

SECURITIES AND COMMISSION



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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2006 AND ENDING December 31, 2006

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: *Midwest Financial and Investment Services, INC.*

*F/K/A* Royal American Investment Services, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1610 North Harlem Avenue

(No. and Street)

Elmwood Park

IL

60707

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mr. J. J. Fritz

708 865-2500

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers LLP

(Name - if individual, state last, first, middle name)

One North Wacker

Chicago

IL

60606

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

PROCESSED

APR 09 2007

*E* THOMSON FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

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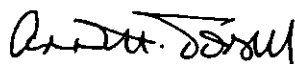
OATH OR AFFIRMATION

I, Mr. J. J. Fritz, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Royal American Investment Services, Inc., as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature

President  
Title

OFFICIAL SEAL  
ANN M. FORSELL  
NOTARY PUBLIC STATE IL  
My Commission Expires  
01/07/09



Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity.
- (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- (g) Computation of Net Capital for brokers and dealers pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements for brokers and dealers Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on internal control.
- (p) Schedule of segregation requirements and funds in segregation - customers' regulated commodity futures account pursuant to Rule 171-5.\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Report of Independent Auditors**

To the Board of Directors and Stockholder of Royal American Investment Services, Inc.:

In our opinion, the accompanying statement of financial condition and the related statements of operations, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of Royal American Investment Services, Inc. (the "Company") at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 9 and 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

February 28, 2007

ROYAL AMERICAN INVESTMENT SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2006

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ROYAL AMERICAN INVESTMENT SERVICES, INC.  
STATEMENT OF FINANCIAL CONDITION  
December 31, 2006

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**ASSETS**

Cash and cash equivalents	\$	743,876
Accounts receivable		206,556
Due from broker		9,531
Prepaid expenses		<u>5,733</u>

Total assets \$ 965,696

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Accrued expenses	\$	31,439
Deferred income taxes		<u>755</u>
Total liabilities		<u>32,194</u>

Stockholder's equity

Common stock - \$1 par value, 5,000 shares authorized, issued, and outstanding		5,000
Additional paid-in capital		25,000
Retained earnings		<u>903,502</u>
Total stockholder's equity		<u>933,502</u>

Total liabilities and stockholder's equity \$ 965,696

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See accompanying notes to financial statements.

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
STATEMENT OF OPERATIONS  
Year ended December 31, 2006

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**REVENUE**

Commission income	\$	482,014
Interest and dividend income		24,242
Investment gain		<u>230</u>
Total revenue		<u>506,486</u>

**EXPENSES**

Employee compensation and benefits		271,648
Other expenses		<u>95,702</u>
Total expenses		<u>367,350</u>

**INCOME BEFORE INCOME TAXES**

139,136

Provision for income taxes

53,954

**NET INCOME**

\$ 85,182

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See accompanying notes to financial statements.

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
Year ended December 31, 2006

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	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance, January 1, 2006	\$ 5,000	\$ 25,000	\$ 818,320	\$ 848,320
Net income	-	-	<u>85,182</u>	<u>85,182</u>
Balance, December 31, 2006	<u>\$ 5,000</u>	<u>\$ 25,000</u>	<u>\$ 903,502</u>	<u>\$ 933,502</u>

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See accompanying notes to financial statements.

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2006

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<b>Cash flows from operating activities</b>	
Net income	\$ 85,182
Adjustments to reconcile net income to net cash provided by (used in) operating activities	
Change in securities owned	574,664
Decrease in other assets	7,130
Increase in prepaid assets	(5,733)
Increase in due from broker	(9,531)
Increase in accounts receivable	(206,556)
Decrease in accrued expenses	(24,770)
Increase in deferred tax liability	<u>755</u>
<b>Net cash used in operating activities</b>	421,141
Cash at beginning of year	<u>322,735</u>
<b>Cash at end of year</b>	<u><u>\$ 743,876</u></u>
<b>Supplemental disclosures</b>	
Cash paid during the year for income taxes	\$ 35,364

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See accompanying notes to financial statements.



ROYAL AMERICAN INVESTMENT SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

Royal American Investment Services, Inc. ("the Company") is a registered bank-affiliated securities broker-dealer and registered investment advisor. The Company is a wholly-owned subsidiary of Midwest Bank and Trust Company. Midwest Bank and Trust Company is a wholly-owned subsidiary of Midwest Banc Holdings, Inc. The Company is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the National Association of Securities Dealers. The Company operates a general securities business as an introducing broker-dealer. The area served by the Company is the Chicago metropolitan area. The Company neither holds customer accounts nor customers' securities.

