2012 ANNUAL REPORT

proactive. strong. committed.

Blue Valley Ban Corp.

Member FDIC

A place where YOU are known!

Dear Shareholders:

2012 will be viewed as a pivotal year for the company. Over the past 5 years, the "Great Recession" has exacted a significant toll on nearly all of us and its impact on the customers of Bank of Blue Valley has been reflected in our operating performance.

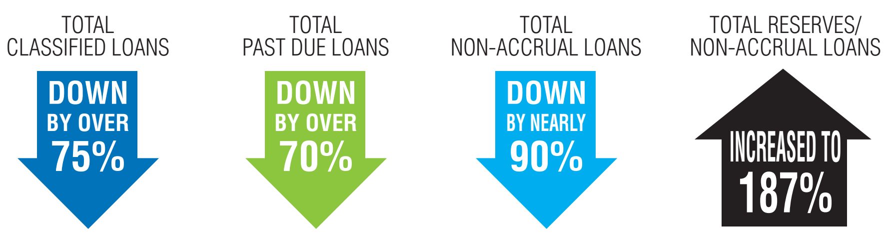
In 2012, our operating performance resulted in a modest profit for the year. Our progress over the last 5 years to reach this pivotal outcome has been achieved because of a consistent focus on being **Proactive,** staying **Strong,** and remaining steadfastly **Committed.**

proactive

Robert D. Regnier
President & Ceo

The deteriorating economy resulted in a significant increase in our Classified and Past Due loans in 2008 and 2009. Our consistent proactive approach to addressing these credit issues is reflected in our numbers and has had a significant impact on the ***improvement in the quality of our balance sheet*** as well as our earnings and capital position. The balance of our ***classified loans has declined*** by over 75% from December 31, 2008 to December 31, 2012. Total ***loans past due over 30 days have declined*** by over 70% during that period. ***Non-Accrual Loans were reduced*** by nearly 90%. During this same period we have ***proactively increased our reserves*** from 28% of Non-Accrual Loans to 187%. We continue to ***proactively manage our Other Real Estate Owned*** portfolio and have made significant progress in that area. It is no coincidence that the results from improvements in our balance sheet positively correlate with an ***improvement in our earnings.*** Although we are not satisfied with the current level of earnings, net of the costs incurred in the remediation of classified assets, we were able to generate a profit of $117,000 for the year ending December 31, 2012 while ***significantly improving the quality of our balance sheet and improving our overall capital position.***

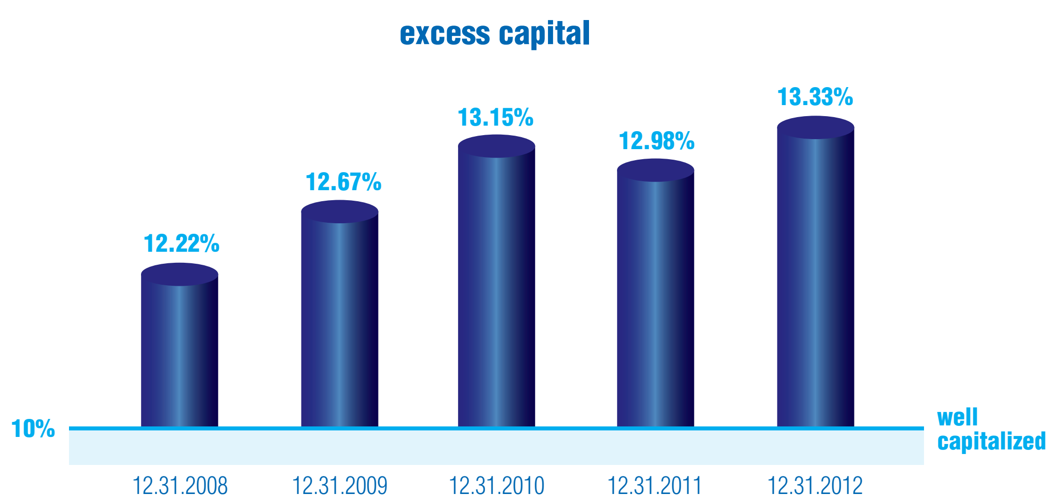
improvement in the quality of our balance sheet over the past 5 years



