TEAM FINANCIAL INC /KS
Form 10-K
March 30, 2006

# 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, 2005 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(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 x No o

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. x

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 $13.88 per share as reported on June 30, 2005 on the Nasdaq National Market, was $39,446,780.

There were 3,970,884 shares of the Registrant s common stock, no par value, outstanding as of March 30, 2006.

**DOCUMENTS TO BE INCORPORATED BY REFERENCE**

Portions of Registrant s definitive proxy statement for its 2006 Annual Meeting of Shareholders to be filed within 120 days of December 31, 2005 will be incorporated by reference into Part III of this Form 10-K.

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**PART I**

**Item 1.** Business

***General Description***

Team Financial, Inc. (the Company) is a financial holding company incorporated in the State of Kansas. Our common stock is listed on the Nasdaq National Market under the symbol TFIN .

We offer full service community banking and financial services through 18 locations in Kansas, Missouri, Nebraska and Colorado through our wholly owned banking subsidiaries, TeamBank, N.A., 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 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 $697 million in assets as of December 31, 2005. 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 upon completion of a public offering.

The ESOP owned 23.1% of our outstanding common stock as of December 31, 2005. 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. These services include personal and corporate banking services, mortgage banking, trust and estate planning, and personal investment financial counseling services.

Our assortment of lending services includes:

- 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;
- specialized financing programs to support community development;
- 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;
- construction lending; and
- agricultural lending.

We also provide a broad selection of deposit instruments which include:

- multiple checking and NOW accounts for both personal and business accounts;
- various savings accounts, including those for minors;

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- 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:

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

Through our trust and estate planning and our personal 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, loan 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, N.A. 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 after adjustments. 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 footnotes. 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 terms of the agreement, the buyer has until August 25, 2006 to present any breach of warranty or representations claims.

During 2004, we opened two de novo branches in the Colorado Springs, Colorado metropolitan area. One opened for operation in March of 2004 in downtown Colorado Springs and the second opened in June of 2004 in Monument, Colorado, on the Interstate 25 corridor north of Colorado Springs.

***Competition***

We face a high degree of competition. In our market areas, there are numerous small banks and several larger 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 and a complete product line. We believe our personalized customer service, broad product line, and banking franchise enables us to compete effectively in our market area.

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 as 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 will also face significant competition from other financial institutions in 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** | **Lending Limit (In millions)** | **Asset size at December 31, 2005** |
|---|---|---|---|
| TeamBank, N.A.<br>Paola, Kansas<br>a national banking association | 15 | $ 7.6 | $ 585 |
| Colorado National Bank<br>Colorado Springs, Colorado,<br>a national banking association | 3 | 1.4 | 110 |

***Market Areas Served***

**TeamBank, N.A.**

TeamBank, N.A. has banking locations in Kansas, Missouri, and Nebraska. TeamBank, N.A. s primary Kansas service area is in Miami County, Kansas.

TeamBank, N.A. 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, N.A. 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, N.A. s Johnson County branches are located in Prairie Village and De Soto, Kansas. TeamBank, N.A. s Missouri service areas are in Barton and Vernon counties, which adjoin each other and are located in the southwest section of Missouri along the Kansas-Missouri border. TeamBank, N.A. 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, services El Paso County and Teller County, which are located along the front range of the Colorado Rocky Mountains. In January 2003, the name of Colorado Springs National Bank was changed to Colorado National Bank to reflect our expansion plans to other markets beyond Colorado Springs 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.

***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. We offer a variety of financial services to our retail and commercial banking customers.

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

**Acquisitions**

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 as well as increased regulatory requirements, concerns about technology and marketing, 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 acquisitions is to emphasize revenue growth and to continuously review the operations of the acquired entities and streamline operations where feasible. Management does not believe that implementing wholesale administrative cost reductions in acquired institutions is beneficial to our long-term growth, because significant administrative changes in community banks can have an adverse impact on customer satisfaction in the acquired institution s community. However, 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.

**Branch Location Expansion**

On an ongoing basis, management reviews opportunities to expand through 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 Johnson County, Kansas; management may consider further branch expansion in these areas. However, we will not rule out branch expansion in other areas experiencing economic growth.

We consider a variety of criteria when evaluating potential acquisition candidates or branching opportunities. These include:

- the market location of the potential acquisition target or branch and demographics of the surrounding community;
- the financial soundness of a potential acquisition target;

- opportunities to improve the efficiency and/or asset quality of an acquisition target;

- the effect of the acquisition on earnings per share and book value, seeking acquisitions that will be accretive to earnings within 18 months of the acquisition;

- whether we have sufficient management and other resources to integrate or add the operations of the target or branch; and

- the investment required for, and opportunity costs of, the 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 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 primarily 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 full range of commercial banking services, checking accounts, ATM s, checking accounts with interest, 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 to commercial accounts.

- ***Operational Efficiencies*** We seek to maximize operational and support efficiencies consistent with maintaining high quality customer service. Where feasible, 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 balancing, financial reporting, investment management, information systems, payroll and benefit management, loan review, and audits.

- ***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, 2005, 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 of underwriting and servicing, loan amount, and the extent of other banking relationships maintained with customers, and are further subject to competitive pressures, availability of funds and 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. Commercial loans secured by real estate typically have adjustable interest rates. The primary risks of real estate mortgage loans include the borrower s inability to pay, deterioration in 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 consumer lending 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 17 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, 2005, we had approximately 240 full-time equivalent employees. Neither our company nor any of our subsidiaries is a party to any collective bargaining agreement.

***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, loan 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 expense, occupancy costs, and provisions for loan losses.

***Supervision and Regulation***

**Government Regulation**

We are extensively 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**

We operate 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.

**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, 2005, our core capital was $56.7 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, 2005.

| Ratio | Actual | Minimum required |
|---|---|---|
| Total capital to risk weighted assets | 12.72 % | 8.00 % |
| Core capital to risk weighted assets | 11.60 % | 4.00 % |
| Core capital to average assets | 8.42 % | 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 and anticipates increased future expenditures in order to comply with the provisions of the Act.

***The Banks***

**General**

We own two national chartered banks. TeamBank, N.A. 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 (CRA)**

Under the federal Community Reinvestment Act, 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 Community Reinvestment Act record when evaluating certain applications, including charters, branches, and relocations, as well as mergers and consolidations. The applicable federal regulators regularly conduct Community Reinvestment Act 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 Community Reinvestment Act will not impede regulatory approvals of any proposed acquisitions or branching opportunities.

**Dividend Restrictions**

Dividends paid by our banks to the holding company provide a substantial amount of our operating and investing cash flow. During 2005, our subsidiary banks paid $5,730,000 in dividends to the holding company and could have paid an additional $1,200,000 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 expedient, 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 but 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, N.A. and Colorado National Bank is 4%.

The table below presents the regulatory capital ratios of TeamBank N.A. and Colorado National Bank at December 31, 2005.

| | TeamBank, N.A. | | Colorado National Bank | |
|---|---|---|---|---|
| **Ratio** | **Actual** | **Minimum Required** | **Actual** | **Minimum Required** |
| Total capital to risk weighted assets | 12.18 % | 8.00 % | 13.34 % | 8.00 % |
| Core capital to risk weighted assets | 11.05 % | 4.00 % | 12.31 % | 4.00 % |
| Core capital to average assets | 8.16 % | 4.00 % | 8.04 % | 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 regulators have adopted regulations that define five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. 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. Currently, our banks are well capitalized.

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 regulators have adopted uniform standards for evaluations 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. The assessment schedule for banks ranges from 0 to 27 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 Group A.

**Interstate Banking Legislation**

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which became effective September 1995, 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

Set forth below are material risks we face in the operation of our business.

**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 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 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.

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 integrating acquisitions;
- 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 acquisition and branch expansion, and may negatively impact our revenue growth and ultimately reduce profits.

**If we are unable to successfully integrate acquisitions, our earnings could decrease** In connection with our 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. To integrate an acquisition operationally, we must:

- centralize and standardize policies, procedures, practices, and processes;
- 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 acquisitions may detract attention from our day-to-day business and may result in unexpected costs.

Once an acquired 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 acquired in acquisitions;
- 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 and results of operations.

**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 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.

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**We may not be able to successfully implement our strategy to enter new markets** Our strategic plan includes expansion into growing markets by 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 consistent with our expectations, 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 making any potential acquisitions. Many of our acquisition 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. 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.

**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, changes in interest rates which cause a decrease in interest rate

spreads, 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 suburban Kansas City, 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, earnings 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) acquisitions and our ability to assimilate them; (viii) the ability to increase market shares 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.

**Item 2.** Properties

The table below presents property information concerning our offices at December 31, 2005.

| Name and Address of Office | Type of Interest | Lease Expiration | Square Footage of Facility |
|---|---|---|---|
| Team Financial, Inc.<br>8 West Peoria<br>Paola, Kansas 66071 | Owned | NA | 5,000 |
| TeamBank, N.A., Paola Branch (Main Office)<br>1 South Pearl<br>Paola, Kansas 66071 | Owned | NA | 17,951 |
| Team Bank, N.A., East Bank, Paola Branch<br>1515 Baptiste Drive<br>Paola, Kansas 66071 | Owned | NA | 9,630 |
| TeamBank, N.A., DeSoto Branch<br>34102 Commerce Drive<br>DeSoto, Kansas 66018 | Owned | NA | 6,800 |
| TeamBank, N.A., Lamar Branch<br>1011 Gulf Street<br>Lamar, Missouri 64759 | Leased | 2006 | 2,650 |
| TeamBank, N.A., Nevada Branch<br>201 East Cherry<br>Nevada, Missouri 64772 | Owned | NA | 16,000 |
| TeamBank, N.A., Osawatomie Branch<br>6th and Brown<br>Osawatomie, Kansas 66064 | Owned | NA | 4,756 |
| TeamBank, N.A., Ottawa Branch<br>421 South Hickory<br>Ottawa, Kansas 66067 | Owned | NA | 8,000 |
| TeamBank, N.A., Spring Hill Branch<br>22330 Harrison Street<br>Spring Hill, Kansas 66083 | Owned | NA | 2,800 |
| TeamBank, N.A., Iola Branch<br>119 East Madison<br>Iola, Kansas 66749 | Owned | NA | 13,768 |
| TeamBank, N.A., Parsons Branch (including drive in)<br>1902 Main<br>Parsons, Kansas 66357 | Owned | NA | 11,000 |
| TeamBank, N.A., Prairie Village Branch<br>5206 West 95th Street<br>Prairie Village, Kansas 66207 | Owned | NA | 3,602 |

| | | | |
|---|---|---|---|
| TeamBank, N.A., Omaha Branch (Main Office)<br>1902 Harlan Drive<br>Bellevue, Nebraska 68005 | Leased | 2007 | 4,679 |
| TeamBank, N.A., Bellevue Branch<br>7001 South 36th<br>Bellevue, Nebraska 68147 | Leased | 2006 | 1,980 |
| TeamBank, N.A., Fort Calhoun Branch<br>101 N. 14th Street<br>Fort Calhoun, Nebraska 68023 | Owned | NA | 4,250 |
| Colorado National Bank, Colorado Springs Branch (Main Office)<br>3100 North Nevada Avenue<br>Colorado Springs, Colorado 80907 | Owned | NA | 7,859 |
| Colorado National Bank, Colorado Springs Branch<br>601 North Nevada Avenue<br>Colorado Springs, Colorado 80907 | Owned | NA | 4,600 |
| Colorado National Bank, Monument Branch<br>581 Highway 105<br>Monument, Colorado 80132 | Owned | NA | 5,150 |

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

**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, N.A. 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. The Company does 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 2005.

