ANNUAL REPORT 2010

it's time to get back to business

Blue Valley Ban Corp.

Member FDIC

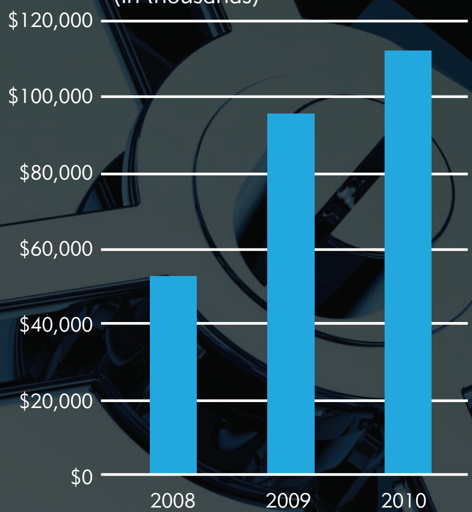
A place where YOU are known!

we are here when you decide

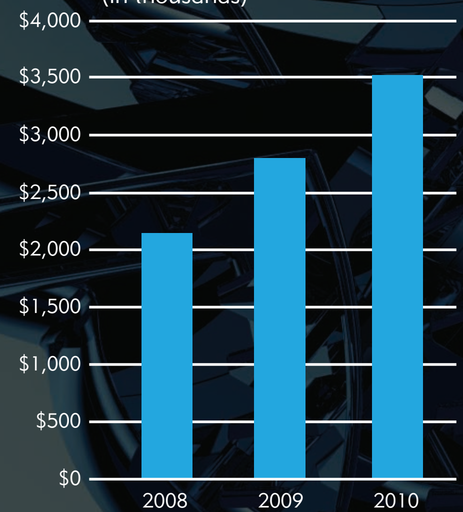
it's time to get back to business

WHAT'S INSIDE BLUE VALLEY BAN CORP. CAN HELP YOU

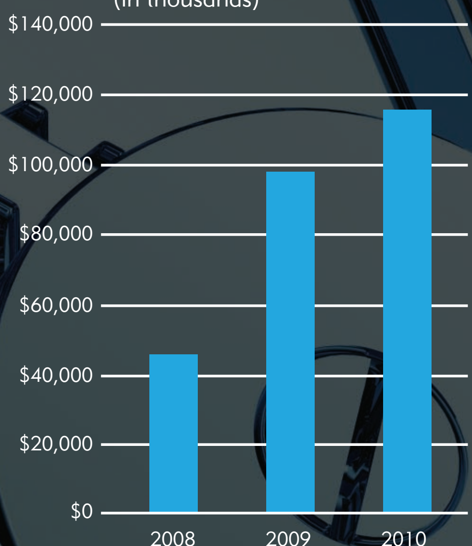
Performance Checking
(in thousands)



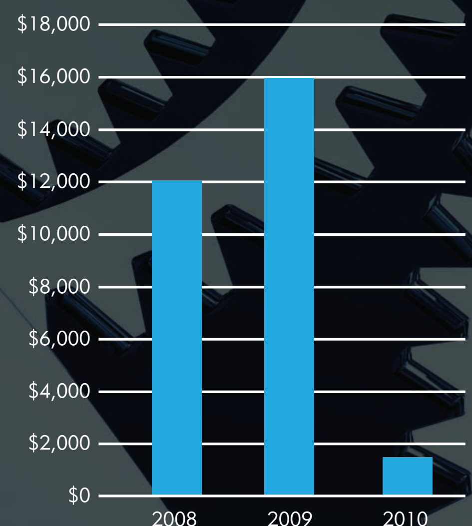
Loans Held For Sale Fee Income
(in thousands)



Cash and Cash Equivalents
(in thousands)



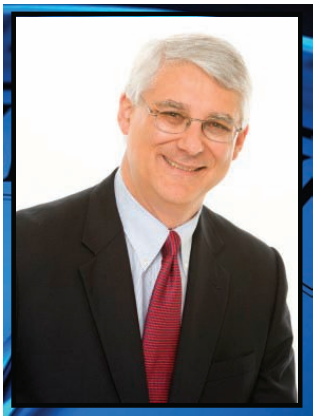
Past Due Loans > 30 Days
(in thousands)



blue valley ban corp.

it's a place where you are known

BY THE PEOPLE INSIDE OUR BUSINESS



robert d. regnier
PRESIDENT & FOUNDER

Dear Stockholders,

In 2009's annual report we outlined a plan to get our Company positioned for success in the future. We pledged to "reduce the Company's level of non-performing assets, broaden our base of deposits, improve our core non-interest earnings and net interest margin." I am pleased to report success in all areas. Non-performing and criticized assets began declining from their highs and we expect this trend to continue through 2011. Our past success with Performance Checking, as well as the anticipated success of our new Ultimate Checking, has allowed us to maintain a strong deposit base and eliminate dependence on brokered and high rate promotional certificates of deposits. The success of debit card income from performance checking and fee income from our mortgage area improved the contribution of non-interest income to our bottom line. Net interest income began improving in the second quarter of 2010 and increased every quarter thereafter from $3.6 million in the first quarter to $4.3 million in the fourth quarter. This trend will positively impact earnings for 2011 and we believe further improvement is possible.

The theme of this year's annual report is it's time to get back to business. After two and a half years of financial distress the country is starting to see improvement in sales and profitability. We don't expect the improvement to be dramatic, but our message to customers is that we are here when you decide it's time to get back to business. The Bank of Blue Valley is well positioned to assist companies as they venture forth in this new economy. With strong capital and a good base of deposits, we have money to lend and are looking for new lending opportunities.

It's who's inside that counts! We are proud to report that during this difficult time we have maintained a strong loyal staff. Over 50% of our employees and 80% of our officer staff have been with us for over 5 years. We have highlighted some of them for your benefit. The quality of our staff is reflected in the A place where YOU are known attitude that we display every day.

In our mission statement and corporate values we reflect it's what we believe in that will continue to keep our Company strong and allow us to continue to improve our profitability and performance in 2011 and beyond.

Thank you for your past and future support as we work to improve our performance and regain stockholder value in 2011.

Robert D. Regnier

blue valley ban corp.

it's who's inside that counts

OUR VALUED EMPLOYEES

robert d. regnier
Founder, Chairman,
President And Chief
Executive Officer
20+ YEARS

patricia l. day
2nd Employee, Vice President
Administration & Finance,
Secretary Of The Board
20+ YEARS

bonnie mcconnaughy
Senior Vice President
Deposit Operations And
e-Business Solutions
20+ YEARS

15-19+ year tenure
SAMANTHA PEELER
SUSAN GANDY
SHERRI ZIMMERMAN
DEBORAH JACOBS
SUE BLANTON-DOOLEN

10-14+ year tenure
JACK TATE
MARVIN GIBIAN
MARGE BORCHERT
JILL KRIZEK
MARILYN MADDEN
TODD FITZPATRICK
JOANNE WILSON
KRIS ELDER
ROB THOMAS
BONNIE KAY
CHRIS BAIRD
ALAN ROBERTSON

ruthann sharpe
1st Vice President
Mortgage Sales
18+ YEARS

pamela l. lewis
Assistant Vice President
Mortgage Sales
18+ YEARS

blue valley ban corp.

it's who's inside that counts

OUR VALUED EMPLOYEES

mark a. fortino, cpa
Executive Vice President
Chief Financial Officer
12+ YEARS

michael a. webb
1st Vice President
Chief Information Officer
11+ YEARS

sheila stratton
Vice President e-Business
Solutions & Cashier
11+ YEARS

brandon e. meyers
Assistant Vice President
Commercial Construction
10+ YEARS

10-14+ year tenure (cont.)

BETSEY SANDERSON-MILLER
JACKIE VOGT
PAUL ASEL
KINDRA SHERIDAN
DENISE JOHNSON
FRAN KOVEL
TED WINKLER
NANCY INLOW
JANETTA KENDRICK
JENEANE GRIMSLEY

5-9+ year tenure

STEVE FLEISCHAKER
SUSIE ZANATTA
THERON KRIZEK
JENNIFER MCKINNEY
REBECCA LEON
MEGGIN NILSSEN
LESSARD WOOLMER
BRIDGETTE HALTERMAN
AIMEE HALTON
BEVERLEY MCCRAVE
SCOTT SIMMONS
BRETT FLOOD
BETHANY CLELAND
DEBRA SARTAIN
DIANA HUTTON
JOHN MATHEWS
BRUCE EASTERLY
SARA WOOD
JENNIFER ROWE
LYNAE THOMAS
DANA MAXWELL
LISA TOMLINSON
EULA FISHER
ADRIENNE MORASCH
AARON ADAMS
SCOTT BASKA
JENNIFER NYMAN
SALLY DOOLEY
KERRIE DUXBURY
CODY RICHARDSON
MATT BENNETT
KIM SHAW
DARCY WEAVER
LEUNTINE BROWN
SHARON BARNETT
COLE SCHWANKE
ELIZABETH DEAN
DAVID JACKSON
NEL KAUFFMAN
JACQUE KIJOWSKI
KRISTEN DARRACH
PAM RUNYAN
RYAN BRADY
KEVIN KLAMM
BOB KELLY
LINDA SALE
GREG FOX
CONNIE MILLER
RENEE GIER
KIM LAMPE
DENNIS WEBER
CHRISTINA WALKER
MARY BECKER
TRACI WILLEMSSEN
ALEX CLARK
MOLLY GRAMS
KRISTIN STARK
JOLINDA MIERNY
TERESA ZION
SARA BORDERS
ANDREA SLAUGHTER
STEVE ANDREW
JUSTIN HAESEMEYER
ELLEN ISCH

ann p. sooksengdao
Assistant Vice President
Commercial Loan Operations
10+ YEARS

our mission statement and corporate values

it's what we believe in

IT'S WHO WE ARE

MISSION STATEMENT

The Mission of the Blue Valley Ban Corp. is focused on the following five areas:

people

The Company will develop the best banking staff in the Johnson County marketplace.

customers

The Company will value and service its existing customers, while constantly prospecting for new customers.

value

The Company will provide an excellent value in financial services, consistently "exceeding our customers' expectations."

community

The Company will be a respected, contributing member of its community.

profit

The Company will consistently provide a fair and equitable profit to its shareholders.

CORPORATE VALUES

The core Corporate Values of Blue Valley Ban Corp. is centered within the following five attributes:

leadership

- Listens
- Puts customers at center of each decision
- Positive communicator

doing the right thing

- Makes timely decisions
- Empowered environment
- Demonstrates professional and ethical standards of conduct

teamwork

- Works together with all lines of business for the betterment of the Company and the customer
- Makes connections

trust in communications

- Open and honest
- Professional

flexibility

- Adapting easily to changing environments
- Willing to help others

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, 2010

OR

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

For the transition period from __________________ to __________________

Commission file number: 001-15933

BLUE VALLEY BAN CORP.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes [ ] No [ ]

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [√]

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Securities Act Yes [ ] No [√]

As of January 31, 2011 1,732,859 shares of the Registrant's common stock were held by non-affiliates**.** The aggregate market value of these common shares, computed based on the June 30, 2010 closing price of the stock, was approximately $12.1 million. As of January 31, 2011 the registrant had 2,843,301 shares of Common Stock ($1.00 par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Part III – Proxy Statement for the 2011 Annual Meeting of Stockholders

BLUE VALLEY BAN CORP.

FORM 10-K INDEX

Part I

Item 1: Business

The Company and Subsidiaries

As used in this Form 10-K, unless we specify otherwise, “we,” “us,” “our,” and “Company” refers to Blue Valley Ban Corp., a Kansas corporation.

Blue Valley Ban Corp. is a bank holding company organized in 1989. The Company's primary wholly-owned subsidiary, Bank of Blue Valley (the “Bank”), was also organized in 1989 to provide banking services to closely-held businesses and their owners, professionals and residents in Johnson County, Kansas, a demographically attractive area within the Kansas City, Missouri - Kansas Metropolitan Statistical Area (the “Kansas City MSA”). The focus of the Company has been to take advantage of the anticipated growth in the market area as well as to serve the needs of small and mid-sized commercial borrowers. These are customers we believe currently are underserved as a result of banking consolidation in the industry generally and within our market specifically.

We have experienced significant internal growth since our inception. As of December 31, 2010, we had six locations in Johnson County, Kansas, including our main office that includes a lobby banking center, an operations office in Overland Park, and full-service offices in Leawood, Lenexa, Olathe and Shawnee, Kansas. The Bank also operates a mortgage loan production office in Gladstone, Missouri.

Our lending activities are focused on commercial, commercial real estate, construction, and residential real estate lending. However, the Company strives to identify, develop and maintain diversified lines of business which provide acceptable risk-adjusted returns. The Bank also provides home equity, lease financing, and consumer lending.

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

In addition to the Bank, as of December 31, 2010, the Company had two wholly-owned subsidiaries: BVBC Capital Trust II and BVBC Capital Trust III, which were created to offer the Company’s trust preferred securities and to purchase our junior subordinated debentures. At December 31, 2008, the Company owned 100% of Blue Valley Building Corp., which owns the buildings and real property that comprise our headquarters, operations facility and the Leawood banking center. As of March 31, 2009, the Company contributed 100% of the outstanding shares of Blue Valley Building Corp. to the Bank.

The Company had a 49% ownership in Homeland Title, LLC through March 2009, at which time the Company terminated its ownership interest in Homeland Title, LLC. Homeland Title, LLC was established in June 2005 and provided title and settlement services. This entity is no longer in operation.

Our principal executive offices are located at 11935 Riley, Overland Park, Kansas 66225-6128, and our telephone number is (913) 338-1000.

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

Our Market Area

We operate primarily as a community bank, serving the banking needs of small and medium-sized companies and individuals in the Kansas City MSA. Specifically, our trade area consists of Johnson County, Kansas, Wyandotte County, KS and Jackson County, MO. We believe that coupling our strategy of providing exceptional customer service and local decision making with attractive market demographics makes us competitive in the Kansas City MSA.

The income levels and growth rate of Johnson County, Kansas compare favorably to national averages. Johnson County's population growth rate ranks in the top 8.85% of counties nationally, and its per capita income ranks in the top 1.34% of counties nationally. Johnson County is also a significant banking market in the State of Kansas and in the Kansas City MSA. According to available industry data, as of June 30, 2010, total deposits in Johnson County, including those of banks, thrifts and credit unions, were approximately $14.6 billion, which represented 24.31% of total deposits in the state of Kansas and 34.53% of total deposits in the Kansas City MSA.

As our founders anticipated, the trade area surrounding our main banking facility in Overland Park, Kansas has become one of the most highly developed retail areas in the Kansas City MSA. Our Olathe, Kansas facility is located approximately eight miles southwest of our main office and opened in 1994. The Shawnee, Kansas banking facility is approximately 17 miles northwest of our headquarters location. We entered into the Shawnee market in 1999 and in the first quarter of 2001, construction of our freestanding banking facility in Shawnee was completed and operations commenced in that facility. The Leawood, Kansas banking facility is approximately four miles southeast of our headquarters location. We entered into the Leawood market in 2002 and in the second quarter of 2004, construction of our freestanding banking facility in Leawood was completed and operations commenced in that facility. During 2003 we acquired an office building in Overland Park, Kansas approximately one mile northwest of our headquarters location. At this location, we consolidated our mortgage operations, bank operations, and opened a banking facility. The banking facility was subsequently closed and consolidated into the main bank in November 2008. During 2010, our mortgage operations were consolidated into the main bank and the office building is listed for lease or possible sale. The Lenexa, Kansas banking facility is approximately seven miles northwest of our headquarters location. The Lenexa facility was opened in February 2007 when we acquired Unison Bancorp, Inc., and its subsidiary, Western National Bank. We made this acquisition to continue our expansion in Johnson County and to establish our first presence in the Lenexa market.

Lending Activities

Overview. Our principal loan categories include commercial, commercial real estate, construction, and residential real estate loans. We also offer a variety of home equity, equipment financing and consumer loans. Our primary source of interest income is interest earned on our loan portfolio. As of December 31, 2010, our loans represented approximately 68.10% of our total assets, our legal lending limit to any one borrower was $23.0 million, and our largest single borrower as of that date had outstanding loans of $13.8 million.

The ability of financial institutions, including us, to originate loans has been substantially reduced due to current economic conditions. However, we continue to look for lending opportunities within our community. Our staff has significant experience in lending and has been successful in offering our products to both potential and existing customers. We believe that we have been successful because of our staff's attentiveness to our customers' financial needs and the development of professional relationships with our customers. We strive to become a strategic business partner, not just a source of funds.

The Bank conducts its lending activities pursuant to the loan policies adopted by its Board of Directors. These policies currently require the approval of our loan committee of all commercial credits in excess of $1.5 million, all real estate credits in excess of $2.5 million, and all unsecured loans in excess of $300,000. The Bank's policies delegate lending authority up to these amounts to an internal loan discount committee comprised of the Bank's President and two senior loan management officers. Our management information systems and lending administration policies and procedures are designed to monitor lending activities sufficiently to mitigate the risk of noncompliance with the loan policies. The following table shows the composition of our loan portfolio at December 31, 2010.

LOAN PORTFOLIO

	As of December 31, 2010	
	Amount	Percent
	(In thousands)	
Commercial	$ 144,181	29.28 %
Commercial real estate	169,253	34.37
Construction	64,641	13.13
Home equity	64,289	13.05
Residential real estate	36,903	7.49
Lease financing	5,530	1.12
Consumer	7,657	1.56
Total loans and leases	492,454	100.00 %
Less allowance for loan losses	14,731	
Loans, net of allowance for loan losses	$ 477,723	

Commercial loans. As of December 31, 2010, approximately $144.2 million, or 29.28%, of our loan portfolio represented commercial loans. The Bank has developed a strong reputation in providing and servicing small business and commercial loans. The commercial portfolio is the result of the efforts of seasoned commercial lending staff, their business development efforts, our reputation and the acquisition of Unison Bancorp, Inc. and its subsidiary, Western National Bank, in 2007. Commercial loans have historically been a significant portion of our loan portfolio and we expect to continue our emphasis on this loan category.

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

Approximately $6.1 million, or 4.25%, of our commercial loans are Small Business Administration (SBA) loans, of which $4.7 million of these loans are government guaranteed. The SBA guarantees the repayment in the event of a default of a portion of the principal on these loans, plus accrued interest on the guaranteed portion of the loan. Under the Federal Small Business Act, the SBA may guarantee up to 85% of qualified loans of $150,000 or less and up to 75% of qualified loans in excess of $150,000, up to a maximum loan amount of $5.0 million to any one borrower. We are an active SBA lender in our market area and have been approved to participate in the SBA Certified Lender Program.

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

Commercial real estate loans. The Bank also makes loans to provide permanent financing for retail and office buildings, hotels and churches. As of December 31, 2010, approximately $169.3 million, or 34.37%, of our loan portfolio represented commercial real estate loans. Our commercial real estate loans are underwritten on the basis of the appraised value of the property, the cash flow of the underlying property, and the financial strength of any guarantors.

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

Construction loans. Our construction loans include loans to developers, home building contractors and other companies and consumers for the construction of single-family and multi-family properties, land development, and commercial buildings, such as retail and office buildings. As of December 31, 2010, approximately $64.6 million, or 13.13%, of our loan portfolio represented real estate construction loans. The builder and developer loan portfolio has been a consistent component of our loan portfolio over our history. The Bank's experience and reputation in this area have grown, thereby enabling the Bank to focus on relationships with a smaller number of larger builders. Construction loans are made to qualified builders to build houses to be sold following construction, pre-sold houses and model houses. These loans are generally underwritten based on several factors, including the experience and current financial condition of the borrowing entity, amount of the loan to appraised value, and general conditions of the housing market with respect to the subdivision and surrounding area, which the bank receives from a third party reporting entity. Construction loans are also made to individuals for whom houses are being constructed by builders with whom the Bank generally has an existing relationship. Such loans are made on the basis of the individual's financial condition, the loan to value ratio, the reputation of the builder, and whether the individual will be pre-qualified for permanent financing. During 2009 and continuing in 2010, the Bank experienced a decline in construction loans originated, specifically in residential real estate construction and land development, as a result of the continued decline in the real estate industry and the continued slow down in new housing construction.

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

Home equity loans. As of December 31, 2010, our home equity loans totaled $64.3 million, or 13.05%, of our total loan portfolio. Home equity loans are generally secured by second liens on residential real estate. Home equity loans are subject to the same risks as other loans to individuals, including the financial strength and employment stability of the borrower. The Bank attempts to mitigate these risks by carefully verifying and documenting the borrower's credit quality, employment stability, monthly income, and understanding and documenting the value of the collateral.

Residential real estate loans. Our residential real estate loan portfolio consists primarily of first and second mortgage loans on residential properties. As of December 31, 2010, $36.9 million, or 7.49%, of our loan portfolio represented residential mortgage loans. The terms of these loans typically include 3 to 7 year balloon payments based on a 15 to 30 year amortization, and accrue interest at a fixed or variable rate. By offering these products, we can offer credit to individuals who are self-employed or have significant income from partnerships or investments. These individuals are often unable to satisfy the underwriting criteria permitting the sale of their mortgages into the secondary market.

In addition, we originate residential mortgage loans with the intention of selling these loans in the secondary market. During 2010, we originated approximately $135.9 million of residential mortgage loans, and we sold approximately $136.5 million in the secondary market. We originate conventional first mortgage loans through referrals from real estate brokers, builders, developers, prior customers and media advertising, as well as through our internet website. We have offered customers the ability to apply for mortgage loans and to pre-qualify for mortgage loans over the Internet since 1999. In 2001, we expanded our internet mortgage application capacity with the acquisition of the internet domain name InternetMortgage.com and expanded our mortgage division. The timing of this expansion allowed us to expand this division in a relatively low-rate environment and reap the benefits of a significant increase in mortgage originations and refinancing experienced from 2001 through 2003. While the volume of mortgage originations and refinancing has declined since 2004, we continue to take advantage of the national presence established in previous years and originate residential mortgage loans through our InternetMortgage.com website. The origination of a mortgage loan from the date of initial application through closing normally takes 15 to 60 days. To reduce interest rate risk on mortgage loans sold in the secondary market, we acquire forward commitments from investors prior to loan closing.

Our mortgage loan credit review process is consistent with the standards set by traditional secondary market sources. The lender reviews the appraised value, credit report, debt service ratios, and gathers data during the underwriting process in accordance with various laws and regulations governing real estate lending. Loans originated by the Bank are sold with servicing released to maximize per loan profits while minimizing the risks and costs associated with retaining servicing rights. Commitments are obtained from the purchasing investor on a loan-by-loan basis on a 30, 45 or 60-day delivery commitment. Interest rates are generally committed to the borrower when a rate commitment is obtained from the investor. Loans are funded by the Bank and purchased by the investor within 30-45 days following closing pursuant to commitments obtained from the Investor. We sell conventional FHA, VA, USDA conforming and jumbo loans that are available to the Bank via the various secondary market investors for cash on a limited recourse basis. In our recent experience, we have not been asked to repurchase significant amounts of loans and we did not repurchase any in 2010. Consequently, foreclosure losses on all sold loans are primarily the responsibility of the investor and not that of the Bank.

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

Lease financing. Our lease portfolio includes capital leases that we have originated and leases that we have acquired from brokers or third parties. As of December 31, 2010, our lease portfolio totaled $5.5 million, or 1.12%, of our total loan portfolio. We provide lease financing for a variety of equipment and machinery, including office equipment, heavy equipment, telephone systems, tractor trailers and computers. Lease terms are generally from three to five years. We have provided lease financing in the past and will continue to do so for our customers. However, we do not expect to pursue lease financing unless the lessor maintains an ongoing relationship with the Bank through participation in other Bank product offerings. As a result of a reduction in force in our leasing department during 2008, we expect the lease portfolio to continue to decrease over time. Our leases are generally underwritten based on several factors, including the overall credit worthiness, experience and current financial condition of the lessee, the amount of the financing to collateral value, and general conditions of the market.

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

Consumer loans. As of December 31, 2010, our consumer loans totaled $7.7 million, or 1.56% of our total loan portfolio. A substantial part of this amount consisted of installment loans to individuals in our market area. Installment lending offered directly by the Bank in our market area includes automobile loans, recreational vehicle loans, home improvement loans, unsecured lines of credit and other loans to professionals, people employed in education, industry and government, as well as retired individuals and others. A portion of the Bank’s consumer loan portfolio consists of indirect automobile loans offered through automobile dealerships located primarily in our trade area. As of December 31, 2010, approximately $587,000, or 7.67%, of the Bank’s consumer loan portfolio represented indirect automobile loans. The Bank’s loans made to individuals through this program generally represent loans to purchase new or late model automobiles. The Bank’s consumer and other loans are underwritten based on the borrower’s income, current debt, past credit history, collateral, and the reputation of the originating dealership with respect to indirect automobile loans.

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

Investment Activities

The objectives of our investment policies are to:

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

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

Deposit Services

The principal sources of funds for the Bank are core deposits from the local market areas surrounding the Bank's offices, including demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and time deposits. Transaction accounts include interest-bearing and non-interest-bearing accounts, which provide the Bank with a source of fee income, cross-marketing opportunities and a low-cost source of funds. Since 2001, the Bank has realized deposit growth from commercial checking accounts. While these accounts do not earn interest, many of them receive an earnings credit on their average balance to offset the cost of other services provided by the Bank. During 2007, the Bank introduced the performance checking product. This interest-bearing demand product has proven to be an attractive product in our market area as it pays a higher rate than most checking accounts as long as the customer meets the requirements of at least 12 signature based debit card transactions and at least one direct deposit or ACH debit each statement qualification cycle. The Bank realizes non-interest income from the signature based debit card transactions that, when netted against the high rate paid to the customer, results in a very attractive cost of funds for the Bank. The Bank also offers a money market account which is a daily access account that bears a tiered rate of interest and allows for limited check-writing ability. We believe transaction and money market accounts to be a stable source of funding for the Bank and provide us with the potential to cross-sell additional services to these account holders.

Time deposits and savings accounts also provide a relatively stable customer base and source of funding. Due to the nature and behavior of these deposit products, management reviews and analyzes our pricing strategy in comparison not only to competitor rates, but also as compared to other alternative funding sources to determine the most advantageous source. In pricing deposit rates, management also considers profitability, the matching of term lengths with assets, the attractiveness to customers, and rates offered by our competitors. The Bank is a member of the Certificate of Deposit Account Registry Service ("CDARS") which effectively lets depositors receive Federal Deposit Insurance Corporation (FDIC) insurance on amounts of certificate of deposits larger than FDIC insurance coverage, which is currently $250,000. CDARS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS banks to ensure that full FDIC insurance coverage is gained on the entire deposit. The Bank's Funds Management policy allows for acceptance of brokered deposits, up to certain policy limits, which can be utilized to support the growth of the Bank. As of December 31, 2010, the Bank had $45.9 million in brokered deposits, of which $29.0 million represented customer funds placed into the CDARS program.