strong

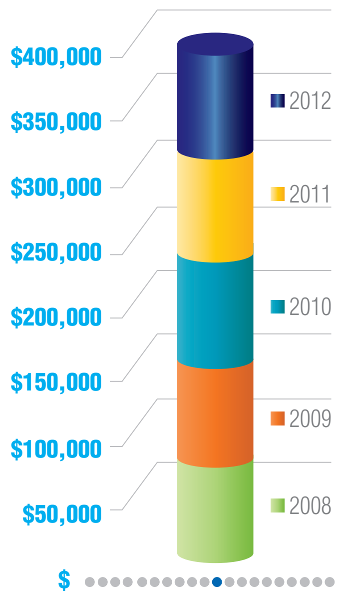
We have always maintained a strong capital position, but over the past five years we have ***improved our Bank's capital position***. Our Total Capital to Risk Weighted Assets has improved from 12.22% at December 31, 2008 to 13.33% at December 31, 2012. The result is that the Bank's excess capital position over what is considered to be ***Well Capitalized*** has grown from $16.3 million at December 31, 2008 to $18.1 million at December 31, 2012.

The Bank's excess capital position over what is considered to be ***Adequately Capitalized*** has remained at approximately $30.0 million over this same time period. We believe this puts us in a strong position to capitalize on opportunities to invest in our future.



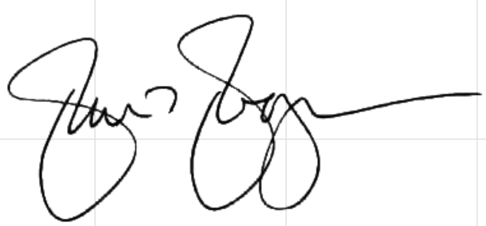
committed

combined united way & charity golf tournament funds raised



The commitment to our employees, our customers and our community has never wavered over the past five years. Throughout the financial crises we continued to provide benefits to our employees that many other companies reduced or eliminated. ***Retention of quality employees*** is a key component to providing ***superior customer service***, to which the Company has always remained committed. The result of this and other such policies has been a very low level of turnover in our officer staff. Our customers continued to benefit from a ***high level of service***, including our very competitive banking hours. We are open 91.5 hours a week to serve our customers. Finally, the commitment of our Company, its Board of Directors, management and employees to our community has never been stronger. ***We continue to support numerous civic, cultural and charitable causes in our community*** by participation and sponsorship including, our annual United Way campaign and our annual Charity Golf Tournament. These two events alone raised nearly $400,000 over the past 5 years.

Thank you for your continued support. We look forward to continued progress in 2013 and beyond.



Robert D. Regnier
President & CEO

BLUE VALLEY BAN CORP.

Accountants' Reports and

Consolidated Financial Statements

December 31, 2012, 2011 and 2010

BLUE VALLEY BAN CORP.

DECEMBER 31, 2012, 2011 AND 2010

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

BKD LLP
CPAs & Advisors

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Kansas City, MO 64106-2246
816.221.6300 Fax 816.221.6380 www.bkd.com

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Blue Valley Ban Corp. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. and its subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
March 6, 2013

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 sheet of Blue Valley Ban Corp. as of December 31, 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2011. The Company's management is responsible for these consolidated financial statements. 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, 2011, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
March 6, 2013

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

(In thousands, except share data)

ASSETS

	2012	2011
Cash and due from banks	$ 33,353	$ 23,480
Interest bearing deposits in other financial institutions	67,724	76,419
Federal funds sold	–	–
Cash and cash equivalents	101,077	99,899
Available-for-sale securities	77,845	61,790
Mortgage loans held for sale, fair value	7,621	5,686
Loans, net of allowance for loan losses of $9,057 and $13,189 in 2012 and 2011, respectively	406,614	425,654
Premises and equipment, net	15,448	15,897
Foreclosed assets held for sale, net	31,936	29,246
Interest receivable	1,529	1,573
Deferred income taxes	1,121	911
Prepaid expenses and other assets	6,095	6,106
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,540	7,369
Core deposit intangible asset, at amortized cost	179	321
Total assets	$ 657,005	$ 654,452