**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 National 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 on the NASDAQ.

| Quarter Ended | Dividends Declared per Share | Common Stock High | Low |
|---|---|---|---|
| 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 | | |
| 2004: | | | |
| December 31, 2004 | $ 0.08 | $ 12.75 | $ 10.80 |
| September 30, 2004 | 0.08 | 12.00 | 10.50 |
| June 30, 2004 | 0.08 | 12.40 | 11.77 |
| March 31, 2004 | 0.08 | 13.15 | 12.00 |
| Year | $ 0.32 | | |

At February 28, 2006 we had approximately 230 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 2005.

| 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 | 4,100 | $ 15.21 | 4,100 | 377,130 |
| November 1-November 30 | | | | 377,130 |
| December 1-December 31 | | | | 377,130 |
| Total | 4,100 | $ 15.21 | 4,100 | |

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 2005 we repurchased a total of 6,100 shares of our common stock under our stock repurchase program at an average price of $15.30 per share. Pursuant to the repurchase plan authorized by the Board of Directors, 377,130 shares of our common stock remain to be purchased under this program.

We have paid cash dividends on our common stock 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 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. Payment of dividends on our common stock depends on payment of dividends to us by our subsidiary banks. 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, 2005, our subsidiaries could have paid additional dividends to Team Financial, Inc. of approximately $1,200,000 without prior regulatory approval.

The following table summarizes the securities authorized for issuance under our equity compensation plans. 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 | 304,850 | $ 10.08 | 116,500 |

**Item 6.** Selected Financial Data

| | Years ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands, except per share data) | | | | |
| Consolidated statement of operations data: | | | | | |
| Interest income | $ 36,609 | $ 31,975 | $ 31,579 | $ 37,113 | $ 39,968 |
| Interest expense | 15,243 | 12,591 | 13,523 | 16,427 | 20,575 |
| Net interest income | 21,366 | 19,384 | 18,056 | 20,686 | 19,393 |
| Provision for loan losses | 820 | 1,465 | 1,790 | 1,434 | 1,435 |
| Non-interest income | 7,706 | 8,150 | 9,808 | 9,839 | 7,924 |
| Non-interest expenses | 23,230 | 22,051 | 21,674 | 21,964 | 20,886 |
| Income taxes | 944 | 222 | 958 | 2,418 | 1,462 |
| Net income from continuing operations, net of tax | 4,078 | 3,796 | 3,442 | 4,709 | 3,534 |
| Net income (loss) from discontinued operations, net of tax | (108) | (218) | 350 | (3) | |
| Net income | 3,970 | 3,578 | 3,792 | 4,706 | 3,534 |
| Consolidated statements of financial condition data: | | | | | |
| Total assets | 696,529 | 664,083 | 649,796 | 656,349 | 650,790 |
| Loans receivable | 420,181 | 378,771 | 348,095 | 340,986 | 357,080 |
| Allowance for loan losses | 5,424 | 4,898 | 4,506 | 4,611 | 4,392 |
| Investment securities available for sale | 190,409 | 191,842 | 220,230 | 224,052 | 204,651 |
| Non-performing assets(1) | 5,037 | 3,162 | 8,377 | 6,346 | 5,268 |
| Deposits | 507,878 | 467,950 | 446,159 | 455,605 | 487,751 |
| Long-term borrowings | 108,131 | 106,295 | 101,184 | 108,301 | 72,438 |
| Subordinated debt | 16,005 | 16,005 | 16,005 | 16,005 | 16,005 |
| Stockholders equity | $ 53,349 | $ 52,854 | $ 52,404 | $ 51,828 | $ 45,370 |
| Per common share: | | | | | |
| Shares applicable to basic income per share | 4,038,097 | 4,060,587 | 4,095,903 | 4,145,820 | 3,989,098 |
| Shares applicable to diluted income per share | 4,094,793 | 4,094,714 | 4,131,381 | 4,165,400 | 3,996,327 |
| Basic income per share from continuing operations | $ 1.01 | $ 0.93 | $ 0.84 | $ 1.14 | $ 0.89 |
| Diluted income per share from continuing operations | 1.00 | 0.93 | 0.83 | 1.13 | 0.88 |
| Basic income per share from discontinued operations | (0.03) | (0.05) | 0.09 | | |
| Diluted income per share from discontinued operations | (0.03) | (0.05) | 0.09 | | |
| Basic income per share | 0.98 | 0.88 | 0.93 | 1.14 | 0.89 |
| Diluted income per share | 0.97 | 0.87 | 0.92 | 1.13 | 0.88 |
| Book value per share | 13.22 | 13.10 | 12.78 | 12.62 | 10.86 |
| Tangible book value per share | 9.87 | 8.01 | 7.81 | 7.59 | 6.84 |
| Dividends paid per common share | $ 0.32 | $ 0.32 | $ 0.27 | $ 0.22 | $ 0.20 |
| Dividend payout ratio | 32.65 % | 36.36 % | 29.03 % | 19.30 % | 22.47 % |
| Key ratios: | | | | | |
| Net interest margin(2) | 3.64 % | 3.49 % | 3.30 % | 3.76 % | 3.95 % |
| Return on average assets | 0.59 % | 0.55 % | 0.59 % | 0.71 % | 0.64 % |
| Return on average stockholders equity | 7.46 % | 6.84 % | 7.28 % | 9.57 % | 8.10 % |
| Core risk based capital ratio | 11.60 % | 10.70 % | 11.08 % | 11.00 % | 10.60 % |
| Total risk based capital ratio | 12.72 % | 11.81 % | 12.16 % | 12.17 % | 11.72 % |
| Leverage ratio | 8.42 % | 7.43 % | 7.46 % | 6.88 % | 6.92 % |
| Non-performing assets to total assets | 0.72 % | 0.48 % | 1.29 % | 0.97 % | 0.81 % |
| Non-performing loans to total loans | 1.09 % | 0.73 % | 2.09 % | 1.34 % | 1.04 % |
| Allowance for loan losses to total loans | 1.29 % | 1.29 % | 1.29 % | 1.35 % | 1.23 % |
| Allowance for loan losses to non-performing loans | 118.38 % | 177.85 % | 62.10 % | 100.76 % | 118.83 % |

(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%.

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**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 audited 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 full-service community banking and financial services through 18 locations in Kansas, Missouri, Nebraska and Colorado through our wholly owned banking subsidiaries, TeamBank N.A. 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. Our total assets over the past ten years have more than doubled, growing from $260.3 million at January 1, 1996 to $696.5 million at December 31, 2005. 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 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.

On February 25, 2005, we sold our interest in the insurance agency subsidiary. Financial information as of and for the years ended December 31, 2005, 2004 and 2003 presents the assets, liabilities and operating results of this subsidiary in discontinued operations.

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 was primarily due to an increase in loans receivable of $41.4 million. The increase in loans was offset by a decrease in assets of discontinued operations of $8.3 million. At December 31, 2004 total assets were $664.1 million, an increase of $14.3 million, or 2.2%, from $649.8 million at December 31, 2003. The increase in total assets was primarily due to an increase in cash and cash equivalents of $16.2 million as a result of an increase in checking deposits. Loans increased $30.7 million, or 8.8%, from December 31, 2003 offset by a decrease in investment securities of $28.4 million, or 12.9%.

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%.

Net income from continuing operations totaled $3.8 million for the year ended December 31, 2004 versus $3.4 million for the year ended December 31, 2003. The increase of $400,000, or 11.8%, was primarily the result of an increase in net interest income of $1.3 million, or 7.2%, a decrease in the provision for loan losses of $325,000, or 18.1%, and a decrease in tax expense of $736,000, or 76.8%, offset by a decrease in non-interest income of $1.7 million, or 17.3%.

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 and net income of $350,000 for the year ended December 31, 2003. 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. The sale was effective December 31, 2004 and, therefore, the operations of the insurance subsidiary during 2005 were assumed by the new owners. Although no formal warranty or representation claims have been presented, pursuant to the terms of the agreement, the buyer has until August 25, 2006 to present any breach of warranty or representation claims. In the event that such claims are presented, their ultimate outcome is not ascertainable at this time.

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 notes to the consolidated financial statements.

***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, 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**

We establish allowances for loan losses. The provision for loan losses charged to operations is based on historical loss 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 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. While 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, 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. There was no impairment of goodwill in 2003.

**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, 2005 | | | Year ended December 31, 2004 | | | Year ended December 31, 2003 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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) | $ 403,234 | $ 27,778 | 6.89 % | $ 365,587 | $ 23,308 | 6.38 % | $ 341,782 | $ 23,189 | 6.79 % |
| Investment securities-taxable | 165,320 | 7,352 | 4.45 % | 176,571 | 7,364 | 4.17 % | 195,185 | 7,144 | 3.66 % |
| Investment securities-nontaxable(4) | 30,135 | 1,968 | 6.53 % | 31,765 | 2,064 | 6.50 % | 27,590 | 1,971 | 7.14 % |
| Federal funds sold and interest-bearing deposits | 9,367 | 266 | 2.84 % | 5,227 | 54 | 1.03 % | 10,743 | 107 | 1.00 % |
| Other assets | 480 | 45 | 9.38 % | 480 | 46 | 9.58 % | 480 | 45 | 9.38 % |
| Total interest earning assets | $ 608,536 | $ 37,409 | 6.15 % | $ 579,630 | $ 32,836 | 5.67 % | $ 575,780 | $ 32,456 | 5.64 % |
| Interest bearing liabilities: | | | | | | | | | |
| Savings deposits and interest bearing checking | $ 181,265 | $ 1,973 | 1.09 % | $ 184,916 | $ 1,275 | 0.69 % | $ 178,199 | $ 1,357 | 0.76 % |
| Time deposits | 226,889 | 6,823 | 3.01 % | 198,123 | 4,630 | 2.34 % | 203,452 | 5,392 | 2.65 % |
| Federal funds purchased and securities sold under agreements to repurchase | 5,347 | 136 | 2.54 % | 10,481 | 143 | 1.36 % | 5,647 | 49 | 0.87 % |
| Notes payable and Federal Home Loan | | | | | | | | | |
| Bank advances | 112,946 | 4,758 | 4.21 % | 115,205 | 4,990 | 4.33 % | 116,572 | 5,172 | 4.44 % |
| Subordinated debentures | 16,005 | 1,553 | 9.70 % | 16,005 | 1,553 | 9.70 % | 16,005 | 1,553 | 9.70 % |
| Total interest bearing liabilities | $ 542,452 | $ 15,243 | 2.81 % | $ 524,730 | $ 12,591 | 2.40 % | $ 519,875 | $ 13,523 | 2.60 % |
| Net interest income (tax equivalent) | | $ 22,166 | | | $ 20,245 | | | $ 18,933 | |
| Interest rate spread | | | 3.34 % | | | 3.27 % | | | 3.04 % |
| Net interest earning assets | $ 66,084 | | | $ 54,900 | | | $ 55,905 | | |
| Net interest margin(4) | | | 3.64 % | | | 3.49 % | | | 3.29 % |
| Ratio of average interest bearing liabilities to average interest earning assets | 89.14 % | | | 90.53 % | | | 90.29 % | | |

(1) Loans are net of deferred 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, 2005, 2004, and 2003 were $1,230,000, $967,000, and $989,000, respectively.

(4) Yield is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2005, 2004, and 2003 were $800,000, $861,000, and $877,000, respectively.

Net interest margin increased to 3.64% for the year ended December 31, 2005 as compared to 3.49% and 3.29% for the years ended 2004 and 2003, 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.

Total interest income on a tax equivalent basis from continuing operations for 2005 was $37.4 million, representing an increase of $4.6 million, or 14.0%, from $32.8 million for 2004. The increase was primarily the result of a $4.5 million increase in interest income on loans receivable.

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.

Although interest income on loans receivable remained consistent for the year ended December 31, 2004 compared to the year ended December 31, 2003, the average yield on loans receivable decreased 41 basis points to 6.38% from 6.79% in 2003. This was offset with an increase of $23.8 million in the average loan receivable balance to $365.6 million in 2004 from $341.8 million in 2003. The decrease in the yield of loans receivable reflects the decrease in the rates applied to loans that re-priced in 2004 as required by the notes terms or were refinanced by customers at lower rates.

Interest income from taxable investment securities was $7.4 million during 2004, an increase of $300,000, or 4.2%, from 2003 of $7.1 million. The average yield on taxable investment securities increased 51 basis points to 4.17% in 2004 from 3.66% in 2003 due to increases in interest rates experienced in the market. This was offset by a decrease of $18.6 million in the average balances of taxable investment securities. Cash flow from the reduction of investment securities was redirected to fund loan growth.