Investment Brokerage Services

In 1999, the Bank began offering investment brokerage services through an unrelated broker-dealer. These services are currently offered at all of our locations. Three individuals responsible for providing these services are joint employees of the Bank and the registered broker-dealer. Investment brokerage services provide a source of fee income for the Bank. In 2010, the amount of our fee income generated from investment brokerage services was $415,000.

Trust Services

The Bank began offering trust services in 1996. Until 1999, the Bank's trust services were offered exclusively through the employees of an unaffiliated trust company. The Bank hired a full-time officer in 1999 to develop the Bank's trust business and the trust department now has three full-time officers. Trust services are marketed to both existing Bank customers and new customers. We believe that the ability to offer trust services as a part of our financial services to customers of the Bank presents a significant cross-marketing opportunity. The services currently offered by the Bank's trust department include the administration of personal trusts, investment management agency accounts, self-directed individual retirement accounts, qualified retirement plans, corporate trust accounts and custodial trust accounts. As of December 31, 2010, the Bank's trust department administered 250 accounts, with assets under administration of approximately $125.7 million. Trust services provide the Bank with a source of fee income and additional deposits. In 2010, the amount of our fee income from trust services was $447,000.

Competition

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

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

Trademarks

As of December 31, 2010 the Bank had the following registered trademarks:

Bank of Blue Valley
DEPOSIT I.T.
INTERNETMORTGAGE.COM

Employees

At December 31, 2010, the Bank had approximately 199 total employees, with 167 full-time employees. The Company and its other subsidiaries do not have any employees. None of the Bank's employees are subject to a collective bargaining agreement. We consider the Bank's relationship with its employees to be excellent.

Directors and Executive Officers of the Registrant

For each of our directors and our executive officers, we have set forth below their ages as of December 31, 2010, and their principal positions.

Name	Age	Positions
Directors		
Robert D. Regnier	62	President, Chief Executive Officer and Chairman of the Board of Directors of Blue Valley Ban Corp.; President, Chief Executive Officer and Chairman of the Board of Directors of the Bank
Donald H. Alexander	72	Director of Blue Valley Ban Corp. and the Bank
Michael J. Brown	54	Director of Blue Valley Ban Corp.
Robert D. Taylor	63	Director of Blue Valley Ban Corp. and Chairman of the Audit Committee of Blue Valley Ban Corp.
Additional Directors of the Bank		
Harvey S. Bodker	75	Director of the Bank
Richard L. Bond	75	Director of the Bank
Suzanne E. Dotson	64	Director of the Bank
Charles H. Hunter	68	Director of the Bank
Executive Officers who are not Directors		
Mark A. Fortino	44	Executive Vice President and Chief Financial Officer of the Bank; Chief Financial Officer of Blue Valley Ban Corp.
Bruce A. Easterly	51	Executive Vice President – Chief Lending Officer of the Bank
Bonnie M. McConnaughy	51	Senior Vice President – Deposit Operations and e-Business Solutions of the Bank

Available Information

Our website address is http://www.bankbv.com. Information included or referred to on our website is not incorporated by reference in or otherwise a part of this report. Financial information, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, and amendments to those reports can be obtained free of charge from our website. These reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities Exchange Commission (SEC). These reports are also available on the SEC's website at http://www.sec.gov.

Regulation and Supervision

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

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

Applicable Legislation

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

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act provides for the following, among other provisions:

- Establishes a new oversight regulator, the Financial Stability Oversight Council, to monitor the financial system for systemic risk and to determine which entities pose significant risk, as well as monitor financial regulatory proposals and standards.

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, with broad powers to enforce consumer protection laws and ensure that markets for consumer financial products and services are fair, transparent and competitive.

- Amends Sarbanes-Oxley Act 404(b) to make permanent the temporary exemption for smaller reporting companies (filers with less than $75 million in market cap – Blue Valley Ban Corp. is a smaller reporting company) to comply with the independent auditor attestation requirement on the company's evaluation of the effectiveness of internal controls over financial reporting.

- Changes the assessment base for FDIC insurance assessments from the amount of total domestic deposits to average consolidated total assets less average tangible equity (Tier 1 Capital) and sets a target size for the Deposit Insurance Fund.

- Permanently increases the FDIC deposit insurance per depositor from $100,000 to $250,000 and provides unlimited deposit coverage for non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012.

- Repeals the federal prohibitions on the payment of interest on demand deposits, thus permitting depository institutions to pay interest on business transactions and other accounts.

- Requires the Federal Reserve to issue rules to limit the amount of any debit card interchange fee that an issuer may receive or charge with respect to electronic debit card transactions to be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Cards issued by banks with less than $10 billion in assets are to be exempt from this requirement, thus Blue Valley Ban Corp. would be exempt from this requirement.

- Implements corporate governance revisions for public companies, including proxy access requirements for stockholders and stockholder non-binding vote on executive compensation and "golden parachute' payments.

- Restricts the ability of banks to apply trust preferred securities toward regulatory capital requirements. However, Tier 1 Capital treatment for trust preferred securities issued before May 19, 2010 is grandfathered for bank holding companies with less than $15 billion in total assets. Blue Valley Ban Corp.'s trust preferred issuances would be grandfathered under this provision.

- Mortgage reform and anti-predatory lending provision places new regulations on mortgage originators to ensure a borrower's ability to repay and imposes new disclosure requirements and appraisal reforms.

The specific impact of the Dodd-Frank Act on our current activities and our financial performance will depend on the manner in which the relevant agencies develop and implement required rules and the reaction of market participants to these regulatory developments. Many provisions of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, thus making it difficult to assess the overall financial impact on us, our customers or the financial industry.

The American Recovery and Reinvestment Act of 2009. The American Recovery and Reinvestment Act of 2009 (the "ARRA") was signed into law on February 19, 2009. The ARRA includes a wide variety of programs intended to create jobs and promote investment and consumer spending during the recession. In addition, the ARRA imposes certain executive compensation and corporate expenditure limits on all Troubled Asset Relief Program (the "TARP") participants for the duration of the period that the U.S. Treasury Department holds any equity or debt position in the company under the Capital Purchase Plan Program. The ARRA requires the following:

- Bonus, incentive compensation, and retention payments made to the Senior Executive Officers and the next 20 most highly compensated employees are subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

- Prohibits paying any "golden parachute" payment to any Senior Executive Officer or any of the next five most-highly compensated employees, generally meaning any payment in the nature of compensation to (or for the benefit of) an executive officer made in connection with an applicable severance from employment other than compensation earned for services rendered or accrued benefits;

- Prohibits paying or accruing any bonus, retention award or incentive compensation to the most highly compensated employee, except for awards of long-term restricted stock that have a value equal to no greater than one-third of such executive's annual compensation and do not fully vest during the restricted period; and

- Review of bonuses, retention awards, and other compensation paid to the Senior Executive Officers and the next 20 most-highly compensated employees to determine whether any such payments were inconsistent with the purposes of the TARP or otherwise against public interest.

The ARRA also sets forth additional corporate governance obligations for TARP recipients. These additional obligations include: (i) semi-annual meetings of the Compensation Committee of the Board of Directors (comprised entirely of independent directors) to discuss and evaluate employee compensation plans in light of an assessment of any risk posed from such compensation plans; (ii) company-wide policies regarding excessive or luxury expenditures; (iii) non-binding stockholder say on pay proposals to be included in proxy materials; and (iv) written certifications by the chief executive officer and chief financial officer with respect to compliance with the compensation requirements of the ARRA. The ARRA amends the Emergency Economic Stabilization Act to require a financial institution's chief executive officer and chief financial officer to annually certify that the financial institution is in compliance with the compensation requirements of the ARRA.

Emergency Economic Stabilization Act of 2008. The Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law on October 3, 2008. This legislation was principally designed to allow the U.S. Treasury Department (the "Treasury") and other government agencies to take action to restore liquidity and stability to the U.S. financial system. This legislation authorized the Treasury through the Troubled Asset Relief Program (the "TARP") to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans and certain other financial assets, including debt and equity securities issued by financial institutions and their holding companies. The Treasury allocated $250 billion to the TARP Capital Purchase Plan program (the "CPP"). The CPP was designed to attract broad participation by healthy institutions, to stabilize the financial system, and to increase lending for the benefit of the U.S. economy. As part of the CPP, the Treasury purchased debt and equity securities from participating institutions. Qualified participants could sell an equity interest to the Treasury up to 3% of its risk-weighted assets. These equity instruments constitute Tier 1 Capital for eligible institutions. The Company's Board of Directors approved the Company's participation in the program, and the Company entered into a Securities Purchase Agreement – Standard Terms on December 5, 2008. Pursuant to the agreement, the Company issued and sold to the Treasury 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock, along with a ten year warrant to purchase 111,083 shares of the Company's common stock, for a total cash price of $21.75 million. Under the terms of the CPP, the Company is prohibited, without the consent of the Treasury, from declaring or paying a common stock dividend in an amount greater than the amount of the last quarterly cash dividend per share declared prior to October 14, 2008. Furthermore, as long as the preferred stock issued to the Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities are prohibited until all accrued and unpaid dividends are paid on preferred stock, subject to certain limited exceptions. For additional information, see the liquidity and capital resources section under Managements Discussion and Analysis of Financial Condition and Results of Operation.

As part of the EESA, the FDIC established the Temporary Liquidity Guarantee Program which was designed to encourage confidence and liquidity in the banking system. The program has two primary components, the Debt Guarantee Program and Transaction Account Guarantee Program. Eligible entities generally are participants unless they exercise an opt-out right in a timely manner.

Under the Debt Guarantee Program, the FDIC guaranteed certain senior unsecured debt of eligible banks, thrifts and certain holding companies issued on or after October 14, 2008 through June 30, 2009. The debt guarantee coverage limit was generally 125% of an eligible entity's eligible debt as of September 30, 2008, with a nonrefundable fee of 75 basis points (annualized) for covered debt outstanding. The guarantee was originally effective through the earlier of the maturity date or on June 30, 2012. Under a four month extension of the program approved May 2009, participating entities that issued debt on or before April 1, 2009 were permitted to participate in the extended program without application to the FDIC and participating entities that had not issued such debt before April 1, 2009 could upon approval from the FDIC. As a result, all such participating entities were permitted to issue FDIC-guaranteed debt until October 31, 2009, which would be guaranteed through the earlier of mandatory conversion date, maturity date, or December 31, 2012. The FDIC has also established a limited six-month emergency facility. Under this facility, participating entities could apply to issue FDIC guaranteed senior unsecured debt during the period October 31, 2009 through April 30, 2010 to be guaranteed through December 31, 2012. For approved applicants, fees of at least 300 basis points would be assigned on case-by-case basis. The Company and the Bank opted to not participate in the Debt Guarantee Program.

The Transaction Account Guarantee Program provides full coverage of non-interest bearing transaction accounts at participating insured depository institutions, regardless of the dollar amount. The Transaction Account Guarantee Program originally was effective through December 31, 2009. This program was extended through December 31, 2010 if opted by the participating entity. Financial institutions participating in the Transaction Account Guarantee Program were assessed a fee of ten basis points (annualized) on the balance of each covered account in excess of $250,000 through December 31, 2009 and fees of 15 to 25 basis points (annualized) on the balance of each covered account in excess of $250,000 through December 31, 2010 depending on the risk category assigned to the institution. The Bank opted to continue its participation in the Transaction Account Guarantee Program. As a result of the Dodd-Frank Act, unlimited deposit coverage for non-interest bearing accounts will be provided at all insured depository institutions starting January 1, 2011 until December 31, 2012.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") was signed into law on October 26, 2001. This legislation enhances the powers of domestic law enforcement organizations and makes numerous other changes aimed at countering the international terrorist threat to the security of the United States. Title III of the legislation most directly affects the financial services industry. It is intended to enhance the federal government's ability to fight money laundering by monitoring currency transactions and suspicious financial activities. The USA PATRIOT Act has significant implications for depository institutions involved in the transfer of money. Under the USA PATRIOT Act, a financial institution must establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts. Financial institutions must follow regulations adopted by the Treasury to encourage financial institutions, their regulatory authorities, and law enforcement authorities to share information about individuals, entities, and organizations engaged in or suspected of engaging in terrorist acts or money laundering activities. Financial institutions must follow regulations setting forth minimum standards regarding customer identification. These regulations require financial institutions to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintain records of the information used to verify the person's identity, and consult lists of known or suspected terrorists and terrorist organizations provided to the financial institution by government agencies. Every financial institution must establish anti-money laundering programs, including the development of internal policies and procedures, designation of a compliance officer, employee training, and an independent audit function.

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

Bank holding companies that intend to engage in activities that are “financial in nature” must elect to become “financial holding companies.” Financial holding company status is only available to a bank holding company if all of its affiliated depository institutions are “well capitalized” and “well managed,” based on applicable banking regulations, and have a Community Reinvestment Act rating of at least “a satisfactory record of meeting community credit needs.” Financial holding companies and banks may continue to engage in activities that are financial in nature only if they continue to satisfy the well capitalized and well managed requirements. Bank holding companies that do not elect to be financial holding companies or that do not qualify for financial holding company status may engage only in non-banking activities deemed “closely related to banking” prior to adoption of the Gramm-Leach-Bliley Act. The Company voluntarily terminated its status as a financial holding company in June 2008 as the Company was no longer engaged in activities pursuant to the Bank Holding Company Act.

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

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

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

Sarbanes-Oxley Act. The Sarbanes-Oxley Act, signed into law in 2001, addresses issues related to corporate governance of publicly traded companies. Sarbanes-Oxley 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 it strengthens the rules regarding auditor and audit committee independence. Certain provisions of the Sarbanes-Oxley Act were effective immediately and others became effective or are in process of becoming effective through Securities and Exchange Commission rules. The Company was subject to all provisions during 2009 with the exception of the auditor's attestation on internal control over financial reporting. Under the Dodd-Frank Act, the Company is now exempt from the auditor's attestation on internal control over financial reporting. The Company anticipates continued future expenditures in order to comply with the provisions of the Sarbanes-Oxley Act.

Bank Holding Company Regulation

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

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

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

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

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

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

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

Source of Strength. The Federal Reserve expects the Company to act as a source of financial strength and support for the Bank and to take measures to preserve and protect the Bank in situations where additional investments in the Bank may not otherwise be warranted. The Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. As of December 31, 2010, BVBC Capital Trust II and BVBC Capital Trust III are the Company's only active direct subsidiaries that are not banks.

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

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

Dividends. The Federal Reserve has issued a policy statement concerning the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weakened the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. As a result of an agreement with the Federal Reserve Bank and the Office of the State Banking Commissioner of Kansas, prior regulatory approval is currently required prior to the payment of any dividends by the Company or Bank.

Under the terms of the Capital Purchase Plan, for so long as any preferred stock issued under the CPP remains outstanding, the Company is prohibited from declaring or paying a common stock dividend in an amount greater than the amount of the last quarterly cash dividend per share declared prior to October 14, 2008 without the Treasury's consent. Furthermore, as long as the preferred stock issued to the Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities are prohibited until all accrued and unpaid dividends are paid on preferred stock, subject to certain limited exceptions. At the request of the Federal Reserve Bank of Kansas City, the Company notified the Treasury of its intention to defer the quarterly payment on the preferred shares due to the Treasury since May 15, 2009. Failure to pay the Preferred Share dividend is not an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holders of the Preferred Shares the right to elect two directors to the Company's Board of Directors. That right would continue until the Company pays all dividends in arrears. The dividend payment due August 15, 2010 was the sixth dividend payment deferred by the Company. At this time, the Treasury has not elected a director to serve on the Company's Board of Directors; however, they have assigned an observer to attend the Company's board meetings. The Company has accrued $2.0 million for the dividends and has every intention to bring the obligation current as soon as permitted. For additional information, see the liquidity and capital resources section under Management's Discussion and Analysis of Financial Condition and Results of Operation.

Bank Regulations

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

The Board of Directors of the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and relates primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank have also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock, or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank has complied with all terms of the written agreement.

Deposit Insurance. The FDIC, through its Deposit Insurance Fund, insures the Bank's deposit accounts up to the applicable limits of the FDIC. The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raises the current standard maximum deposit insurance amount to $250,000. The FDIC bases deposit insurance premiums on each FDIC-insured institution based on the perceived risk each bank presents to its Deposit Insurance Fund. Each institution is assigned to one of the four risk categories based on its capital, supervisory ratings and other factors. Under the FDIC's risk-based assessment rules effective April 1, 2009, assessment rates range from 7 to 24 basis points for Risk Category I, 17 to 43 basis points for Risk Category II, 27 to 58 basis points for Risk Category III, and 40 to 77.5 basis points for Risk Category IV. The FDIC adopted the final rule on May 22, 2009 to impose a special assessment to rebuild the Deposit Insurance Fund and help maintain the public confidence in the banking system. The FDIC imposed a five basis point special assessment on each FDIC-insured depository institution's assets less its Tier I capital as of June 30, 2009 (not to exceed 10 basis points of the institution's assessment base for second quarter 2009), which was collected on September 30, 2009. The Bank paid $364,000 for this special assessment as of June 30, 2009.

In October 2010, the FDIC adopted a new deposit insurance fund restoration plan to ensure the fund reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forgo the uniform three-basis point increase in initial assessment rates scheduled to take place on January 1, 2011. At least semi-annually, the FDIC will update its loss and income projections for the deposit insurance fund, and, if needed, will increase or decrease assessment rates, following notice-and commend rulemaking if required. In February 2011, the initial assessment rates along with the assessment base were adjusted effective April 1, 2011. This change effectively lowered the assessment rate ranges for each risk category.

In addition to deposit insurance premiums, institutions also pay an assessment based on insured deposits to service debt issued by the Financing Corporation (FICO assessment), a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation. For the fourth quarter of fiscal year 2010, the annual rate for this assessment was 1.04 basis points for each $100 in domestic deposits. FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the fund and the rate adjusted to 1.02 basis points for the first quarter 2011. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

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

Tier 1 capital generally consists of equity capital and non cumulative perpetual preferred stock, adjusted for such items as net unrealized gains (losses) on available-for-sale securities, disallowed deferred tax assets and disallowed servicing assets. Total risk-based capital consists of Tier 1 capital (as defined above) plus allowance and loan losses up to a maximum of 1.25% of risk-weighted assets and certain permanent and maturing capital instruments that do not qualify as Tier 1 capital.

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

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

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

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

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

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

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

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

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

- Restricting transactions with affiliates;

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

- Requiring that senior executive officers or directors be dismissed;

- Requiring the institution to divest subsidiaries;

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

- Appointing a receiver for the institution.

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

As of December 31, 2010, the Bank had capital in excess of the regulatory requirements for a "well capitalized" institution.

Federal Deposit Insurance Corporation Improvement Act. The Bank, having over $500 million in total assets, is subject to requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA 112). The primary purpose of FDICIA 112 is to provide a framework for early risk identification in financial management through an effective system of internal controls. Annual reporting requirements under FDICIA are as follows: (1) Annual audited financial statements; (2) Management report stating management's responsibility for preparing the institution's annual financial statements, establishing and maintaining an adequate internal control structure and procedures for financial reporting and for complying with laws and regulations, and assessment by management of the institution's compliance with such laws and regulations; and (3) For insured depository institutions with consolidated total assets over $1.0 billion or more, the independent public accountant who audits the institution's financial statement's shall examine, attest to, and report separately on the assertion of management concerning the effectiveness of the institution's internal control structure and procedures for financial reporting.

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

Community Reinvestment Act Requirements. The Community Reinvestment Act (CRA) of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. In its most recent CRA examination dated July 26, 2010, the Bank received a rating of "Satisfactory."

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

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

Reserve Requirements. The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts. For net transaction accounts in 2011, the first $10.7 million, unchanged from its level in 2010, is exempt from reserve requirements. A three percent reserve ratio will be assessed on net transaction accounts over $10.7 million up to and including $58.8 million, up from $55.2 million in 2010. A ten percent reserve ratio is assessed on net transaction accounts in excess of $58.8 million (subject to adjustment by the Federal Reserve). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements.

Other Regulations

Interest and various other charges collected or contracted for by the Bank are subject to state usury laws and other federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions. The Federal Truth in Lending Act governs disclosures of credit terms to consumer borrowers. The Home Mortgage Disclosure Act of 1975 requires financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves. The Equal Credit Opportunity Act prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit. The Fair and Accurate Credit Transactions Act of 2003 governs the use and provision of information to credit reporting agencies. This act also requires financial institutions to establish reasonable procedures of identifying identity theft. The Fair Debt Collection Act governs the manner in which consumer debts may be collected by collection agencies. The various federal agencies charged with the responsibility of implementing these federal laws have adopted various rules and regulations. The deposit operations of the Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, the Electronic Funds Transfer Act, and Regulation E issued by the Federal Reserve to implement that Act, which govern automatic deposits to and withdrawals from the use of ATMs and other electronic banking services.

Item 1A: Risk Factors

An investment in securities issued by the Company is subject to risks inherent to our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all the other information included or incorporated by reference. The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company and they are not necessarily presented in order of significance. Additional risks and uncertainties could also adversely affect its business and financial results. If any one or a combination of these risks occurs, our business, financial condition or results of operations could be adversely affected and the market price of the Company's stock could decline. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the Company's actual results to differ from those expressed in any forward-looking statements.

Difficult market conditions have adversely affected the Company's industry and may continue to affect the industry.

We are particularly exposed to downturns in the U.S. real estate market. Dramatic declines over the past two years in the housing market, with falling home prices, increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions such as our Company. Many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions, as a result of the concern regarding the stability of the financial markets and the strength of counterparties. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry, and could further negatively affect the Company's financial results.

Our loan portfolio is concentrated in real estate lending, which has made and will make our loan portfolio more susceptible to credit losses in the current real estate market.

In 2008 and continuing through 2010, the new home real estate market in our geographic market area declined. Our loan portfolio has a concentration in real estate construction, land development loans, and commercial real estate loans, most of which are located in our market area. We have a heightened exposure to credit losses that may arise from this concentration as a result of the downturn in the real estate market and general economy. As a result, our non-performing assets and allowance for loan losses remained high during 2009 and 2010. If the current economic environment continues for a prolonged period of time or deteriorates further, collateral values may further decline and may result in increased credit losses in these loans and additional loan foreclosures.

Current levels of market volatility.

The capital and credit markets have been experiencing significant volatility and disruption over the last two years. In certain cases, this volatility has resulted in downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market volatility and disruption continue or worsen, there can be no assurance that we will not experience an adverse effect on our ability to access capital, if needed or desired, and on our business, financial condition and results of operation.

Our future ability to raise capital may be limited.

Our ability to raise capital in the current economic and regulatory environment may be limited. During fiscal year 2008, we completed a rights offering in which we sold $5.2 million worth of our common stock to certain existing stockholders at a price of $18 per share. In addition to the rights offering in 2008, we participated in the U.S. Treasury's CPP program. Through that program, Treasury purchased 21,750 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A. This raised $21.75 million in additional capital. Should it become necessary to raise capital, opportunities to do so will not be as readily identifiable, and will likely be on less favorable terms than those available in 2008.

The Company and the Bank are subject to extensive governmental regulation.

The Company and the Bank are subject to extensive governmental regulation. The Company, as a bank holding company, is regulated primarily by the Federal Reserve Bank. The Bank is a commercial bank chartered by the State of Kansas and regulated by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the State Banking Commissioner of Kansas (OSBC). These federal and state bank regulators have the ability, to place significant regulatory and operational restrictions upon the Company and the Bank. Any such restrictions imposed by federal and state bank regulators could affect the profitability of the Company and the Bank. The Company and the Bank entered into a written agreement in November 2009 with the Federal Reserve Bank of Kansas City. This agreement was a result of an examination that was completed by the regulators in May 2009, and relates primarily to asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practice and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank have also agreed not to increase or guarantee any debt, purchase or redeem any shares or stock, or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank have complied with all terms of the written agreement. If the Company and Bank are not able to continue to comply with the agreement, they could be subject to further regulatory enforcement action.

If we are unable to pay our Preferred Shares dividend, the holder of the Preferred Shares may have additional rights.

Under the Capital Purchase Plan, failure to pay the Preferred Shares dividend is not considered an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holder of the Preferred Shares the right to elect two directors to the Company's Board of Directors. That right would continue until the Company pays all dividends in arrears. The Company has deferred quarterly Preferred Share dividends since May 15, 2009. The dividend payment due on August 15, 2010 was the sixth dividend payment deferred by the Company. At this time, the Treasury has not elected any directors to serve on the Company's board; however, they have assigned an observer to attend the Company's board meetings. The Company has accrued for these dividends and has every intention to bring the obligation current as soon as possible.

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

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

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

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

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

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

The continued slowdown in real estate sales and a decrease in residential real estate values within our market areas have effected and may continue to affect our financial condition.

Non-performing assets and our provision for loan losses and other real estate owned have increased as a result of the downturn in economic conditions in the real estate market, continued slow down in home sales, and decline in median home prices and newly constructed homes. The housing industry in the Midwest experienced a downturn during the last quarter of 2007 and continuing in 2010 reflecting, in part, decreased availability of mortgage financing for residential home buyers, reduced demand for new home construction resulting in over-supply of housing inventory and increased foreclosure rates. If these market conditions continue, or deteriorate further, or if these market conditions and slowing economy continue to negatively impact the commercial non-residential real estate market, our results of operations will continue to be adversely impacted because a significant portion of our loans are secured by real estate in our market areas.

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

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

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

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

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

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

We are a relatively small organization and depend on the services of all of our employees. Our growth and development to date has depended in a large part on a few key employees who have primary responsibility for maintaining personal relationships with our largest customers. The unexpected loss of services of one or more of these key employees could have a material adverse effect on our operations. Our key employees are Robert D. Regnier, Mark A. Fortino, Bruce A. Easterly, and Bonnie M. McConnaughy. Each of these persons is an officer of the Bank. We do not have written employment or non-compete agreements with any of these key employees; however, the Company has change in control agreements in place with Mr. Fortino, Mr. Easterly and Ms. McConnaughy. If their employment were terminated, Mr. Fortino, Mr. Easterly, and Ms. McConnaughy would all lose unvested shares of Blue Valley Ban Corp. restricted stock awarded over the past three years as well as amounts awarded in their Long-Term Retention Bonus Pools. Mr. Regnier would lose unvested shares of Blue Valley Ban Corp. restricted stock awarded in 2009 and 2010 as well as amounts awarded in his Long-Term Retention Bonus Pool. We carry a $1 million "key person" life insurance policy on the life of Mr. Regnier.