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2012 AND 2011
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2012	2011
LIABILITIES		
Deposits		
Demand	$ 113,698	$ 100,842
Savings, NOW and money market	235,632	222,984
Time	135,136	166,587
Total deposits	484,466	490,413
Other interest-bearing liabilities	21,668	15,372
Long-term debt	101,111	100,434
Interest payable and other liabilities	9,945	7,778
Total liabilities	617,190	613,997
STOCKHOLDERS' EQUITY		
Capital stock		
Preferred stock, $1 par value, $1,000 liquidation preference Authorized 15,000,000 shares; issued and outstanding 2012 – 21,750 shares; 2011 – 21,750 shares	22	22
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2012 – 2,934,123 shares; 2011 – 2,879,158 shares	2,934	2,879
Additional paid-in capital	38,746	38,511
Accumulated deficit	(1,930)	(1,091)
Accumulated other comprehensive income, net of income tax of $29 in 2012 and $89 in 2011	43	134
Total stockholders' equity	39,815	40,455
Total liabilities and stockholders' equity	$ 657,005	$ 654,452

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands, except per share data)

	2012	2011	2010
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 22,853	$ 25,277	$ 28,011
Federal funds sold and other short-term investments	193	151	245
Available-for-sale securities	1,097	1,202	1,825
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	240	225	222
Total interest and dividend income	24,383	26,855	30,303
INTEREST EXPENSE			
Interest-bearing demand deposits	700	1,611	2,343
Savings and money market deposit accounts	291	346	438
Other time deposits	2,487	3,755	7,746
Federal funds purchased and other interest-bearing liabilities	44	41	45
Long-term debt, net	3,670	3,502	3,791
Total interest expense	7,192	9,255	14,363
NET INTEREST INCOME	17,191	17,600	15,940
PROVISION FOR LOAN LOSSES	1,200	3,300	3,095
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,991	14,300	12,845
NON-INTEREST INCOME			
Loans held for sale fee income	2,447	2,120	3,506
NSF charges and service fees	980	944	1,062
Other service charges	2,472	2,276	2,021
Realized gains on available-for-sale securities	–	–	885
Other income	1,535	984	1,145
Total non-interest income	7,434	6,324	8,619
NON-INTEREST EXPENSE			
Salaries and employee benefits	10,587	10,955	11,753
Net occupancy expense	2,568	2,599	2,756
Foreclosed assets expense	2,647	5,219	2,708
Other operating expense	7,506	7,851	8,550
Total non-interest expense	23,308	26,624	25,767
INCOME (LOSS) BEFORE INCOME TAXES	117	(6,000)	(4,303)
PROVISION (BENEFIT) FOR INCOME TAXES			
Provision (benefit) for income taxes	50	(2,777)	(1,561)
Valuation allowance for deferred tax asset	(200)	12,600	–
Total provision (benefit) for income taxes	(150)	9,823	(1,561)
NET INCOME (LOSS)	267	(15,823)	(2,742)
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	1,106	1,106	1,105
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (839)	$ (16,929)	$ (3,847)
BASIC LOSS PER SHARE	$ (0.29)	$ (6.03)	$ (1.38)
DILUTED LOSS PER SHARE	$ (0.29)	$ (6.03)	$ (1.38)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands)

	2012	2011	2010
NET INCOME (LOSS)	$ 267	$ (15,823)	$ (2,742)
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(60) in 2012, $69 in 2011 and $305 in 2010	(91)	104	458
Less: reclassification adjustment for realized gains (losses) included in net loss, net of income tax credit of $354 in 2010	–	–	(531)
Comprehensive income (loss)	176	(15,719)	(2,815)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2009	$ 22	$ 2,818	$37,975	$19,685	$ 103	$60,603
Issuance of 29,640 shares of restricted stock, net of forfeitures of 7,454		22	406			428
Issuance of 3,645 shares of common stock for the employee stock purchase plan		3	32			35
Net loss				(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)
BALANCE, DECEMBER 31, 2010	$ 22	$ 2,843	$38,431	$15,838	$ 30	$ 57,164
Issuance of 40,666 shares of restricted stock, net of forfeitures of 7,437		33	44			77
Issuance of 2,628 shares of common stock for the employee stock purchase plan		3	18			21
Net loss				(15,823)		(15,823)
Accretion of discount on preferred shares			18	(18)		–
Dividend on preferred shares				(1,088)		(1,088)
Change in unrealized appreciation on available-for-sale securities, net of income taxes of $69					104	104
BALANCE, DECEMBER 31, 2011	$ 22	$ 2,879	$38,511	$(1,091)	$ 134	$40,455
Issuance of 55,155 shares of restricted stock, net of forfeitures of 6,698		48	197			245
Issuance of 6,508 shares of common stock for the employee stock purchase plan		7	20			27
Net income				267		267
Accretion of discount on preferred shares			18	(18)		–
Dividend on preferred shares				(1,088)		(1,088)
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(60)					(91)	(91)
BALANCE, DECEMBER 31, 2012	$ 22	$ 2,934	$38,746	$(1,930)	$ 43	$ 39,815