Total interest expense from continuing operations was $12.6 million for 2004, a $900,000, or 6.67%, decrease from $13.5 million in 2003. The decrease was primarily related to the decrease in average rate paid on savings deposits and interest bearing checking balances to .69% in 2004 from .76% in 2003, representing a 7 basis point decrease, and to the decrease in average rate paid on time deposits to 2.34% in 2004 from 2.65% in 2003, representing a 31 basis point decrease. The average balance of notes payable and Federal Home Loan Bank advances decreased $1.4 million and the average rate on notes payable and Federal Home Loan Bank advances decreased 11 basis points to 4.33% during 2004 from 4.44% during 2003.

As a result of the changes described above, the net interest income from continuing operations, on a tax equivalent basis, increased to $20.2 million during 2004, representing an increase of $1.3 million, or 6.9%, compared to 2003 of $18.9 million.

The average rate paid on our 9.50% subordinated debentures, which we issued in third quarter 2001 in connection with the sale by our wholly owned subsidiary, Team Financial Capital Trust I, of 9.50% Trust Preferred Securities, was 9.70% for 2005, 2004 and 2003. The difference between the contractual amount of 9.50% and the 9.70% reported interest rate is the amortization of debt issuance costs, which are amortized over a 30-year period. The terms of the subordinated debentures allow us to redeem them in whole or in part beginning August 10, 2006. 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 financial statements.

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, 2005 Compared To Year ended December 31, 2004 Increase (decrease) due to** | | | **Year ended December 31, 2004 Compared To Year ended December 31, 2003 Increase (decrease) due to** | | |
|---|---|---|---|---|---|---|
| | **Volume (In thousands)** | **Rate** | **Net** | **Volume (In thousands)** | **Rate** | **Net** |
| Interest income: | | | | | | |
| Loans receivable, net(1)(2)(3) | $ 2,402 | $ 2,068 | $ 4,470 | $ 1,615 | $ (1,496) | $ 119 |
| Investment securities-taxable | (469) | 457 | (12) | (681) | 901 | 220 |
| Investment securities-nontaxable(4) | (106) | 10 | (96) | 298 | (205) | 93 |
| Federal funds sold and interest-bearing deposits | 43 | 169 | 212 | (55) | 2 | (53) |
| Other assets | | (1) | (1) | | 1 | 1 |
| Total interest income | 1,870 | 2,703 | 4,573 | 1,177 | (797) | 380 |
| Interest expense: | | | | | | |
| Savings deposits and interest bearing checking | (25) | 723 | 698 | 51 | (133) | (82) |
| Time deposits | 673 | 1,520 | 2,193 | (141) | (621) | (762) |
| Federal funds purchased and securities sold under agreements to repurchase | (70) | 63 | (7) | 42 | 52 | 94 |
| Notes Payable and Federal Home Loan Bank Advances | (98) | (134) | (232) | (61) | (121) | (182) |
| Subordinated debentures | | | | | | |
| Total interest expense | 480 | 2,172 | 2,652 | (109) | (823) | (932) |
| Net change in net interest income | $ 1,390 | $ 531 | $ 1,921 | $ 1,286 | $ 26 | $ 1,312 |

(1) Loans are net of deferred 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, 2005, 2004, and 2003 were $1,230,000, $967,000, and $989,000, respectively.

(4) Income is adjusted for the tax effect of tax-exempt securities. The tax effects for the years ended December 31, 2005, 2004, and 2003 were $800,000, $861,000, and $877,000, respectively.

***Provision for Loan Losses***

A provision for losses on loans is 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. After considering the above factors, management recorded a provision for loan losses on loans totaling $0.8 million for the year ended 2005, $1.5 million for the year ended 2004 and $1.8 million for the year ended 2003. 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 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Service charges | $ 3,891 | $ 3,952 | $ 3,573 |
| Trust fees | 702 | 664 | 608 |
| Brokerage service revenue | 167 | 234 | 369 |
| Gain on sales of mortgage loans | 887 | 1,264 | 2,788 |
| Gain (loss) on sales of investment securities | (1 ) | (50 ) | 294 |
| Mortgage servicing fees, net of amortization | 248 | 290 | 329 |
| Merchant processing fees | 65 | 188 | 186 |
| ATM and debit card fees | 444 | 368 | 318 |
| Income from investment in bank owned life insurance | 842 | 821 | 892 |
| Other | 461 | 419 | 451 |
| Total non-interest income | $ 7,706 | $ 8,150 | $ 9,808 |

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 recent prior 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. 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 income from continuing operations was $8.2 million for 2004, a $1.6 million, or 16.3%, decrease from 2003. This decrease was primarily a result of a decrease of gain on sales of mortgage loans of $1.5 million, or 53.6%. The decrease in gain on sales of mortgage loans was the result of the decrease in volume of loans refinanced and originated and sold due to stabilizing interest rate environment experienced during the year compared to previous years interest rate environments that were experiencing declining interest rates. Service charges increased approximately $400,000 for the year ended 2004 compared to the year ended 2003 due to an increased volume of overdraft fees and other service charges. Gain on sales of investment securities decreased approximately $300,000 for the year ended 2004 compared to the year ended 2003 due to planned decisions to re-invest certain investments maintained in our portfolio.

***Non-Interest Expense from Continuing Operations***

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

| | Years ended December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | (In thousands) | | |
| Salaries and employee benefits | $ 11,406 | $ 10,638 | $ 10,927 |
| Occupancy and equipment | 2,759 | 2,765 | 2,495 |
| Data processing | 2,851 | 2,528 | 2,190 |
| Professional fees | 1,348 | 1,179 | 1,090 |
| Marketing | 378 | 355 | 267 |
| Supplies | 322 | 378 | 381 |
| Intangible asset amortization | 616 | 798 | 823 |
| Disposal of branch assets | | | 258 |
| Other | 3,550 | 3,410 | 3,243 |
| Total non-interest expenses | $ 23,230 | $ 22,051 | $ 21,674 |

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 the prior year 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.

Non-interest expense from continuing operations was $22.1 million for the year ended 2004, an increase of $400,000, or 1.8%, compared to $21.7 million for the year ended 2003. Occupancy and equipment increased approximately $300,000 during 2004 due to increased depreciation associated with two new locations in Colorado, which were opened in the first and second quarters of 2004, and increased maintenance and repair costs experienced in 2004 compared to 2003. Additionally, data processing expense increased approximately $300,000 due to increases in computer license expense and other computer support and increases resulting from converting the Colorado locations on to the core operating system in June of 2003. These increases were offset by a decrease in salary and employee benefits of approximately $300,000 and a decrease in disposal of branch assets of approximately $300,000 associated with disposal of branch assets in 2003.

***Income Tax Expense from Continuing Operations***

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, Team Insurance Group, Inc. All of the issued and outstanding shares of the insurance agency subsidiary were sold to an unaffiliated third party for total cash consideration of $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 financial statements. 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 terms of the agreement, the buyer has until August 25, 2006 to present any breach of warranty or representation claims.

As a result of the sale, the insurance agency s operations have been classified as a discontinued operation in the consolidated financial statements.

Team Insurance Group, Inc. 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.

The following table presents the net assets of Team Insurance Group, Inc. as of December 31, 2004.

| | **2004** |
|---|---|
| | **(In thousands)** |
| Cash | $ 1,033 |
| Investments | |
| Premises and equipment, net | 571 |
| Goodwill | 5,514 |
| Intangible assets, net of accumulated amortization | 1,039 |
| Other assets | 125 |
| Accrued expenses and other liabilities | (1,282 ) |
| Total net assets | $ 7,000 |

The revenue contingencies discussed above for both 2003 and 2004 were achieved. Additional cash consideration of $925,000 plus interest was paid to the previous owners during the first quarter of 2004 for the 2003 fiscal year achievements 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 N.A. 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.

Included in intangible assets of discontinued operations at December 31, 2003 was a non-compete agreement between an employee of Team Insurance Group, Inc. and Team Financial, Inc. of approximately $159,000. Amortization expense was recognized during the year ended 2004 of approximately $40,000, bringing the net book value of the non-compete agreement to approximately $119,000. However, as a result of the sale of the insurance agency, the non-compete agreement was written-off at December 31, 2004.

Summarized results of operations related to the insurance agency are as follows for the years ended December 31, 2004, and 2003.

| | For the years ended December 31 | |
|---|---|---|
| | 2004 | 2003 |
| | (In thousands) | |
| Insurance agency commissions | $ 4,153 | $ 4,454 |
| Other income | 193 | 229 |
| Total income | 4,346 | 4,683 |
| Salary and employee benefits | 3,092 | 2,864 |
| Occupancy and equipment | 338 | 274 |
| Professional fees | 90 | 53 |
| Marketing | 126 | 161 |
| Supplies | 39 | 58 |
| Intangible asset amortization | 170 | 175 |
| Goodwill impairment | 174 | |
| Intangible asset write-off | 119 | |
| Other | 455 | 498 |
| Total expenses | 4,603 | 4,083 |
| Net income (loss) from discontinued operations before income taxes | (257 ) | 600 |
| Income tax expense (benefit) | (39 ) | 250 |
| Net income (loss) from discontinued operations, net of tax | $ (218 ) | $ 350 |

***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 $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.

Comprehensive income was $2.7 million for the year ended 2004, an increase of $1.0 million from $1.7 million for the year ended 2003. The increase was primarily the result of a $1.2 million increase in other comprehensive income as unrealized losses experienced during 2004 decreased compared to the unrealized losses experienced during 2003.

**Analysis of Financial Condition**

***Overview***

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

Total assets were $664.1 million at December 31, 2004, compared to $649.8 million as of December 31, 2003, an increase of $14.3 million, or 2.2%. The increase in total assets was primarily due to an increase in cash and cash equivalents of $16.2 million. Loans increased approximately $30.7 million in 2004 compared to 2003. This was offset by a decrease in investment securities of $28.4 million.

***Loan Portfolio Composition***

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

| | December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | | 2002 | | 2001 | |
| | 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 | $ 86,880 | 20.9 % | $ 87,633 | 23.4 % | $ 93,711 | 27.3 % | $ 102,673 | 30.5 % | $ 125,666 | 35.6 % |
| Construction and land development | 80,918 | 19.5 | 49,388 | 13.2 | 43,748 | 12.7 | 38,717 | 11.5 | 29,154 | 8.3 |
| Commercial | 136,318 | 32.9 | 122,007 | 32.6 | 103,568 | 30.2 | 84,751 | 25.2 | 61,203 | 17.3 |
| Other | 36,738 | 8.9 | 17,781 | 4.8 | 15,161 | 4.4 | 13,891 | 4.1 | 18,877 | 5.4 |
| Total | 340,854 | 82.2 | 276,809 | 74.0 | 256,188 | 74.6 | 240,032 | 71.4 | 234,900 | 66.6 |
| Commercial and agricultural | 63,080 | 15.2 | 82,889 | 22.2 | 70,734 | 20.6 | 71,835 | 21.4 | 82,594 | 23.4 |
| Installment and other | 17,176 | 4.1 | 19,863 | 5.3 | 21,819 | 6.4 | 29,716 | 8.8 | 40,211 | 11.4 |
| Gross Loans | 421,110 | 101.5 | 379,561 | 101.5 | 348,741 | 101.5 | 341,583 | 101.5 | 357,705 | 101.4 |
| Less unearned fees | (929 ) | (0.2 ) | (790 ) | (0.2 ) | (646 ) | (0.2 ) | (597 ) | (0.2 ) | (625 ) | (0.2 ) |
| Total loans receivable | 420,181 | 101.3 | 378,771 | 101.3 | 348,095 | 101.3 | 340,986 | 101.4 | 357,080 | 101.2 |
| Less allowance for loan losses | (5,424 ) | (1.3 ) | (4,898 ) | (1.3 ) | (4,506 ) | (1.3 ) | (4,611 ) | (1.4 ) | (4,392 ) | (1.2 ) |
| Total net loans receivable | $ 414,757 | 100.0 % | $ 373,873 | 100.0 % | $ 343,589 | 100.0 % | $ 336,375 | 100.0 % | $ 352,688 | 100.0 % |

Total loans receivable were $420.2 million at December 31, 2005 compared to $378.8 million at December 31, 2004, representing an increase of $41.4 million, or 10.9%. The increase in total loans receivable was primarily due to increases in the construction and land development and commercial real estate. The internal loan growth in these areas produced an increase of $45.8 million, or 26.7% in these loans compared to 2004. Offsetting the increase in our construction and land development and commercial real estate loans was a decrease in our commercial and agricultural portfolio, representing a 23.9% decrease in 2005 compared to 2004, or approximately $19.8 million. Installment loans 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, 2005 installment loans were $11.8 million, representing a $1.9 million decrease, or 13.9%, from installment loans at December 31, 2004 of $13.7 million.