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

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

Continued losses could erode our capital levels.

Our capital level at December 31, 2010 was above the "well capitalized" level under regulatory definitions. However, continued losses could cause our capital level to fall to a level that is below the "well capitalized" level under regulatory definitions. Failure to maintain well capitalized status could result in adverse regulatory actions against us, as well as jeopardize our ability to acquire needed funding through sources such as brokered deposits, Federal Home Loan advances, or unsecured Federal funds credit lines, and could damage our reputation in our deposit markets, possibly resulting in deposit declines that could decrease our liquidity. Additional significant increases in our allowance for loan losses, significant write-downs of assets, or other operating losses would decrease our capital levels further.

Confidential customer information transmitted through the Bank's online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its clients with the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank's network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that the Bank's activities or the activities of its clients involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in the Bank's systems and could adversely affect its reputation and its ability to generate deposits.

Recent legislative and regulatory initiatives to address these difficult market and economic conditions may not stabilize the U.S. financial system.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. The EESA authorizes the U.S. Treasury Department through the Troubled Asset Relief Program (TARP) to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans and certain other financial assets, including debt and equity securities used by financial institutions and their holding companies. The Treasury allocated $250 billion to the TARP Capital Purchase Plan Program. The program was designed to attract broad participation by healthy institutions, to stabilize the financial system and to increase lending for the benefit of the U.S. economy. As part of the Capital Purchase Plan, the U.S. Treasury purchased debt and equity securities from participating institutions. The Company became a participant in the Capital Purchase Program in December 2008.

The EESA followed, and has been followed, by numerous actions by the Federal Reserve, Congress, U.S. Treasury, the Securities Exchange Commission and others to address the liquidity and credit crisis. These measures include, but are not limited to, the homeowner liquidity relief program which encourages loan restructuring and modification, action against short selling practices and the Temporary Liquidity Guarantee Program. There can be no assurance as to the actual impact these initiatives may have on the financial markets. The failure of these initiatives to help stabilize the financial markets and if the economy continues or worsens, our business, financial condition, results of operations, and market price of our common stock could be adversely impacted.

The recent repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

The federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, beginning on July 21, 2011, financial institutions can commence offering interest on demand deposits (business transaction and other accounts) to compete for customers. We do not know what interest rates other institutions may offer. Our interest expense could increase and our net interest margin could decrease if we have to offer high rates of interest than we currently offer on other products to attract additional customers or maintain our current customers.

Our business could be adversely affected by unfavorable actions from rating agencies.

Ratings assigned by bank rating agencies to the Company and its subsidiaries may impact the decision of certain customers, in particular, institutions to do business with us. A rating downgrade or a negative rating could adversely affect our deposits and our business relationships.

Our business could be adversely affected by recent legislation.

On July 21, 2010 The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Some of the provisions may have consequences of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The specific impact of the Dodd-Frank Act on our current activities and our financial performance will depend on the manner in which relevant agencies develop and implement the required rules.

We are subject to various legal claims and litigation.

We are periodically involved in routine litigation incidental to our business. Regardless of whether these claims and legal actions are founded or unfounded, if such legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the Company's reputation. Any financial liability or reputational damage could have a material adverse impact on our business, financial condition and results of operations. Even if these claims and legal actions do not result in a financial liability, defending these claims and actions result in increased legal and professional services costs, which adds to our non-interest expense and negatively impacts our operating results.

Item 1B: Unresolved Staff Comments

No items are reportable.

Item 2: Properties

The Bank currently operates five full service banking centers, which includes our principal office located at 11935 Riley in Overland Park, Kansas, and operates an operations center location and rents space in Gladstone, Missouri for one loan production office. In January 2009, the Company placed the 7900 College Boulevard location up for lease or possible sale. The portions of these premises not occupied by the Bank are leased to third parties. The following table sets forth the locations of the banking and operations centers, dates opened, mortgage indebtedness, and occupancy:

Location	Year Occupied	Mortgage Indebtedness as of December 31, 2010	Occupancy
Overland Park Banking Center 11935 Riley Overland Park, Kansas *	1994	None	100%
Olathe Banking Center 1235 E. Santa Fe Olathe, Kansas **	2001	None	100%
Shawnee Banking Center 5520 Hedge Lane Terrace Shawnee, Kansas **	2001	None	100%
Operations Center 7900 College Boulevard Overland Park, Kansas *	2003	None	100%
Leawood Banking Center 13401 Mission Road Leawood, Kansas *	2004	None	66%, Four subleases occupy the remaining 34%
Lenexa Banking Center 9500 Lackman Road Lenexa, Kansas **	2007	None	100%

* The building is owned by Blue Valley Building Corp.

** The building is owned by the Bank.

Item 3: Legal Proceedings

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

Item 4: (Removed and Reserved)

Part II

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

Market for Common Stock

We are a reporting company under the Securities Exchange Act of 1934, as amended, as a result of a trust preferred securities offering we completed during July 2000. Shares of our common stock have traded on the Over-The-Counter Bulletin Board (OTCBB) since July 2002 under the symbol "BVBC." As of January 31, 2011, there were approximately 422 stockholders of record of our common stock. The following table sets forth the high and low bid prices of the Company's common stock since the first quarter of 2009 based on closing stock price quotations provided by *Yahoo.com*. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2010		**2009**	
Fiscal Quarter	High	Low	High	Low
First	$ 10.25	$ 8.50	$ 25.00	$ 10.05
Second	9.75	7.00	12.00	7.50
Third	9.40	6.50	10.50	7.45
Fourth	8.00	5.50	10.50	9.30

Dividends

The Company did not declare a common stock dividend in 2008, 2009 or 2010.

The Company's consolidated net income consists largely of the operations of the Bank; therefore, our ability to pay dividends on our common stock is subject to the receipt of dividends from the Bank. The ability of the Bank to pay dividends to us, and thus our ability to pay dividends to our stockholders, is regulated by federal banking laws. In addition, as we elect to defer interest payments on our outstanding junior subordinated debentures and dividends on our Preferred Shares, we are prohibited from paying dividends on our common stock during such deferral. As a result of an agreement with the Federal Reserve Bank (for more information see Regulatory Matters section in Management's Discussion and Analysis of Financial Condition and Results of Operations), prior regulatory approval is currently required prior to the payment of any dividends by the Company or the Bank. After that agreement is terminated, our Board of Directors anticipates the ability to declare future dividends, subject to limitations imposed by regulatory capital guidelines and approval, as permitted by the Company's profitability and liquidity. The date for termination of that agreement is not known. In addition, the Company is subject to dividend limitations as part of the Capital Purchase Plan. As long as any preferred stock issued under the CPP remains outstanding, the Company is prohibited, without the consent of the Treasury, from declaring or paying a common stock dividend. The Company did not pay a cash dividend to our common stockholders in the fiscal years ended 2008, 2009 or 2010, and we do not know when we will be able to resume paying cash dividends.

Item 6: Selected Financial Data

The following table presents our consolidated financial data as of and for the five years ended December 31, 2010, and should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is included elsewhere in this Form 10-K. The selected statements of financial condition and statements of income data, insofar as they relate to the five years in the five-year period ended December 31, 2010, have been derived from our audited consolidated financial statements.

	As of and for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except share and per share data)				
Selected Statement of Income Data					
Interest and dividend income:					
Interest and fees on loans	$ 28,011	$ 33,996	$ 41,245	$ 47,194	$ 44,537
Federal funds sold and other short-term investments	245	144	378	557	256
Available-for-sale securities	1,825	1,943	3,375	4,466	4,039
Dividends on Federal Home Loan Bank and Federal Reserve Bank Stock	222	211	265	323	317
Total interest and dividend income	30,303	36,294	45,263	52,540	49,149
Interest expense:					
Interest-bearing demand deposits	2,343	2,589	1,394	656	97
Savings and money market deposit accounts	438	490	2,402	6,362	4,356
Other time deposits	7,746	10,742	12,139	13,134	11,254
Funds borrowed	3,836	4,166	5,756	5,430	5,255
Total interest expense	14,363	17,987	21,691	25,582	20,962
Net interest income	15,940	18,307	23,572	26,958	28,187
Provision for loan losses	3,095	21,635	17,025	2,855	1,255
Net interest income (loss) after provision for loan losses	12,845	(3,328)	6,547	24,103	26,932
Non-interest income:					
Loans held for sale fee income	3,506	2,785	2,136	3,160	5,046
Service fees	3,083	3,250	3,299	2,830	2,491
Realized gains on available-for-sale securities	885	346	702	105	–
Gain on settlement of litigation	–	–	1,000	–	–
Other income	1,145	1,664	1,010	782	1,027
Total non-interest income	8,619	8,045	8,147	6,877	8,564
Non-interest expense:					
Salaries and employee benefits	11,753	12,272	12,500	13,570	14,737
Net occupancy expense	2,756	2,811	3,144	3,200	3,059
Goodwill impairment	–	–	4,821	–	–
Other operating expense	11,258	12,758	8,304	7,447	6,578
Total non-interest expense	25,767	27,841	28,769	24,217	24,374
Income (loss) before income taxes	(4,303)	(23,124)	(14,075)	6,763	11,122
Provision (benefit) for income taxes	(1,561)	(8,514)	(3,824)	2,275	4,199
Net income (loss)	$ (2,742)	$ (14,610)	$ (10,251)	$ 4,488	$ 6,923
Per Share Data					
Basic earnings	$ (1.38)	$ (5.68)	$ (4.20)	$ 1.86	$ 2.93
Diluted earnings	(1.38)	(5.68)	(4.20)	1.84	2.88
Dividends	0.00	0.00	0.00	0.36	0.30
Book value basic (at end of period)	12.66	14.09	19.97	24.34	22.45
Weighted average common shares outstanding:					
Basic	2,773,039	2,754,419	2,438,809	2,410,621	2,365,932
Diluted	2,788,154	2,762,603	2,460,045	2,438,203	2,407,802
Dividend payout ratio	0.00%	0.00%	0.00%	19.35 %	10.23 %

	2010	2009	2008	2007	2006
	As of and for the Year Ended December 31, (In thousands)				
Selected Financial Condition Data (at end of period):					
Total available-for-sale securities	$ 63,640	$ 72,757	$ 68,681	$ 76,653	$ 87,009
Total mortgage loans held for sale	8,162	8,752	8,157	10,978	21,805
Total loans	492,454	554,111	662,401	596,646	528,515
Total assets	723,101	773,967	815,700	736,213	692,219
Total deposits	541,218	590,110	600,868	536,370	535,864
Funds borrowed	118,505	118,208	135,129	134,942	96,577
Total stockholders' equity	57,164	60,603	76,439	58,934	53,820
Trust assets under administration	125,702	105,071	112,688	104,167	104,445
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin (1)	2.23%	2.43%	3.20%	3.92%	4.35%
Non-interest income to average assets	1.09	0.99	1.04	0.95	1.24
Non-interest expense to average assets	3.26	3.42	3.67	3.34	3.54
Net overhead ratio (2)	2.14	2.40	2.59	2.35	2.25
Efficiency ratio (3)	104.92	105.65	90.70	71.57	66.32
Return on average assets (4)	(0.35)	(1.79)	(1.31)	0.62	1.00
Return on average equity (5)	(10.25)	(33.07)	(17.53)	7.88	13.81
Asset Quality Ratios:					
Non-performing loans to total loans	6.16%	6.30%	6.54%	4.22%	1.31%
Allowance for possible loan losses to:					
Total loans	2.99	3.61	1.87	1.51	1.16
Non-performing loans	48.53	57.33	28.54	35.65	88.16
Net charge-offs to average total loans	1.61	2.30	2.16	0.06	0.35
Non-performing loans to total assets	4.20	4.51	5.31	3.42	1.00
Balance Sheet Ratios:					
Loans to deposits	90.99%	93.90%	110.24%	111.24%	98.63%
Average interest-earning assets to average interest-bearing liabilities	113.18	115.08	116.25	118.92	120.31
Capital Ratios:					
Total equity to total assets	7.91%	7.83%	9.37%	8.01%	7.77%
Total capital to risk-weighted assets ratio	12.66	12.54	13.82	11.53	12.47
Tier 1 capital to risk-weighted assets ratio	11.39	11.26	12.57	10.28	11.33
Tier 1 capital to average assets ratio	9.04	9.07	11.50	9.86	10.29
Average equity to average assets ratio	7.48	8.47	7.66	7.85	7.27

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

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

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

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, can generally be identified by use of the words "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," or the negative of these terms or other comparable terminology. The Company is unable to predict the actual results of its future plans or strategies with certainty. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing; inability to maintain or increase deposit base and secure adequate funding; a continued deterioration of general economic conditions or the demand for housing in the Company's market areas; deterioration in the demand for mortgage financing; legislative or regulatory changes; regulatory action; continued adverse developments in the Company's loan or investment portfolio; any inability to obtain funding on favorable terms; the Company's non-payment on TARP funds or Trust Preferred Securities; the loss of key personnel; significant increases in competition; potential unfavorable actions from rating agencies; potential unfavorable results of litigation to which the Company may become a party, and the possible dilutive effect of potential acquisitions or expansions. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time, and it is not possible for us to predict all risk factors. Nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Critical Accounting Policies

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

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

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

The Bank computes its allowance for loan losses by assigning specific reserves to impaired loans, plus a general reserve based on loss factors applied to the rest of the loan portfolio. The specific reserve on impaired loans is computed as the amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market value or the fair value of the collateral if the loan is collateral dependent. The general reserve loss factors are determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. The Bank has further refined its risk grading system by developing associated reserve factors for each risk grade.

As discussed in Notes 1 and 12 of the consolidated financial statements, the Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Deferred income taxes represent the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company regularly monitors taxing authorities for changes in laws and regulations and their interpretations of the judicial system.

Overview

While the Company continued to face challenges during 2010, it was able to show improvement in many areas of operation. The Company improved its net results for 2010 by 81.23%, with a net loss of $2.7 million as compared to 2009's net loss of $14.6 million. The Company has experienced improvements in asset quality, specifically with non-performing loans. The Company's non performing loans have declined 12.99% from 2009 and loans past due greater than 30 days have declined $14.5 million, an improvement of 90.87%, as management has aggressively managed defaults within the loan portfolio. Non-interest expense has declined 7.45% from 2009 as a result of lower expenses related to foreclosed assets held for sale. The Company continues to actively market and manage these properties and continues to work to reduce the balance of foreclosed assets held for sale. The Company has also experienced an increase in non-interest income for 2010 as compared by 2009 by 7.13% as a result of increased mortgage loans held for sale fee income, increased debit card interchange income, as well as gains realized on sale of available for sale securities. While the Company has experienced a decline in net interest income by 12.93% for 2010 as compared to 2009, the net interest income recorded in each quarter of 2010 increased. The Company continues to keep the cost of funds low and works to improve asset quality and originate new loans.

The Company experienced a net loss for 2010 of $2.7 million, an $11.9 million or 81.23%, improvement from the $14.6 million net loss in 2009. Loss per share on a diluted basis was $1.38 for the year ended December 31, 2010, an improvement of 75.70% compared to diluted loss per share of $5.68 for the previous year. The Company's returns on average assets and average stockholders' equity for 2010 were negative 0.35% and negative 10.25% compared to negative 1.79% and negative 33.07%, respectively, for 2009.

Net interest income for 2010 was $15.9 million compared to $18.3 million earned during 2009. The decrease of $2.4 million, or 12.93%, was a result of a change in asset mix, specifically higher average federal funds sold and other short-term investment balances with lower yields. Lower average outstanding loan balances also contributed to the decline in interest income. Average outstanding loan balances for the year ended December 31, 2010, as compared to the prior year, declined $90.1 million, or 14.81%, as a result of several large loan payoffs, loan foreclosures of $10.4 million, and lower loan origination volume as a result of the current economic environment. The decline in interest income was partly offset by lower interest expense. Interest expense has declined $3.6 million, or 20.15%, from the prior year. The decline in interest expense was a result of a decrease in rates paid on deposits. As market rates have declined, the rates on deposits have also declined. In 2010 the Company had funds from various certificate of deposit promotions mature, and as those higher rate certificates matured they were renewed at lower market rates. In addition, the Company entered into a restructuring transaction during the third quarter of 2010 of $42.5 million of its Federal Home Loan Bank advances. This transaction reduced the effective interest rate, as well as modified the maturity date on the borrowings.

The provision for loan losses in 2010 was $3.1 million compared to $21.6 million in 2009. The Company has experienced a reduction in non-performing loans by $4.5 million, or 12.99%, and a decline in net loan charge offs by $5.6 million, or 40.27%, since December 31, 2009 and based on analysis of the loan portfolio, a provision of $3.1 million was made during 2010. The significant provision for loan losses recorded during 2009 was a result of refining the Company's allowance for loan loss methodology to better reflect the inherent losses in the loan portfolio and to increase general reserves on our performing loans to reflect the impact of the weakened economic conditions.

Non-interest income increased 7.13% to $8.6 million in 2010 compared to $8.0 million in 2009. The improvement in non-interest income was a result of an increase of $721,000, or 25.89%, in loans held for sale fee income. This increase was primarily due to more favorable terms in the secondary market, resulting in higher held-for-sale fee income. Contributing to the increase in non-interest income were $885,000 in realized gains on available-for-sale securities, an increase of $539,000, or 155.78%, as compared to the same period in 2009. The Company sold $29.0 million in available-for-sale securities during 2010 compared to $11.0 million in securities sold during 2009. Securities were sold in 2010 to reduce the long-term maturity risk within the investment portfolio. The increase in non-interest income was partly offset by a decrease in service fee income, specifically non-sufficient funds (NSF) charges and service fees, by $167,000, or 5.14%. The decline in NSF charges and services fees was a result of fewer overdraft items by our customers and a decrease in account service charges on commercial accounts as a result of a change in account service charges on these accounts. Other service charges income, which includes income from trust services, investment brokerage, merchant bankcard processing and debit card processing, increased by $243,000, or 13.67%, as compared to 2009. The increase was primarily attributed to income generated from signature based debit card transactions associated with our performance checking product and increased activity in our investment brokerage and trust services. Other non-interest income decreased $519,000, or 31.19%. This decrease was due to lower gains realized on the sale of foreclosed assets held for sale by $296,000, or 40.60%. Other non-interest income also decreased due to the effect of recording the net fair value of certain mortgage loan-related commitments. The net fair value of mortgage loan-related commitments recorded for 2010 was a gain of $127,000 compared to a gain of $236,000 in 2009, a decline of $109,000, or 46.19%. The fair value on these commitments will fluctuate based on the market rates for mortgage loans.

Non-interest expense decreased 7.45% to $25.8 million in 2010 from $27.8 million in 2009. The decrease in non-interest expense was attributed to a decrease in the provision for other real estate required by the Company. The Company recorded a provision of $734,000 in 2010, compared to a provision of $1.4 million, representing a decrease of $629,000, or 46.13%. Other operating expenses also decreased due to lower expenses related to foreclosed assets held for sale, which declined $525,000, or 21.02%, in 2010 as compared to 2009 as a result of a reduction in the number of construction and rehab rental properties held for sale. Expenses related to foreclosed assets held for sale include insurance, appraisals, utilities, real estate property taxes, legal, repairs and maintenance, and associated loss on sale. Also contributing to the decrease in non-interest expense was a decline in salaries and employee benefits by $519,000, or 4.23%, as a result of lower salaries expense due to staff restructuring in the third quarter of 2009 and lower commissions paid during the period on mortgage loans originated and sold in the secondary market as a result of decreased origination volume and a change in the commission structure for each loan originated and sold. These decreases in non-interest expense were partly offset by higher professional fees paid as a result of legal fees related to loan workouts, routine litigation and foreclosed assets held for sale.

Total assets at December 31, 2010, were $723.1 million, a decrease of $50.9 million, or 6.57%, from $774.0 million at December 31, 2009. Deposits and stockholders' equity at December 31, 2010 were $541.2 million and $57.2 million, compared with $590.1 million and $60.6 million at December 31, 2009, decreases of $48.9 million, or 8.29%, and $3.4 million, or 5.67%, respectively.

Loans at December 31, 2010 totaled $492.5 million, a decrease of $61.6 million, or 11.13%, compared to December 31, 2009. The loan to deposit ratio at December 31, 2010 was 90.99% compared to 93.90% at December

31, 2009. Our funding philosophy for loans not held for sale is to primarily increase deposits from retail and commercial deposit sources and secondarily use other borrowing sources as necessary to fund loans within the limits of the Bank's capital base.

Net Interest Income

A primary component of our net income is our net interest income. Net interest income is determined by the spread between the fully tax equivalent (FTE) yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities, as well as the relative amounts of such assets and liabilities. FTE net interest margin is determined by dividing FTE net interest income by average interest-earning assets. The following discussion should be read along with analysis of the "Average Balances, Yields and Rates" table on page 33.

Years ended December 31, 2010 and 2009. FTE net interest income for 2010 decreased to $15.9 million from $18.3 million in 2009, a $2.4 million, or 12.93%, decrease.

FTE interest income for 2010 was $30.3 million, a decrease of $6.0 million, or 16.51%, from $36.3 million in 2009. This decrease was a result of an overall decline in yields on average earning assets and a change in asset mix, specifically higher average federal funds sold and other short-term investment balances with lower yields. The overall yield on average earning assets decreased 59 basis points to 4.23% compared to 4.82% in 2009. Another factor contributing to lower interest income was a decrease in the average outstanding balance of loans. The average outstanding balance of loans has decreased by $90.1 million, or 14.81%, as a result of several larger loan payoffs, loan foreclosures, and lower loan origination volume due to the current economic environment which has resulted in lower interest income on loans. Average available federal funds sold and other short-term investments increased $32.6 million, or 47.75%. The increase in average federal funds sold and other short-term investments was a result of a decline in the average balance of loans. The average balance of available-for-sale securities increased $23.6 million, or 39.03%, as a result of the Company investing excess funds from loan collections into available-for-sale securities during the first half of 2010. As higher yielding securities of $115.0 million were called or matured during the year, they were invested at lower yields due to the current rate environment and the securities available for investing thus resulting in a decline in interest income by $118,000, or 6.07%.

Interest expense for 2010 was $14.4 million, a decrease of $3.6 million, or 20.15%, from $18.0 million in 2009. The decline in interest expense resulted from a decrease in the rate paid on average interest-bearing liabilities resulting from the impact of the lower market interest rates on interest bearing demand accounts, time deposits and long-term debt. The rate paid on total average interest-bearing liabilities decreased to 2.27% for the year ended December 31, 2010, compared to 2.75% in 2009, a decrease of 48 basis points. Total average interest-bearing liabilities decreased $22.0 million, or 3.37%, to $632.7 million at December 31, 2010, compared to $654.7 million at December 31, 2009. Average time deposits decreased $34.2 million, or 10.15%, as a result of the Company not renewing $30.9 million in brokered deposits as they matured. The Company is generating increased interest in performance checking product and time deposit promotions to replace our brokered funds with core deposits. In addition, as higher rate time deposits mature they were renewed at lower market rates. Average savings and money market deposits decreased $8.9 million, or 9.53%, as customers have moved their funds into interest-bearing demand accounts, specifically performance checking product as the product offers a more attractive rate. Average other interest-bearing liabilities decreased $4.8 million, or 20.57%, due to an overall decrease in repurchase agreement balances as customers have moved their funds into the Certificate of Deposit Account Registry Service ("CDARS") program. These decreases were offset by an increase in average interest-bearing demand deposits of $29.4 million, or 30.48%, as a result of growth experienced in balances of our performance checking product as it offers a higher market rate. While the balances in interest bearing demand deposit have increased 20.57%, the interest expense associated with these accounts have declined $246,000, or 9.50%, as a result of lowering the interest rate paid on the accounts in response to a decline in rates paid in the market. Interest expense for long-term debt is lower as a result of the Company's restructuring transaction of $42.5 million of its $82.5 million of Federal Home Loan Bank advances during the third quarter of 2010, thus lowering overall interest expense on these borrowings. In addition, the average balance of long-term debt decreased $3.5 million as a result of the Company paying off $5.3 million related to Blue Valley Building Corp. debt in June 2009.

Years ended December 31, 2009 and 2008. FTE net interest income for 2009 decreased to $18.1 million from $23.3 million in 2008, a $5.2 million, or 22.37%, decrease.

FTE interest income for 2009 was $36.3 million, a decrease of $9.0 million, or 19.82%, from $45.3 million in 2008. This decrease was primarily a result of an overall decrease in yields on average earning assets and a change in asset mix, specifically higher average federal funds sold and other short-term investment balances with lower yields. The overall yield on average earning assets decreased 132 basis points to 4.82% compared to 6.14% in 2008. This significant decrease resulted from the decrease in market interest rates as the Federal Reserve lowered the federal fund rate by 400 basis points in 2008, 175 of the 400 basis point decline occurred during the fourth quarter of 2008. Another factor contributing to the decrease was an increase in the average balance of non-accrual loans as compared to the same period in the prior year, due to a decline in the credit quality of the loan portfolio. The Company has experienced a decrease in the average balance of loans by $23.6 million, or 3.74%, as a result of several larger loan payoffs, an increase in loan foreclosures, and lower loan origination volume due to the current economic environment which has resulted in lower interest income on loans. Average available federal funds sold and other short-term investments increased $45.8 million, or 203.90%. The increase in average federal funds sold and other short-term investments was a result of a decline in the average balance of loans and a decrease in average available-for-sale securities of $9.4 million, or 13.51%, as $69.8 million in available-for-sale securities matured or were called as a result of the rate environment during the year. In addition, the Company sold $11.0 million in available-for-sale securities during the first quarter of 2009 to restructure the investment portfolio to better position the Company in the current rate environment. As our higher yielding available-for-sale securities were called or matured the securities available for investing had lower yields due to the current rate environment, thus resulting in lower interest income.

