %	226,889	3.01 %	198,123	2.34 %
Total	$ 528,927		$ 482,126		$ 451,295	

The following table summarizes at December 31, 2006 and December 31, 2005, our certificates of deposit of $100,000 or more by time remaining until maturity.

	December 31 2006	2005
	(In thousands)	
Remaining maturity:		
Less than three months	$ 34,053	$ 26,695
Three to six months	25,836	20,379
Six months to one year	30,398	11,953
One year and over	10,534	15,346
Total	$ 100,821	$ 74,373

Derivative Financial Instruments

We do not utilize derivative instruments as part of our overall interest rate sensitivity management strategy to mitigate exposure to interest rate risk.

Federal Home Loan Bank and Federal Reserve Bank Borrowings

Our subsidiary banks are members of the Federal Home Loan Bank of Topeka (FHLB). The FHLB system functions as a central bank providing credit for members. As members of the FHLB, our subsidiary banks are entitled to borrow funds from the FHLB and are required to own FHLB stock in an amount determined by a formula based upon total assets and FHLB borrowings. Our subsidiary banks may use FHLB borrowings to supplement deposits as a source of funds.

At December 31, 2006, FHLB borrowings aggregated $108.1 million, compared to $111.1 million at December 31, 2005 and $111.9 million at December 31, 2004. As discussed in the investment section above, approximately $87.0 million of the FHLB borrowings are part of a long-term balance sheet strategy to increase the sensitivity of our balance sheet by borrowing long-term funds at historically low interest rates and purchasing short-term investments securities and fund loans. At December 31, 2006, the aggregate available and unused borrowing capacity of our subsidiary banks was approximately $8.9 million, which was available through a line of credit and term advances. FHLB borrowings are collateralized by FHLB common stock, investment securities and certain qualifying mortgage loans of our subsidiary banks.

TeamBank and Colorado National Bank are member banks of the Federal Reserve Bank and may use the Federal Reserve Bank discount window to meet short-term funding needs. Neither of our subsidiary banks utilized short-term Federal Reserve Bank borrowings during 2006 or 2005.

Subordinated Debentures

On August 10, 2001, Team Financial Capital Trust I (the Trust), a Delaware business trust formed by Team Financial, Inc., completed the sale of $15.5 million 9.50% Cumulative Trust Preferred Securities. The Trust used the net proceeds from the offering to purchase a like amount of Team Financial, Inc. s 9.50% subordinated debentures. The debentures, maturing August 10, 2031, were the sole assets of the Trust. On or after August 10, 2006, we had the right to redeem the debentures, in whole or in part, at a redemption price specified in the governing indentures plus any accrued but unpaid interest to the redemption date.

On September 18, 2006, we redeemed all of the debentures and the Trust redeemed its trust preferred securities, at a redemption price equal to 100% of the principal amount of the Trust, or $15.5 million, plus interest accrued and unpaid through September 17, 2006. As a result of the redemption, we incurred a pretax charge, recorded as trust preferred securities redemption amortization to earnings of

approximately $823,000 on the redemption date of the debentures. This charge was the unamortized portion of the offering cost that was being amortized over the original 30-year life of the debentures.

To fund the redemption, on September 14, 2006 we replaced the prior existing debentures and the former trust with Team Financial Capital Trust II, a pooled trust preferred security of $22.0 million at a variable rate of 1.65% above the 90-day LIBOR. The new trust preferred securities have a 30-year term maturing on October 7, 2035 and a call option 5 years after the issuance date. The new trust preferred securities did not have a placement or annual trustee fee associated with it. We expect to save approximately $338,000 annually based on the reduction in interest rates at the time of restructuring.

In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46 R), adopted in December 2003, the new Trust qualifies as a special purpose entity that is not required to be consolidated in our financial statements. The $22 million trust preferred securities issued by the Trust in September 2006 are reported on the records of the new Trust.

We continue to include the new trust preferred securities issued by Team Financial Capital Trust II in Tier I capital for regulatory capital purposes.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

We have various contractual obligations in the normal course of business that are integral to our operations. The following table summarizes payments due per these contractual obligations at December 31, 2006.

	Payments Due By				
	One Year or less (In thousands)	**Over One to Three Years**	**Over Three to Five Years**	**Over Five Years**	**Total**
Time deposits	$ 217,542	$ 60,548	$ 4,154	$	$ 282,244
Repurchase agreements	6,215				6,215
Subordinated debentures					
FHLB advances and notes payable	10,000	5,000	67,681	48,069	130,750
Operating lease obligations	110				110
Loan commitments	59,983	12,486	1,945	11,675	86,089
Data processing contracts	693	139			832
Total	$ 294,543	$ 78,173	$ 73,780	$ 59,744	$ 506,240

Payments on time deposits are based on contractual maturity dates. These funds may be withdrawn prior to maturity with or without penalties.