**Loans secured by real estate**

Loans secured by real estate represent our largest loan category. At December 31, 2005 these loans 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 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%. Included in one to four family loans were loans held for sale of $1.8 million at December 31, 2005 and $3.1 million at December 31, 2004. 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 $403,000 at December 31, 2005 compared to $514,000 at December 31, 2004.

Non-farm, non-residential commercial loans secured by real estate increased $14.3 million, or 11.7%, to $136.3 million at December 31, 2005 from $122.0 million at December 31, 2004. We have experienced steady growth in this area increasing in each of 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, 2004, loans secured by real estate totaled $276.8 million, a $20.6 million, or 8.0%, increase from $256.2 million at December 31, 2003. The increase was generated from an $18.4 million increase in commercial real estate loans and a $5.7 million increase in construction and development loans. Offsetting this increase was a $6.1 million decrease in one to four family loans. At December 31, 2004, the balance of real estate loans held for sale was $3.1 million, representing a $2.0 million increase from the balance at December 31, 2003 of $1.1 million. Construction and land development loans secured by real estate increased $5.7 million, or 13.0%, to $49.4 million at December 31, 2004 from $43.7 million at December 31, 2003.

**Commercial and Agricultural**

Commercial and agricultural loans were $63.1 million at December 31, 2005, a decrease of $19.8 million, or 23.9%, from $82.9 million at December 31, 2004. 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 $55.1 million at December 31, 2005, compared to $68.0 million at December 31, 2004, a decrease of $12.9 million, or 19.0%. At December 31, 2004, commercial loans were $68.0 million compared to $56.7 million at December 31, 2003, an increase of $11.3 million, or 19.9%.

At December 31, 2005, agricultural loans were $8.0 million compared to $14.9 million at December 31, 2004, a decrease of $6.9 million, or 46.3%. Agricultural loans at December 31, 2004 increased $0.9 million or 6.4% from $14.0 million at December 31, 2003.

**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 $17.2 million at December 31, 2005, a decrease of $2.7 million, or 13.6%, from $19.9 million at December 31, 2004. At December 31, 2004, installment and other loans decreased $1.9 million, or 8.7%, from $21.8 million at December 31, 2003. 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, 2005 and 2004, 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, 2005** | | | | | |
|---|---|---|---|---|---|---|
| | | **Over One Year Through Five Years** | | **Over Five Years** | | |
| | **One Year or Less** | **Fixed Rate** | **Variable** | **Fixed Rate** | **Variable** | **Total** |
| | **(In thousands)** | | | | | |
| 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 |

| | **December 31, 2004** | | | | | |
|---|---|---|---|---|---|---|
| | | **Over One Year Through Five Years** | | **Over Five Years** | | |
| | **One Year or Less** | **Fixed Rate** | **Variable** | **Fixed Rate** | **Variable** | **Total** |
| | **(In thousands)** | | | | | |
| Loans secured by real estate: | | | | | | |
| One to four family | $ 11,059 | $ 6,122 | $ 2,257 | $ 15,279 | $ 52,916 | $ 87,633 |
| Construction and land development | 36,304 | 5,971 | 2,281 | 217 | 4,615 | 49,388 |
| Commercial | 32,226 | 28,447 | 14,743 | 5,788 | 40,803 | 122,007 |
| Other | 3,141 | 3,681 | 1,483 | 1,374 | 8,102 | 17,781 |
| Total | 82,730 | 44,221 | 20,764 | 22,658 | 106,436 | 276,809 |
| Commercial and agricultural | 44,142 | 13,660 | 7,488 | 1,679 | 15,920 | 82,889 |
| Installment and other | 4,280 | 10,670 | 36 | 3,654 | 1,223 | 19,863 |
| Gross Loans | 131,152 | 68,551 | 28,288 | 27,991 | 123,579 | 379,561 |
| Less unearned fees | 790 | | | | | 790 |
| Total loans receivable | $ 130,362 | $ 68,551 | $ 28,288 | $ 27,991 | $ 123,579 | $ 378,771 |

***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. 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 discontinued and any interest accrued to date is reversed through a charge to interest income. 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. Loans are generally placed on non-accrual status when principal or interest is 90 days or more past due, unless the loans are well-secured and in the process of collection.

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

| | December 31<br>2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Non-accrual loans | $ 2,343 | $ 1,281 | $ 5,481 | $ 3,413 | $ 2,316 |
| Loans 90 days past due and still accruing | 1,184 | 420 | 641 | 1,163 | 1,380 |
| Restructured loans | 1,055 | 1,053 | 1,138 | | |
| Non-performing loans | 4,582 | 2,754 | 7,260 | 4,576 | 3,696 |
| Other real estate owned | 455 | 408 | 1,117 | 1,770 | 1,572 |
| Total non-performing assets | $ 5,037 | $ 3,162 | $ 8,377 | $ 6,346 | $ 5,268 |
| Non-performing loans as a percentage of total loans | 1.09 % | 0.73 % | 2.09 % | 1.34 % | 1.04 % |
| Non-performing assets as a percentage of total assets | 0.72 % | 0.48 % | 1.29 % | 0.97 % | 0.81 % |

Total non-performing assets were $5.0 million at December 31, 2005 compared to $3.2 million at December 31, 2004, representing an increase of $1.8 million, or 56.3%. The increase in non-performing assets was due to an increase in non-accrual loans of $1.1 million and an increase in loans 90 days past due and still accruing of approximately $800,000. The increase in loans 90 days past due and still accruing was the result of several new loans in this category at December 31, 2005, the largest of which was approximately $375,000 to a distribution company.

Non-performing loans increased $1.8 million, or 64.3%, to $4.6 million at December 31, 2005 from $2.8 million at December 31, 2004. The increase in non-performing loans was a result of an increase in non-accrual loans of $1.1 million and an increase in loans 90 days past due and still accruing of approximately $800,000. This increase was partially due to a commercial loan to a manufacturing company of approximately $540,000 being put on non-accrual as of December 31, 2005.

Also included in the $2.3 million of non-accrual loans at December 31, 2005 were several small loans, the largest of which was approximately $216,000. Non-accrual loans had approximately $613,000 specific reserves included in the allowance for loan losses at December 31, 2005. We do not anticipate losses on these credits in excess of the specific reserves. Restructured loans at December 31, 2005 consisted of eight relationships. The largest relationship included an agricultural loan restructured through Farmer Home Administration of approximately $554,000.

Other real estate owned was $455,000 at December 31, 2005 compared to $408,000 at December 31, 2004. Other real estate owned consisted of ten properties held by our subsidiary banks, consisting of three commercial buildings and seven single family dwellings, at December 31, 2005. 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, 2005, three properties held in other real estate owned were sold at a total gain of approximately $70,000.

Non-performing assets as a percent of total assets were 0.72% at December 31, 2005, compared to 0.48% at December 31, 2004, and 1.29% at December 31, 2003. 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 2006, 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 and all loans upon which accrual of interest has been suspended.

At December 31, 2005, we had impaired loans totaling $3.5 million, which have related specific reserves of $613,000. This compares to $1.7 million of impaired loans, which had related specific reserves of $262,000 at December 31, 2004. The increase in impaired loans was the result of the increase in non-accrual loans and loans 90 days past due and still accruing described above. The average recorded investment in impaired loans during the year ended December 31, 2005 was $2.3 million. Interest income recognized on impaired loans during the period the loans were considered to be impaired for 2005 and 2004 approximated $50,000. 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 2006.

***Allowance for Loan Losses***

Management maintains its 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 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 is increased by provisions for loan losses and reduced by loans charged off, net of recoveries.

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

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands) | | | | |
| Average total loans | $ 403,234 | $ 365,587 | $ 341,782 | $ 335,194 | $ 339,258 |
| Total loans at end of period | $ 420,181 | $ 378,771 | $ 348,095 | $ 340,986 | $ 357,080 |
| Allowance at beginning of year | $ 4,898 | $ 4,506 | $ 4,611 | $ 4,392 | $ 3,911 |
| Loans charged off: | | | | | |
| Real estate: | | | | | |
| One to four family | (87) | (307) | (229) | (238) | (99) |
| Construction | | (200) | | (18) | (141) |
| Other | | (218) | (2) | (103) | (38) |
| Commercial | (293) | (267) | (1,296) | (561) | (441) |
| Lease financing receivables | | (16) | (32) | (20) | (36) |
| Installment and other | (331) | (298) | (688) | (635) | (930) |
| Total charge-offs | (711) | (1,306) | (2,247) | (1,575) | (1,685) |
| Recoveries: | | | | | |
| Real estate: | | | | | |
| One to four family | 39 | 16 | 49 | 13 | 4 |
| Construction | 5 | 3 | 7 | 29 | |
| Other | 7 | | 80 | 19 | |
| Commercial | 175 | 38 | 35 | 38 | 67 |
| Lease financing receivables | 1 | 6 | | 22 | 24 |
| Installment and other | 190 | 170 | 181 | 239 | 254 |
| Total recoveries | 417 | 233 | 352 | 360 | 349 |
| Net charge-offs | (294) | (1,073) | (1,895) | (1,215) | (1,336) |
| Provision for loan losses | 820 | 1,465 | 1,790 | 1,434 | 1,435 |
| Allowance related to acquisitions | | | | | 382 |
| Allowance at end of period | $ 5,424 | $ 4,898 | $ 4,506 | $ 4,611 | $ 4,392 |
| Ratio of net charge-offs to average total loans | 0.07 % | 0.29 % | 0.55 % | 0.36 % | 0.39 % |
| Allowance to total loans at end of period | 1.29 % | 1.29 % | 1.29 % | 1.35 % | 1.23 % |
| Allowance to non-performing loans | 118.4 % | 177.9 % | 62.10 % | 100.76 % | 118.83 % |

The decrease in the allowance as a percent of non-performing loans was due to higher collateral values securing the non-performing loans in 2005 compared to 2004. Net charge-offs were $294,000 for the year ended 2005 compared to $1.1 million for the year ended 2004. Net charge-offs for 2005 consisted of several small credits. The largest charge-off during 2005 was approximately $99,000 for a commercial loan.

Net charge-offs for 2004 consisted of several small credits. The largest charge-off during 2004 was approximately $300,000 for a one to four family real estate loan that went into foreclosure and was sold from other real estate owned.

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 2005** | | **2004** | | **2003** | | **2002** | | **2001** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **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 | $ 417 | 20.7 % | $ 423 | 23.1 % | $ 397 | 27.0 % | $ 16 | 30.1 % | $ 139 | 35.2 % |
| Construction and land development | 705 | 19.3 | 402 | 13.0 | 635 | 13.0 | 575 | 11.3 | 248 | 8.2 |
| Commercial & other | 1,035 | 41.1 | 1,137 | 36.9 | 944 | 34.0 | 784 | 28.8 | 658 | 22.4 |
| Commercial and agricultural | 2,588 | 15.0 | 2,331 | 21.9 | 1,638 | 20.0 | 2,102 | 21.1 | 2,283 | 23.1 |
| Lease financing receivables | 6 | 0.3 | 9 | 0.4 | 8 | | 14 | | 35 | 1.4 |
| Installment and other | 582 | 3.6 | 393 | 4.7 | 602 | 6.0 | 864 | 8.7 | 889 | 9.7 |
| Unallocated | 91 | | 203 | | 282 | | 256 | | 140 | |
| | $ 5,424 | 100.0 % | $ 4,898 | 100.0 % | $ 4,506 | 100.0 % | $ 4,611 | 100.0 % | $ 4,392 | 100.0 % |

The provision for loan losses takes into account many factors such as our prior 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 allowance for loan losses allocated to construction and land development increased approximately $300,000 at December 31, 2005 compared to December 31, 2004 due to an increase in the allocation of the allowance associated with historical trends and economic conditions due to an increased balance in this category in 2005 compared to 2004. The allowance for loan losses allocated to commercial and agricultural loans increased approximately $257,000 due to an increase in specific reserves at 2005 compared to 2004. The allowance for loan losses allocated to installment and other loans increased approximately $189,000 due to an increase in the specific allocations of this category of loans in 2005 compared to 2004.