Interest expense for 2009 was $18.0 million, a decrease of $3.7 million, or 17.08%, from $21.7 million in 2008. The decrease resulted from a decrease in the rate paid on average interest-bearing liabilities resulting from the impact of the lower market interest rates on savings and money market deposits, time deposits, short-term debt and long-term debt. The rate paid on total average interest-bearing liabilities decreased to 2.75% for the year ended December 31, 2009, compared to 3.42% in 2008, a decrease of 67 basis points. Total average interest-bearing liabilities increased $20.7 million, or 3.27%, to $654.7 million at December 31, 2009, compared to $634.0 million at December 31, 2008. The increase was attributed to increases in time deposits, which increased $51.0 million, or 17.79%. Average time deposits increased as a result of the time deposit promotions during the fourth quarter of 2008 and first and third quarters of 2009. The increase in average interest-bearing liabilities was partially offset by a decrease in average short-term debt by $22.7 million, or 49.44%. This decrease was primarily the result of the Company paying off its operating line of credit of $15.0 million in December 2008 and an overall decrease in repurchase agreement balances as customers have moved funds into the CDARS program. Average interest-bearing liabilities were also offset by a decrease in average long-term debt by $7.4 million as a result of the Company paying off $3.5 million in FHLB advances in October 2008, $2.3 million related to Blue Valley Ban Corp.'s term note in December 2008 and $5.3 million related to Blue Valley Building Corp. debt in June 2009.

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

AVERAGE BALANCES, YIELDS AND RATES

	Year Ended December 31,								
	2010			2009			2008		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
					(In thousands)				
Assets									
Federal funds sold and other short-term investments	$ 100,929	$ 245	0.24%	$ 68,310	$ 144	0.21%	$ 22,478	$ 378	1.68 %
Available-for-sale securities – taxable	84,070	1,825	2.17	60,441	1,943	3.21	69,741	3,369	4.83
Available-for-sale securities – non-taxable (1)	–	–	–	–	–	–	141	9	6.38
Mortgage loans held for sale	6,761	302	4.47	9,875	477	4.83	6,157	340	5.52
Loans, net of unearned discount and fees (2)	518,010	27,709	5.35	608,080	33,519	5.51	631,673	40,905	6.48
Federal Home Loan and Federal Reserve Bank Stock	6,275	222	3.54	6,742	211	3.13	6,798	265	3.90
Total earning assets	716,045	30,303	4.23	753,448	36,294	4.82	736,988	45,266	6.14
Cash and due from banks – non-interest bearing	37,565			36,257			20,611		
Allowance for loan losses	(17,991)			(19,647)			(10,060)		
Premises and equipment, net	16,601			18,270			18,337		
Other assets	38,007			26,639			18,906		
Total assets	$ 790,227			$ 814,967			$ 784,782		
Liabilities and Stockholders' Equity									
Deposits-interest bearing:									
Interest-bearing demand accounts	$ 125,672	$ 2,343	1.86%	$ 96,315	$ 2,589	2.69%	$ 52,776	$ 1,394	2.64 %
Savings and money market deposits	84,745	438	0.52	93,672	490	0.52	137,295	2,402	1.75
Time deposits	303,130	7,746	2.56	337,363	10,742	3.18	286,404	12,139	4.24
Total interest-bearing deposits	513,547	10,527	2.05	527,350	13,821	2.62	476,475	15,935	3.34
Other interest-bearing liabilities	18,477	45	0.24	23,261	58	0.25	46,008	943	2.05
Long-term debt	100,644	3,791	3.77	104,096	4,108	3.95	111,490	4,813	4.32
Total interest-bearing liabilities	632,668	14,363	2.27	654,707	17,987	2.75	633,973	21,691	3.42
Non-interest bearing deposits	91,863			86,744			86,811		
Other liabilities	6,577			4,478			3,852		
Stockholders' equity	59,119			69,038			60,146		
Total liabilities and stockholders' equity	$ 790,227			$ 814,967			$ 784,782		
FTE net interest income/spread		$ 15,940	1.96%		$ 18,037	2.07%		$ 23,575	2.72 %
FTE net interest margin			2.23%			2.43%			3.20 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%. For the three years ended December 31, 2010, 2009 and 2008, the tax equivalency adjustment amounted to $0, $0, and $3,000, respectively.

(2) Includes average balances and income from loans on non-accrual status.

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

- changes in rate, reflecting changes in rate multiplied by the prior period volume; and

- changes in volume, reflecting changes in volume multiplied by the current period rate.

CHANGES IN INTEREST INCOME AND EXPENSE VOLUME AND RATE VARIANCES

	Year Ended December 31, (In thousands)					
	2010 Compared to 2009			2009 Compared to 2008		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Federal funds sold and other short-term investments	$ 21	$ 80	$ 101	$ (255)	$ 21	$ (234)
Available-for-sale securities – taxable	(631)	513	(118)	(1,128)	(298)	(1,426)
Available-for-sale securities – non-taxable (1)	–	–	–	–	(9)	(9)
Mortgage loans held for sale	(36)	(139)	(175)	(8)	145	137
Loans, net of unearned discount and fees	(987)	(4,823)	(5,810)	(6,088)	(1,298)	(7,386)
Federal Home Loan and Federal Reserve Bank Stock	28	(17)	11	(52)	(2)	(54)
Total interest income	(1,605)	(4,386)	(5,991)	(7,531)	(1,441)	(8,972)
Interest-bearing demand accounts	(794)	548	(246)	26	1,169	1,195
Savings and money market deposits	(3)	(49)	(52)	(1,686)	(226)	(1,912)
Time deposits	(2,115)	(881)	(2,996)	(1,963)	566	(1,397)
Other interest-bearing liabilities	(2)	(11)	(13)	(828)	(57)	(885)
Long-term debt	(185)	(132)	(317)	(411)	(294)	(705)
Total interest expense	(3,099)	(525)	(3,624)	(4,862)	1,158	(3,704)
Net interest income	$ 1,494	$ (3,861)	$ (2,367)	$ (2,669)	$ (2,599)	$ (5,268)

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

Provision for Loan Losses

The Company makes provisions for loan losses in amounts management deems necessary to maintain the allowance for loan losses at an appropriate level. The allowance for loan losses is based upon the analysis of several factors, including general economic conditions, analysis of impaired loans, general reserve factors, changes in loan mix, and current and historical charge-offs by loan type. Historical charge off information currently utilized is based on three year weighted average of net charge offs by loan type with more weight given to more current data due to the current economic environment. The Company's credit administration function performs monthly analyses on the loan portfolio to assess and report on risk levels, delinquencies, internal ranking system and overall credit exposure. Management and the Bank's Board of Directors review the allowance for loan losses monthly, considering such factors as current and projected economic conditions, loan growth, the composition of the loan portfolio, loan trends and classifications, and other factors. Economic conditions monitored include but are not limited to: Johnson County, KS unemployment rate; consumer confidence; foreclosure rates; vacant property rates;

stock market performance; inflation; and interest rates. The allowance for loan losses represents our best estimate of probable losses that have been incurred as of the respective balance sheet dates.

During the year ended December 31, 2010, we provided $3.1 million for loan losses, as compared to $21.6 million for the year ended December 31, 2009, a decrease of $18.5 million, or 85.69%. In 2010, the Company experienced a reduction in non-performing loans by $4.5 million, or 12.99%, a decline in net loan charge offs by $5.6 million, or 40.27%, and a reduction in past due loans greater than 30 days by $14.5 million, or 90.87%, and based on the analysis of the loan portfolio during the year, a $3.1 million provision for loan losses was deemed necessary. The significant provision for loan losses recorded in 2009 was a result of refining the Company's allowance for loan loss methodology to better reflect the inherent losses in the loan portfolio and to increase the general reserves on our performing loans to reflect the weakened economic conditions. Management believes they have identified the significant non-performing loans and will continue to aggressively pursue collection of these loans. If the adverse real estate and construction industry and general economy conditions are more prolonged than management anticipates and losses increase, we could experience higher than anticipated loan losses in the future.

During the year ended December 31, 2009, we provided $21.6 million for loan losses, as compared to $17.0 million for the year ended December 31, 2008, an increase of $4.6 million, or 27.08%. The significant provision for loan losses recorded during 2009 was a result of refining the Bank's allowance for loan loss methodology to better reflect the inherent losses in our loan portfolio and a result of worsening economic conditions in the economy in which we operate. A portion of the provision related to specific loans in our current portfolio, specifically in the commercial real estate, land development and real estate construction loans, and an increase in the general reserves on our performing loans to reflect the impact of the weakened economic conditions. The provision for loan losses attributed to refining the Bank's allowance for loan loss methodology and increasing the general reserves was approximately $9.2 million. Management assessed the loan portfolio, specifically the non-performing loans, on a credit by credit basis, to assess the reserve requirement and charged down a total of $15.1 million in non-performing loans during 2009. Of the $15.1 million charged down, 61% related to the real estate and construction market and 31% primarily to commercial loans (primarily two larger deteriorating commercial credits). Total impaired loans decreased 39.45% to $35.0 million at December 31, 2009, with a related reserve of $6.6 million, from $57.8 million at December 31, 2008, with a related reserve of $5.2 million. Net charge-offs of $14.0 million in 2009 were comparable to net charge-offs of $13.6 million in 2008.

The allowance for loan losses as a percentage of loans was 2.99% at December 31, 2010, compared to 3.61% in 2009 and 1.87% in 2008. The decrease in this percentage from December 31, 2009 was primarily due to the decline in non-performing loans, net loan charge-offs, past due loans and lower outstanding balance of loans at the end of the year.

Non-interest Income

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

NON-INTEREST INCOME

	Year Ended December 31,		
	2010	**2009**	**2008**
		(In thousands)	
Loans held for sale fee income	$ 3,506	$ 2,785	$ 2,136
NSF charges and service fees	1,062	1,472	1,641
Other service charges	2,021	1,778	1,658
Realized gains on available-for-sale securities	885	346	702
Gain on settlement of litigation	–	–	1,000
Other income	1,145	1,664	1,010
Total non-interest income	$ 8,619	$ 8,045	$ 8,147

Non-interest income increased from the prior year to $8.6 million for 2010 compared with $8.0 million for 2009, an increase of 7.13%. Loans held for sale fee income increased $721,000, or 25.89%, as compared to 2009.

The volume of closed residential mortgage loans decreased in 2010 to $135.9 million, from $196.4 million in 2009 and $136.8 million in 2008; however, the Company was able to secure more favorable terms for loans sold in the secondary market resulting in higher fee income realized. The increase in loans held for sale fee income was also a result of the fair value option for financial assets and financial liabilities for mortgage loans held for sale, which resulted in a net realized loss on mortgage loans held for sale of $33,000 in 2010 compared to a loss of $111,000 recorded in loans held for sale fee income during 2009. The fair value of mortgage loans held for sale will fluctuate with changes in the market rates offered on mortgage loans. Sustainability of the level of our loans held for sale fee income is primarily dependent upon the economy and interest rate environment, and secondarily dependent on our ability to develop new products and alternative delivery channels.

Other changes reflected in non-interest income include a decrease in NSF charges and service fees by $410,000, or 27.85%. The decrease was due to fewer overdraft items by our customers and a decrease in account service charges on commercial accounts as a result of a change in account service charges on these accounts. Other service charge income, which includes income from trust services, investment brokerage, merchant bankcard processing and debit card processing, increased by $243,000, or 13.67%. This increase was a result of income generated from signature based debit card transactions associated with our performance checking product. The Company has experienced growth of 14.91% in the performance checking product balances during the year. The increase in other service charge income was also attributed to an increase in fee income generated from our investment brokerage and trust services due to increased market activity. Realized gains on available-for-sale securities increased $539,000, or 155.78%, as compared to 2009 as a result of the Company selling $29.0 million in available-for-sale securities in 2010 compared to $11.0 million in securities sold during 2009. Securities were sold during 2010 to reduce the long-term maturity risk within the investment portfolio due to the current rate environment. Other income decreased $519,000, or 31.19%, as compared to 2009. The decrease was due to fewer gains realized on the sale of foreclosed assets held for sale by $296,000, or 40.60%. Other non-interest income also decreased due to the effect of recording the net fair value of certain mortgage loan-related commitments. The net fair value of mortgage loan-related commitments recorded for 2010 was a gain of $127,000 compared to a gain of $236,000 in 2009, a decline of $109,000, or 46.19%. The fair value on these commitments will fluctuate based on the market for mortgage loans. Future growth of other non-interest income categories is dependent on new product development and growth in our customer base.

Non-interest income for 2009 declined slightly from the prior year to $8.3 million, compared with $8.4 million for 2008, a decrease of 1.85%. In 2008, the Company realized $1.0 million as a result of a legal judgment. Excluding the $1.0 million legal judgment recorded in 2008, the Company experienced an increase in non-interest income in 2009 of $844,000, or 11.39%, as compared to 2008. Loans held for sale fee income increased $649,000, or 30.38%, as compared to 2008. This increase was attributed to an increase in mortgage loans held for sale originations and refinancing experienced as a result of historically low mortgage rates offered on loans during 2009. The volume of closed residential mortgage loans increased to $196.4 million in 2009, from $136.8 million in 2008. This increase was offset by the adoption of the fair value option for financial assets and financial liabilities for mortgage loans held for sale, which resulted in a net realized loss on mortgage loans held for sale of $111,000 recorded in loans held for sale fee income during 2009.

Other changes reflected in non-interest income in 2009 include a decrease in NSF charges and service fees by $169,000, or 10.30%. The decrease was due to fewer overdraft items by our customers and a decrease in account service charges on commercial accounts as a result of a slight increase in the earnings credit rate they receive on their accounts. Other service charge income, which includes income from trust services, investment brokerage, merchant bankcard processing and debit card processing, increased by $120,000, or 7.24%. This increase was a result of income generated from signature based debit card transactions associated with our performance checking product. The number of performance checking accounts increased by approximately 1,700 accounts, or 34.71%, during 2009. The increase in other service charge income was partially offset by a decrease in fee income generated from our investment brokerage services due to the volatility in the market. Realized gains on available-for-sale securities decreased $356,000, or 50.71%, as compared to 2008 as a result of the Company selling $11.0 million in available-for-sale securities in 2009 compared to $23.0 million in securities sold during 2008, as well as the market providing slightly higher gains in 2008 as compared to 2009. The securities were sold during the first quarter of 2009 to restructure the investment portfolio for the current rate environment. Other income increased $654,000, or 64.75%, as compared to 2008. The increase was the result of gains realized on the sale of foreclosed assets held for sale and rental income received on foreclosed assets held for sale. In addition, the increase in other income was a result of the Company recording the net fair value of certain mortgage loan-related commitments which resulted in an increase in other income of $236,000.

Non-interest Expense

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

NON-INTEREST EXPENSE

	Year Ended December 31,		
	2010	2009	2008
		(In thousands)	
Salaries and employee benefits	$ 11,753	$ 12,272	$ 12,500
Net occupancy expense	2,756	2,811	3,144
Goodwill impairment	–	–	4,821
Other operating expense	11,258	12,758	8,304
Total non-interest expenses	$ 25,767	$ 27,841	$ 28,769

Non-interest expense decreased 7.45% to $25.8 million during 2010, compared to $27.8 million in the prior year. The decrease in non-interest expense was attributed to a decrease in other operating expenses of $1.5 million, or 11.76%. Other operating expenses have decreased as a result of the Company recording a $734,000 provision for other real estate in 2010 compared to $1.4 million in 2009. The provision for other real estate was a result of the decline in real estate values. In addition, expenses related to other real estate owned decreased $525,000, or 21.02%, as a result of a reduction in the number of construction and rehab properties held for sale. Expenses related to foreclosed assets held for sale include insurance, appraisals, utilities, real estate property taxes, legal, repairs and maintenance, and associated loss on sale. The decrease in other operating expenses was partly offset by an increase in professional fees expense of $223,000, or 17.19%, as a result of the legal fees expense related loan workouts, routine litigation and foreclosed assets held for sale.

Other factors contributing to the change in non-interest expense include a decrease in salaries and employee benefits of $519,000, or 4.23%. The decrease was a result of staff restructuring in the third quarter of 2009 and lower commissions paid in 2010 on mortgage loans originated and sold in the secondary market as a result of decreased origination and refinancing volume and a change in the commission structure for each loan originated and sold. Net occupancy expense declined slightly by $55,000, or 1.96%, as a result of lower repairs and maintenance expense.

Non-interest expense for 2009 decreased 3.23% to $27.8 million, compared to $28.8 million in 2008 primarily due to the goodwill impairment charge of $4.8 million recognized during the fourth quarter of 2008. Non-interest expense, excluding the goodwill impairment charge, increased $3.9 million, or 16.26% from 2008 to 2009. The increase in non-interest expense, excluding the goodwill impairment, was primarily attributed to an increase in other operating expenses of $4.5 million, or 53.64%. Other operating expenses increased as a result of an increase in expenses related to foreclosed assets held for sale due to an increase in the number of properties foreclosed on and held for sale. Expenses related to foreclosed assets held for sale include insurance, appraisals, utilities, real estate property taxes, legal, repairs and maintenance, and associated loss on sale. The Company also recorded a $1.4 million provision for other real estate as a result of the continue decline in the real estate market and real estate values. In addition, the increase was the result of an increase in the FDIC insurance premium rates effective April 1, 2009 and the FDIC special assessment imposed on each FDIC-insured depository institution in order to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The expense paid by the Company for the special assessment was $364,000.

Income Taxes

Our income tax benefit during 2010 was $1.6 million, compared to our income tax benefit of $8.5 million during 2009, and income tax benefit of $3.8 million during 2008. The benefit in 2010 reflects our net loss for the

2010 fiscal year. Our consolidated effective income tax rates of 36%, 37% and 27% for the three years ended December 31, 2010, 2009, and 2008, respectively, varies from the statutory rate principally due to the effects of state income taxes and the effect of the write off of goodwill in 2008.

Financial Condition

Total assets for the Company at December 31, 2010 were $723.1 million, a decrease of $50.9 million, or 6.57%, compared to $774.0 million at December 31, 2009. Deposits were $541.2 million compared with $590.1 million at December 31, 2009, a decrease of $48.9 million, or 8.29%. Stockholders' equity was $57.2 million at December 31, 2010 compared with $60.6 million at December 31, 2009, a decrease of $3.4 million, or 5.67%.

Investment securities. The primary objectives of our investment portfolio are to secure the safety of principal, to provide adequate liquidity and to provide securities for use in pledging for public funds or repurchase agreements. Income is a secondary consideration. As a result, we generally do not invest in mortgage-backed securities and other higher yielding investments. As of December 31, 2010, all of the securities in our investment portfolio were classified as available-for-sale in order to provide us with an additional source of liquidity when necessary and as pledging requirements permit.

Total investment securities at December 31, 2010 were $63.6 million, a decrease of $9.1 million, or 12.53%, compared to $72.8 million at December 31, 2009. The Company purchased $134.9 million in available-for-sale securities to replace $115.0 million called or matured securities and to invest excess liquidity in higher yielding investments. In addition, the Company sold $29.0 million in available-for-sale securities during 2010 to reduce long term maturity risk within the investment portfolio due to the current rate environment.

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

INVESTMENT SECURITIES PORTFOLIO COMPOSITION

	At December 31, 2010	2009	2008
		(In thousands)	
U.S. government sponsored agency securities	$ 63,039	$ 72,163	$ 68,092
Equity and other securities	601	594	589
Total	$ 63,640	$ 72,757	$ 68,681

The following table sets forth the maturities, carrying value, and average yields for securities in our investment portfolio at December 31, 2010. Yields are presented on a tax equivalent basis. Expected maturities could differ from contractual maturities due to unscheduled repayments.

MATURITY OF INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities	
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield
					(In thousands)					
Available-For-Sale										
U.S. government sponsored agency	$ 3,016	1.00 %	$ 60,023	1.53 %	$ -	- %	$ -	- %	$ 63,039	1.51 %
Equity and other securities with no defined maturity	-	-	-	-	-	-	-	-	601	3.52
Total available-for-sale	$ 3,016	1.00 %	$ 60,023	1.53 %	$ -	- %	$ -	- %	$ 63,640	1.52 %

Loans Held for Sale. Mortgage loans held for sale at December 31, 2010 totaled $8.2 million, a decrease of $590,000, or 6.74%, compared to $8.8 million at December 31, 2009. The Company has elected to carry loans held for sale at fair value. The volume of loans held for sale originated during 2010 slowed as a result of a slow down in mortgage originations and refinancing due to the rate and economic environment. The Company did experience an increase in mortgage loans held for sale origination and refinance activity during the second half of 2010 as a result of a decline in mortgage rates during that period. The Company's principal funding source for mortgage loans held for sale are our core deposits. Core deposits are demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than $100,000 (excluding brokered deposits).

Loans. Our loan portfolio is a key source of income, and since our inception, has been a principal component of our revenue growth. Our loan portfolio reflects an emphasis on commercial, commercial real estate, construction and real estate lending. We also offer home equity, lease financing, and consumer loans. We emphasize commercial lending to professionals, businesses and their owners. Commercial loans and loans secured by commercial real estate accounted for 63.65%, 55.96% and 51.83% of our total loans at December 31, 2010, 2009 and 2008, respectively.

Loans were $492.5 million at December 31, 2010, a decrease of $61.6 million, or 11.13%, compared to December 31, 2009. Loans were $554.1 million at December 31, 2009, a decrease of $108.3 million, or 16.35%, compared to December 31, 2008. The Bank experienced decreases in the construction, residential real estate and lease categories during 2010. These decreases were attributable to several larger loans paying off, the foreclosure of approximately $10.4 million of foreclosed assets held for sale during 2010, and lower loan originations due to the current economic conditions and a decline in new construction within our market area.

The loan to deposit ratio decreased to 90.99%, compared to 93.90% at December 31, 2009, and 110.24% at December 31, 2008.

The following table sets forth the composition of the Company's loan portfolio by loan type as of the dates indicated. The amounts in the following table are shown net of discounts and other deductions.

	As of December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
Commercial	$ 144,181	29.28 %	$ 142,528	25.72 %	$ 172,647	26.06 %	$ 139,120	23.32 %	$ 110,849	20.97 %
Commercial real estate	169,253	34.37	167,581	30.24	170,697	25.77	150,655	25.25	126,952	24.02
Construction	64,641	13.13	113,077	20.41	182,933	27.62	188,229	31.55	171,709	32.49
Home equity	64,289	13.05	66,586	12.02	59,257	8.94	38,473	6.45	32,408	6.13
Residential real estate	36,903	7.49	45,014	8.12	43,695	6.60	37,511	6.29	34,988	6.63
Lease financing	5,530	1.12	11,259	2.03	18,927	2.86	19,724	3.30	18,512	3.50
Consumer	7,657	1.56	8,066	1.46	14,245	2.15	22,934	3.84	33,097	6.26
Total loans and leases	492,454	100.00 %	554,111	100.00 %	662,401	100.00 %	596,646	100.00 %	528,515	100.00 %
Less allowance for loan losses	14,731		20,000		12,368		8,982		6,106	
Loans, net	$ 477,723		$ 534,111		$ 650,033		$ 587,664		$ 522,409	

Collateral and Concentration. Management monitors concentrations of loans to individuals or businesses involved in a single industry over 25% of Tier 1 Capital and concentrations in excess of 10% of total loans. At December 31, 2010, 2009 and 2008, substantially all of our loans were collateralized with real estate, inventory, accounts receivable and/or other assets or were guaranteed by the Small Business Administration. Loans to individuals and businesses in the construction industry totaled $64.6 million, or 13.13%, of total loans, as of December 31, 2010. Of the $64.6 million, approximately $31.9 million were for new single and multi-family housing construction and $29.5 million were for land subdivisions. The builder and developer loan portfolio has been a consistent component of our loan portfolio over our history. However, new loan origination volume in this industry has slowed as a result of the decline in the real estate and construction industry. The Bank's lending limit under federal law to any one borrower was $23.0 million at December 31, 2010. The Bank's largest single borrower, net of participations, at December 31, 2010 had outstanding loans of $13.8 million.

The following table presents the aggregate maturities of loans in each major category of our loan portfolio as of December 31, 2010, excluding the allowance for loan and valuation losses. Additionally, the table presents the dollar amount of all loans due more than one year after December 31, 2010 which have predetermined interest rates (fixed) or adjustable interest rates (variable). Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments or the timing of loan sales.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

	As of December 31, 2010					
					More than One Year	
	Less than one year	One to five years	Over five years	Total	Fixed	Variable
	(In thousands)					
Commercial	$ 89,676	$ 43,507	$ 10,998	$ 144,181	$ 14,222	$ 40,283
Commercial Real Estate	42,812	116,848	9,593	169,253	95,728	30,713
Construction	46,905	17,736	-	64,641	3,273	14,463

Non-accrual loans included in the more than one year category for fixed rate loans were $1.2 million and for variable rate loans were $399,000.

Non-performing Assets

Non-performing assets consist primarily of loans past due 90 days or more, non-accrual loans and foreclosed real estate. Generally loans are placed on non-accrual status at 90 days past due and interest accrued to date is considered a loss, unless the loan is well-secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is generally accounted for on a cost recovery basis, meaning interest is not recognized until the past due balance has been collected. Loans may be returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth our non-performing assets as of the dates indicated:

NON-PERFORMING ASSETS

	As of December 31,				
	2010	2009	2008	2007	2006
			(In thousands)		
Commercial and all other loans:					
Past due 90 days or more	$ -	$ -	$ -	$ 680	$ 802
Non-accrual	2,896	1,327	2,143	60	381
Commercial real estate loans:					
Past due 90 days or more	-	-	-	-	4,951
Non-accrual	10,088	13,267	1,951	512	-
Construction loans:					
Past due 90 days or more	-	-	-	10,699	-
Non-accrual	10,417	11,205	32,110	10,115	136
Home equity loans:					
Past due 90 days or more	-	-	-	637	-
Non-accrual	1,211	344	488	-	-
Residential real estate loans:					
Past due 90 days or more	-	-	-	1,194	-
Non-accrual	5,553	8,404	6,129	189	410
Lease financing:					
Past due 90 days or more	-	-	-	11	186
Non-accrual	140	335	475	1,084	-
Consumer loans:					
Past due 90 days or more	-	-	-	13	13
Non-accrual	52	6	36	-	47
Debt securities and other assets (excluding other real estate owned and other repossessed assets):					
Past due 90 days or more	-	-	-	-	-
Non-accrual	-	-	-	-	-
Total non-performing loans	30,357	34,888	43,332	25,194	6,926
Foreclosed assets held for sale	20,144	19,434	4,783	2,523	717
Total non-performing assets	$ 50,501	$ 54,322	$ 48,115	$ 27,717	$ 7,643
Total non-performing loans to total loans	6.16 %	6.30 %	6.54 %	4.22 %	1.31 %
Total non-performing loans to total assets	4.20	4.51	5.31	3.42	1.00
Allowance for loan losses to non-performing loans	48.53	57.33	28.54	35.65	88.16
Non-performing assets to loans and foreclosed assets held for sale	9.85	9.47	7.21	4.63	1.44

Non-performing assets. Non-performing assets decreased to $50.5 million at December 31, 2010 from $54.3 million at December 31, 2009, an improvement of 7.03%. The decrease was attributed to a decline in non-performing commercial real estate loans by $3.2 million, non-performing residential real estate loans by $2.9 million, and non-performing construction loans by $788,000 from December 31, 2009. These decreases were primarily the result of several larger loan payoffs and the foreclosure on two single family builder portfolios and three other credit relationships. The decrease was partly offset by an increase in non-performing commercial loans by $1.6 million and non-performing home equity loans by $867,000. The increases were the result of the deterioration of two commercial relationships and a result of industry decline in the real estate market and general economy. If the real estate industry and general economy continue to decline, the Company could experience an increase in non-performing loans and foreclosed assets held for sale. We closely monitor non-performing credit relationships and our philosophy has been to value non-performing loans at their estimated collectible value and aggressively manage these situations. Foreclosed assets were $20.1 million as of December 31, 2010, compared to $19.4 million at December 31, 2009. The Company has sold $9.1 million in foreclosed assets and transferred $10.4 million in loans to foreclosed assets during 2010. The Company is actively marketing these properties and working to reduce the balance of foreclosed assets held for sale.