Included in subordinated debentures and notes payable in the above table is subordinated debt of $22,681,000. The debentures mature on October 7, 2035 and have a callable option five years after the issuance date. These debentures are included in the three to five year maturity category in the table above based on the date of earliest redemption.

Operating lease obligations represent property rented for branch offices. Payments represent the minimum lease payments and exclude related costs such as utilities.

Loan commitments represent obligations to provide financing to our customers. As some of these commitments will expire prior to funding the full amount, the total commitment amounts do not necessarily represent future cash obligations.

Data processing contracts represent the minimum obligations under these contracts and exclude additional payments that are based on volume of transactions processed.

Additionally, we offer standby letters of credit to our customers, which are a conditional, but irrevocable form of guarantee, issued to guarantee payment upon default of payment by our customer. Standby letters of credit are initially issued for a period of one year, but can be extended depending on customer needs. The contractual amount of standby letters of credit was $9,149,000 at December 31, 2006 and the maximum remaining term for any standby letter of credit is January 2009; however, we have several standby letters of credit that are backed by demand notes that automatically renew and have no stated maturity. Commitments for standby letters of credit do not necessarily represent future cash requirements.

Capital Resources

We actively monitor compliance with bank and financial holding company regulatory capital requirements, focusing primarily on risk-based guidelines. Under the risk-based capital method of capital measurement, the ratio computed is dependent upon the amount and composition of assets recorded on the balance sheet, and the amount and composition of off-balance sheet items, such as commitments to extend credit, in addition to the level of capital. Included in the risk-based capital method are two measures of capital adequacy, core capital and total capital, which consist of core and secondary capital. Historically, we have increased core capital through retention of earnings or capital infusions. The primary source of funds available to us is dividends by our subsidiary banks. Each subsidiary bank s ability to pay dividends is subject to regulatory requirements. Core capital, also known as Tier 1 capital, generally includes common shareholders equity, perpetual preferred stock and minority interests in consolidated subsidiaries, less goodwill and intangible assets. No more than 25% of core capital elements may consist of cumulative preferred stock. The trust preferred securities, issued by our subsidiary, Team Financial Capital Trust II, to purchase Team Financial, Inc. subordinated debentures, is included in Tier I capital of Team Financial, Inc. for regulatory purposes. Total risk based capital, also known as Tier 2 capital, generally includes the allowance for loan losses limited to 1.25% of weighted risk assets, certain forms of perpetual preferred stock, as well as hybrid capital instruments.

The following tables present capital ratios as of the indicated dates.

	Risk Based Capital Ratios At December 31					
	2006		**2005**		**2004**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)					
Core capital	$ 55,393	9.82 %	$ 56,661	11.60 %	$ 46,857	10.70 %
Core capital minimum requirement(1)	22,563	4.00 %	19,530	4.00 %	17,524	4.00 %
Excess	$ 32,830	5.82 %	$ 37,131	7.60 %	$ 29,333	6.70 %
Total risk based capital	$ 61,108	10.83 %	$ 62,085	12.72 %	$ 51,755	11.81 %
Total risk based capital requirement(1)	45,126	8.00 %	39,061	8.00 %	35,049	8.00 %
Excess	$ 15,982	2.83 %	$ 23,024	4.72 %	$ 16,706	3.81 %
Total risk adjusted assets	$ 564,072		$ 488,260		$ 438,109	

	Leverage Ratios At December 31					
	2006		**2005**		**2004**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(Dollars in thousands)					
Core capital	$ 55,393	7.90 %	$ 56,661	8.42 %	$ 46,857	7.43 %
Core capital minimum requirement(2)	28,040	4.00 %	26,903	4.00 %	25,213	4.00 %
Excess	$ 27,353	3.90 %	$ 29,758	4.42 %	$ 21,644	3.43 %
Average total assets	$ 701,005		$ 672,578		$ 630,323	

---

(1) Based on risk-based capital guidelines of the Federal Reserve Board, a bank holding company is required to maintain a core capital to risk-adjusted assets ratio of 4% and a total capital, risk-based, to risk-adjusted assets ratio of 8%.

(2) The leverage ratio is defined as the ratio of core capital to average tangible assets. Based on Federal Reserve Board guidelines, a bank holding company generally is required to maintain a leverage ratio in excess of 4%.