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands)

	2012	2011	2010
OPERATING ACTIVITIES			
Net income (loss)	$ 267	$ (15,823)	$ (2,742)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,686	1,661	1,298
Accretion, net of amortization of premiums and discounts on available-for-sale securities	(14)	(62)	(73)
Provision for loan losses	1,200	3,300	3,095
Provision for losses on foreclosed assets held for sale	867	3,159	734
Deferred income taxes	(150)	9,823	(1,561)
Stock dividends on FHLBank (FHLB) stock	(124)	(106)	(104)
Increase in value of bank owned life insurance	(170)	—	—
Net realized gains on available-for-sale securities	—	—	(885)
Net gain on sale of foreclosed assets	(337)	(555)	(168)
Restricted stock earned and forfeited	245	77	428
Compensation expense related to the Employee Stock Purchase Plan	3	4	3
Originations of loans held for sale	(83,477)	(66,014)	(135,930)
Proceeds from the sale of loans held for sale	81,540	68,668	136,487
Realized (gain) loss on loans held for sale fair value adjustment	2	(178)	33
Changes in:			
Interest receivable	44	210	520
Net fair value of loan related commitments	(92)	257	(128)
Income taxes receivable	—	—	2,746
Prepaid expenses and other assets	270	(172)	981
Interest payable and other liabilities	1,077	490	116
Net cash provided by operating activities	2,837	4,739	4,850
INVESTING ACTIVITIES			
Net change in loans	5,666	28,561	42,909
Proceeds from sale of loan participations	2,675	2,854	32
Purchase of premises and equipment	(417)	(499)	(226)
Proceeds from the sale of foreclosed assets, net of expenses	6,281	5,638	9,077
Purchases of available-for-sale securities	(107,192)	(64,915)	(134,932)
Proceeds from maturities of available-for-sale securities	91,000	67,000	115,000
Proceeds from sale of available-for-sale securities	—	—	29,885
Purchases of bank owned life insurance	—	(4,000)	—
Purchases of FHLB and Federal Reserve Bank stock and other securities	(79)	(100)	—
Proceeds from the redemption of FHLB stock, Federal Reserve Bank stock, and other securities	31	—	—
Net cash provided by (used in) investing activities	(2,035)	34,539	61,745
FINANCING ACTIVITIES			
Net increase in demand deposits, money market, NOW and savings accounts	25,504	4,444	23,979
Net decrease in time deposits	(31,451)	(55,249)	(72,871)
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	6,296	(3,376)	2,628
Repayments of long-term debt	—	—	(42,500)
Proceeds from long-term debt	—	—	42,500
Prepayment penalty on modification of FHLB advances	—	—	(2,569)
Net proceeds from the sale of stock through Employee Stock Purchase Plan	27	21	35
Net cash provided by (used in) financing activities	376	(54,160)	(48,798)
Increase (decrease) in cash and cash equivalents	1,178	(14,882)	17,797
Cash and cash equivalents, beginning of year	99,899	114,781	96,984
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 101,077	$ 99,899	$ 114,781

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands)

	2012	2011	2010
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash paid during the year for:			
Interest	$ 6,254	$ 8,717	$ 14,372
Income taxes, net of refunds	$ —	$ 1	$ (2,750)
Noncash investing and financing activities:			
Transfer of loans to foreclosed property, net of specific allowance	$ 10,518	$ 17,354	$ 10,352
Restricted stock issued	$ 48	$ 33	$ 22
Preferred dividends accrued but not paid	$ 1,088	$ 1,088	$ 1,087
Sale and financing of foreclosed assets	$ 1,018	$ 268	$ 819

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012, 2011 AND 2010

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. 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 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.

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.