For the five years ended December 31, 2010, our average year-end ratio of non-performing loans to total loans was 4.91%. As of December 31, 2010, our ratio of non-performing loans to total loans was 6.16%, which was above our historical averages primarily due to the decline in the real estate market and its impact on our real estate and construction loan portfolio and the overall decline in the general economy. As of December 31, 2010, our ratio of allowance for loan losses to non-performing loans was 48.53%, compared to 57.33% at December 31, 2009. This decrease was a result of the decline in non-performing and past due loans over the prior year. The Bank continues to aggressively manage defaults in the loan portfolio. Management intends to continue to vigorously pursue collection of all charged-off loans.

The following table sets forth the amount of gross interest income that would have been recorded had the non-accrual loans in the Non-Performing Asset table on page 41 been current and accruing during the period and the amount of interest income on the non-performing loans included in net income for the year ended December 31, 2010.

		Year Ended December 31, 2010
		(In thousands)
Gross interest income (since date of non-accrual) if the loans had been current and accruing interest	$	1,742
Interest income reversed at time loan placed on non-accrual		235
Cash interest received during the period		88

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that we will not receive all scheduled payments of principal and interest due according to the contractual terms of the loan agreement. This includes loans that are delinquent 90 days or more, non-accrual loans, and certain other loans identified by management. Accrual of interest is discontinued, and interest accrued and unpaid is reversed against interest income, at the time the loans are delinquent 90 days or when management believes that full collection of principal and interest under the original loan contract is unlikely to occur. Interest on non-accrual loans is generally accounted for on a cost recovery basis, meaning interest is not recognized until the full past due principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired loans totaled $30.4 million at December 31, 2010, $35.0 million at December 31, 2009, and $57.8 million at December 31, 2008, with related allowances for loan losses of $4.3 million, $6.6 million, and $5.2 million, respectively.

Total interest income of $93,000, $497,000 and $5.4 million was recognized on average impaired loans of $34.5 million, $41.7 million and $36.7 million for 2010, 2009 and 2008, respectively. Included in this total is cash basis interest income of $88,000, $212,000 and $927,000 recognized on non-accrual impaired loans during 2010, 2009 and 2008, respectively.

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

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

SUMMARY OF LOAN LOSS EXPERIENCE AND RELATED INFORMATION

	As of and for the Year Ended December 31,				
	2010	2009	2008	2007	2006
			(In thousands)		
Balance at beginning of period	$ 20,000	$ 12,368	$ 8,982	$ 6,106	$ 6,704
Loans charged-off:					
Commercial loans	1,364	4,713	6,603	215	1,417
Commercial real estate loans	2,985	374	262	-	-
Construction loans	3,662	7,716	6,022	244	100
Home equity loans	387	653	127	-	8
Residential real estate loans	660	1,480	424	49	318
Lease financing	43	109	372	139	134
Consumer loans	7	58	112	16	83
Total loans charged-off	9,108	15,103	13,922	663	2,060
Recoveries:					
Commercial loans	390	259	223	294	117
Commercial real estate loans	171	123	-	1	-
Construction loans	123	592	24	-	-
Home equity loans	17	31	-	-	-
Residential real estate loans	11	72	1	6	47
Lease financing	14	21	29	9	32
Consumer loans	18	2	6	14	11
Total recoveries	744	1,100	283	324	207
Net loans charged-off	8,364	14,003	13,639	339	1,853
Allowance of acquired company	-	-	-	360	-
Provision for loan losses	3,095	21,635	17,025	2,855	1,255
Balance at end of period	$ 14,731	$ 20,000	$ 12,368	$ 8,982	$ 6,106
Loans outstanding:					
Average	$ 518,010	$ 608,080	$ 631,673	$ 563,224	$ 525,471
End of period	492,454	554,111	662,401	596,646	528,515
Ratio of allowance for loan losses to loans outstanding:					
Average	2.84 %	3.29 %	1.96 %	1.59 %	1.16 %
End of period	2.99	3.61	1.87	1.51	1.16
Ratio of net charge-offs to:					
Average loans	1.61	2.30	2.16	0.06	0.35
End of period loans	1.70	2.53	2.06	0.06	0.35

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

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,									
	2010		2009		2008		2007		2006	
					(In thousands)					
	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance
Commercial	$ 3,339	22.66 %	$ 3,630	18.15 %	$ 3,040	24.58 %	$ 1,790	19.93 %	$ 1,386	22.70 %
Commercial real estate	3,974	26.98	7,253	36.27	2,507	20.27	1,597	17.78	1,674	27.42
Construction	4,579	31.08	5,929	29.65	4,695	37.96	4,188	46.63	1,920	31.44
Home equity	1,262	8.57	1,061	5.30	409	3.31	247	2.75	197	3.23
Residential real estate	1,488	10.10	1,737	8.68	1,201	9.71	377	4.20	402	6.58
Lease financing	38	0.26	238	1.19	449	3.63	664	7.39	355	5.81
Consumer	51	0.35	152	0.76	67	0.54	119	1.32	172	2.82
Total	$ 14,731	100.00 %	$ 20,000	100.00 %	$ 12,368	100.00 %	$ 8,982	100.00 %	$ 6,106	100.00 %

Deposits. Deposits are the primary funding source for the Company. Deposits decreased by $48.9 million, or 8.29%, to $541.2 million for the year ended December 31, 2010, compared to $590.1 million for the year ended December 31, 2009. The decline in deposits was attributed to a decrease in time deposits by $72.9 million, or 24.73%, as a result of $30.9 million in brokered time deposits maturing and not renewed during 2010. In addition, the Company had $25.0 million in public funds in the Certificate of Deposit Account Registry Service ("CDARS") mature and not renew in September 2010. As these funds go out for bid, the Company has the opportunity to make a bid for the funds. In addition, during the third and fourth quarter of 2010 the Company had several higher rate time deposit promotions mature. As the renewal rate for these time deposits was much lower, many time deposits were not renewed. This decrease was offset by increases in demand deposits of $9.8 million, or 10.77%, and savings, NOW and money market deposits of $14.2 million, or 6.93%. The increase in savings, NOW and money market deposits was the result growth experienced in our performance checking product. The performance checking product has been attractive to our market as it pays a higher rate of interest to the customer on balances up to $25,000 as long as the customer has 12 signature based debit card transactions and at least one ACH or direct deposit each statement qualification cycle. The Bank realizes non-interest income from the signature based debit card transactions that when netted against the high rate paid to the customer, results in a very attractive cost of funds for the Bank. The performance checking product has enabled us to focus more on transaction based deposits that develop stronger customer relationships with the Bank versus time deposits that are principally rate driven. We believe this will yield a lower cost funding base over time and positively impact the value of our franchise. We have traditionally offered market-competitive rates on our deposit products and believe they provide us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, due to our ability to cross-sell additional services to these account holders. In addition, we continue to analyze alternative strategies to grow our deposits including opening additional banking centers in markets management considers underserved, offering new products, and obtaining brokered deposits as allowed by our Funds Management policy and as deemed prudent by management and our Board of Directors.

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

DEPOSITS

	Year Ended December 31,								
	2010			2009			2008		
				(In thousands)					
	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent Of Deposits	Weighted Average Rate
Demand	$ 100,975	18.65 %	— %	$ 91,158	15.45 %	— %	$ 86,020	14.32 %	— %
Savings	11,040	2.04	0.24	8,947	1.52	0.25	8,030	1.34	0.44
Interest-bearing demand	140,697	26.00	1.86	117,519	19.91	2.69	72,699	12.10	2.64
Money Market	66,670	12.32	0.56	77,779	13.18	0.55	99,282	16.52	1.83
Time Deposits	221,836	40.99	2.56	294,707	49.94	3.18	334,837	55.72	4.24
Total deposits	$ 541,218	100.00 %		$ 590,110	100.00 %		$ 600,868	100.00 %	

The following table sets forth the amount of our time deposits that are $100,000 and greater by time remaining until maturity as of December 31, 2010:

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

	As of December 31, 2010	
	Amount	Weighted Average Rate
	(In thousands)	
Three months or less	$ 24,699	1.29 %
Over three months through six months	7,923	1.35
Over six months through twelve months	27,249	2.01
Over twelve months	44,221	2.41
Total	$ 104,092	1.96 %

Liquidity and Capital Resources

Liquidity. Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of marketable assets, such as residential mortgage loans or a portfolio of SBA loans. Other sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of core deposits and liquid assets, and accessibility to the money and capital markets. The funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization. Core deposits, defined as demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than $100,000 (excluding brokered deposits), were 75.22% of our total deposits at December 31, 2010, and 69.76% and 62.06% of total deposits at December 31, 2009 and 2008, respectively. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are Bank customer relationships that management views as core deposits. If CDARS deposits under $100,000 placed in the CDARS program are added back, our core deposit ratio would be 77.63% at December 31, 2010, and 74.11% and 68.18% at December 31, 2009 and 2008, respectively. Generally, the Company's funding strategy is to fund loan growth with core deposits and utilize alternative sources of funds such as advances/borrowings from the Federal Home Loan Bank of Topeka ("FHLBank"), as well as the brokered CD market to provide for additional liquidity needs, as necessary, and take advantage of opportunities for lower costs.

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member institutions. The Bank, as a member of the FHLBank of Topeka, is required to acquire and hold shares of capital stock in the FHLBank of Topeka in an amount of 0.2% of our total assets as of December 31 of the preceding calendar year to meet the asset based stock requirement and 5.00% of our total outstanding FHLBank advances to meet the activity-based stock requirement. The Bank is currently in compliance with this requirement, with a $4.4 million investment in stock of the FHLBank of Topeka as of December 31, 2010. The Bank had $82.5 million in outstanding long-term advances from the FHLBank of Topeka at December 31, 2010 and 2009. If needed, FHLBank borrowings are also used to fund originations of mortgage loans held for sale. Advance availability with the FHLBank fluctuates depending on levels of available collateral and is determined daily with regards to mortgage loans held for sale and quarterly with regards to overall availability. Advances are made at the discretion of the FHLBank. At December 31, 2010, approximately $25.2 million was available but unused as the Bank was operating with cash and cash equivalents of approximately $114.8 million.

In addition, the Company uses other forms of short-term debt for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit (see Note 10 of the Consolidated Financial Statements). The Bank has a line of credit with the Federal Reserve Bank of Kansas City. The availability on the line of credit fluctuates depending on the level of available collateral, which includes commercial and commercial real estate loans. Availability on the line of credit at December 31, 2010 was $25.1 million. Advances are made at the discretion of the Federal Reserve Bank of Kansas City.

The Company also uses the brokered market as a source of liquidity. As of December 31, 2010, the Bank had approximately $45.9 million in brokered deposits, as compared to $76.9 million at December 31, 2009. The decrease in brokered deposits during 2010 was a result of brokered deposits maturing and not renewed during 2010. The Company has worked on replacing brokered funds with core deposits through time deposit promotions and generating increased interest in our performance checking product. In addition, the Bank is a member of the Certificate of Deposit Account Registry Service which effectively allows depositors to receive FDIC insurance on amounts larger than the FDIC insurance limit, which is $250,000. CDARS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS banks to ensure that full FDIC insurance coverage is gained on the entire deposit. Of the $45.9 million in brokered deposits, $29.0 million represented customer funds placed into the CDARS program. CDARS has enabled us to maintain our customer relationships as well as provide funding for the Company to maintain its liquidity position.

As a result of an agreement with the Federal Reserve Bank and the Office of the State Banking Commissioner of Kansas, prior regulatory approval is currently required prior to the payment of any dividends by the Bank. In prior years, the Company has relied on dividends from the Bank to assist in making debt service and dividend payments. The Company has also agreed at the request of the Federal Reserve Bank, to defer interest payments and not pay dividends on trust preferred securities or any of its equity securities without prior regulatory approval in an effort to preserve capital. As a result, the Company has deferred the quarterly payment of interest related to trust preferred securities of BVBC Capital Trust III since March 31, 2009 and the quarterly payment of interest related to trust preferred securities of BVBC Capital Trust II since April 24, 2009. In addition, at the request of the Federal Reserve Bank of Kansas City, the Company notified the Treasury of its intention to defer the quarterly dividend payment on the Preferred Shares due to the Treasury since May 15, 2009. The dividend payment due August 15, 2010 was the sixth dividend payment deferred by the Company. As part of the agreement with the Treasury, dividends compound if they accrue and are not paid. Failure by the Company to pay the Preferred Share dividend is not an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holders of the Preferred Shares the right to elect two directors to the Company’s Board of Directors. That right continues until the Company pays all dividends in arrears. At this time, the Treasury has not elected any directors to serve on the Company’s Board of Directors; however, they have assigned an observer to attend the Company’s board meetings. The Company has accrued for the interest and the dividends and has every intention to bring the obligation current as soon as possible. As of December 31, 2010, the Company has accrued $3.6 million for dividends and interest on outstanding trust preferred securities and Preferred Shares. There are other ancillary expenses related to legal and accounting fees which could be incurred without the ability of the Bank to make a dividend to the Company. The Company currently maintains cash balances sufficient to cover such ancillary expenses for several years based on historical expense amounts.

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

SHORT-TERM DEBT

	Amount outstanding at period end	Average amount outstanding during the period (1)	Maximum Outstanding At any Month end	Weighted average interest rate during the period	Weighted Average interest rate at period end
		(In thousands)			
At or for the year ended December 31, 2010:					
Federal Home Loan Bank borrowings	$ –	$ 3	$ –	0.26 %	– %
Federal Funds purchased	–	2	–	0.98	–
Federal Reserve Bank line of credit	–	–	–	–	–
Repurchase agreements and other interest bearing liabilities	18,748	18,472	22,071	0.24	0.24
Total	$ 18,748	$ 18,477		0.24	0.24
At or for the year ended December 31, 2009:					
Federal Home Loan Bank borrowings	$ –	$ 8	$ –	0.43 %	– %
Federal Funds purchased	–	8	–	1.20	–
Federal Reserve Bank line of credit	–	11	–	0.50	–
Repurchase agreements and other interest bearing liabilities	16,120	23,235	25,955	0.25	0.24
Total	$ 16,120	$ 23,262		0.25	0.24
At or for the year ended December 31, 2008:					
Federal Home Loan Bank borrowings	$ –	$ 1,730	$ 4,000	3.16 %	– %
Federal Funds purchased	–	5	–	1.97	–
JP Morgan Chase operating line of credit	–	10,385	15,000	4.94	–
Federal Reserve Bank line of credit	–	4	–	1.40	–
Repurchase agreements and other interest bearing liabilities	27,545	33,884	41,708	1.11	0.31
Total	$ 27,545	$ 46,008		2.05	0.31

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

Capital Resources. At December 31, 2010, our total stockholders’ equity was $57.2 million, and our equity to asset ratio was 7.91%. At December 31, 2009, our total stockholders’ equity was $60.6 million, and our equity to asset ratio was 7.83%.

The Federal Reserve Board’s risk-based guidelines establish a risk-adjusted ratio, relating capital to different categories of assets and off-balance sheet exposures, such as loan commitments and standby letters of credit. These guidelines place a strong emphasis on tangible stockholder’s equity as the core element of the capital base, with appropriate recognition of other components of capital. At December 31, 2010, our Tier 1 capital ratio was 11.39%, while our total risk-based capital ratio was 12.66%, both of which exceed the capital minimums established in the risk-based capital requirements.

Our risk-based capital ratios at December 31, 2010, 2009 and 2008 are presented below.

RISK-BASED CAPITAL

	December 31,		
	2010	**2009**	**2008**
		(In thousands)	
Tier 1 capital			
Stockholders' equity	$ 57,164	$ 60,603	$ 76,439
Intangible assets	(464)	(607)	(826)
Unrealized (appreciation) depreciation on available-for-sale securities and derivative instruments	(30)	(106)	(657)
Disallowed deferred tax asset	(9,684)	(8,435)	-
Trust preferred securities (1)	19,000	19,000	19,000
Total Tier 1 capital	65,986	70,455	93,956
Tier 2 capital			
Qualifying allowance for loan losses	7,334	7,969	9,381
Trust preferred securities (1)	-	-	-
Total Tier 2 capital	7,334	7,969	9,381
Total risk-based capital	$ 73,320	$ 78,424	$ 103,337
Risk weighted assets	$ 579,334	$ 625,475	747,504
Ratios at end of period			
Total capital to risk-weighted assets ratio	12.66 %	12.54 %	13.82 %
Tier 1 capital to average assets ratio (leverage ratio)	9.04 %	9.07 %	11.50 %
Tier 1 capital to risk-weighted assets ratio	11.39 %	11.26 %	12.57 %
Minimum guidelines			
Total capital to risk-weighted assets ratio	8.00 %	8.00 %	8.00 %
Tier 1 capital to average assets ratio (leverage ratio)	4.00 %	4.00 %	4.00 %
Tier 1 capital to risk-weighted assets ratio	4.00 %	4.00 %	4.00 %

(1) Federal Reserve guidelines for calculation of Tier 1 capital limits the amount of cumulative trust preferred securities which can be included in Tier 1 capital to 25% of total Tier 1 capital (Tier 1 capital before reduction of intangibles). All of the trust preferred securities balance of $19.0 million have been included as Tier 1 capital as of December 31, 2010, 2009 and 2008.

On December 5, 2008, the Company issued and sold to the United States Department of Treasury 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock, along with a ten year warrant to purchase 111,083 shares of the Company's common stock for $29.37 per share, for a total cash price of $21.75 million. The Transaction occurred pursuant to, and is governed by, the U.S. Treasury's Capital Purchase Plan which was designed to attract broad participation by institutions, to stabilize the financial system, and to increase lending for the benefit of the U.S. economy. In connection with the transaction, the Company entered into a letter agreement with the Treasury which includes a Securities Purchase Agreement-Standard Terms. The Preferred Shares carry a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% after five years. Dividends compound if they accrue and are not paid. During the first three years after the transaction, the Company may not redeem the Preferred Shares except in conjunction with a qualified equity offering meeting certain requirements. During the time that the Preferred Shares are outstanding, a number of restrictions apply to the Company, including, among others:

- The Preferred Shares have a senior rank. The Company is not free to issue other preferred stock that is senior to the Preferred Shares.

- Until the third anniversary of the sale of the Preferred Shares, unless the Preferred Shares have been redeemed in whole or the Treasury has transferred all of the shares to a non-affiliated third party, the Company may not declare or pay a common stock dividend in an amount greater than the amount of the last quarterly cash dividend per share declared prior to October 14, 2008, or repurchase common stock or other equity shares (subject to certain limited exceptions) without the Treasury's approval.

- If the Company were to pay a cash dividend in the future, any such dividend would have to be discontinued if a Preferred Share dividend were missed. Thereafter, dividends on common stock could be resumed only if all Preferred Share dividends in arrears were paid. Similar restrictions apply to the Company's ability to repurchase common stock if Preferred Share dividends are missed.

- Failure to pay the Preferred Share dividend is not an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holders of the Preferred Shares the right to elect two directors to the Company's Board of Directors. That right would continue until the Company pays all dividends in arrears. The dividend payment due on August 15, 2010 was the sixth dividend payment deferred by the Company.

- In conformity with requirements of the Securities Purchase Agreement-Standard Terms and Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the "EESA"), the Company and its subsidiary, Bank of Blue Valley, and each of its senior executive officers agreed to limit certain compensation, bonus, incentive and other benefits plans, arrangements, and policies with respect to the senior executive officers during the period that the Treasury owns any debt or equity securities acquired in connection with the Transaction. The applicable senior executive officers have entered into letter agreements with the Company consenting to the foregoing and have executed a waiver voluntarily waiving any claim against the Treasury or the Company for any changes to such senior executive officer's compensation or benefits that are required to comply with Section 111(b) of EESA.

The Warrant is exercisable immediately and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder, as well as potential registration rights upon written request from the Treasury. If requested by the Treasury, the Warrant (and the underlying common stock) may need to be listed on a national securities exchange. The Treasury has agreed not to exercise voting rights with respect to common shares it may acquire upon exercise of the Warrant. The number of common shares covered by the Warrant could have been reduced by up to one-half if the Company completed an equity offering meeting certain requirements by December 31, 2009. If the Preferred Shares are redeemed in whole, the Company has the right to purchase any common shares held by the Treasury at their fair market value at that time.

In addition to participation in the CPP, the Company had a common stock rights offering to holders of record of its common stock as of the close of business on November 10, 2008, of non-transferable subscription rights to purchase up to 334,000 shares of its common stock at a cash subscription price of $18.00 per share. The Company received gross cash proceeds of approximately $5.2 million in the rights offering with 288,943 shares of common stock being issued. The proceeds, less expenses incurred in the rights offering, were invested in the Bank to provide additional capital for the Bank.

Contractual Obligations

Our known contractual obligations outstanding as of December 31, 2010 are presented below.

		Payments due by Period				
	Total	Amortization	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
			(In thousands)			
Time deposit obligations	$ 221,836	$ –	$ 129,844	$ 61,724	$ 22,815	$ 7,453
Long-term debt obligations	102,088	–	–	20,000	27,500	54,588
Less: Deferred prepayment penalty on modification of Federal Home Loan Bank advances	(2,331)	(2,331)	–	–	–	–
Total obligations	$ 321,593	$ (2,331)	$ 129,844	$ 81,724	$ 50,315	$ 62,041

Inflation

The consolidated financial statements and related data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as inflation. Additional discussion of the impact of interest rate changes is included in Item 7A: Qualitative and Quantitative Disclosure About Market Risk. In addition, we disclose the estimated fair value of our financial instruments in Note 21 to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. They generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments extend over varying periods of time with the majority being disbursed within a one-year period. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2010, the Company had outstanding commitments to originate loans aggregating approximately $6.1 million.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 15 to 60 days and which are intended for sale to investors in the secondary market. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Total mortgage loans in the process of origination amounted to $1.7 million and mortgage loans held for sale amounted to $8.2 million at December 31, 2010. As a result, we had combined forward commitments to sell mortgage loans totaling approximately $9.9 million. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $6.9 million at December 31, 2010.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2010 unused lines of credit borrowings aggregated approximately $149.6 million.

Future Accounting Requirements

On July 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU amends FASB Accounting Standards Codification (ASC) Topic 310, *Receivables*, to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivable, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses.

Existing disclosures are amended to require an entity to provide a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method. For each disaggregated ending balance in the rollforward schedule, the related recorded investment in financing receivables must be disclosed. The disclosure would include the nonaccrual status of financing receivables by class of financing receivables, as well as the impaired financing receivables by class of financing receivables.

The amendments in the ASU also require an entity to provide the following additional disclosures about its financing receivables: (1) the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; (2) the aging of past due financing receivables at the end of the reporting period by class of financing receivables; (3) the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses; (4) the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; and (5) significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment.

For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Management has adopted this update and included the disclosures in the consolidated financial statements. The adoption of this update had no adverse impact on the Company's consolidated financial statements.

On January 19, 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring is being coordinated currently. The guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Management does not anticipate that this update will have a material impact on the Company's consolidated financial statements.

Regulatory Matters

The Board of Directors of the Company and the Bank, entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and relates primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on the past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank have also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank have complied with all terms of the written agreement.

Item 7A: Qualitative and Quantitative Disclosure About Market Risk

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

We use an asset/liability modeling system to analyze the Company's current sensitivity to instantaneous and permanent changes in interest rates. The system simulates the Company's asset and liability base and projects future net interest income results under several interest rate assumptions. This allows management to view how changes in interest rates will affect the spread between the yield received on assets and the cost of deposits and borrowed funds.

The asset/liability modeling system is also used to analyze the net economic value of equity at risk under instantaneous shifts in interest rates. The "net economic value of equity at risk" is defined as the market value of assets less the market value of liabilities plus/minus the market value of any off-balance sheet positions. By effectively looking at the present value of all future cash flows on or off the balance sheet, the net economic value of equity modeling takes a longer-term view of interest rate risk.

We strive to maintain a position such that current changes in interest rates will not affect net interest income or the economic value of equity by more than 5%, per 50 basis points. The following table sets forth the estimated percentage change in the Bank's net interest income over the next twelve month period and net economic value of equity at risk at December 31, 2010 based on the indicated instantaneous and permanent changes in interest rates.

Changes in Interest Rates	Net Interest Income (next 12 months)	Net Economic Value of Equity at Risk
200 basis point rise	9.13%	(4.62)%
100 basis point rise	3.10%	(2.74)%
Base Rate Scenario	-	-
25 basis point decline	(1.11) %	0.50%

The above table indicates that, at December 31, 2010, in the event of a sudden and sustained increase in prevailing market rates, our net interest income would be expected to increase. This is a result of an increase in our interest-bearing demand deposit balances, specifically our performance checking accounts. The increase in interest-bearing demand deposit balances provides the Company with greater control over the cost of its funding base and enables the Company to expand its net interest margin in an increasing rate environment. The Bank has placed floors on its loans over the last several years which would limit the decline in yield earned on the loan portfolio in a declining rate environment. Another consideration in a rising interest rate scenario is the impact of mortgage financing, which would likely decline, leading to lower loans held for sale fee income, though the impact is difficult to quantify or project. In the decreasing rate scenarios, the adjustable rate assets (loans) reprice to lower rates faster than our liabilities, but our liabilities – long-term FHLB advances and existing time deposits – would not decrease in rate as much as market rates. In addition, fixed rate loans might experience an increase in prepayments, further decreasing yields on earning assets and causing net income to decrease.