The Company claims exemption from the provisions of Rule 15c3-3 of the Securities and Exchange Commission as provided by paragraph (k)(2)(ii). Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

The following is a summary of the Company's significant accounting policies:

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

Recognition of Commission Income: Securities transactions and related income and expense are recorded on a trade date basis.

Income Taxes: The Company is included in the consolidated federal and state income tax returns filed by its top tier parent, Midwest Banc Holdings, Inc.

Cash and Cash Equivalents: Cash and cash equivalents includes cash and money market funds with maturities under 90 days.

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

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**NOTE 2 - TRANSACTIONS WITH RELATED PARTIES**

The Company's parent, Midwest Bank and Trust Company, provided various services, including certain employee compensation and office space, to the Company at no cost during 2006. The estimated value of those services is \$55,500.

At December 31, 2006, the Company has a bank account at Midwest Bank and Trust Company in the amount of \$57,327 and an inter-company receivable due from Midwest Bank and Trust Company in the amount of \$206,556.

The Company has satisfied collateral requirements with a clearing broker by obtaining a guaranty in the amount of \$25,000 from its parent.

**NOTE 3 - INCOME TAXES**

Income tax expense consists of the following:

Current federal	\$	36,174
Current state		8,357
Deferred federal		8,705
Deferred state		718
	\$	<u>53,954</u>

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006

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**NOTE 4 - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Under this rule, the Company is required to maintain net capital equivalent to \$50,000. The Net Capital Rule may effectively restrict the payment of cash distributions to stockholders. The Company's net capital was \$642,451 and its ratio of aggregate indebtedness to net capital was 0.05 to 1 at December 31, 2006.

**NOTE 5 - BUSINESS COMBINATION**

On February 8, 2006, Midwest Banc Holdings, Inc. ("Midwest"), as part of its expansion strategy, entered into an agreement to acquire Royal American Corporation ("Royal American"), a bank holding company with total assets of \$561.2 million, in a cash and stock merger transaction. Royal American was the top tier parent of the Company. This transaction closed on June 30, 2006 with an effective date of July 1, 2006. Midwest's stock comprised approximately 50% of the purchase price, at an exchange ratio of 3.58429 shares of Midwest common stock for each Royal American common share, and the remainder was paid in cash at the rate of \$80 for each share of Royal American common shares. Midwest issued 2.9 million common shares and paid \$64.6 million in cash for a total purchase price of \$129.2 million. Midwest acquired 100% of Royal American's voting shares outstanding.

**SUPPLEMENTARY INFORMATION**  
**PURSUANT TO RULE 17a-5 OF THE SECURITIES EXCHANGE ACT OF 1934**

ROYAL AMERICAN INVESTMENT SERVICES, INC.  
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
December 31, 2006

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Total stockholder equity	\$ 933,502
Deductions for nonallowable assets and other charges	<u>(277,320)</u>
Net capital before haircuts on securities (tentative net capital)	656,182
Haircuts on securities	
Money market fund	<u>(13,731)</u>
Net capital	<u>\$ 642,451</u>
Aggregate indebtedness	
Items included in statement of financial condition	
Accrued expenses	<u>\$ 31,439</u>
Total aggregate indebtedness	<u>\$ 31,439</u>
Ratio: Aggregate indebtedness to net capital	<u>0.05</u>
Computation of excess net capital	
Minimum net capital required	\$ 50,000
Net capital	<u>642,451</u>
Excess net capital	<u>\$ 592,451</u>

There is no material difference between the above computation and the Company's corresponding amended unaudited computation of net capital as reported in Part II on Form X-17A-5 Focus Report as of December 31, 2006, filed on March 1, 2007.

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ROYAL AMERICAN INVESTMENT SERVICES, INC.  
COMPUTATION OF RESERVE REQUIREMENTS PURSUANT TO RULE 15c3-3  
OF THE SECURITIES AND EXCHANGE COMMISSION  
December 31, 2006

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The Company is not required to compute the reserve requirements under Rule 15c 3-3 of the Securities and Exchange Commission or to include information relating to the possession or control requirements under Rule 15c 3-3 because the Company is an introducing broker and promptly remits all customer funds and securities to the clearing broker who carries the accounts of such customers.

**Report of Independent Auditors on Internal Control Required  
By SEC Rule 17a-5**

To the Board of Directors and Stockholder of Royal American Investment Services, Inc.:

In planning and performing our audit of the financial statements of Royal American Investment Services, Inc. (the "Company") as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in making the following:

1. The periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first, second, and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, National Association of Securities Dealers, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Pricewaterhouse Coopers LLP*

February 28, 2007

*END*