Impact of Inflation and Changes in Prices

The primary impact of inflation on our operations is reflected in increasing operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant impact on the performance of a financial institution than do changes in the general rate of inflation and changes in prices. Interest rate changes do not necessarily move in the same direction, or have the same magnitude, as changes in the prices of goods and services.

Recent Accounting Pronouncements

In December of 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payments, (SFAS 123(R)). This statement requires that the cost resulting from all share-based transactions be recognized in the financial statements. SFAS 123(R) establishes fair value as the measurement objective in accounting for share-based arrangements and requires all entities to apply a fair-value based measurement method in accounting for share based payments with employees except for equity instruments held by employee share ownership plans. SFAS 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and Accounting Principal Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and became effective as of the beginning of 2006. The Company elected to adopt SFAS No. 123(R) using the modified prospective transition method and, accordingly, previously reported amounts have not been restated for the change in accounting. The Company adopted SFAS 123(R) effective January 1, 2006. Prior to fiscal year 2006, the Company accounted for stock-based compensation using the intrinsic value method prescribed in APB 25, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, Accounting for Stock-Based Compensation. More information regarding the adoption of SFAS 123(R) is set forth in note 14 to the consolidated financial statements.

In June 2006, the FASB issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 Accounting for Income Taxes. This interpretation 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. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. The first step is a recognition process to determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The interpretation is effective for fiscal years beginning after December 15, 2006, and the Company will begin applying the guidance in January, 2007. The adoption of FIN 48 will not have a material effect on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements , which provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires an entity to quantify misstatements using both a balance sheet perspective (iron curtain approach) and income statement perspective (rollover approach) and to evaluate whether either approach

results in quantifying an error that is material in light of relevant quantitative and qualitative factors. Prior year misstatements must be considered in quantifying misstatements in current year consolidated financial statements and if the effect of those misstatements is material to the current year, the prior year consolidated financial statements must be corrected even though such revision previously was and continues to be immaterial to the periods in which they originated.

During the fourth quarter of 2006, the Company completed its analysis under both the rollover and iron curtain approaches and adopted SAB 108, and in accordance with its provisions. The Company recorded a $631,000 cumulative increase, net of tax of $215,000, to retained earnings as of January 1, 2006. The net impact of the adoption of SAB 108 was material to the Company and resulted in an increase in book value per share $0.03 as of this date. The Company does not believe any of the amounts described below are material to the periods in which they originated using the rollover approach. The prior year misstatements were associated with certain loan origination costs which, prior to 2006, had not been deferred over the life of the loans as an adjustment to yield as is required by SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (SFAS 91), an over-accrual of the Company s self insurance fund in years prior to 2005 and certain data processing expenses incurred in 2005 and that had been amortized over a shorter duration than their useful life. This resulted in the Company recording a $293,000 cumulative increase to deferred loan costs, net of tax of $100,000, a $247,000 cumulative decrease to other liabilities for the self-insurance fund, net of tax of $84,000, and a $91,000 increase to other assets for data processing, net of tax of $31,000.

In September 2006, the Emerging Issues Task Force Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements , was ratified. This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires an employer to recognize a liability for future benefits payable to its employees under these agreements. The effects of applying this Issue must be recognized through either a change in accounting principle through an adjustment to equity or through the retrospective application to all prior periods. For calendar year companies, the Issue is effective beginning January 1, 2008. The Company is currently evaluating the impact of adopting this interpretation on its financial position, results of operations, and liquidity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Liquidity

We continuously forecast and manage our liquidity in order to satisfy cash flow requirements of depositors, borrowers, and our own cash flow needs. We have developed internal and external sources of liquidity to meet our continued growth needs. These liquidity sources include, but are not limited to, raising deposits through branch promotional campaigns, purchasing brokered certificates of deposits, overnight funds, short term investment securities classified as available-for-sale and drawing on credit facilities established through the Federal Home Loan Bank of Topeka and other lines of credit established through US Bank.

Our most liquid assets are cash and cash equivalents and investment securities available-for-sale. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. At December 31, 2006 and December 31, 2005, these liquid assets totaled $207.2 million and $216.1 million, respectively. Included in these liquid assets are investment securities of $153.8 million at December 31, 2006 and $161.1 million at December 31, 2005 that were pledged as collateral for borrowings, repurchase agreements and for public funds on deposit.

At December 31, 2006 there was approximately $8.9 million borrowing capacity remaining under agreements with the Federal Home Loan Bank of Topeka.