The above table also indicates that, at December 31, 2010, in the event of a sudden increase in prevailing market rates, the economic value of our equity would decrease. Given our current asset/liability position, a 100 and 200 basis point increase in interest rates will result in a lower economic value of our equity as the change in estimated gain on liabilities exceeds the change in estimated loss on assets in this interest rate scenario. Currently, under an increasing rate environment, the Company’s estimated market value of loans could decrease slightly due to fixed rate loans and investments with rates lower than market rates. These assets have a likelihood to remain until maturity in this rate environment. However, the estimated market value decrease in fixed rate loans and investment securities would be offset by time deposits unable to reprice to higher rates immediately and fixed-rate callable advances from FHLBank. The likelihood of advances being called in a rising rate environment increases resulting in advances being repriced prior to maturity. Given our current asset/liability position, a 25 basis point decline in interest rates will result in a slight increase in the economic value of our equity as the change in estimated gain on assets exceeds the change in estimated loss on liabilities in this interest rate scenario. Currently, under a falling rate environment, the Company's estimated market value of loans could increase as a result of fixed rate loans, net of possible prepayments. However, the estimated market value increase in fixed rate loans is offset by time deposits unable to reprice to lower rates immediately and fixed-rate callable advances from FHLBank. The likelihood of advances being called in a decreasing rate environment is diminished resulting in the advances existing until final maturity, which has the effect of lowering the economic value of equity.

The following table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2010, based on the information and assumptions set forth below.

INTEREST-RATE SENSITIVITY ANALYSIS

	Expected Maturity or Repricing Date *(In thousands)*						
	0-90 Days	**91-365 Days**	**1 year**	**1 to 2 years**	**2 to 5 years**	**Thereafter**	**Total**
Interest-Earning Assets:							
Fixed Rate Loans	$ 54,007	$ 36,662	$ 90,669	$ 35,589	$ 82,778	$ 14,485	$ 223,521
Average Interest Rate	5.66 %	6.76 %	6.10 %	7.11 %	6.27 %	6.18 %	6.33 %
Variable Rate Loans	255,476	18,562	274,038	1,454	1,603	-	277,095
Average Interest Rate	4.76 %	5.36 %	4.80 %	5.31 %	6.55 %	- %	4.82 %
Fixed Rate Investments	-	3,016	3,016	33,028	26,995	-	63,039
Average Interest Rate	- %	1.00 %	1.00 %	1.32 %	1.79 %	- %	1.51 %
Variable Rate Investments	601	-	601	-	-	-	601
Average Interest Rate	3.52 %	- %	3.52 %	- %	- %	- %	3.52 %
Interest Bearing Deposits	67,526	-	67,526	-	-	-	67,526
Average Interest Rate	0.19 %	- %	0.19 %	- %	- %	- %	0.19 %
Funds borrowed	10,000	-	10,000	-	-	-	10,000
Average Interest Rate	0.15 %	- %	0.15 %	- %	- %	- %	0.15 %
Total interest-earning assets	$ 387,610	$ 58,240	$ 445,850	$ 70,071	$ 111,376	$ 14,485	$ 641,782
Interest-Bearing Liabilities:							
Interest-bearing demand	$ 140,741	$ -	$ 140,741	$ -	$ -	$ -	$ 140,741
Average Interest Rate	1.81 %	- %	1.81 %	- %	- %	- %	1.81 %
Savings and money market	77,666	-	77,666	-	-	-	77,666
Average Interest Rate	0.50 %	- %	0.50 %	- %	- %	- %	0.50 %
Time deposits	56,471	73,390	129,861	41,905	42,626	7,444	221,836
Average Interest Rate	1.98 %	1.91 %	1.94 %	2.19 %	2.90 %	3.57 %	2.23 %
Funds borrowed	82,372	-	82,372	-	36,133	-	118,505
Average Interest Rate	2.12 %	- %	2.12 %	- %	3.44 %	- %	2.53 %
Total interest-bearing liabilities	$ 357,250	$ 73,390	$ 430,640	$ 41,905	$ 78,759	$ 7,444	$ 558,748
Cumulative:							
Rate sensitive assets (RSA)	$ 387,610	$ 445,850	$ 445,850	$ 515,921	$ 627,297	$ 641,782	$ 641,782
Rate sensitive liabilities (RSL)	357,250	430,640	430,640	472,545	551,304	558,748	558,748
GAP (GAP = RSA – RSL)	30,360	15,210	15,210	43,376	75,993	83,034	83,034
RSA/RSL	108.50 %	103.53 %	103.53 %	109.18 %	113.78 %	114.86 %	
RSA/Total assets	53.60	61.66	61.66	71.35	86.75	88.75	
RSL/Total assets	49.41	59.55	59.55	65.35	76.24	77.27	
GAP/Total assets	4.20	2.10	2.10	6.00	10.51	11.48	
GAP/RSA	7.83	3.41	3.41	8.41	12.11	12.94	

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

Disclosures about fair values of financial instruments, which reflect changes in market prices and rates, can be found in Note 21 to the consolidated financial statements included in this report.

Item 8: Financial Statements and Supplementary Data

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

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

No items are reportable.

Item 9A: Controls and Procedures

Management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2010. Based upon the evaluation, management concluded that the Company's disclosure controls and procedures are effective to ensure that all material information requiring disclosure in this annual report was made known to them in a timely manner.

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

Management's Report on Internal Control Over Financial Reporting:

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

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

Item 9B: Other Information

No items are reportable.

Part III

Item 10: Directors, Executive Officers and Corporate Governance

Information regarding the Company's directors and executive officers is included in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is hereby incorporated by reference.

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

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

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

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

Item 11: Executive Compensation

This information is included in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is hereby incorporated by reference.

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

This information is included in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is hereby incorporated by reference.

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

The Bank periodically makes loans to our executive officers and directors, the members of their immediate families and companies with which they are affiliated. As of December 31, 2010, the Bank had aggregate loans outstanding to such persons of approximately $20.5 million, which represented 35.95% of our stockholders' equity of $57.2 million on that date. These loans:

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

Information regarding Director Independence is included in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 14: Principal Accounting Fees and Services

This information is included in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders and is hereby incorporated by reference.

Part IV

Item 15: Exhibits, Financial Statement Schedules

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

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

(c) None

SIGNATURES

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

Date: March 21, 2011	By: /s/ Robert D. Regnier Robert D. Regnier, President, Chief Executive Officer and Director

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

Date: March 21, 2011	By: /s/ Robert D. Regnier Robert D. Regnier, President, Chief Executive Officer and Director (Principal Executive Officer)
Date: March 21, 2011	By: /s/ Mark A. Fortino Mark A. Fortino, Chief Financial Officer (Principal Financial and Accounting Officer)
Date: March 21, 2011	By: /s/ Donald H. Alexander Donald H. Alexander, Director
Date: March 21, 2011	By: /s/ Michael J. Brown Michael J. Brown, Director
Date: March 21, 2011	By: /s/ Robert D. Taylor Robert D. Taylor, Director

Exhibits

2.1	Agreement and Plan of Merger between Unison Bancorp, Inc., BVBC Acquisition I, Inc. and Blue Valley Ban Corp., dated as of November 2, 2006.*****
2.2	Acquisition Agreement and Plan of Merger among Northland National Bank, Blue Valley Ban Corp. and Western National Bank, dated as of March 2, 2007.*****
2.3	Purchase and Assumption Agreement among Northland National Bank, Bank of Blue Valley and Blue Valley Ban Corp., dated as of March 2, 2007.*****
3.1	Amended and Restated Articles of Incorporation of Blue Valley Ban Corp. *
3.2	Bylaws, as amended, of Blue Valley Ban Corp. *
3.3	Certificate of Designations dated December 3, 2008.******
4.1	1998 Equity Incentive Plan. *
4.2	1994 Stock Option Plan. *
4.3	Agreement as to Expenses and Liabilities. *
4.4	Indenture dated April 10, 2003, between Blue Valley Ban Corp. and Wilmington Trust Company **
4.5	Amended and Restated Declaration of Trust dated April 10, 2003 **
4.6	Guarantee Agreement dated April 10, 2003 **
4.7	Fee Agreement dated April 10, 2003 **
4.8	Specimen of Floating Rate Junior Subordinated Debt Security **
4.9	Junior Subordinated Indenture dated as of July 29, 2005 between Blue Valley Ban Corp. and Wilmington Trust Company***
4.10	Amended and Restated Declaration of Trust dated July 29, 2005***
4.11	Guarantee Agreement dated July 29, 2005***
4.12	Warrant to purchase Common Stock dated December 5, 2008.******
10.1	Promissory Note of Blue Valley Building dated July 15, 1994. *
10.2	Mortgage, Assignment of Leases and Rents and Security Agreement between Blue Valley Building and Businessmen's Assurance Company of America, dated July 15, 1994. *
10.3	Assignment of Leases and Rents between Blue Valley Building and Businessmen's Assurance Company of America dated July 15, 1994. *
10.4	Line of Credit Note with JP Morgan Chase dated June 15, 2005 ****
10.5	Term Note with JP Morgan Chase dated June 15, 2005 ****

10.6 Letter Agreement dated December 5, 2008, including Securities Purchase Agreement – Standard Terms, incorporated by reference herein, between Blue Valley Ban Corp. and the United States Department of Treasury.******

10.7 Amendment and Waiver by and among Bank of Blue Valley, Blue Valley Ban Corp. and its Senior Executive Officers.******

11.1 Statement regarding computation of per share earnings. Please see p. F-12.

21.1 Subsidiaries of Blue Valley Ban Corp.

23.3 Consent of BKD, LLP.

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

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

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

99.1 Certification of the Principal Executive Officer pursuant to Section 111 of the Emergency Economic Stabilization Act of 2008.

99.2 Certification of the Principal Financial Officer pursuant to Section 111 of the Emergency Economic Stabilization Act of 2008.

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

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

*** Filed with the SEC on August 3, 2005 as an Exhibit to Blue Valley Ban Corp.'s Current Report on Form 8-K. Exhibit incorporated herein by reference.

**** Filed with the SEC on March 27, 2006 as an Exhibit to Blue Valley Ban Corp.'s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

***** Filed with the SEC on March 29, 2007 as an Exhibit to Blue Valley Ban Corp.'s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

****** Filed with the SEC on December 8, 2008 as an Exhibit to Blue Valley Ban Corp.'s Current Report on Form 8-K. Exhibit incorporated herein by reference.

BLUE VALLEY BAN CORP.

DECEMBER 31, 2010, 2009 AND 2008

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Blue Valley Ban Corp. (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Valley Ban Corp. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 21, 2011

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009
(In thousands, except share data)

ASSETS

	2010	2009
Cash and due from banks	$ 37,255	$ 32,126
Interest bearing deposits in other financial institutions	67,526	64,858
Federal funds sold	10,000	–
Cash and cash equivalents	114,781	96,984
Available-for-sale securities	63,640	72,757
Mortgage loans held for sale, fair value	8,162	8,752
Loans, net of allowance for loan losses of $14,731 and $20,000 in 2010 and 2009, respectively	477,723	534,111
Premises and equipment, net	16,239	16,930
Foreclosed assets held for sale, net	20,144	19,435
Interest receivable	1,783	2,303
Deferred income taxes	10,976	9,480
Income taxes receivable	–	2,746
Prepaid expenses and other assets	2,026	2,803
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,163	7,059
Core deposit intangible asset, at amortized cost	464	607
Total assets	$ 723,101	$ 773,967

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
LIABILITIES		
Deposits		
Demand	$ 100,975	$ 91,158
Savings, NOW and money market	218,407	204,245
Time	221,836	294,707
Total deposits	541,218	590,110
Other interest-bearing liabilities	18,748	16,120
Long-term debt	99,757	102,088
Interest payable and other liabilities	6,214	5,046
Total liabilities	665,937	713,364
STOCKHOLDERS' EQUITY		
Capital stock		
Preferred stock, $1 par value, $1,000 liquidation preference Authorized 15,000,000 shares; issued and outstanding 2010 – 21,750 shares; 2009 – 21,750 shares	22	22
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2010 – 2,843,301 shares; 2009 – 2,817,650 shares	2,843	2,818
Additional paid-in capital	38,431	37,975
Retained earnings	15,838	19,685
Accumulated other comprehensive income, net of income tax of $20 in 2010 and $69 in 2009	30	103
Total stockholders' equity	57,164	60,603
Total liabilities and stockholders' equity	$ 723,101	$ 773,967

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(In thousands, except per share data)

	2010	2009	2008
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 28,011	$ 33,996	$ 41,245
Federal funds sold and other short-term investments	245	144	378
Available-for-sale securities	1,825	1,943	3,375
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	222	211	265
Total interest income	30,303	36,294	45,263
INTEREST EXPENSE			
Interest-bearing demand deposits	2,343	2,589	1,394
Savings and money market deposit accounts	438	490	2,402
Other time deposits	7,746	10,742	12,139
Federal funds purchased and other interest-bearing liabilities	45	58	375
Short-term debt	–	–	568
Long-term debt, net	3,791	4,108	4,813
Total interest expense	14,363	17,987	21,691
NET INTEREST INCOME	15,940	18,307	23,572
PROVISION FOR LOAN LOSSES	3,095	21,635	17,025
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	12,845	(3,328)	6,547
NON-INTEREST INCOME			
Loans held for sale fee income	3,506	2,785	2,136
Service fees	3,083	3,250	3,299
Realized gains on available-for-sale securities	885	346	702
Gain on settlement of litigation	–	–	1,000
Other income	1,145	1,664	1,010
Total non-interest income	8,619	8,045	8,147
NON-INTEREST EXPENSE			
Salaries and employee benefits	11,753	12,272	12,500
Net occupancy expense	2,756	2,811	3,144
Goodwill impairment	–	–	4,821
Other operating expense	11,258	12,758	8,304
Total non-interest expense	25,767	27,841	28,769
LOSS BEFORE INCOME TAXES	(4,303)	(23,124)	(14,075)
BENEFIT FOR INCOME TAXES	(1,561)	(8,514)	(3,824)
NET LOSS	(2,742)	(14,610)	(10,251)
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	1,105	1,045	–
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (3,847)	$ (15,655)	$ (10,251)
BASIC LOSS PER SHARE	$ (1.38)	$ (5.68)	$ (4.20)
DILUTED LOSS PER SHARE	$ (1.38)	$ (5.68)	$ (4.20)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(In thousands, except share data)

	Comprehensive Income (Loss)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2007		$ –	$ 2,440	$10,312	$45,592	$ 590	$58,934
Issuance of 21,750 shares of preferred stock		22		21,639			21,661
Issuance of stock warrants to purchase 111,083 shares of common stock				89			89
Issuance of 288,943 shares of common stock through rights offering			289	4,912			5,201
Issuance of 12,820 shares of restricted stock, net of forfeitures			13	296			309
Issuance of 15,100 shares of common stock through stock options exercised			15	305			320
Issuance of 3,587 shares of common stock for the employee stock purchase plan			3	112			115
Net loss	$(10,251)				(10,251)		(10,251)
Accretion of discount on preferred shares				1	(1)		–
Change in derivative financial instrument, net of income taxes (credit) of $(4)	(6)					(6)	(6)
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $44	67					67	67
	$(10,190)						
BALANCE, DECEMBER 31, 2008		$ 22	$ 2,760	$37,666	$35,340	$ 651	$76,439
Issuance of 55,050 shares of restricted stock, net of forfeitures			55	232			287
Issuance of 2,495 shares of common stock for the employee stock purchase plan			3	59			62
Net loss	(14,610)				(14,610)		(14,610)
Accretion of discount on preferred shares				18	(18)		–
Dividend on preferred shares					(1,027)		(1,027)
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(365)	(548)					(548)	(548)
	$(15,158)						
BALANCE, DECEMBER 31, 2009		$ 22	$ 2,818	$37,975	$19,685	$ 103	$60,603
Issuance of 22,186 shares of restricted stock, net of forfeitures			22	406			428
Issuance of 3,465 shares of common stock for the employee stock purchase plan			3	32			35
Net loss	(2,742)				(2,742)		(2,742)
Accretion of discount on preferred shares				18	(18)		–
Dividend on preferred shares					(1,087)		(1,087)
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(49)	(73)					(73)	(73)
	$ (2,815)						
BALANCE, DECEMBER 31, 2010		$ 22	$ 2,843	$38,431	$15,838	$ 30	$57,164

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(In thousands)

	2010	2009	2008
OPERATING ACTIVITIES			
Net loss	$ (2,742)	$ (14,610)	$ (10,251)
Adjustments to reconcile net loss to net cash flow			
From operating activities:			
Depreciation and amortization	1,298	1,417	1,552
Amortization (accretion) of premiums and discounts on available-for-sale securities	(73)	10	(26)
Provision for loan losses	3,095	21,635	17,025
Provision for losses on foreclosed assets held for sale	734	1,363	—
Goodwill impairment	—	—	4,821
Deferred income taxes	(1,561)	(6,126)	(1,223)
Stock dividends on Federal Home Loan Bank (FHLB) stock	(104)	(101)	(188)
Net realized gains on available-for-sale securities	(885)	(346)	(702)
Net (gain) loss on sale of foreclosed assets	(168)	(212)	46
Restricted stock earned and forfeited	428	287	309
Compensation expense related to the Employee Stock Purchase Plan	3	7	10
Originations of loans held for sale	(135,930)	(196,374)	(136,798)
Proceeds from the sale of loans held for sale	136,487	195,668	139,619
Realized loss on loans held for sale fair value adjustment	33	111	—
Proceeds from settlement of litigation	—	—	200
Gain on settlement of litigation	—	—	(1,000)
Changes in:			
Interest receivable	520	970	1,348
Net fair value of loan related commitments	(128)	(236)	—
Income taxes receivable	2,746	—	—
Prepaid expenses and other assets	981	839	(3,591)
Interest payable and other liabilities	116	913	(1,835)
Net cash provided by operating activities	4,850	5,215	9,316
INVESTING ACTIVITIES			
Net change in loans	42,909	57,854	(86,958)
Proceeds from sales of loan participations	32	4,199	1,514
Purchase of premises and equipment	(226)	(136)	(364)
Proceeds from sale of premises and equipment	—	—	16
Proceeds from the sale of foreclosed assets, net of expenses	9,077	16,431	3,744
Purchases of available-for-sale securities	(134,932)	(85,749)	(48,100)
Proceeds from maturities of available-for-sale securities	115,000	69,750	33,210
Proceeds from sales of available-for-sale securities	29,885	11,346	23,702
Purchases of Federal Home Loan Bank and Federal Reserve Bank stock	—	(521)	(439)
Proceeds from the redemption of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	—	1,451	—
Net cash provided by (used in) investing activities	61,745	74,625	(73,675)
FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	23,979	29,372	(19,882)
Net increase (decrease) in time deposits	(72,871)	(40,130)	84,380
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	2,628	(11,425)	(1,491)
Net decrease in short-term debt	—	—	(25,000)
Repayments of long-term debt	(42,500)	(5,396)	(13,322)
Proceeds from long-term debt	42,500	—	40,000
Prepayment penalty on modification of FHLB advances	(2,569)	—	—
Discount on repayment of long-term debt	—	(100)	—
Proceeds from sale of preferred stock and warrants through the Capital Purchase Plan	—	—	21,750
Proceeds from sale of common stock through rights offering	—	—	5,201
Dividends paid on preferred stock	—	(212)	—
Dividends paid on common stock	—	—	(878)
Net proceeds from the sale of additional stock through Employee Stock Purchase Plan (ESPP) and stock options exercised	35	62	435
Net cash provided by (used in) financing activities	(48,798)	(27,829)	91,193

(Continued)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(In thousands)

	2010	2009	2008
Increase in cash and cash equivalents	17,797	52,011	26,834
Cash and cash equivalents, beginning of year	96,984	44,973	18,139
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 114,781	$ 96,984	$ 44,973
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash paid during the year for:			
Interest	$ 14,372	$ 18,057	$ 21,382
Income taxes, net of refunds	$ (2,750)	$ (3,496)	$ 1,667
Noncash investing and financing activities:			
Transfer of loans to foreclosed property	$ 10,352	$ 32,234	$ 6,050
Restricted stock issued	$ 22	$ 55	$ 13
Preferred dividends accrued but not paid	$ 1,087	$ 815	$ –

See Notes to Consolidated Financial Statements

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

Nature of Operations

The Company is a holding company for Bank of Blue Valley (the "Bank"), BVBC Capital Trust II and BVBC Capital Trust III through 100% ownership of each. Blue Valley Building Corp. was a 100% owned subsidiary of the Company until March 31, 2009. On March 31, 2009, the Company contributed 100% of Blue Valley Building Corp. to the Bank. In addition, the Company owned 49% of Homeland Title, LLC until it closed its operations in March 2009.

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

Blue Valley Building Corp. is primarily engaged in leasing real property at its facilities in Overland Park and Leawood, Kansas. As of March 31, 2009, Blue Valley Building Corp. was owned 100% by the Bank of Blue Valley.

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

Homeland Title, LLC was a company providing title and settlement services and is no longer in operation.

Operating Segment

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

Principles of Consolidation

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

Use of Estimates

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

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

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

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

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010, cash equivalents consisted primarily of federal funds sold. The Company did not have an investment in federal funds sold at December 31, 2009.

One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to $250,000, effective July 31, 2010. At December 31, 2010, the Company's cash accounts exceeded federally insured limits by approximately $30,286,000.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2010 was $1,159,000 and the deposit balance held at the Federal Reserve Bank on December 31, 2010 was $67,111,000.

Investment in Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are recorded on trade date and included in non-interest income. Unrealized gains and losses are recorded, net of related income tax effects, in accumulated other comprehensive income. Purchase premiums and discounts are amortized and accreted, respectively, to interest income using a method which approximates the level-yield method over the terms of the securities. Interest on investments in debt securities is included in income when earned.

Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment (ASC 320-10). When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company did not have any securities with other-than-temporary impairment at December 31, 2010.

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

Prior to the adoption of the recent accounting guidance on April 1, 2009, management considered, in determining whether other-than-temporary impairment exists, (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

Mortgage Loans Held for Sale

Effective April 1, 2009, the Company adopted Statement of Financial Account Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, which was subsequently incorporated into the FASB Accounting Standards Codification (ASC) in Topic 825, to account for mortgage loans originated after April 1, 2009. Mortgage loans originated and intended for sale in the secondary market are carried at fair value in the aggregate. Net unrealized gains and losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gain and losses, net of discounts collected or paid, commitment fees paid and considering a normal servicing rate, are recognized in non-interest income upon sale of the loan.

Prior to April 1, 2009, mortgage loans held for sale were carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value were recognized as a charge to earnings at the time the decline in value occurred. Gains and losses resulting from sales of mortgage loans were recognized when the respective loans were sold to investors. Gains and losses were determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid, commitment fees paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale were recognized as income or expense when the loans were sold or when it was evident that the commitment will not be used.

Loans

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

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

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a monthly basis by management and is based on management's periodic review of the collectibility of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company computes its allowance by assigning specific reserves to impaired loans, and then applies general reserve factors to the rest of the loan portfolio. The general reserve covers non classified loans and is based on historical charge off experience, expected loss given default derived from Company's internal risk rating process and current and projected economic conditions and factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Furniture and equipment	3-10 years

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

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are other income and other operating expense.

Federal Home Loan Bank Stock, Federal Reserve Bank Stock and Other Securities

Federal Home Loan Bank and Federal Reserve Bank stock are required for institutions that are members of the Federal Home Loan Bank and Federal Reserve systems. The required investment in the stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Derivatives

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (*ASC 815, Derivatives and Hedging*). Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other income. The Company estimates the fair value using a valuation model which considers differences between quoted prices for loans with similar characteristics in the secondary market and the committed rates.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under the derivatives and hedging accounting guidance (*ASC 815*), as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses best efforts forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan commitments are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other income. The Company estimates the fair value of its forward loan commitments using a methodology similar to that used for derivative loan commitments.

Goodwill

Goodwill impairment assessment was performed annually. When the implied fair value of goodwill is lower than its carrying amount an impairment of goodwill is indicated and goodwill is written down to its implied fair value in the period it is identified. Subsequent increases in goodwill value are not recognized in the financial statements. As of December 31, 2008, it was determined that the fair value of the Company’s goodwill was lower than its carrying amount. Accordingly, the Company recognized a goodwill impairment charge of $4,821,000. Management believes this impairment was primarily attributable to the continued volatility throughout the financial services industry and the effect such volatility had on market prices of financial services stocks, weakened economic conditions, decline in the credit quality of the real estate and construction portfolio, and the operating loss recorded by the Company in 2008.

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

Core Deposit Intangible Assets

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

Fee Income

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Transfers between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period end date.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

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

The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiaries. The Company is generally not subject to federal, state and local examination by tax authorities for years prior to 2007.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and accumulated other comprehensive income (loss), net of applicable income taxes. Accumulated other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized and realized gains and losses on derivative financial instruments. Net unrealized gain or loss on available-for-sale securities, net of income taxes, included in accumulated other comprehensive income was $30,000 and $103,000, respectively, at December 31, 2010 and 2009.

Reclassification

Certain reclassifications have been made to the 2009 and 2008 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on net income.

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

Earnings (Loss) Per Share

Basic earnings (loss) per share represents income available to common stockholders divided by the weighted average number of shares outstanding during each year. Diluted earnings (loss) per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The computation of per share earnings is as follows:

	2010	2009	2008
	(In thousands, except share and per share data)		
Net loss	$ (2,742)	$ (14,610)	$ (10,251)
Dividends and accretion on preferred stock	(1,105)	(1,045)	–
Net loss available to common shareholders	$ (3,847)	$ (15,655)	$ (10,251)
Average common shares outstanding	2,773,039	2,754,419	2,438,809
Average common share stock options outstanding and restricted stock (B)	15,115	8,184	21,236
Average diluted common shares (B)	2,788,154	2,762,603	2,460,045
Basic loss per share	($1.38)	($5.68)	($4.20)
Diluted loss per share (A)	($1.38)	($5.68)	($4.20)

(A) No shares of stock options, restricted stock or warrants were included in the computation of diluted earnings per share for any period there was a loss.

(B) Warrants to purchase 111,083 shares of common stock at an exercise price of $29.37 per share were outstanding at December 31, 2010, 2009 and 2008, but were not included in the computation of diluted earnings per share because the warrant’s exercise price was greater than the average market price of the common shares, thus making the warrants anti-dilutive. Stock options to purchase 24,375 and 33,875 shares of common stock were outstanding at December 31, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because the option’s exercise price was greater than the average market price of the common shares, thus making the options anti-dilutive.