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 and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012 at all FDIC-insured institutions. Upon expiration of this legislation on December 31, 2012, the FDIC insurance limit on noninterest-bearing transaction accounts at all FDIC-insured institutions was restored to the $250,000 FDIC insurance limit previously made effective July 21, 2011. The Company's interest-bearing cash accounts exceeded federally insured limits by approximately $495,000 at December 31, 2012.

Prior to June, 2012, the Bank was required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The Bank had no required reserve at December 31, 2012, and had a clearing balance requirement of $15,000,000 at December 31, 2011. The deposit balance held at the Federal Reserve Bank on December 31, 2012 was $66,979,000.

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. Unrealized gains and losses are excluded from earnings and are reported, 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. Realized gains and losses, based on amortized cost of the specific security, are recorded on trade date and included in non-interest income. Interest on investments in debt securities is included in income when earned.

For debt securities with fair value below amortized cost and the Company does not intend to sell the debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of the 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, 2012.

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

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

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. Gains 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.

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 unearned income, charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans recorded at amortized cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, as well as premiums and discounts, are deferred and amortized over the respective term of the loan.

Generally, the accrual of interest on loans is discontinued at the time the loan is 90 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection. Past due status is based on contractual term of the loans. Loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans placed on non-accrual or charged off is reversed against interest income. The interest on these loans is generally accounted for on a cash-basis or a cost recovery method, until conditions qualify the loan's return to accrual status. 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. Loan losses are charged against the allowance 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-impaired loans and is based on historical charge off experience, expected loss given default derived from the 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 reported as other income and foreclosed assets expense.

FHLBank Stock, Federal Reserve Bank Stock and Other Securities

FHLBank and Federal Reserve Bank stock are required investments 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

Derivatives are recognized as assets and liabilities in the consolidated balance sheet and measured at fair value.

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.

Core Deposit Intangible Assets

Intangible assets are being amortized on the straight-line basis over seven 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.

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

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 income tax expense results from changes in deferred tax assets and liabilities between periods. 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 valuation allowance at December 31, 2012 was $12,436,000. Due to the Company's losses recorded over the previous four years, the Company assessed the deferred tax asset during 2011 and recognized a $12,600,000 valuation allowance on the deferred tax asset based on historical and current information available relating to uncertainty of the Company's ability to recognize the deferred tax asset in future near term periods. As the Company recognizes profits in the future, portions of this allowance may be recognizable in future years.

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 management's judgment.

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 2009.

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

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. Net unrealized gain or loss on available-for-sale securities, net of income taxes, included in accumulated other comprehensive income was $43,000 and $134,000, respectively, at December 31, 2012 and 2011.

Reclassification

Certain reclassifications have been made to the 2011 and 2010 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on net income (loss).

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 period. 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:

	2012	2011	2010
(In thousands, except share and per share data)			
Net Income (loss)	$ 267	$ (15,823)	$ (2,742)
Dividends and accretion on preferred stock	(1,106)	(1,106)	(1,105)
Net loss available to common shareholders	$ (839)	$ (16,929)	$ (3,847)
Average common shares outstanding	2,855,566	2,806,299	2,773,039
Average common share stock options outstanding and restricted stock (B)	11,997	21,589	15,115
Average diluted common shares (B)	2,867,563	2,827,888	2,788,154
Basic loss per share	($0.29)	($6.03)	($1.38)
Diluted loss per share (A)	($0.29)	($6.03)	($1.38)

(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, 2012, 2011 and 2010, 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 0, 10,575, and 24,375 shares of common stock were outstanding at December 31, 2012, 2011 and 2010 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 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, 2012			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 63,123	$ 68	$ (43)	$ 63,148
Municipal securities	14,051	176	(153)	14,074
Equity and other securities	600	23	–	623
	$ 77,774	$ 267	$ (196)	$ 77,845

	December 31, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 60,967	$ 228	$ (24)	$ 61,171
Equity and other securities	600	19	–	619
	$ 61,567	$ 247	$ (24)	$ 61,790

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2012, 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.

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 0	$ 0
Due after one year through five years	0	0
Due after five years through ten years	410	407
Due after ten years	76,764	76,815
Total	77,174	77,222
Equity and other securities	600	623
	$ 77,774	$ 77,845

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits amounted to $5,000,000 and $4,997,080 at December 31, 2012 and $5,000,000 and $5,013,000 at December 31, 2011.