During 2006, our loan portfolio increased approximately 15.8%. Decreased liquidity may result in the inability to continue this growth rate in the future or may result in an increased cost of funding. Deposit growth through branch promotional campaigns is expected to provide the primary source of funding for our loan growth, however, the use of brokered certificates of deposits is another source of additional funding should we need the funds.

Management believes our sources of liquidity are adequate to meet expected cash needs for the foreseeable future.

Asset and Liability Management

Asset and liability management refers to management s efforts to minimize fluctuations in net interest income caused by interest rate changes. This is accomplished by managing the re-pricing of interest rate sensitive interest-earning assets and interest-bearing liabilities. Controlling the maturity of re-pricing of an institution s liabilities and assets in order to minimize interest rate risk is commonly referred to as gap management . Close matching of re-pricing assets and liabilities will normally result in little change in net interest income when interest rates change. We monitor our asset and liability mix monthly in an effort to maintain consistent earnings performance through the control of interest rate risk.

Below is a static gap schedule as of December 31, 2006. This is just one of several tools which may be used to measure and manage interest rate sensitivity. Interest-earning assets and interest-bearing liabilities are presented below within selected time intervals based on their re-pricing and maturity characteristics. In this presentation, the sensitivity position would be perfectly matched when an equal amount of assets and liabilities re-price during any given time period. Excess assets or liabilities re-pricing in a given time period results in the interest rate gap shown in the table. A positive gap indicates more assets than liabilities will re-price in that time period, while a negative gap indicates more liabilities than assets will re-price.

	Static Gap Analysis at December 31, 2006						
	3 months or less	**4 through 12 months**	**13 through 36 months**	**37 through 60 months**	**61 through 120 months**	**More than 120 months**	**Total**
	(Dollars in thousands)						
Interest-earning assets:							
Loans receivable, net of unearned income	$ 93,821	$ 111,626	$ 75,437	$ 44,919	$ 56,039	$ 104,655	$ 486,497
Investment securities	9,927	2,468	10,977	11,885	41,627	102,256	179,140
Federal funds sold and interest-bearing deposits	22,621						22,621
Other assets	681						681
Total interest-earning assets	$ 127,050	$ 114,094	$ 86,414	$ 56,804	$ 97,666	$ 206,911	$ 688,939
Interest bearing liabilities:							
Savings deposits and interest-bearing checking	$ 204,724	$	$	$	$	$	$ 204,724
Time deposits under $100,000	28,712	98,545	50,919	3,245	2		181,423
Time deposits over $100,000	34,053	56,234	9,629	905			100,821
Federal funds purchased and securities sold under agreements to repurchase	6,215						6,215
Federal Home Loan Bank Advances		10,000	5,000	45,000	47,373	696	108,069
Notes payable and subordinated debentures	22,881						22,881
Total interest-bearing liabilities	$ 296,585	$ 164,779	$ 65,548	$ 49,150	$ 47,375	$ 696	$ 642,133
Periodic repricing gap	$ (169,535)	$ (50,685)	$ 20,866	$ 7,654	$ 50,291	$ 206,215	$ 64,806
Cumulative repricing gap	(169,535)	(220,220)	(199,354)	(191,700)	(141,409)	64,806	
Periodic repricing gap as a percent of interest earning assets	(133.44)%	(44.42)%	24.15 %	13.47 %	51.49 %	1.00 %	
Cumulative repricing gap as a percent of interest earning assets	(133.44)%	(193.02)%	(230.70)%	(337.48)%	(144.79)%	0.31 %	

The table indicates that we are asset sensitive in the 13 through 36 month period, the 61 through 120 month period, and more than 120 months, and are liability sensitive for all other periods. The liability sensitivity during the three months or less period is primarily due to the classification of savings and interest-bearing checking as three months or less as these funds may be withdrawn at any time. This means that during the first period classification, interest-bearing liabilities re-price faster than interest-earning

assets, thereby improving net interest income when rates are falling and reducing net interest income when rates are rising. While the static gap method is a widely used measure of interest sensitivity, it is not, in management s opinion, the only indicator of our interest rate sensitivity.

The following table indicates that at December 31, 2006, if there had been a sudden and sustained increase in prevailing market interest rates, our 2007 net interest income would be expected to increase, while a decrease in rates would indicate a decrease in net interest income.