Income available for common stockholders will be reduced by dividends declared in the period on preferred stock (whether or not they are paid) and the accretion on the warrants.

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

Future Accounting Requirements

On July 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU amends FASB Accounting Standards Codification (ASC) Topic 310, *Receivables*, to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivable, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses.

Existing disclosures are amended to require an entity to provide a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method. For each disaggregated ending balance in the rollforward schedule, the related recorded investment in financing receivables must be disclosed. The disclosure would include the nonaccrual status of financing receivables by class of financing receivables, as well as the impaired financing receivables by class of financing receivables.

The amendments in the ASU also require an entity to provide the following additional disclosures about its financing receivables: (1) the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; (2) the aging of past due financing receivables at the end of the reporting period by class of financing receivables; (3) the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses; (4) the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; and (5) significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment.

For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Management has adopted this update and included the disclosure in the consolidated financial statements. The adoption of this update had no adverse impact on the Company's consolidated financial statements.

On January 19, 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.* The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring is being coordinated currently. The guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Management does not anticipate that this update will have a material impact on the Company's consolidated financial statements.

NOTE 2: AVAILABLE-FOR-SALE SECURITIES

The amortized cost and estimated fair value, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Government sponsored agencies	$ 62,990	$ 228	$ (179)	$ 63,039
Equity and other securities	600	1	–	601
	$ 63,590	$ 229	$ (179)	$ 63,640

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Government sponsored agencies	$ 71,984	$ 338	$ (159)	$ 72,163
Equity and other securities	600	–	(6)	594
	$ 72,584	$ 338	$ (165)	$ 72,757

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2010, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$ 3,000	$ 3,016
Due after one year through five years	59,990	60,023
Due after five years through ten years	–	–
Due after ten years	–	–
Total	62,990	63,039
Equity and other securities	600	601
	$ 63,590	$ 63,640

The book value and estimated fair value of securities pledged as collateral to secure public deposits amounted to $5,002,000 and $5,013,000 at December 31, 2010 and $16,995,000 and $17,117,000 at December 31, 2009.

The Company enters into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term debt and are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are book-entry securities. During the period, securities held in safekeeping were pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2010, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity.

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

Information on sales of securities under agreements to repurchase is as follows:

	2010	2009
	(In thousands)	
Balance as of December 31	$17,674	$15,417
Carrying value of securities pledged to secure agreements to repurchases at December 31	$27,031	$29,182
Average balance during the year of securities sold under agreements to repurchase	$17,922	$22,546
Maximum amount outstanding at any month-end during the year	$21,935	$25,189

Gross gains of $885,000, $346,000, and $702,000 were realized in 2010, 2009 and 2008, respectively, and no gross losses were realized in 2010, 2009 and 2008, respectively, from sales of available-for-sale securities.

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2010 and 2009, was $29,813,000 and $20,426,000, which is approximately 46.8% and 28.0%, respectively, of the Company's available-for-sale investment portfolio. These declines in fair value resulted primarily from recent increases in market interest rates. Based on evaluation of available information and evidence, particularly recent volatility in market yields on debt securities, management believes the declines in fair value for these securities are temporary.

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

	December 31, 2010 *(In thousands)*					
	Less than 12 Months		12 Months or More		Total	Total
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored agencies	$ 29,813	$ 179	$ –	$ –	$ 29,813	$ 179
Equity and other securities	–	–	–	–	–	–
Total temporarily impaired securities	$ 29,813	$ 179	$ –	$ –	$ 29,813	$ 179

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

	December 31, 2009 *(In thousands)*					
	Less than 12 Months		12 Months or More		Total	Total
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored agencies	$ 19,832	$ 159	$ –	$ –	$ 19,832	$ 159
Equity and other securities	594	6	–	–	594	6
Total temporarily impaired securities	$ 20,426	$ 165	$ –	$ –	$ 20,426	$ 165

The unrealized losses on the Company's investments in direct obligations of U.S. government sponsored agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2010 and 2009 include the following:

	2010	2009
	(In thousands)	
Commercial loans	$ 144,181	$ 142,528
Commercial real estate loans	169,253	167,581
Construction loans	64,641	113,077
Home equity loans	64,289	66,586
Residential real estate loans	36,903	45,014
Lease financing	5,530	11,259
Consumer loans	7,657	8,066
Total loans	492,454	554,111
Less: Allowance for loan losses	14,731	20,000
Net loans	$ 477,723	$ 534,111

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

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment methods as of December 31, 2010 and 2009:

	December 31, 2010							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 3,630	$ 7,253	$ 5,929	$ 1,061	$ 1,737	$ 238	$ 152	$ 20,000
Provision charged to expense	683	(465)	2,189	571	400	(171)	(112)	3,095
Losses charged off	(1,364)	(2,985)	(3,662)	(387)	(660)	(43)	(7)	(9,108)
Recoveries	390	171	123	17	11	14	18	744
Balance, end of year	$ 3,339	$ 3,974	$ 4,579	$ 1,262	$ 1,488	$ 38	$ 51	$ 14,731
Ending balance: individually evaluated for impairment	$ 1,832	$ 2,617	$ 3,647	$ 576	$ 912	$ 5	$ 2	$ 9,591
Ending balance: collectively evaluated for impairment	$ 1,507	$ 1,357	$ 932	$ 686	$ 576	$ 33	$ 49	$ 5,140
Loans:								
Ending balance	$ 144,181	$ 169,253	$ 64,641	$ 64,289	$ 36,903	$ 5,530	$ 7,657	$ 492,454
Ending balance: individually evaluated for impairment	$ 26,444	$ 26,704	$ 35,521	$ 3,544	$ 8,691	$ 983	$ 64	$ 101,951
Ending balance: collectively evaluated for impairment	$ 117,737	$ 142,549	$ 29,120	$ 60,745	$ 28,212	$ 4,547	$ 7,593	$ 390,503

	December 31, 2009							
	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 3,040	$ 2,507	$ 4,695	$ 409	$ 1,201	$ 449	$ 67	$ 12,368
Provision charged to expense	5,044	4,997	8,358	1,274	1,944	(123)	141	21,635
Losses charged off	(4,713)	(374)	(7,716)	(653)	(1,480)	(109)	(58)	(15,103)
Recoveries	259	123	592	31	72	21	2	1,100
Balance, end of year	$ 3,630	$ 7,253	$ 5,929	$ 1,061	$ 1,737	$ 238	$ 152	$ 20,000
Ending balance: individually evaluated for impairment	$ 1,468	$ 5,773	$ 3,254	$ 209	$ 1,249	$ 16	$ 21	$ 11,990
Ending balance: collectively evaluated for impairment	$ 2,162	$ 1,480	$ 2,675	$ 852	$ 488	$ 222	$ 131	$ 8,010
Loans:								
Ending balance	$ 142,528	$ 167,581	$ 113,077	$ 66,586	$ 45,014	$ 11,259	$ 8,066	$ 554,111
Ending balance: individually evaluated for impairment	$ 18,260	$ 28,464	$ 53,934	$ 2,860	$ 14,660	$ 1,331	$ 160	$ 119,669
Ending balance: collectively evaluated for impairment	$ 124,268	$ 139,117	$ 59,143	$ 63,726	$ 30,354	$ 9,928	$ 7,906	$ 434,442

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

The following table presents the credit risk profile of the Company's loan portfolio based on the rating category and payment activity as of December 31, 2010 and 2009:

	2010			2009		
(In thousands)	Pass	Classified	Total	Pass	Classified	Total
Commercial	$ 133,603	$ 10,578	$ 144,181	$ 129,596	$ 12,932	$ 142,528
Commercial real estate	148,892	20,361	169,253	143,050	24,531	167,581
Construction	35,896	28,745	64,641	65,962	47,115	113,077
Home equity	61,442	2,847	64,289	64,496	2,090	66,586
Residential real estate	30,115	6,788	36,903	32,293	12,721	45,014
Lease financing	5,048	482	5,530	10,918	341	11,259
Consumer	7,605	52	7,657	7,958	108	8,066
Total	$ 422,601	$ 69,853	$ 492,454	$ 454,273	$ 99,838	$ 554,111

The following table presents the Company's loan portfolio aging analysis as of December 31, 2010 and 2009:

	December 31, 2010						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 241	$ 307	$ 2,648	$ 3,196	$ 140,985	$ 144,181	$ –
Commercial real estate	–	–	1,247	1,247	168,006	169,253	–
Construction	46	–	7,936	7,982	56,659	64,641	–
Home equity	200	–	964	1,164	63,125	64,289	–
Residential real estate	265	322	3,741	4,328	32,575	36,903	–
Lease financing	20	51	114	185	5,345	5,530	–
Consumer	4	–	–	4	7,653	7,657	–
Total	$ 776	$ 680	$ 16,650	$ 18,106	$ 474,348	$ 492,454	$ –

	December 31, 2009						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 1,308	$ 25	$ 1,223	$ 2,556	$ 139,972	$ 142,528	$ –
Commercial real estate	968	–	9,684	10,652	156,929	167,581	–
Construction	10,702	918	7,007	18,627	94,450	113,077	–
Home equity	45	–	318	363	66,223	66,586	–
Residential real estate	1,164	684	6,688	8,536	36,478	45,014	–
Lease financing	55	–	254	309	10,950	11,259	–
Consumer	27	59	6	92	7,974	8,066	–
Total	$ 14,269	$ 1,686	$ 25,180	$ 41,135	$ 512,976	$ 554,111	$ –

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans include non-performing loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

The following table presents impaired loans for the years ended December 31, 2010 and 2009:

	December 31, 2010				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 186	$ 281	$ –	$ 536	$ 24
Commercial real estate	2,066	2,686	–	1,802	37
Construction	2,423	2,423	–	2,601	–
Home equity	585	587	–	102	–
Residential real estate	1,279	1,924	–	1,391	–
Lease financing	140	256	–	254	2
Consumer	52	54	–	50	3
Loans with a specific valuation allowance					
Commercial	$ 2,710	$ 2,754	$ 709	$ 1,039	$ 7
Commercial real estate	8,022	8,092	1,110	10,760	–
Construction	7,994	8,106	1,599	10,246	20
Home equity	626	648	299	411	–
Residential real estate	4,274	5,136	534	5,283	–
Lease financing	–	–	–	2	–
Consumer	–	–	–	12	–
Total:					
Commercial	$ 2,896	$ 3,035	$ 709	$ 1,575	$ 31
Commercial real estate	$ 10,088	$ 10,778	$ 1,110	$ 12,562	$ 37
Construction	$ 10,417	$ 10,529	$ 1,599	$ 12,847	$ 20
Home equity	$ 1,211	$ 1,235	$ 299	$ 513	$ –
Residential real estate	$ 5,553	$ 7,060	$ 534	$ 6,674	$ –
Lease financing	$ 140	$ 256	$ –	$ 256	$ 2
Consumer	$ 52	$ 54	$ –	$ 62	$ 3

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

	December 31, 2009				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 616	$ 679	$ –	$ 406	$ 8
Commercial real estate	2,331	2,369	–	1,088	–
Construction	5,398	6,636	–	6,554	70
Home equity	–	–	–	32	3
Residential real estate	2,651	2,779	–	1,085	2
Lease financing	335	383	–	244	–
Consumer	–	–	–	9	–
Loans with a specific valuation allowance					
Commercial	$ 740	$ 790	$ 512	$ 3,199	$ 36
Commercial real estate	10,936	11,076	4,309	9,952	186
Construction	5,807	7,409	839	13,576	146
Home equity	412	425	170	423	–
Residential real estate	5,753	7,172	761	5,048	41
Lease financing	–	–	–	80	3
Consumer	6	7	1	34	2
Total:					
Commercial	$ 1,356	$ 1,469	$ 512	$ 3,605	$ 44
Commercial real estate	$ 13,267	$ 13,445	$ 4,309	$ 11,040	$ 186
Construction	$ 11,205	$ 14,045	$ 839	$ 20,130	$ 216
Home equity	$ 412	$ 425	$ 170	$ 455	$ 3
Residential real estate	$ 8,404	$ 9,951	$ 761	$ 6,133	$ 43
Lease financing	$ 335	$ 383	$ –	$ 324	$ 3
Consumer	$ 6	$ 7	$ 1	$ 43	$ 2

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired as of December 31, 2010:

	(In thousands)
Commercial	$ 107
Commercial real estate	7,204
Construction	9,823
Home equity	–
Residential real estate	180
Lease financing	110
Consumer	–
	$ 17,424

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

In addition as of December 31, 2010, the Company had troubled debt restructurings that were performing in accordance with their modified terms as follows:

	(In thousands)
Commercial	$ 2,865
Commercial real estate	2,013
Construction	15,104
Home equity	–
Residential real estate	344
Lease financing	402
Consumer	–
	$ 20,728

As of December 31, 2010, the Company had $7,500,000 of commitments outstanding to borrowers with troubled debt restructurings. However, these commitments are subject to approval prior to advancement of funds to the borrower.

The following table presents the Company's non-accrual loans at December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Commercial	$ 2,896	$ 1,327
Commercial real estate	10,088	13,267
Construction	10,417	11,205
Home equity	1,211	344
Residential real estate	5,553	8,404
Lease financing	140	335
Consumer	52	6
	$ 30,357	$ 34,888

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of these assets are as follows:

	2010	2009
	(In thousands)	
Land	$ 5,154	$ 5,154
Buildings and improvements	15,795	15,697
Furniture and equipment	7,717	7,590
	28,667	28,441
Less accumulated depreciation	12,427	11,511
Total premises and equipment	$ 16,239	$ 16,930

NOTE 5: FORECLOSED ASSETS HELD FOR SALE

Activity in the allowance for losses on foreclosed assets was as follows:

	2010	2009
	(In thousands)	
Balance, beginning of year	$ 166	$ –
Provision charged to expense	734	1,363
Charge offs, net of recoveries	(419)	(1,197)
Balance, end of year	$ 481	$ 166

Expenses applicable to foreclosed assets at December 31 include the following:

	2010	2009
	(In thousands)	
Net loss (gain) on sales of foreclosed assets	$ (168)	$ (212)
Provision for losses	734	1,363
Operating expenses, net of rental income	1,656	1,902
	$ 2,222	$ 3,053

NOTE 6: CORE DEPOSIT INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2010 and 2009 were:

	2010		2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core Deposit Intangible	$ 3,286	$ (2,822)	$ 3,286	$ (2,679)

Amortization expense for the years ended December 31, 2010, 2009 and 2008 was $143,000, $219,000 and $295,000, respectively. Estimated amortization expense for the remainder of the amortization period is:

	(In thousands)
2011	$ 143
2012	143
2013	143
2014	35

NOTE 7: DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit on residential mortgages that have not close prior to the end of the period. As the Company enters into commitments to originate these loans, it also enters into commitments to sell the loans in the secondary market on a best-efforts basis. The Company acquires such commitments to reduce interest rate risk on mortgage loans in the process of origination and mortgage loans held for sale. These commitments to originate or sell loans on a best efforts basis are considered derivative instruments under ASC 815. These statements require the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of measuring the fair value of the commitments to originate loans, the Company recorded an increase in other assets of $1,000, a decrease in other liabilities of $38,000 and an increase in other income of $39,000 for the year ended December 31, 2010. For the year ended December 31, 2009, the Company recorded an increase in other liabilities of $47,000 and an increase in other income of $47,000.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period on a best efforts basis. Due to the mark to market adjustment on commitments to sell loans held for sale the Company recorded an increase in other assets of $89,000 and an increase in other income of $89,000 for the year ended December 31, 2010. For the year ended December 31, 2009, the Company recorded an increase in other assets of $283,000 and an increase in other income of $283,000.

At December 31, 2010 and 2009, total mortgage loans in the process of origination amounted to $1,688,000 and $4,102,000, respectively. At December 31, 2010 and 2009, related forward commitments to sell mortgage loans amounted to approximately $8,162,000 and $8,752,000, respectively.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2010 and 2009, is disclosed in Note 21, Disclosures About Fair Value of Assets and Liabilities.

NOTE 8: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of $100,000 or more were $104,092,000 on December 31, 2010 and $107,418,000 on December 31, 2009. The Company acquires brokered deposits in the normal course of business. At December 31, 2010 and 2009, brokered deposits of $45,949,000 and $76,874,000, respectively, were included in the Company's time deposit balance. Of the $45,949,000 in brokered deposits, $28,984,000 represented customer funds placed into the Certificate of Deposit Account Registry Service ("CDARS"). The Bank is a member of the CDARS service which effectively allows depositors to receive FDIC insurance on amounts larger than the FDIC insurance limit, which is currently $250,000. CDARS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS institutions to ensure that full FDIC insurance coverage is gained on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are Bank customer relationships that management views as core funding.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

	(In thousands)
2011	$ 129,844
2012	41,907
2013	19,817
2014	8,094
2015	14,721
Thereafter	7,453
	$ 221,836

NOTE 9: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2015. Minimum future rent receivable under noncancellable operating leases at December 31, 2010 was as follows:

	(In thousands)
2011	$ 162
2012	116
2013	18
2014	18
2015	7
	$ 321

Consolidated rental and operating lease expenses incurred for space the Company leases from others were $14,000, $6,000 and $34,000 in 2010, 2009 and 2008, respectively.

NOTE 10: SHORT TERM DEBT

The Company has a line of credit with the Federal Home Loan Bank of Topeka (FHLB) which is collateralized by various assets including mortgage-backed loans, available-for-sale securities and cash equivalents. At December 31, 2010 and 2009, there was no outstanding balance on the line of credit. The variable interest rate was 0.26% on December 31, 2010 and 0.18% on December 31, 2009. At December 31, 2010 approximately $25,187,000 was available. Advances are made at the discretion of the Federal Home Loan Bank of Topeka.

The Company also has a line of credit with the Federal Reserve Bank of Kansas City which is collateralized by various assets, including commercial and commercial real estate loans. At December 31, 2010 and 2009, there was no outstanding balance on the line of credit. The line of credit has a variable interest rate of federal funds rate plus 75 basis points and at December 31, 2010 approximately $25,089,000 was available.

NOTE 11: LONG TERM DEBT

Long-term debt at December 31, 2010 and 2009 consisted of the following components:

	2010	2009
	(In thousands)	
Federal Home Loan Bank advances (A)	$ 82,500	$ 82,500
Less: Deferred prepayment penalty on modification of FHLB advances	(2,331)	–
Net Federal Home Loan Bank advances	80,169	82,500
Subordinated Debentures – BVBC Capital Trust II (B)	7,732	7,732
Subordinated Debentures – BVBC Capital Trust III (C)	11,856	11,856
Total long-term debt	$ 99,757	$ 102,088

(A) Due in 2013, 2014, 2015, 2016 and 2018; collateralized by various assets including mortgage-backed loans, available-for-sale securities and cash equivalents totaling $172,452,000 at December 31, 2010. The interest rates on the advances range from 0.37% to 4.26%. Federal Home Loan Bank advance availability is determined quarterly and at December 31, 2010, approximately $25,187,000 was available. Advances are made at the discretion of the Federal Home Loan Bank of Topeka.

In the third quarter of 2010, the Company repaid $42,500,000 of FHLB advances by rolling the net present value of the advances being repaid into the funding cost of $42,500,000 of new advances. A $2,569,000 penalty was associated with paying off the original FHLB advances which is amortized as an adjustment of interest expense over the remaining term of the new FHLB advances using the straight line method. This transaction reduced the effective interest rate, as well as modified the maturity date on these borrowings.

(B) Due in 2033; interest only at three month LIBOR + 3.25% (3.54% at December 31, 2010 and 3.53% at December 31, 2009) due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. BVBC Capital Trust II issued and sold $7,500,000 in Capital Securities to third parties and $232,000 of Common Securities to the Company. The Company may prepay the subordinated debentures beginning in 2008, in whole or in part, at their face value plus accrued interest.

(C) Due in 2035; interest only at three month LIBOR + 1.60% (1.90% at December 31, 2010 and 1.85% at December 31, 2009) due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. BVBC Capital Trust III issued and sold $11,500,000 in Preferred Securities to third parties and $356,000 in Common Securities to the Company. Subordinated to the trust preferred securities (B) due in 2033. The Company may prepay the subordinated debentures beginning in 2010, in whole or in part, at their face value plus accrued interest.

At the request of the Federal Reserve Bank of Kansas City, quarterly payments are being deferred on the Company's outstanding trust preferred securities. Under the governing documents of the BVBC Capital Trust II and III, the quarterly payments due on April 24, 2009, through January 24, 2011 for BVBC Capital Trust II and March 31, 2009 through December 31, 2010 for BVBC Capital Trust III were deferred. The Company has the right to declare such a deferral for up to 20 consecutive quarterly periods and deferral may only be declared as long as the Company is not then in default under the provisions of the Amended and Restated Trust Agreement. During the deferral period, interest on the indebtedness continues to accrue and the unpaid interest is compounded. In addition, for BVBC Capital Trust III, the Company must also accrue additional interest that is equal to the three month LIBOR rate plus 1.60% during the deferral period. All accrued interest and compounded interest must be paid at the end of the deferral period.

For both BVBC Capital Trust II and BVBC Capital Trust III, as long as the deferral period continues, the Company is prohibited from (i) declaring or paying any dividend on any of its capital stock, which would include both its common stock and the outstanding preferred stock issued to the United States Department of Treasury (the "Treasury"), or (ii) making any payment on any debt security that is ranked pair passu with the debt securities issued by the respective trusts. Because the Preferred Shares issued under the U.S. Treasury's Capital Purchase Plan (the

NOTE 11: LONG TERM DEBT (Continued)

"CPP") are subordinate to the trust preferred securities, the Company will be restricted from paying dividends on these Preferred Shares until such time as all trust preferred dividends have been brought current. See Note 13, Regulatory Matters for additional information.

Aggregate annual maturities of long-term debt at December 31, 2010 are as follows:

	(In thousands)
2011	$ –
2012	–
2013	20,000
2014	7,500
2015	20,000
Thereafter	54,588
	102,088
Less: Deferred prepayment penalty on modification of FHLB advances	(2,331)
	$ 99,757

NOTE 12: INCOME TAXES

The provision for income taxes consists of the following:

	2010	2009	2008
		(In thousands)	
Taxes currently (refundable) payable	$ –	$ (2,388)	$ (2,601)
Deferred income taxes	(1,561)	(6,126)	(1,223)
	$ (1,561)	$ (8,514)	$ (3,824)

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

	2010	2009	2008
		(In thousands)	
Computed at the statutory rate (34%)	$ (1,463)	$ (7,862)	$ (4,785)
Increase (decrease) resulting from:			
Goodwill impairment	–	–	1,541
Tax-exempt interest	(5)	(12)	(20)
State income taxes	124	(208)	(99)
Other	(217)	(432)	(461)
Actual tax provision	$ (1,561)	$ (8,514)	$ (3,824)

NOTE 12: INCOME TAXES (Continued)

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2010 and 2009 consolidated balance sheets are as follows:

	2010	2009
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 5,451	$ 7,385
Net Operating Loss from Blue Valley Ban Corp. and subsidiary	6,169	2,840
Deferred compensation	174	135
Offering costs	200	210
Non-accrual loan interest	75	60
Net Operating Loss carried from Unison Bancorp Inc. and subsidiary acquisition	–	77
Other	88	28
	12,157	10,735
Deferred tax liabilities:		
Accumulated depreciation	(346)	(385)
FHLBank stock basis	(472)	(433)
Accumulated appreciation on available-for-sale securities	(20)	(69)
Prepaid intangibles	(198)	(177)
Core Deposit Intangible related to Unison Bancorp Inc. and subsidiary acquisition	(136)	(182)
Other	(9)	(9)
	(1,181)	(1,255)
Net deferred tax asset	$ 10,976	$ 9,480

The Company has unused Federal net operating loss carryforwards of $15,101,000, which expires in 2030. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $26,620,000 which expire between 2018 and 2020.

NOTE 13: REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2010 and 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010, the Bank had capital in excess of regulatory requirements for a well capitalized institution. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since December 31, 2010 that management believes have changed the Bank's position.

NOTE 13: REGULATORY MATTERS (Continued)

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
December 31, 2010:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 73,320	12.66%	$ 46,347	8.00%	N/A	
Bank Only	$ 76,034	13.15%	$ 46,260	8.00%	$ 57,825	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 65,986	11.39%	$ 23,173	4.00%	N/A	
Bank Only	$ 68,722	11.88%	$ 23,130	4.00%	$ 34,695	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 65,986	9.04%	$ 29,213	4.00%	N/A	
Bank Only	$ 68,722	9.41%	$ 29,215	4.00%	$ 36,519	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
December 31, 2009:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 78,424	12.54%	$ 50,038	8.00%	N/A	
Bank Only	$ 79,140	12.67%	$ 49,987	8.00%	$ 62,484	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 70,455	11.26%	$ 25,019	4.00%	N/A	
Bank Only	$ 71,179	11.39%	$ 24,993	4.00%	$ 37,490	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 70,455	9.07%	$ 31,083	4.00%	N/A	
Bank Only	$ 71,179	9.16%	$ 31,083	4.00%	$ 38,854	5.00%

The Company and Bank are subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval. At December 31, 2010, any dividend declaration would require regulatory approval.

NOTE 13: REGULATORY MATTERS (Continued)

Preferred Stock and Warrants

On December 5, 2008, the Company issued and sold to the United States Department of Treasury (the "Treasury") 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock (the "Preferred Shares"), along with a ten year warrant to purchase 111,083 shares of the Company's common stock for $29.37 per share, for a total cash price of $21,750,000 (the "Transaction"). The Preferred Shares have a liquidation preference of $1,000 per share. The Transaction occurred pursuant to, and is governed by the U.S. Treasury's Capital Purchase Plan (the "CPP"), which is designed to attract broad participation by institutions, to stabilize the financial system, and to increase lending for the benefit of the U.S. economy. In connection with the transaction, the Company entered into a letter agreement with the Treasury which includes a Securities Purchase Agreement-Standard Terms (the "SPA"). The Preferred Shares carry a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% after five years. Dividends compound if they accrue and are not paid. During the first three years after the transaction, the Company may not redeem the Preferred Shares except in conjunction with a qualified equity offering meeting certain requirements. During the time that the Preferred Shares are outstanding, a number of restrictions apply to the Company, including, among others:

- The Preferred Shares have a senior rank. The Company is not free to issue other preferred stock that is senior to the Preferred Shares.