***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, 2005 and 2004, 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, 2005 of $190.4 million represented a decrease of $1.4 million from total investments at December 31, 2004 of $191.8 million. The decrease was primarily a result of a decrease in mortgage backed securities of $3.2 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 $88.0 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 4.04%, consist of $70.0 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.

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, but the actual magnitude of this impact cannot be estimated.

The following table presents our investments in certain securities accounted for as available for sale. 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.

| | **December 31 2005 (In thousands)** | **2004** |
|---|---|---|
| Investment securities available for sale: | | |
| U.S. Agency securities | $ 59,986 | $ 56,199 |
| Obligations of state and political subdivisions | 29,733 | 32,276 |
| Mortgage-backed securities | 85,422 | 88,666 |
| Other | 15,268 | 14,701 |
| Total investment securities | $ 190,409 | $ 191,842 |

The following tables set forth a summary of the contractual maturities in the investment portfolio at December 31, 2005 and December 31, 2004.

| | **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)** | | | | | | | | | |
| U.S. Treasury and agencies | $ 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 |
| Mortgage-backed securities | 10 | 7.57 | 1,965 | 3.66 | 4,225 | 4.67 | 79,222 | 4.94 | 85,422 | 4.90 |
| Other(1) | 8,825 | 4.80 | 463 | 6.75 | 432 | 7.80 | 5,548 | 4.98 | 15,268 | 5.01 |
| | $ 20,889 | | $ 26,838 | | $ 39,309 | | $ 103,373 | | $ 190,409 | |

| | **December 31, 2004** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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)** | | | | | | | | | |
| U.S. Treasury and agencies | $ 3,649 | 4.79 % | $ 30,118 | 3.55 % | $ 8,256 | 4.00 % | $ 14,176 | 5.07 % | $ 56,199 | 4.08 % |
| Obligations of states and political subdivisions | 1,252 | 6.15 | 4,956 | 6.42 | 16,251 | 6.36 | 9,817 | 6.16 | 32,276 | 6.30 |
| Mortgage-backed securities | | | 1,255 | 4.37 | 4,617 | 4.17 | 82,794 | 4.79 | 88,666 | 4.76 |
| Other(1) | 8,505 | 4.19 | | 0.00 | 1,071 | 7.38 | 5,125 | 5.33 | 14,701 | 5.68 |
| | $ 13,406 | | $ 36,329 | | $ 30,195 | | $ 111,912 | | $ 191,842 | |

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

***Deposits***

Our primary source of funds has historically been customer deposits, which totaled $507.9 million at December 31, 2005, a $39.9 million, or 8.5%, increase from $468.0 million at December 31, 2004. The increase was a result of an increase in certificates of deposits of $41.1 million, primarily due to branch promotional campaigns and an increase in public funds in the fourth quarter of 2005. Average balance for checking, savings and money market deposits was $255.2 million for the year ended December 31, 2005 compared to $253.2 million for the same accounts in 2004.

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** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | **2004** | | **2003** | |
| | **Average Balance** | **Average Rate** | **Average Balance** | **Average Rate** | **Average Balance** | **Average Rate** |
| | **(Dollars in thousands)** | | | | | |
| Non-interest-bearing demand | $ 73,972 | | $ 68,256 | | $ 64,329 | |
| Interest-bearing demand | 148,059 | 1.18 % | 151,871 | 0.70 % | 146,527 | 0.76 % |
| Savings | 33,206 | 0.67 % | 33,045 | 0.64 % | 31,672 | 0.78 % |
| Time | 226,889 | 3.01 % | 198,123 | 2.34 % | 203,452 | 2.65 % |
| Total | $ 482,126 | | $ 451,295 | | $ 445,980 | |

The following table summarizes at December 31, 2005 and December 31, 2004, our certificates of deposit of $100,000 or more by time remaining until maturity.

| | **December 31** | |
|---|---|---|
| | **2005** | **2004** |
| | **(In thousands)** | |
| Remaining maturity: | | |
| Less than three months | $ 26,695 | $ 13,684 |
| Three to six months | 20,379 | 6,411 |
| Six months to one year | 11,953 | 13,906 |
| One year and over | 15,346 | 18,784 |
| Total | $ 74,373 | $ 52,785 |

***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, 2005, FHLB borrowings aggregated $111.1 million, compared to $111.9 million at December 31, 2004 and $111.2 million at December 31, 2003. As discussed in the investment section above, approximately $88.0 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, 2005, the aggregate available and unused borrowing capacity of our subsidiary banks was approximately $15.1 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, N.A. 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 2005 or 2004.

***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% Trust Preferred Securities. The debentures, maturing August 10, 2031, are the sole assets of the Trust. In exchange for the capital contribution made to the Trust by Team Financial, Inc. upon formation, Team Financial, Inc. owns all of the common securities of the Trust. On August 10, 2006, we have the right to redeem the debentures, in whole or in part, at a redemption price specified in the Indentures plus any accrued but unpaid interest to the redemption date.

In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46 R), adopted in December 2003, the Trust qualifies as a special purpose entity that is not required to be consolidated in our financial statements. The $15.5 million Trust Preferred Securities issued by the Trust are reported on the records of the Trust.

We continue to include the Trust Preferred Securities issued by the Trust in Tier I capital for regulatory capital purposes.

Total expenses associated with offering the Trust Preferred Securities, paid by Team Financial, Inc., approximated $1.0 million and are reflected in our financial statements. The costs are included in Other Assets and are being amortized on a straight-line basis to interest expense over the life of the debentures. As of December 31, 2005, approximately $846,000 of the cost related to offering the Trust Preferred Securities remained unamortized. In the event that we would redeem all or part of our 9.50% subordinated debentures on or after August 10, 2006, we would amortize the proportionate unamortized cost of the offering and incur a charge. The maximum charge that would be incurred should we redeem all of the subordinated debentures on August 10, 2006 would be approximately $826,000.

The Trust Preferred Securities accrue and pay distributions quarterly at annual rates of 9.50% of the stated liquidation amount of $10 per preferred security. We have fully and unconditionally guaranteed all of the obligations of the Trust. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the Trust Preferred Securities.

***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, 2005.

| | **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 | $ 173,910 | $ 63,002 | $ 5,750 | $ 16 | $ 242,678 |
| Repurchase agreements | 4,036 | | | | 4,036 |
| Subordinated debentures, FHLB advances and notes payable | 19,207 | 10,000 | 10,000 | 88,131 | 127,338 |
| Operating lease obligations | 108,000 | 85,000 | | | 193,000 |
| Loan commitments | 57,550 | 10,374 | 2,662 | 10,725 | 81,310 |
| Data processing contracts | 555 | 677 | | | 1,232 |
| Total | $ 363,258 | $ 169,053 | $ 18,412 | $ 98,872 | $ 649,594 |

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 $16,005,000. The debentures mature on August 10, 2031; however, we may redeem all or part of the debentures at any time on or after August 10, 2006. These debentures are included in the one year or less 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 $6,202,000 at December 31, 2005 and the maximum remaining term for any standby letter of credit is December 2008; 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 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, 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. 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 I, 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** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | **2004** | | **2003** | |
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| | **(Dollars in thousands)** | | | | | |
| Core capital | $ 56,661 | 11.60 % | $ 46,857 | 10.70 % | $ 46,320 | 11.08 % |
| Core capital minimum requirement(1) | 19,530 | 4.00 % | 17,524 | 4.00 % | 16,721 | 4.00 % |
| Excess | $ 37,131 | 7.60 % | $ 29,333 | 6.70 % | $ 29,599 | 7.08 % |
| Total risk based capital | $ 62,085 | 12.72 % | $ 51,755 | 11.81 % | $ 50,826 | 12.16 % |
| Total risk based capital requirement(1) | 39,061 | 8.00 % | 35,049 | 8.00 % | 33,442 | 8.00 % |
| Excess | $ 23,024 | 4.72 % | $ 16,706 | 3.81 % | $ 17,384 | 4.16 % |
| Total risk adjusted assets | $ 488,260 | | $ 438,109 | | $ 418,026 | |

| | **Leverage Ratios At December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | **2004** | | **2003** | |
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| | **(Dollars in thousands)** | | | | | |
| Core capital | $ 56,661 | 8.42 % | $ 46,857 | 7.43 % | $ 46,320 | 7.46 % |
| Core capital minimum requirement(2) | 26,903 | 4.00 % | 25,213 | 4.00 % | 24,829 | 4.00 % |
| Excess | $ 29,758 | 4.42 % | $ 21,644 | 3.43 % | $ 21,491 | 3.46 % |
| Average total assets | $ 672,578 | | $ 630,323 | | $ 620,723 | |

(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%.

***Recent Accounting Pronouncements***

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payments*, (SFAS 123R). This statement requires that the cost resulting from all share-based transactions be recognized in the financial statements. SFAS 123R 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 123R replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principal Board Opinion No. 25, *Accounting for Stock Issued to Employee,* (APB 25) and is effective as of the beginning of the first interim or annual reporting period beginning after June 15, 2005. As discussed in the notes to consolidated financial statements, in 2005 and previous years, we have applied APB 25 in accounting for our stock incentive plans which required compensation cost be recognized as the excess, if any, of the fair market value of our stock at the date of grant over the amount the employee must pay to acquire the stock. In accordance with APB 25 we have reported the pro forma effect on net income if the share-based awards were accounted for using the fair value method in a footnote.

On September 30, 2004 the FASB issued a final FASB Staff Position, FSP EITF Issue 03-1-1, that delays the effective date for the measurement and recognition guidance included in EITF Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, (EITF 03-1). Originally, this statement was effective for reporting periods beginning after June 15, 2004 and provided guidance on when to record a loss in the statement of operations and when additional information needed to be disclosed on unrealized losses. Other components of EITF 03-1 regarding quantitative and qualitative information was required to be presented in the financial statements effective for fiscal years ending after December 15, 2003 and was not deferred by the FASB s Staff Position. This portion of EITF 03-1 was adopted in December, 2003 and the required disclosures are included in footnote 3 in the Notes to the Consolidated Financial Statements. The adoption of the measurement and recognition guidance, have not had a material impact on our financial position and results of operations.

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, (SOP 03-3). SOP 03-3 addresses the accounting for certain acquired loans or debt securities, including those acquired in a purchase business combination, that have experienced a deterioration of credit quality between the loan origination date that the date the loan is acquired by an investor, and for which it is probable that at acquisition the investor will be unable to collect all contractually required payments on the loan. Loans within the scope of this SOP that are acquired should be recognized initially at the present value of amounts expected to be received and no allowance for loan losses should be carried over related to these loans at acquisition. SOP 03-3 prohibits displaying accretable yield and nonaccretable differences in the balance sheet. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. We adopted SOP 03-3 on January 1, 2005. The adoption of SOP 03-3 did not have a material impact on our financial position or results of operations.

## **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.

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, 2005 and December 31, 2004, these liquid assets totaled $224.8 million and $226.6 million, respectively. Included in these liquid assets are investment securities of $161.1 million at December 31, 2005 and $162.7 million at December 31, 2004 that were pledged as collateral for borrowings, repurchase agreements and for public funds on deposit.

At December 31, 2005 there was approximately $15.1 million borrowing capacity remaining under agreements with the Federal Home Loan Bank of Topeka.

During 2005, our loan portfolio increased approximately 10.9%. 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 additional sources of funding. Another source of additional funding is the use of brokered certificates of deposits.