Gross gains of $0, $0, and $885,000 were realized in 2012, 2011 and 2010, respectively, and no gross losses were realized in 2012, 2011 and 2010, respectively, from sales of available-for-sale securities.

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

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, 2012 and 2011, was $33,985,000 and $19,973,000, which is approximately 43.7% and 32.3%, 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, 2012					
	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
(In thousands)						
U.S. Government sponsored agencies	$ 27,832	$ 43	$ –	$ –	$ 27,832	$ 43
Municipal securities	6,153	153	–	–	6,153	153
Total temporarily impaired securities	$ 33,985	$ 196	$ –	$ –	$ 33,985	$ 196

	December 31, 2011					
	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
(In thousands)						
U.S. Government sponsored agencies	$ 19,973	$ 24	$ –	$ –	$ 19,973	$ 24
Total temporarily impaired securities	$ 19,973	$ 24	$ –	$ –	$ 19,973	$ 24

The unrealized losses on the Company's investments in direct obligations of U.S. government sponsored agencies and municipal securities 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 bases, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2012 or 2011.

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

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, 2012, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity.

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

(In thousands)	2012	2011
Balance as of December 31	$21,668	$14,413
Carrying value of securities pledged to secure agreements to repurchase at December 31	$37,059	$24,131
Average balance during the year of securities sold under agreements to repurchase	$18,663	$16,405
Maximum amount outstanding at any month-end during the year	$22,071	$18,633

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2012 and 2011 include the following:

(In thousands)	2012	2011
Commercial loans	$ 115,520	$ 130,398
Commercial real estate loans	143,198	154,109
Construction loans	46,515	48,438
Home equity loans	49,529	59,750
Residential real estate loans	43,584	37,882
Lease financing	10,054	2,268
Consumer loans	7,271	5,998
Total loans	415,671	438,843
Less: Allowance for loan losses	9,057	13,189
Net loans	$ 406,614	$ 425,654

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

The following tables present the activity in the allowance for loan losses for the years ended December 31, 2012, 2011 and 2010:

	For the Year Ended December 31, 2012							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 2,987	$ 3,772	$ 2,721	$ 1,338	$ 2,312	$ 30	$ 29	$ 13,189
Provision charged to expense	961	2,029	(777)	(345)	(677)	25	(16)	1,200
Losses charged off	(2,030)	(2,239)	(882)	(417)	(540)	(9)	–	(6,117)
Recoveries	179	20	481	58	43	-	4	785
Balance, end of year	$ 2,097	$ 3,582	$ 1,543	$ 634	$ 1,138	$ 46	$ 17	$ 9,057

	For the Year Ended December 31, 2011							
	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 3,339	$ 3,974	$ 4,579	$ 1,262	$ 1,488	$ 38	$ 51	$ 14,731
Provision charged to expense	(52)	925	434	753	1,304	(33)	(31)	3,300
Losses charged off	(582)	(1,218)	(2,352)	(725)	(637)	–	–	(5,514)
Recoveries	282	91	60	48	157	25	9	672
Balance, end of year	$ 2,987	$ 3,772	$ 2,721	$ 1,338	$ 2,312	$ 30	$ 29	$ 13,189

	For the Year Ended December 31, 2010							
	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

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, 2012 and 2011:

	December 31, 2012							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 550	$ 1,812	$ 564	$ 143	$ 331	$ –	$ –	$ 3,400
Collectively evaluated for impairment	1,547	1,770	979	491	807	46	17	5,657
Total	$ 2,097	$ 3,582	$ 1,543	$ 634	$ 1,138	$ 46	$ 17	$ 9,057
Loans:								
Individually evaluated for impairment	$ 15,092	$ 9,437	$ 12,548	$ 1,315	$ 4,135	$ –	$ –	$ 42,527
Collectively evaluated for impairment	100,428	133,761	33,967	48,214	39,449	10,054	7,271	373,144
Total	$ 115,520	$ 143,198	$ 46,515	$ 49,529	$ 43,584	$ 10,054	$ 7,271	$ 415,671

	December 31, 2011							
	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,825	$ 3,055	$ 1,462	$ 565	$ 1,727	$ 26	$ –	$ 8,660
Collectively evaluated for impairment	1,162	717	1,259	773	585	4	29	4,529
Total	$ 2,987	$ 3,772	$ 2,721	$ 1,338	$ 2,312	$ 30	$ 29	$ 13,189
Loans:								
Individually evaluated for impairment	$ 24,625	$ 18,099	$ 16,535	$ 3,836	$ 6,981	$ 648	$ 2	$ 70,726
Collectively evaluated for impairment	105,773	136,010	31,903	55,914	30,901	1,620	5,996	368,117
Total	$ 130,398	$ 154,109	$ 48,438	$ 59,750	$ 37,882	$ 2,268	$ 5,998	$ 438,843

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, 2012 and 2011. These categories are defined as follows:

Pass – loans that exhibit acceptable financial performance, cash flow, leverage and the probability of default is considered low.