Change in Interest Rates	**Net Interest Income**	**(Decrease) Increase**	**Percent Change**
	(Dollars in thousands)		
200 basis point rise	$ 23,498	$ 770	3.39 %
100 basis point rise	23,113	385	1.69
Base rate scenario	22,728		
100 basis point decline	22,065	(663)	(2.92)
200 basis point decline	20,839	(1,889)	(8.31)

We believe we are appropriately positioned for future interest rate movements, although we may experience fluctuations in net interest income due to short-term timing differences between the re-pricing of assets and liabilities.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm	52
Consolidated Statements of Financial Condition as of December 31, 2006 and 2005	53
Consolidated Statements of Operations for the fiscal years ended December 31, 2006, 2005, and 2004	54
Consolidated Statements of Comprehensive Income for the fiscal years ended December 31, 2006, 2005, and 2004	55
Consolidated Statements of Changes In Stockholders Equity for the fiscal years ended December 31, 2006, 2005, and 2004	56
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2006, 2005, and 2004	57
Notes to Consolidated Financial Statements	58

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Team Financial, Inc.:

We have audited the accompanying consolidated statements of financial condition of Team Financial, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Team Financial, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of quantifying errors and its method of accounting for share-based compensation in 2006.

/s/ KPMG LLP

Kansas City, Missouri
March 30, 2007

TEAM FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2006 and 2005
(In thousands)

	December 31, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 14,529	$ 14,592
Federal funds sold and interest bearing bank deposits	22,621	19,768
Cash and cash equivalents	37,150	34,360
Investment securities:		
Available for sale, at fair value (amortized cost of $171,301 and $183,719 at December 31, 2006 and December 31, 2005, respectively)	170,079	181,740
Non-marketable equity securities (amortized cost of $9,061 and $8,669 at December 31, 2006 and December 31, 2005, respectively)	9,061	8,669
Total investment securities	179,140	190,409
Loans receivable, net of unearned fees	486,497	420,181
Allowance for loan losses	(5,715)	(5,424)
Net loans receivable	480,782	414,757
Accrued interest receivable	5,558	4,607
Premises and equipment, net	17,628	16,359
Assets acquired through foreclosure	817	455
Goodwill	10,700	10,700
Intangible assets, net of accumulated amortization	2,659	3,223
Bank-owned life insurance policies	19,926	19,173
Other assets	2,068	2,486
Total assets	$ 756,428	$ 696,529
Liabilities and Stockholder s Equity		
Deposits:		
Checking deposits	$ 194,979	$ 186,791
Savings deposits	28,536	31,944
Money market deposits	57,123	46,465
Certificates of deposit	282,244	242,678
Total deposits	562,882	507,878
Securities sold under agreements to repurchase	6,215	4,036
Federal Home Loan Bank advances	108,069	111,131
Treasury tax and loan	200	202
Subordinated debentures	22,681	16,005
Accrued expenses and other liabilities	5,864	3,928
Total liabilities	705,911	643,180
Stockholders Equity:		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued		
Common stock, no par value, 50,000,000 shares authorized; 4,501,516 and 4,499,470 shares issued; 3,594,784 and 4,034,995 shares outstanding at December 31, 2006 and December 31, 2005, respectively	27,901	27,880
Capital surplus	680	417
Retained earnings	34,449	30,941
Treasury stock, 906,732 and 464,475 shares of common stock at cost at December 31, 2006, and December 31, 2005, respectively	(11,707)	(4,583)
Accumulated other comprehensive loss	(806)	(1,306)
Total stockholders equity	50,517	53,349
Total liabilities and stockholders equity	$ 756,428	$ 696,529

See accompanying notes to the consolidated financial statements

TEAM FINANCIAL, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended December 31, 2006, 2005, and 2004
(Dollars in thousands, except per share data)

	2006	**2005**	**2004**
Interest Income:			
Interest and fees on loans	$ 35,761	$ 27,778	$ 23,308
Taxable investment securities	7,832	7,352	7,364
Nontaxable investment securities	1,038	1,168	1,203
Other	508	311	100
Total interest income	45,139	36,609	31,975
Interest Expense:			
Deposits:			
Checking deposits	1,845	1,124	570
Savings deposits	229	222	212
Money market deposits	1,508	627	493
Certificates of deposit	11,059	6,823	4,630
Federal funds purchased and securities sold under agreements to repurchase	171	136	143
FHLB advances payable	4,540	4,696	4,865
Notes payable and other borrowings	141	62	125
Subordinated debentures	1,588	1,553	1,553
Total interest expense	21,081	15,243	12,591
Net interest income before provision for loan losses	24,058	21,366	19,384
Provision for loan losses	951	820	1,465
Net interest income after provision for loan losses	23,107	20,546	17,919
Non-Interest Income:			
Service charges	3,658	3,891	3,952
Trust fees	720	702	664
Gain on sales of mortgage loans	584	887	1,264
Loss on sales of investment securities	(157)	(1)	(50)
Bank-owned life insurance income	884	842 &nb	