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, 2005. 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, 2005**

| | 3 months or less (Dollars in thousands) | 4 through 12 months | 13 through 36 months | 37 through 60 months | 61 through 120 months | More than 120 months | Total |
|---|---|---|---|---|---|---|---|
| Interest-earning assets: | | | | | | | |
| Loans receivable, net of unearned income | $ 102,512 | $ 137,626 | $ 98,700 | $ 52,226 | $ 13,043 | $ 16,074 | $ 420,181 |
| Investment securities available for sale | 10,821 | 10,068 | 13,428 | 13,410 | 39,309 | 103,373 | 190,409 |
| Federal funds sold and interest-bearing deposits | 19,768 | | | | | | 19,768 |
| Other assets | | 480 | | | | | 480 |
| Total interest-earning assets | $ 133,101 | $ 148,174 | $ 112,128 | $ 65,636 | $ 52,352 | $ 119,447 | $ 630,838 |
| Interest bearing liabilities: | | | | | | | |
| Savings deposits and interest-bearing checking | $ 265,200 | $ | $ | $ | $ | $ | $ 265,200 |
| Time deposits under $100,000 | 39,173 | 78,052 | 46,658 | 4,406 | 16 | | 168,305 |
| Time deposits over $100,000 | 22,674 | 34,010 | 16,344 | 1,345 | | | 74,373 |
| Federal funds purchased and securities sold under agreements to repurchase | 4,036 | | | | | | 4,036 |
| Federal Home Loan Bank Advances | 5,000 | 3,000 | 27,000 | 5,000 | 70,401 | 730 | 111,131 |
| Notes payable and subordinated debentures | 202 | 16,005 | | | | | 16,207 |
| Total interest-bearing liabilities | $ 336,285 | $ 131,067 | $ 90,002 | $ 10,751 | $ 70,417 | $ 730 | $ 639,252 |
| Periodic repricing gap | $ (203,184 ) | $ 17,107 | $ 22,126 | $ 54,885 | $ (18,065 ) | $ 118,717 | $ (8,414 ) |
| Cumulative repricing gap | (203,184 ) | (186,077 ) | (163,951 ) | (109,066 ) | (127,131 ) | (8,414 ) | |
| Periodic repricing gap as a percent of interest earning assets | (152.65 )% | 11.55 % | 19.73 % | 83.62 % | (34.51 )% | 99.39 % | |
| Cumulative repricing gap as a percent of interest earning assets | (152.65 )% | (125.58 )% | (146.22 )% | (166.17 )% | (242.84 )% | (7.04 )% | |

The table indicates that we are liability sensitive in the less than three-month period and the 61 through 120 month period, and are asset 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, 2005, if there had been a sudden and sustained increase in prevailing market interest rates, our 2006 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 | $ 25,234 | $ 1,363 | 5.71 % |
| 100 basis point rise | 24,552 | 681 | 2.85 |
| Base rate scenario | 23,871 | | |
| 100 basis point decline | 22,851 | (1,020 ) | (4.27 ) |
| 200 basis point decline | 20,474 | (3,397 ) | (14.23 ) |

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**

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Kansas City, Missouri
March 24, 2006

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Financial Condition**
**December 31, 2005 and 2004**
**(In thousands)**

| | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 14,592 | $ 13,718 |
| Federal funds sold and interest bearing bank deposits | 19,768 | 21,023 |
| Cash and cash equivalents | 34,360 | 34,741 |
| Investment securities: | | |
| Available for sale, at fair value (amortized cost of $192,388 and $190,369 at December 31, 2005 and 2004, respectively) | 190,409 | 191,842 |
| Total investment securities | 190,409 | 191,842 |
| Loans receivable, net of unearned fees | 420,181 | 378,771 |
| Allowance for loan losses | (5,424) | (4,898) |
| Net loans receivable | 414,757 | 373,873 |
| Accrued interest receivable | 4,607 | 3,819 |
| Premises and equipment, net | 16,359 | 15,317 |
| Assets acquired through foreclosure | 455 | 408 |
| Goodwill | 10,700 | 10,700 |
| Intangible assets, net of accumulated amortization | 3,223 | 3,811 |
| Bank owned life insurance policies | 19,173 | 18,460 |
| Other assets | 2,486 | 2,830 |
| Assets of discontinued operations | | 8,282 |
| Total assets | $ 696,529 | $ 664,083 |
| **Liabilities and Stockholders Equity** | | |
| Deposits: | | |
| Checking deposits | $ 186,791 | $ 183,650 |
| Savings deposits | 31,944 | 32,749 |
| Money market deposits | 46,465 | 49,931 |
| Certificates of deposit | 242,678 | 201,620 |
| Total deposits | 507,878 | 467,950 |
| Federal funds purchased and securities sold under agreements to repurchase | 4,036 | 5,669 |
| Federal Home Loan Bank advances | 111,131 | 111,915 |
| Notes payable | 202 | 3,544 |
| Subordinated debentures | 16,005 | 16,005 |
| Accrued expenses and other liabilities | 3,928 | 4,864 |
| Liabilities of discontinued operations | | 1,282 |
| Total liabilities | 643,180 | 611,229 |
| Stockholders equity: | | |
| Preferred stock, no par value. Authorized 10,000,000 shares; no shares issued | | |
| Common stock, no par value. 50,000,000 shares authorized; 4,499,470 and 4,496,753 shares issued; 4,034,995 and 4,034,178 shares outstanding at December 31, 2005 and 2004, respectively | 27,880 | 27,849 |
| Capital surplus | 417 | 306 |
| Retained earnings | 30,941 | 28,264 |
| Treasury stock, common stock 464,475 and 462,575 shares at cost at December 31, 2005 and 2004, respectively | (4,583) | (4,537) |
| Accumulated other comprehensive income (loss) | (1,306) | 972 |
| Total stockholders equity | 53,349 | 52,854 |
| Total liabilities and stockholders equity | $ 696,529 | $ 664,083 |

See accompanying notes to the consolidated financial statements

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Operations**
**Years ended December 31, 2005, 2004, and 2003**
**(Dollars in thousands, except per share data)**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Interest income: | | | |
| Interest and fees on loans | $ 27,778 | $ 23,308 | $ 23,189 |
| Taxable investment securities | 7,352 | 7,364 | 7,144 |
| Nontaxable investment securities | 1,168 | 1,203 | 1,094 |
| Other | 311 | 100 | 152 |
| Total interest income | 36,609 | 31,975 | 31,579 |
| Interest expense: | | | |
| Deposits: | | | |
| Checking deposits | 1,124 | 570 | 554 |
| Savings deposits | 222 | 212 | 246 |
| Money market deposits | 627 | 493 | 557 |
| Certificates of deposit | 6,823 | 4,630 | 5,392 |
| Federal funds purchased and securities sold under agreements to repurchase | 136 | 143 | 49 |
| FHLB advances payable | 4,696 | 4,865 | 4,998 |
| Notes payable | 62 | 125 | 174 |
| Subordinated debtentures | 1,553 | 1,553 | 1,553 |
| Total interest expense | 15,243 | 12,591 | 13,523 |
| Net interest income before provision for loan losses | 21,366 | 19,384 | 18,056 |
| Provision for loan losses | (820) | (1,465) | (1,790) |
| Net interest income after provision for loan losses | 20,546 | 17,919 | 16,266 |
| Non-interest income: | | | |
| Service charges | 3,891 | 3,952 | 3,573 |
| Trust fees | 702 | 664 | 608 |
| Gain on sales of mortgage loans | 887 | 1,264 | 2,788 |
| Gain (loss) on sales of investment securities | (1) | (50) | 294 |
| Bank owned life insurance income | 842 | 821 | 892 |
| Other | 1,385 | 1,499 | 1,653 |
| Total non-interest income | 7,706 | 8,150 | 9,808 |
| Non-interest expenses: | | | |
| Salaries and employee benefits | 11,406 | 10,638 | 10,927 |
| Occupancy and equipment | 2,759 | 2,765 | 2,495 |
| Data processing | 2,851 | 2,528 | 2,190 |
| Professional fees | 1,348 | 1,179 | 1,090 |
| Marketing | 378 | 355 | 267 |
| Supplies | 322 | 378 | 381 |
| Intangible asset amortization | 616 | 798 | 823 |
| Disposal of branch assets | | | 258 |
| Other | 3,550 | 3,410 | 3,243 |
| Total non-interest expenses | 23,230 | 22,051 | 21,674 |
| Net income from continuing operations before income taxes | 5,022 | 4,018 | 4,400 |
| Income tax expense | 944 | 222 | 958 |
| Net income from continuing operations | 4,078 | 3,796 | 3,442 |
| Net income (loss) from discontinued operations, net of tax | (108) | (218) | 350 |
| Net income | $ 3,970 | $ 3,578 | $ 3,792 |
| Basic income per share from continuing operations | $ 1.01 | $ 0.93 | $ 0.84 |
| Diluted income per share from continuing operations | $ 1.00 | $ 0.93 | $ 0.83 |
| Basic income per share from discontinued operations | $ (0.03) | $ (0.05) | $ 0.09 |
| Diluted income per share from dicontinued operations | $ (0.03) | $ (0.05) | $ 0.09 |
| Basic income per share | $ 0.98 | $ 0.88 | $ 0.93 |
| Diluted income per share | $ 0.97 | $ 0.87 | $ 0.92 |
| Shares applicable to basic income per share | 4,038,097 | 4,060,587 | 4,095,903 |
| Shares applicable to diluted income per share | 4,094,793 | 4,094,714 | 4,131,381 |

See accompanying notes to the consolidated financial statements

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Comprehensive Income**
**Years ended December 31, 2005, 2004, and 2003**
**(In thousands)**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income | $ 3,970 | $ 3,578 | $ 3,792 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized gains (losses) on investment securities available for sale, net of tax of $(1,175), $(493), and $(970) for the years ended December 31, 2005, 2004, and 2003, respectively | (2,279) | (958) | (1,877) |
| Reclassification adjustment for (gains) losses included in net income, net of tax of $0, $17, and $(100) for the years ended December 31, 2005, 2004, and 2003, respectively | 1 | 33 | (194) |
| Other comprehensive income (loss), net | (2,278) | (925) | (2,071) |
| Comprehensive income | $ 1,692 | $ 2,653 | $ 1,721 |

See accompanying notes to the consolidated financial statements

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**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Changes in Stockholders Equity**
**Years ended December 31, 2005, 2004, and 2003**
**(In thousands)**

| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Accumulated other comprehensive income (loss) | Total stockholders equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2002 | 27,393 | 211 | 23,290 | (3,034) | 3,968 | 51,828 |
| Treasury stock purchased (50,800 shares) | | | | (564) | | (564) |
| Common stock issued in connection with compensation plans (7,428 shares) | 55 | | | | | 55 |
| Contribution of shares of treasury stock to Company ESOP (35,300 shares) | | 55 | | 386 | | 441 |
| Increase in additional paid in capital in connection with compensation plans | | 26 | | | | 26 |
| Net income | | | 3,792 | | | 3,792 |
| Dividends ($0.27 per share) | | | (1,103) | | | (1,103) |
| Other comprehensive income (loss), net of $(1,070) in taxes | | | | | (2,071) | (2,071) |
| Balance, December 31, 2003 | 27,448 | 292 | 25,979 | (3,212) | 1,897 | 52,404 |
| Treasury stock purchased (142,992 shares) | | | | (1,683) | | (1,683) |
| Common stock issued in connection with compensation plans (47,115 shares) | 393 | | | | | 393 |
| Contribution of shares of treasury stock to Company ESOP (30,500 shares) | | 7 | | 358 | | 365 |
| Decrease in additional paid in capital in connection with compensation plans | 8 | (8) | | | | |
| Increase in additional paid in capital in connection with compensation plans | | 15 | | | | 15 |
| Net income | | | 3,578 | | | 3,578 |
| Dividends ($0.32 per share) | | | (1,293) | | | (1,293) |
| Other comprehensive income (loss), net of $(476) in taxes | | | | | (925) | (925) |
| Balance, December 31, 2004 | 27,849 | 306 | 28,264 | (4,537) | 972 | 52,854 |
| Treasury stock purchased (6,100 shares) | | | | (93) | | (93) |
| Common stock issued in connection with compensation plans (6,917 shares) | 31 | (18) | | 47 | | 60 |
| Increase in additional paid in capital in connection with compensation plans | | 129 | | | | 129 |
| Net income | | | 3,970 | | | 3,970 |
| Dividends ($0.32 per share) | | | (1,293) | | | (1,293) |
| Other comprehensive income (loss), net of $(1,175) in taxes | | | | | (2,278) | (2,278) |
| Balance, December 31, 2005 | $ 27,880 | $ 417 | $ 30,941 | $ (4,583) | $ (1,306) | $ 53,349 |