- Until the third anniversary of the sale of the Preferred Shares, unless the Preferred Shares have been redeemed in whole or the Treasury has transferred all of the shares to a non-affiliated third party, the Company may not declare or pay a common stock dividend in an amount greater than the amount of the last quarterly cash dividend per share declared prior to October 14, 2008, or repurchase common stock or other equity shares (subject to certain limited exceptions) without the Treasury's approval.

- If the Company were to pay a cash dividend in the future, any such dividend would have to be discontinued if a Preferred Share dividend were missed. Thereafter, dividends on common stock could be resumed only if all Preferred Share dividends in arrears were paid. Similar restrictions apply to the Company's ability to repurchase common stock if Preferred Share dividends are missed.

- Failure to pay the Preferred Share dividend is not an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holders of the Preferred Shares the right to elect two directors to the Company's Board of Directors. That right would continue until the Company pays all dividends in arrears.

- In conformity with requirements of the SPA and Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the "EESA"), the Company and its subsidiary, Bank of Blue Valley, and each of its senior executive officers agreed to limit certain compensation, bonus, incentive and other benefits plans, arrangements, and policies with respect to the senior executive officers during the period that the Treasury owns any debt or equity securities acquired in connection with the Transaction. The applicable senior executive officers have entered into letter agreements with the Company consenting to the foregoing and have executed a waiver voluntarily waiving any claim against the Treasury or the Company for any changes to such senior executive officer's compensation or benefits that are required to comply with Section 111(b) of EESA.

The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements.

NOTE 13: REGULATORY MATTERS (Continued)

The Warrant is exercisable immediately and expires in ten years. The Warrant has anti-dilution protections and certain other protections for the holder, as well as potential registration rights upon written request from the Treasury. If requested by the Treasury, the Warrant (and the underlying common stock) may need to be listed on a national securities exchange. The Treasury has agreed not to exercise voting rights with respect to common shares it may acquire upon exercise of the Warrant. The number of common shares covered by the Warrant could have been reduced by up to one-half if the Company completed an equity offering meeting certain requirements by December 31, 2009. If the Preferred Shares are redeemed in whole, the Company has the right to purchase any common shares held by the Treasury at their fair market value at that time.

The Board of Directors of Blue Valley Ban Corp. and its wholly owned subsidiary, Bank of Blue Valley, entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and relates primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on the past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank have also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank have complied will all items in the agreement.

At the request of the Federal Reserve Bank of Kansas City, the Company notified the United States Department of the Treasury (the "Treasury") of its intention to defer the quarterly dividend payments on the Preferred Shares due to the Treasury since May 15, 2009. The dividend payment due on August 15, 2010 was the sixth dividend payment deferred by the Company. As part of the Capital Purchase Plan, the Company entered into a letter agreement with the Treasury on December 5, 2008, which includes a Securities Purchase Agreement-Standard Terms. As part of the agreement, dividends compound if they accrue and are not paid. Failure by the Company to pay the Preferred Share dividend is not an event of default. However, a failure to pay a total of six Preferred Share dividends, whether or not consecutive, gives the holders of the Preferred Shares the right to elect two directors to the Company's Board of Directors. That right would continue until the Company pays all dividends in arrears. At this time, the Treasury has not elected any directors to serve on the Company's Board of Directors; however, beginning in November 2010 the Treasury assigned an observer to attend the Company's board meetings. The Company has accrued for the dividends and interest and has every intention to bring the obligation current as soon as permitted. As of December 31, 2010, the Company had accrued $1,988,000 for the dividends and interest on outstanding Preferred Shares.

NOTE 14: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2010 and 2009, the Company had loans outstanding to executive officers, directors and to companies in which the Bank's executive officers or directors were principal owners, in the amounts of $20,549,000 and $22,387,000, respectively. Related party transactions for 2010 and 2009 were as follows:

	2010	2009
	(In thousands)	
Balance, beginning of year	$ 22,387	$ 28,692
New loans and advances	9,450	17,668
Repayments and reclassifications	(11,288)	(23,973)
Balance, end of year	$ 20,549	$ 22,387

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

Deposits from executive officers and directors held by the Company at December 31, 2010, and 2009 totaled $5,997,000 and $5,443,000, respectively.

NOTE 15: PROFIT SHARING AND 401(K) PLANS

The Company's profit sharing and 401(k) plans cover substantially all employees. Contributions to the profit sharing plan are determined annually by the Board of Directors, and participant interests are vested over a five-year period. The Company did not make a contribution to the profit sharing plan during 2010, 2009 and 2008. The Company's 401(k) plan permits participants to make contributions by salary reduction, based on which the Company matches a ratable portion. The Company's matching contributions to the 401(k) plan are vested immediately. The Company's matching contributions charged to expense for 2010, 2009 and 2008 were $282,000, $302,000 and $312,000, respectively.

NOTE 16: EQUITY INCENTIVE COMPENSATION

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

Under the fixed option provisions of the Plan, the Company may grant options for shares of common stock that vest two years from the date of grant to its employees. At December 31, 2010, the Company had 134,375 shares available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

During 2010, 2009 and 2008, the Company granted no stock options, but did grant 28,841, 60,350 and 15,100 shares of restricted common stock, respectively. Recipients of the restricted stock grant who are employees fully vest in the stock after three years from the date of the grant. Recipients of the restricted stock grant who are directors vested immediately in 2010 and 2009 and after one year from the date of the grant in prior years. The non vested shares were 49,308, 61,750, and 21,100 as of December 31, 2010, 2009 and 2008, respectively. The cost basis of the restricted shares granted, equal to the fair value of the Company's stock on the date of grant, will be amortized to compensation expense ratably over the applicable vesting period. The amount of unrecognized

NOTE 16: EQUITY INCENTIVE COMPENSATION (Continued)

compensation costs was $264,000, $650,000, and $268,700 as of December 31, 2010, 2009, and 2008, respectively. During 2010, 2009 and 2008, 834, 5,300 and 700 shares of restricted stock were forfeited, respectively.

A summary of the status of option shares under the plan at December 31, 2010, 2009 and 2008, and changes during the years then ended, is presented below:

	2010		2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	33,875	$ 20.51	51,225	$ 20.38	66,325	$ 19.73
Exercised	–	–	–	–	(15,100)	17.56
Forfeited	9,500	16.50	17,350	20.12	–	–
Outstanding, end of year	24,375	$ 22.07	33,875	$ 20.51	51,225	$ 20.38
Intrinsic value of shares exercised	$ –		$ –		$ 162,826	
Options exercisable, end of year	24,375	$ 22.07	33,875	$ 20.51	51,225	$ 20.38

The weighted-average remaining contractual life of option shares at December 31, 2010 was 1.42 years. Exercise prices ranged from $19.50 to $25.00. Information about options outstanding and exercisable as of December 31, 2010 is set forth in the following table.

	Options Outstanding and Exercisable		
Exercise Price	Number Outstanding and Exercisable at 12/31/10	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$19.50	13,000	1 year	$19.50
$25.00	11,375	2 years	$25.00
	24,375		

NOTE 17: EMPLOYEE STOCK PURCHASE PLAN

The 2004 Blue Valley Ban Corp. employee stock purchase plan ("ESPP") provides the right to subscribe to 100,000 shares of common stock to substantially all employees of the Company and subsidiaries, except those who are 5% or greater shareholders of the Company. The purchase price for shares under the plan is determined by the Company's Board of Directors (or a designated Committee thereof) and was set to 85% of the market price on either the grant date or the offering date, whichever is lower, for the plan year beginning in February 2004. Expense associated with the plan recognized in 2010, 2009 and 2008 was approximately $3,000, $7,000 and $10,000, respectively. Information about employee stock purchase plan activity as of December 31, 2010, 2009 and 2008 is set forth in the following table.

	Employee Stock Purchase Plan Activity	
Plan year ending January	Shares purchased	Purchase Price
2010	3,465	$ 8.71
2009	2,495	$21.25
2008	3,587	$27.20

NOTE 18: GAIN ON SETTLEMENT OF LITIGATION

The Company's subsidiary, Bank of Blue Valley ("Bank"), entered into a settlement agreement with an individual, based on a successful summary judgment obtained in the Circuit Court of Jackson County, Missouri, for fraudulent misrepresentation by the individual. The settlement was for $1.0 million, of which $200,000 was received in cash in the third quarter of 2008, with the remaining $800,000 payable by August 30, 2010 with the option to extend the payable date through August 30, 2012. The $800,000 was received in October 2010. The $800,000 was considered fair value and was recognized as a gain contingency in 2008 in accordance with ASC 450, which requires the recognition of a recovery when realization of the recovery is deemed probable. As the contingent portion of the settlement was collateralized by real property legally owned by the individual, management deemed the ultimate recovery of the settlement as probable. Therefore, an $800,000 miscellaneous receivable was also recorded at the time of settlement and the funds were received in October 2010.

NOTE 19: OTHER INCOME/EXPENSE

Other income consists of the following:

	2010	2009	2008
		(In thousands)	
Rental income	$ 264	$ 377	$ 433
Realized gain on foreclosed assets	434	730	149
Other income	447	557	428
Total	$ 1,145	$ 1,664	$ 1,010

Other operating expenses consist of the following:

	2010	2009	2008
		(In thousands)	
Foreclosure expenses	$ 2,708	$ 3,862	$ 944
FDIC assessments	2,076	2,267	482
Professional fees	1,520	1,297	1,096
Data processing	1,278	1,318	1,178
ATM and network fees	603	550	414
Loan processing fees	308	346	446
Advertising	190	172	717
Other expense	2,575	2,946	3,027
Total	$ 11,258	$ 12,758	$ 8,304

NOTE 20: FAIR VALUE OPTION

The Company elected to adopt *The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of FASB Statement No. 115,* which was subsequently incorporated into FASB Accounting Standards Codification in Topic 825, for mortgage loans held for sale originated after April 1, 2009. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date.

In accordance with ASC 825, the Company has elected to measure loans held for sale at fair value. Loans held for sale is made up entirely of mortgage loans held for immediate sale in the secondary market with servicing release. These loans are sold prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company's balance sheet for a short period of time (typically 30 to 60 days). It is management's opinion given the short-term nature of these loans, that fair value provides a reasonable measure of the economic value of these assets. In addition, carrying such loans at fair value eliminates some measure of volatility created by the timing of sales proceeds from outside investors, which typically occur in the month following origination.

The difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale was a loss of $144,000 at December 31, 2010 and $111,000 at December 31, 2009. Losses from fair value changes included in loans held for sale fee income was $33,000 for the year ended December 31, 2010 and $111,000 for the year ended December 31, 2009. Interest income on loans held for sale is included in interest and fees on loan in the Company's consolidated statement of operations. See Note 21 for additional disclosures regarding fair value of mortgage loans held for sale.

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

ASC Topic 820, *Fair Value Measurements,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the Company's consolidated balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government sponsored agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include other less liquid securities.

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Mortgage Loans Held for Sale

Mortgage loans held for sale are valued using market prices for loans with similar characteristics. This measurement is classified as Level 2 within the hierarchy.

Commitments to Originate Loans and Forward Sales Commitments

Commitments to originate loans and forward sales commitments are valued using a valuation model which considers differences between quoted prices for loans with similar characteristics in the secondary market and the committed rates. The valuation model includes assumptions which adjust the price for the likelihood that the commitment will ultimately result in a closed loan. These measurements are significant unobservable inputs and are classified as Level 3 within the hierarchy.

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The following table presents the fair value measurements of assets and liabilities recognized in the Company's condensed consolidated balance sheet and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assts (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		(In thousands)		
December 31, 2010:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 63,039	$ –	$ 63,039	$ –
Equity and other securities	601	601	–	–
Mortgage loans held for sale	8,162	–	8,162	–
Commitments to originate loans	1	–	–	1
Forward sales commitments	372	–	–	372
Total assets	$ 72,175	$ 601	$ 71,201	$ 373
Liabilities:				
Commitments to originate loans	$ 9	$ –	$ –	$ 9
Forward sales commitments	–	–	–	–
Total liabilities	$ 9	$ –	$ –	$ 9
December 31, 2009:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 72,163	$ –	$ 72,163	$ –
Equity and other securities	594	594	–	–
Mortgage loans held for sale	8,752	–	8,752	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	283	–	–	283
Total assets	$ 81,792	$ 594	$ 80,915	$ 283
Liabilities:				
Commitments to originate loans	$ 47	$ –	$ –	$ 47
Forward sales commitments	–	–	–	–
Total liabilities	$ 47	$ –	$ –	$ 47

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The following table is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the Company's consolidated balance sheet using significant unobservable (Level 3) inputs:

	Commitments to Originate Loans	Forward Sales Commitments
	(In thousands)	
Balance as of December 31, 2008	$ –	$ –
Total changes in fair value:		
Included in net income (loss)	(47)	283
Balance as of December 31, 2009	$ (47)	$ 283
Balance as of December 31, 2009	$ (47)	$ 283
Total changes in fair value:		
Included in net income (loss)	39	89
Balance as of December 31, 2010	$ (8)	$ 372

Following is a description of the valuation methodologies used for financial and nonfinancial instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to the contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The following table presents the fair value measurements of assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 and 2009:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assts (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2010:				
Impaired loans, net of reserves	$ 26,106	$ –	$ –	$ 26,106
Foreclosed assets held for sale, net	3,360	–	–	3,360
	$ 29,466	$ –	$ –	$ 29,466
December 31, 2009:				
Impaired loans, net of reserves	$ 28,393	$ –	$ –	$ 28,393
Foreclosed assets held for sale, net	8,231	–	–	8,231
	$ 36,624	$ –	$ –	$ 36,624

The following methods and assumptions were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

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

Loans

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

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

The carrying amounts for these securities approximate their fair value.

Deposits

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

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

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

Long-Term Debt

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

NOTE 21: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

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

The following table presents estimated fair values of the Company's financial instruments not previously disclosed at December 31, 2010 and 2009.

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 114,781	$ 114,781	$ 96,984	$ 96,984
Loans, net of allowance for loan losses	477,723	478,926	534,111	536,973
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,163	7,163	7,059	7,059
Interest receivable	1,783	1,783	2,303	2,303
Financial liabilities:				
Deposits	541,218	543,832	590,110	593,345
Securities sold under agreement to repurchase and other interest-bearing liabilities	18,748	18,748	16,120	16,120
Long-term debt	99,757	90,880	102,088	95,762
Interest payable	2,689	2,689	2,698	2,698
Unrecognized financial instruments (net of amortization):				
Commitments to extend credit	–	–	–	–
Letters of credit	–	–	–	–
Lines of credit	–	–	–	–

NOTE 22: COMMITMENTS, CREDIT RISKS AND CURRENT ECONOMIC CONDITIONS

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2010 and 2009, the Company had outstanding commitments to originate loans aggregating approximately $6,081,000 and $22,712,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale.

Total mortgage loans in the process of origination amounted to $1,688,000 and $4,102,000 and mortgage loans held for sale amounted to $8,162,000 and $8,752,000 at December 31, 2010 and 2009, respectively. Related forward commitments to sell mortgage loans amounted to approximately $9,850,000 and $12,854,000 at December 31, 2010 and 2009, respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $6,880,000 and $5,280,000 at December 31, 2010 and 2009, respectively.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2010 and 2009, unused lines of credit borrowings aggregated approximately $149,587,000 and $112,043,000, respectively.

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

NOTE 22: COMMITMENTS, CREDIT RISKS AND CURRENT ECONOMIC CONDITIONS (Continued)

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

NOTE 23: LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 24: SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

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

	2010				2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 7,277	$ 7,653	$ 7,717	$ 7,656	$ 8,470	$ 8,830	$ 9,274	$ 9,720
Interest expense	2,966	3,473	3,909	4,015	4,125	4,438	4,716	4,708
Net interest income	4,311	4,180	3,808	3,641	4,345	4,392	4,558	5,012
Provision for loan losses	1,645	-	1,200	250	2,500	6,210	-	12,925
Net interest income (loss) after provision for loan losses	2,666	4,180	2,608	3,391	1,845	(1,818)	4,558	(7,913)
Non-interest income	2,299	2,231	1,631	1,573	1,626	1,819	2,453	1,801
Realized gains on available-for sale securities	448	342	95	-	-	-	-	346
Non-interest expense	7,047	6,141	6,226	6,353	7,494	6,601	6,687	7,059
Income (loss) before income taxes	(1,634)	612	(1,892)	(1,389)	(4,023)	(6,600)	324	(12,825)
Provision (benefit) for income taxes	(595)	230	(680)	(516)	(1,481)	(2,431)	118	(4,720)
Net income (loss)	(1,039)	382	(1,212)	(873)	(2,542)	(4,169)	206	(8,105)
Dividends on preferred shares	289	272	272	272	290	272	271	212
Net income (loss) available to common shareholders	$ (1,328)	$ 110	$ (1,484)	$ (1,145)	$ (2,832)	$ (4,441)	$ (65)	$ (8,317)
Net Income (loss) per Share Data								
Basic	$ (0.47)	$ 0.04	$ (0.54)	$ (0.41)	$ (1.03)	$ (1.61)	$ (0.02)	$ (3.02)
Diluted	$ (0.47)	$ 0.04	$ (0.54)	$ (0.41)	$ (1.03)	$ (1.61)	$ (0.02)	$ (3.02)
Balance Sheet								
Total assets	$723,101	$755,362	$818,275	$844,228	$773,967	$825,857	$811,333	$843,559
Total loans, net	477,723	483,165	498,238	507,910	534,111	560,880	585,474	610,404
Stockholders' equity	57,164	58,786	58,786	59,583	60,603	63,519	67,858	67,908

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

NOTE 25: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2010 and 2009

	2010	2009
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 842	$ 899
Investments in subsidiaries:		
Bank of Blue Valley	77,703	79,573
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	1,214	797
Total Assets	$ 80,347	$ 81,857
LIABILITIES		
Subordinated debentures	$ 19,588	$ 19,588
Other liabilities	3,595	1,666
Total Liabilities	23,183	21,254
STOCKHOLDERS' EQUITY		
Preferred Stock	22	22
Common stock	2,843	2,818
Additional paid-in capital	38,431	37,975
Retained earnings	15,838	19,685
Accumulated other comprehensive income, net of income tax of $20 and $69 at 2010 and 2009, respectively	30	103
Total Stockholders' Equity	57,164	60,603
Total Liabilities and Stockholders' Equity	$ 80,347	$ 81,857

NOTE 25: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Income
Years Ended December 31, 2010, 2009 and 2008

	2010	2009	2008
		(In thousands)	
Income			
Dividends from subsidiaries	$ –	$ 700	$ 654
Other income	20	20	-
	20	720	654
Expenses	1,496	1,336	2,541
Loss before income taxes and equity in undistributed net loss of subsidiaries	(1,476)	(616)	(1,887)
Income tax (benefit)	(531)	(474)	(1,117)
Loss before equity in undistributed net loss of subsidiaries	(945)	(142)	(770)
Equity in undistributed net loss of subsidiaries	(1,797)	(14,468)	(9,481)
Net loss	$ (2,742)	$ (14,610)	$ (10,251)

NOTE 25: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2010, 2009 and 2008

	2010	2009 *(In thousands)*	2008
OPERATING ACTIVITIES			
Net loss	$ (2,742)	$ (14,610)	$ (10,251)
Items not requiring (providing) cash:			
Deferred income taxes	(417)	(29)	46
Equity in undistributed net loss of subsidiaries	1,797	14,468	9,481
Restricted stock earned	428	287	309
Changes in:			
Other assets	–	(243)	(207)
Other liabilities	842	696	(308)
Net cash provided by (used in) operating activities	(92)	569	(930)
INVESTING ACTIVITIES			
Capital contributed to subsidiary	–	(4,000)	(19,578)
Net cash used in investing activities	–	(4,000)	(19,578)
FINANCING ACTIVITIES			
Repayments of long-term debt	–	–	(17,781)
Proceeds from short-term debt	–	–	15,000
Dividends paid on common stock	–	–	(878)
Dividends paid on preferred stock	–	(212)	–
Proceeds from sale of preferred stock	–	–	21,750
Proceeds from sale of common stock through the rights offering	–	–	5,201
Proceeds from sale of common stock through Employee Stock Purchase Plan (ESPP) and stock options exercised	35	62	435
Net cash provided by (used in) financing activities	35	(150)	23,727
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57)	(3,581)	3,219
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	899	4,480	1,261
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 842	$ 899	$ 4,480

blue valley ban corp.

locally owned and managed

2010

DIRECTORS

blue valley ban corp.

Robert D. Regnier
President & CEO Blue Valley
Ban Corp. and Bank of Blue Valley
(director since 1989)

Donald H. Alexander
President Alexander & Associates
(director since 1992)

Michael J. Brown
Founder, Chairman & CEO
Euronet Worldwide, Inc.
(director since 2005)

Robert D. Taylor
Chairman & CEO Executive
AirShare Corporation
(director since 2006)

bank of blue valley

Robert D. Regnier
President & CEO Blue Valley
Ban Corp. and Bank of Blue Valley
(director since 1989)

Donald H. Alexander
President Alexander & Associates
(director since 1989)

Harvey S. Bodker
President Bodker Realty, Inc.
(director since 1989)

Suzanne E. Dotson
Community Volunteer
(director since 1993)

Charles H. Hunter
Principal-Managing Member
Kessinger/Hunter & Company
(director since 2001)

Richard L. Bond
Consultant
(director since 2007)

MARKET PRESIDENTS

Steve Fleischaker
Market President Olathe

Lisa Tomlinson
Market President Lenexa

Todd Fitzpatrick
Market President Shawnee

blue valley ban corp.

services and locations

2010

personal banking

- Electronic Banking
- Checking Accounts
- Savings Accounts
- Certificates of Deposit
- Individual Retirement Accounts
- Personal Loans

wealth management

- Trust Services
  - Financial Planning
  - Investment Services
- Private Banking

special programs

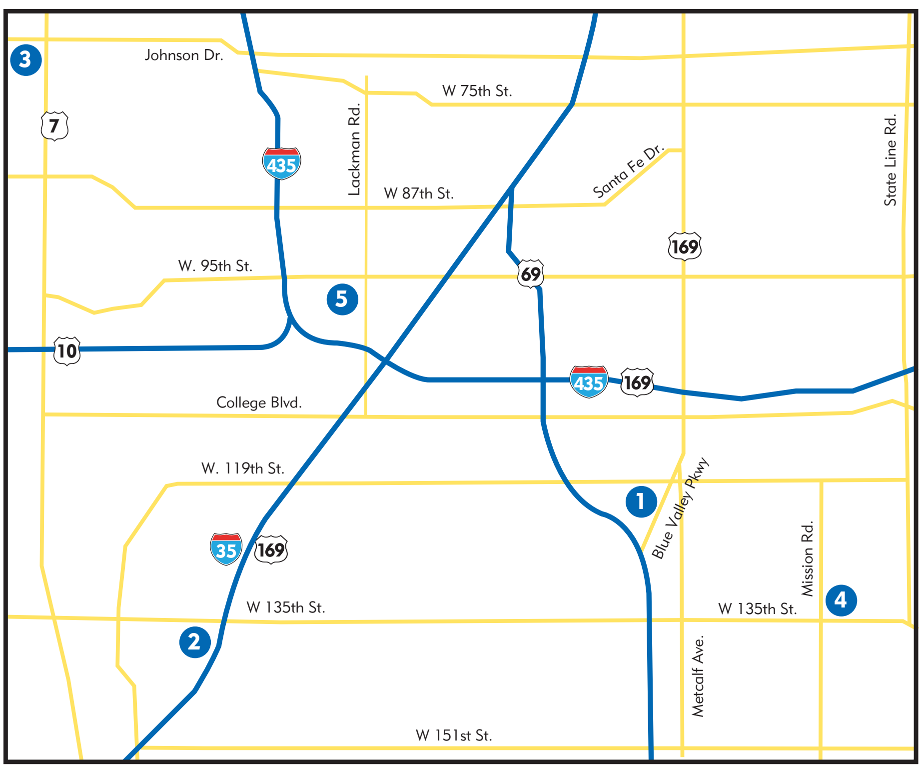
- Ultimate and Performance Checking
- Debit Card Rewards Program
- Little Ducks Club (children's savings)
- Status Club (age 50+ status checking)
- **FREE** Online Banking
- **FREE** Online Bill Pay
- Complimentary Trust Review

mortgage banking

- Mortgage Loans
- First-time Home Loans
- Jumbo Loans
- Second Home/Vacation Properties
- Construction Loans
- Swing Loans
- Home Equity Loans

business banking

- Treasury Management Services
- Working Capital Lines of Credit
- Equipment Financing
- Commercial Real Estate Loans
- Checking Accounts
- Merchant Credit Card Services
- Electronic Banking
- Small Business (SBA) Loans



1. OVERLAND PARK
   11935 RILEY
   OVERLAND PARK, KS 66213
2. OLATHE
   1235 E. SANTA FE
   OLATHE, KS 66061
3. SHAWNEE
   5520 HEDGE LANE TERRACE
   SHAWNEE, KS 66226
4. LEAWOOD
   13401 MISSION ROAD
   LEAWOOD, KS 66209
5. LENEXA
   9500 LACKMAN ROAD
   LENEXA, KS 66219

blue valley ban corp.

stockholder information

2010

corporate office

11935 Riley
PO Box 26128
Overland Park, KS 66225-6128
913.338.1000 | 913.234.7145 (fax)

operations center

7900 College Boulevard
Overland Park, KS 66210

helpline

913.338.HELP (4357)

internet websites

- www.BankBV.com
- www.InternetMortgage.com

annual meeting of stockholders

The annual meeting will be held on May 11, 2011 at 5:30 p.m. at the Leawood Banking Center, 13401 Mission Road, Leawood, KS 66219.

investor inquiries

To request additional copies of our Annual Report filed with the SEC or to inquire about other stockholder issues, visit our Investor Relations webpage at www.BankBV.com or contact Mark A. Fortino, Chief Financial Officer, at our corporate office.

stock quotation symbol

Shares of Blue Valley Ban Corp. common stock are currently traded on the Over-The-Counter (OTC) Bulletin Board under the symbol BVBC.

transfer agent and registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

auditors

BKD, LLP
1201 Walnut Street, Suite 1700
Kansas City, MO 64106-2246

corporate counsel

Husch Blackwell LLP
4801 Main Street, Suite 1000
Kansas City, MO 64112-2502

Stinson Morrison Hecker LLP
1201 Walnut Street, Suite 2900
Kansas City, MO 64106-2150

market maker

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St. Louis, MO 63102-2102
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we are here when you decide

it's time to get back to business

OVERLAND PARK
11935 RILEY
OVERLAND PARK, KS 66213

OLATHE
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