See accompanying notes to the consolidated financial statements

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**
**Years ended December 31, 2005, 2004, and 2003**
**(In thousands)**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 3,970 | $ 3,578 | $ 3,792 |
| Loss (Income) from discontinued operations | 108 | 218 | (350) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 820 | 1,465 | 1,790 |
| Depreciation and amortization | 2,479 | 2,868 | 4,327 |
| Contribution of common stock to ESOP | | 365 | 441 |
| Deferred income taxes | (525) | (386) | (333) |
| Noncash compensation expense | 129 | 15 | 26 |
| Change in bank owned life insurance | (713) | (704) | (788) |
| Net (gain) loss on sales of investment securities | (1) | 50 | (294) |
| FHLB stock dividends | (317) | (226) | |
| Net gain on sales of mortgage loans | (887) | (1,264) | (2,788) |
| Net (gain) loss on sales of assets | (57) | 138 | 73 |
| Disposal of branch assets | | | 258 |
| Proceeds from sale of mortgage loans | 52,399 | 62,507 | 132,436 |
| Origination of mortgage loans for sale | (50,456) | (63,539) | (121,264) |
| Net (increase) decrease in other assets | (200) | 62 | 1,337 |
| Net (decrease) increase in accrued expenses and other liabilities | 1,689 | (217) | (1,540) |
| Net cash flows from operating activities of discontinued operations | | (1,486) | 911 |
| Net cash provided by operating activities | 8,438 | 3,444 | 18,034 |
| Cash flows from investing activities: | | | |
| Net increase in loans | (43,256) | (29,985) | (16,400) |
| Proceeds from sale of investment securities available-for-sale | 1,014 | 8,593 | 5,686 |
| Proceeds from maturities and principal reductions of investment securities available-for-sale | 40,656 | 74,292 | 127,556 |
| Purchases of investment securities available-for-sale | (44,004) | (56,627) | (134,684) |
| Purchase of premises and equipment, net | (2,299) | (2,820) | (3,046) |
| Proceeds from sales of assets | 260 | 731 | 641 |
| Cash paid for acquisitions | (925) | (925) | |
| Net cash received from sale of discontinued operations | 6,892 | | |
| Net cash flows from investing activities of discontinued operations | | 753 | (1,272) |
| Net cash used in investing activities | (41,662) | (5,988) | (21,519) |
| Cash flows from financing activities: | | | |
| Net (decrease) increase in deposits | 39,928 | 21,791 | (9,446) |
| Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase | (1,633) | (1,511) | 2,896 |
| Payments on Federal Home Loan Bank advances | (10,794) | (12,098) | (1,097) |
| Proceeds from Federal Home Loan Bank advances | 10,010 | 12,779 | |
| Payments on notes payable | (9,785) | (7,990) | (3,540) |
| Proceeds of notes payable | 6,443 | 8,312 | 200 |
| Common stock issued | 31 | 393 | 55 |
| Purchase of treasury stock | (93) | (1,683) | (564) |
| Issuance of treasury stock | 29 | | |
| Dividends paid on common stock | (1,293) | (1,298) | (1,022) |
| Net cash provided by (used in) financing activities | 32,843 | 18,695 | (12,518) |
| Net change in cash and cash equivalents | (381) | 16,151 | (16,003) |
| Cash and cash equivalents at beginning of the year | 34,741 | 18,590 | 34,593 |
| Cash and cash equivalents at end of the year | $ 34,360 | $ 34,741 | $ 18,590 |

See accompanying notes to the consolidated financial statements

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows (continued)**
**Years ended December 31, 2005, 2004, and 2003**
**(In thousands)**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Supplemental disclosures of cash flow information :** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 14,611 | $ 12,682 | $ 13,596 |
| Income taxes | 804 | 1,404 | 2,055 |
| Noncash activities related to operations: | | | |
| Assets acquired through foreclosure | 559 | 2,243 | 549 |
| Loans to facilitate the sale of real estate acquired through foreclosure | 336 | 2,106 | 521 |
| Noncash activities related to acquisitions and disposals: | | | |
| Operating activities: | | | |
| Decrease in other assets | $ | $ | $ (45 ) |
| Investing activities: | | | |
| Decrease in premises and equipment | | | (213 ) |

See accompanying notes to the consolidated financial statements

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**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements**
**December 31, 2005, 2004 and 2003**

## (1) Summary of Significant Accounting Policies

The following accounting policies, together with those disclosed elsewhere in the consolidated financial statements, represent the significant accounting policies used in presenting the accompanying consolidated financial statements.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Team Financial, Inc. and its wholly owned subsidiaries, Team Financial Acquisition Subsidiary, Inc., including TeamBank, N.A. and its subsidiaries, and Post Bancorp including Colorado National Bank, all of which are collectively considered one segment. All material inter-company transactions, profits, and balances are eliminated in consolidation.

*Financial Statement Presentation and Use of Estimates*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent assets and liabilities as of the balance sheet dates and revenues and expenses for the reporting years. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

*Securities Available-for-Sale*

Securities to be held for indefinite periods of time, including securities that management intends to use as a part of its asset/liability strategy that may be sold in response to changes in interest rates, loan prepayments, or other factors, are classified as available-for-sale and carried at fair value. Gains or losses on the sale of securities are determined using the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to call date and maturity date, respectively. Unrealized holding gains or losses, net of tax, for securities available-for-sale are reported as a component of other comprehensive income (loss).

A decline in the fair value of any security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

*Loans*

Loans are stated at unpaid principal balances, reduced by unearned fees. Interest on loans is accrued and credited to income as it is earned using the simple interest method on daily balances of the principal amount outstanding. However, interest is generally not accrued on loans over 90 days contractually delinquent. Accrued interest income is reversed when a loan is placed on non-accrual status. Fees received on loans in excess of amounts representing the estimated cost of origination are deferred and credited to income using the interest method.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

*Mortgage Banking*

Loans held for sale in the secondary market are carried at the lower of aggregate cost or fair value. Unrealized losses are recognized via a charge against operations through the establishment of a valuation reserve. Realized gains and losses on such loans are accounted for under the specific identification method. Loan origination fees and costs are not amortized during the period the loans are held for sale and are recorded as part of the gain or loss on the sale of loans.

Certain mortgage loans are sold to permanent investors while we retain the right to service the loans. Service fees are recorded in income when earned. Capitalized servicing rights are recorded at the time the loan is sold, thereby increasing the gain on sale by such amount, and subsequently amortized over the period of the estimated future net servicing income of the underlying financial assets. Any remaining unamortized amount is charged to expense if the related loan is repaid prior to maturity.

Management monitors the capitalized mortgage servicing rights for impairment based on the fair value of those rights, as determined on a quarterly basis. Any impairment is recognized through a valuation allowance.

*Allowances for Loan Losses*

We account for impaired loans in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting By Creditors For Impairment Of A Loan*, as amended by SFAS No. 118, *Accounting By Creditors For Impairment Of A Loan Income Recognition And Disclosures*. SFAS No. 114 generally requires all creditors to account for impaired loans, except those loans that are accounted for at fair value or at the lower of cost or fair value, at the present value of the expected future cash flows discounted at the loan s effective interest rate at the date of initial impairment, or, as a practical expedient, at the loan s observable market prices or fair value of the collateral if the loan is collateral dependent. SFAS No. 114 indicates that a creditor should evaluate the collectibility of both contractual interest and contractual principal when assessing the need for a loss accrual.

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 and all loans upon which accrual of interest has been suspended.

Management believes that the allowance for loan losses as of December 31, 2005 is adequate. However, additions to or recaptures from the allowances may be necessary based upon changes in economic conditions, borrower financial status, the regulatory environment, real estate values, and loan portfolio size and composition. As such, periodic provisions for estimated loan losses may vary from time to time.

*Real Estate Owned*

Real estate acquired through foreclosure is initially recorded at the lower of cost or fair value less estimated cost to sell. If fair value less cost to sell is less than amortized cost, a charge against the allowance for loan losses is recorded at property acquisition. Declines in property value subsequent to acquisition are charged to operations.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

Recognition of gains on the sale of real estate is dependent upon the transaction meeting certain criteria relating to the nature of the property and the terms of the sale and potential financing. These criteria are presented within SFAS No. 66 *Accounting For Sales Of Real Estate*, and Accounting Principal Board No. 21, *Interest On Receivables and Payables*. Under certain circumstances, a gain on sale of real estate, or a portion thereof, may be deferred until the criteria are met. Losses on disposition of real estate, including expenses incurred in connection with the disposition, are charged to operations.

*Premises and Equipment*

Land is carried at cost. Other premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimate useful lives of the assets or the term of the related lease, whichever is shorter. The useful lives for the principal classes of assets are:

| **Assets** | **Useful life** |
|---|---|
| Buildings and improvements | 5 to 40 years |
| Furniture, fixtures, and equipment | 3 to 10 years |

*Goodwill and Other Intangible Assets*

Goodwill resulting from the acquisition of bank branches and subsidiaries represents the excess of the purchase price over the fair value of the net assets acquired or net liabilities assumed. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually. Intangible assets with estimated useful lives are amortized to their estimated residual values and reviewed for impairment.

Core deposit intangible assets resulting from the acquisition of bank branches and subsidiaries represent the fair value assigned to core deposits assumed. Core deposit intangible assets are amortized using the straight-line method over periods ranging from seven to fifteen years.

The intangible asset resulting from the acquisition of an insurance agency represents the fair value assigned to the existing customer list of the insurance agency acquired. The agency expiration intangible asset was amortized using a straight-line basis over a period of ten years. In February 2005, the insurance agency subsidiary was sold to an independent third party. Therefore, the agency expiration intangible asset is presented in assets of discontinued operations in the 2004 consolidated financial statements.

*Bank Owned Life Insurance*

Bank owned life insurance is recorded at the cash surrender value of the underlying policies. Income on the investments in the policies, net of insurance costs, is recorded as non-interest income.

*Insurance Agency Commissions*

Insurance agency commissions are recorded as of the effective date of insurance coverage or the billing date, whichever is later. Contingent commissions and commissions on premiums billed and collected directly by insurance companies are recorded as revenue when received, which is our first notification of amounts earned. Insurance agency commissions are included in net income (loss) from discontinued operations in the 2004 and 2003 consolidated financial statements.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

*Income Taxes*

We file consolidated federal income tax returns. Certain income and expense items are treated differently for financial reporting purposes than for income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Stock Incentive Plan*

The Company has applied the provisions of Accounting Principals Board (APB) Opinion No. 25 and related interpretations in accounting for options issued under the Stock Incentive Plan. The exercise price of certain of the stock options granted equals the market price of the underlying stock options on the date of grant, and therefore, no compensation expense is recorded. Certain other stock options granted have contingent vesting schedules based on various performance goals and therefore expense may be recorded as the difference between the exercise price and the fair market value at the date of vesting. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), included in footnote 13 of the notes to the consolidated financial statements.

*Income per Share*

Basic income per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the year. Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The shares used in the calculation of basic and diluted income per share are shown below:

| | **Years ended** | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| Basic weighted average common shares outstanding | 4,038,097 | 4,060,587 | 4,095,903 |
| Stock options | 56,696 | 34,127 | 35,478 |
| Diluted weighted average common shares outstanding | 4,094,793 | 4,094,714 | 4,131,381 |

*Recent Accounting Developments*

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payments*, (SFAS 123R). This statement requires that the cost resulting from all share-based transactions be recognized in the financial statements. SFAS 123R 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 123R replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

supercedes Accounting Principal Board Opinion No. 25, *Accounting for Stock Issued to Employee,* (APB 25) and is effective as of the beginning of the first interim or annual reporting period beginning after June 15, 2005. As discussed in the notes to consolidated financial statements, in 2005 and previous years, we have applied APB 25 in accounting for our stock incentive plans which requires compensation cost be recognized as the excess, if any, of the fair market value of our stock at the date of grant over the amount the employee must pay to acquire the stock. In accordance with APB 25 we have reported the pro forma effect on net income in the notes to the consolidated financial statements as if the share-based awards were accounted for using the fair value method in a footnote.

On September 30, 2004 the FASB issued a final FASB Staff Position, FSP EITF Issue 03-1-1, that delays the effective date for the measurement and recognition guidance included in EITF Issue 03-1, *The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments*, (EITF 03-1). Originally, this statement was effective for reporting periods beginning after June 15, 2004 and provided guidance on when to record a loss in the statement of operations and when additional information needed to be disclosed on unrealized losses. Other components of EITF 03-1 regarding quantitative and qualitative information was required to be presented in the financial statements effective for fiscal years ending after December 15, 2003 and was not deferred by the FASB s Staff Position. This portion of EITF 03-1 was adopted in December 2003 and the required disclosures are included in footnote 3 in the Notes to Consolidated Financial Statements. The adoption of the measurement and recognition guidance, have not had a material impact on the financial position and results of operations.

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, (SOP 03-3). SOP 03-3 addresses the accounting for certain acquired loans or debt securities, including those acquired in a purchase business combination, that have experienced a deterioration of credit quality between the loan origination date that the date the loan is acquired by an investor, and for which it is probable that at acquisition the investor will be unable to collect all contractually required payments on the loan. Loans within the scope of this SOP that are acquired should be recognized initially at the present value of amounts expected to be received and no allowance for loan losses should be carried over related to these loans at acquisition. SOP 03-3 prohibits displaying accretable yield and nonaccretable differences in the balance sheet. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. We adopted SOP 03-3 on January 1, 2005. The adoption of SOP 03-3 did not have a material impact on the financial position or results of operations.

## **(2)** Discontinued Operations

On February 25, 2005, we completed the sale of our insurance agency subsidiary, Team Insurance Group, Inc. All of the issued and outstanding shares of the subsidiary were sold to an unaffiliated third party for total cash consideration of $6,836,000. Our investment in Team Insurance Group, Inc. at 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 the tax effect of $56,000, in discontinued operations in the accompanying consolidated financial statements. 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 terms of the agreement, the buyer has until August 25, 2006 to present any breach of warranty or representation claims.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

As a result of the sale, the operations related to the insurance agency subsidiary have been classified as discontinued operations in the consolidated financial statements and notes to the consolidated financial statements.

The following table presents the net assets of Team Insurance Group, Inc. as of December 31, 2004.

| | **2004 (In thousands)** |
|---|---|
| Cash | $ 1,033 |
| Investments | |
| Premises and equipment, net | 571 |
| Goodwill | 5,514 |
| Intangible assets, net of accumulated amortization | 1,039 |
| Other assets | 125 |
| Accrued expenses and other liabilities | (1,282 ) |
| Total net assets | $ 7,000 |

Summarized results of operations of the insurance agency for the years ended December 31, 2004 and 2003 are as follows:

| | **2004 (In thousands)** | **2003** |
|---|---|---|
| Insurance agency commissions | $ 4,153 | $ 4,454 |
| Other income | 193 | 229 |
| Total income | 4,346 | 4,683 |
| Salary and employee benefits | 3,092 | 2,864 |
| Occupancy and equipment | 338 | 274 |
| Professional fees | 90 | 53 |
| Marketing | 126 | 161 |
| Supplies | 39 | 58 |
| Intangible asset amortization | 170 | 175 |
| Goodwill impairment | 174 | |
| Intangible asset write-off | 119 | |
| Other | 455 | 498 |
| Total expenses | 4,603 | 4,083 |
| Net income (loss) from discontinued operations before income taxes | (257 ) | 600 |
| Income tax expense (benefit) | (39 ) | 250 |
| Net income (loss) from discontinued operations, net of tax | $ (218 ) | $ 350 |

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

## (3) Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of investment securities are presented below:

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Amortized Cost (In thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair value |
| Available for sale: | | | | |
| Debt securities: | | | | |
| U.S. Agency securities | $ 61,062 | $ 32 | $ (1,108 ) | $ 59,986 |
| Mortgage-backed securities | 86,535 | 404 | (1,517 ) | 85,422 |
| Nontaxable municipal securities | 28,629 | 400 | (168 ) | 28,861 |
| Taxable municipal securities | 830 | 42 | | 872 |
| Other debt securities | 6,555 | 40 | (152 ) | 6,443 |
| Total debt securities | 183,611 | 918 | (2,945 ) | 181,584 |
| Equity securities | 8,777 | 52 | (4 ) | 8,825 |
| Total available for sale securities | $ 192,388 | $ 970 | $ (2,949 ) | $ 190,409 |

| | December 31, 2004 | | | |
|---|---|---|---|---|
| | Amortized Cost (In thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair value |
| Available for sale: | | | | |
| Debt securities: | | | | |
| U.S. Agency securities | $ 56,401 | $ 270 | $ (472 ) | $ 56,199 |
| Mortgage-backed securities | 88,039 | 1,062 | (435 ) | 88,666 |
| Nontaxable municipal securities | 30,442 | 863 | (73 ) | 31,232 |
| Taxable municipal securities | 971 | 73 | | 1,044 |
| Other debt securities | 6,057 | 139 | | 6,196 |
| Total debt securities | 181,910 | 2,407 | (980 ) | 183,337 |
| Equity securities | 8,459 | 53 | (7 ) | 8,505 |
| Total available for sale securities | $ 190,369 | $ 2,460 | $ (987 ) | $ 191,842 |

Equity securities held at cost consist primarily of $6.8 million of Federal Home Loan Bank of Topeka common stock and $1.5 million of Federal Reserve Bank common stock.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

Gross realized gains and losses on sale of investment securities available for sale are summarized as follows:

| | Year ended December 31 2005 | 2004 | 2003 |
|---|---|---|---|
| | (In thousands) | | |
| Gain on sales of investment securities available for sale | $ 25 | $ 12 | $ 300 |
| Loss on sales of investment securities available for sale | (26 ) | (62 ) | (6 ) |
| Net gain (loss) on sales of investment securities available for sale | $ (1 ) | $ (50 ) | $ 294 |
| Proceeds from the sale of investment securities available for sale | $ 1,014 | $ 8,593 | $ 5,686 |

Information on temporarily impaired securities at December 31, 2005 and 2004, segregated by those investments that have been in continuous unrealized loss position for less than 12 months and those investments that have been in continuous unrealized loss position for 12 months or longer, is summarized as follows:

| | December 31, 2005 Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| **Description of securities** | | | | | | |
| Debt securities: | | | | | | |
| U. S. Agency securities | $ 23,615 | $ (344 ) | $ 30,052 | $ (764 ) | $ 53,667 | $ (1,108 ) |
| Mortgage-backed securities | 45,512 | (838 ) | 21,002 | (679 ) | 66,514 | (1,517 ) |
| Nontaxable municipal securities | 8,355 | (130 ) | 1,158 | (38 ) | 9,513 | (168 ) |
| Other debt securities | 2,853 | (152 ) | | | 2,853 | (152 ) |
| Total debt securities | 80,335 | (1,464 ) | 52,212 | (1,481 ) | 132,547 | (2,945 ) |
| Equity securities | 7 | (3 ) | 6 | (1 ) | 13 | (4 ) |
| Total temporarily impaired securities | $ 80,342 | $ (1,467 ) | $ 52,218 | $ (1,482 ) | $ 132,560 | $ (2,949 ) |

| | December 31, 2004 Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| **Description of securities** | | | | | | |
| Debt securities: | | | | | | |
| U. S. Agency securities | $ 28,312 | $ (305 ) | $ 6,133 | $ (167 ) | $ 34,445 | $ (472 ) |
| Mortgage-backed securities | 35,978 | (362 ) | 4,257 | (73 ) | 40,235 | (435 ) |
| Nontaxable municipal securities | 3,083 | (35 ) | 1,507 | (38 ) | 4,590 | (73 ) |
| Total debt securities | 67,373 | (702 ) | 11,897 | (278 ) | 79,270 | (980 ) |
| Equity securities | 4 | | 10 | (7 ) | 14 | (7 ) |
| Total temporarily impaired securities | $ 67,377 | $ (702 ) | $ 11,907 | $ (285 ) | $ 79,284 | $ (987 ) |

The table above represents 218 investment securities at December 31, 2005 where the current fair value is less than the related amortized cost. The unrealized losses on these temporarily impaired securities are a result of changes in interest rates for fixed-rate securities where the interest rate received is less than the

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

current rate available for new offerings of similar securities, changes in market spreads as a result of shifts in supply and demand, and changes in the level of prepayments for mortgage-backed securities. These unrealized losses are considered temporary based on our ability and intent to hold until values recover.

Contractual maturities of investment securities classified as available-for-sale are set forth in the following table. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without penalties.

| | December 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| | Amortized Cost (In thousands) | Fair Value | Amortized Cost (In thousands) | Fair Value |
| Available-for-sale: | | | | |
| Due less than one year | $ 12,159 | $ 12,064 | $ 4,861 | $ 4,901 |
| Due after one through five years | 27,288 | 26,838 | 36,192 | 36,329 |
| Due after five through ten years | 39,598 | 39,309 | 29,547 | 30,195 |
| Due after ten years | 104,566 | 103,373 | 111,310 | 111,912 |
| Equity investments | 8,777 | 8,825 | 8,459 | 8,505 |
| | $ 192,388 | $ 190,409 | $ 190,369 | $ 191,842 |

At December 31, 2005, securities with amortized cost of approximately $163,126,000 and fair value of approximately $161,145,000 were pledged as collateral to creditors, collateral for repurchase agreements, collateral for public funds on deposits and for other purposes as required by law. At December 31, 2004 securities with amortized cost of approximately $161,723,000 and fair value of approximately $162,677,000 were pledged for the same purposes.

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

## (4) Loans

Major classifications of loans at December 31, 2005 and 2004 are as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Total | Percent of Total Loans | Total | Percent of Total Loans |
| | (Dollars in thousands) | | | |
| Loans receivable: | | | | |
| Loans secured by real estate: | | | | |
| One to four family | $ 86,880 | 20.7 % | 87,633 | 23.1 % |
| Construction and land development | 80,918 | 19.3 | 49,388 | 13.0 |
| Nonfarm, nonresidential | 136,318 | 32.4 | 122,007 | 32.2 |
| Farmland | 32,135 | 7.6 | 13,480 | 3.6 |
| Multifamily | 4,603 | 1.1 | 4,301 | 1.1 |
| Commercial and industrial | 55,128 | 13.1 | 67,970 | 18.0 |
| Agricultural | 7,952 | 1.9 | 14,919 | 3.9 |
| Installment loans | 11,843 | 2.8 | 13,691 | 3.6 |
| Obligations of state and political subdivision | 4,131 | 1.0 | 4,370 | 1.2 |
| Lease financing receivables | 1,202 | 0.3 | 1,802 | 0.5 |
| Gross loans | 421,110 | 100.2 | 379,561 | 100.2 |
| Less unearned fees | 929 | 0.2 | 790 | 0.2 |
| Total loans receivable | $ 420,181 | 100.0 % | 378,771 | 100.0 % |

**TEAM FINANCIAL, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements (Continued)**
**December 31, 2005, 2004 and 2003**

Included in one-to-four family real estate loans are mortgage loans held for sale of approximately $1,845,000 and $3,107,000 at December 31, 2005 and 2004, respectively.

A summary of non-performing assets is as follows:

| | December 31 2005 (In thousands) | 2004 |
|---|---|---|
| Non-performing assets: | | |
| Non-accrual loans: | | |
| Real estate loans | $ 1,303 | $ 710 |
| Commercial, industrial, and agricultural | 906 | 308 |
| Installment loans | | |