Classified – loans are inadequately protected by the current payment capacity of the obligor or by the collateral pledged. These loans are characterized by the distinct probability that the Company will sustain some loss or incur additional expenses if the deficiencies are not corrected.

	2012			2011		
(In thousands)	Pass	Classified	Total	Pass	Classified	Total
Commercial	$ 112,679	$ 2,841	$ 115,520	$ 118,396	$ 12,002	$ 130,398
Commercial real estate	136,397	6,801	143,198	144,693	9,416	154,109
Construction	35,589	10,926	46,515	33,792	14,646	48,438
Home equity	49,299	230	49,529	56,779	2,971	59,750
Residential real estate	41,228	2,356	43,584	32,002	5,880	37,882
Lease financing	10,054	–	10,054	1,960	308	2,268
Consumer	7,271	–	7,271	5,998	–	5,998
Total	$ 392,517	$ 23,154	$ 415,671	$ 393,620	$ 45,223	$ 438,843

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2012 and 2011:

	December 31, 2012						
(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	$ 110	$ –	$ 365	$ 475	$ 115,045	$ 115,520	$ –
Commercial real estate	–	–	–	–	143,198	143,198	–
Construction	–	–	910	910	45,605	46,515	–
Home equity	–		–		49,529	49,529	–
Residential real estate	766	605	569	1,940	41,644	43,584	–
Lease financing	–	–	–	–	10,054	10,054	–
Consumer	–	–	–	–	7,271	7,271	–
Total	$ 876	$ 605	$ 1,844	$ 3,325	$ 412,346	$ 415,671	$ –

	December 31, 2011						
	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	$ 703	$ 200	$ 928	$ 1,831	$ 128,567	$ 130,398	$ –
Commercial real estate	–	–	143	143	153,966	154,109	–
Construction	1,376	–	1,781	3,157	45,281	48,438	–
Home equity	–	2,165	–	2,165	57,585	59,750	–
Residential real estate	678	717	1,367	2,762	35,120	37,882	–
Lease financing	104	–	18	122	2,146	2,268	–
Consumer	–	–	–	–	5,998	5,998	–
Total	$ 2,861	$ 3,082	$ 4,237	$ 10,180	$ 428,663	$ 438,843	$ –

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

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 due from the borrower in accordance with 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.

The following tables present impaired loans for the years ended December 31, 2012, 2011 and 2010:

	December 31, 2012				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 877	$ 916	$ –	$ 694	$ 106
Commercial real estate	521	521	–	1,798	71
Construction	1,684	1,684	–	1,699	40
Home equity	–	–	–	287	4
Residential real estate	1,201	1,336	–	847	57
Lease financing	233	233	–	169	16
Consumer	–	–	–	–	–
Loans with a specific valuation allowance:					
Commercial	$ 643	$ 657	$ 241	$ 2,240	$ 42
Commercial real estate	1,537	1,567	1,000	2,741	49
Construction	10,016	10,016	490	10,915	466
Home equity	175	176	81	1,919	–
Residential real estate	3,332	3,376	1,262	3,016	183
Lease financing	–	–	–	100	–
Consumer	–	–	–	–	–
Total impaired loans:					
Commercial	$ 1,520	$ 1,573	$ 241	$ 2,934	$ 148
Commercial real estate	2,058	2,088	1,000	4,539	120
Construction	11,700	11,700	490	12,614	506
Home equity	175	176	81	2,206	4
Residential real estate	4,533	4,712	1,262	3,863	240
Lease financing	233	233	–	269	16
Consumer	–	–	–	–	–
Total	$ 20,219	$ 20,482	$ 3,074	$ 26,425	$ 1,034

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

	December 31, 2011				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 16	$ 32	$ –	$ 223	$ 56
Commercial real estate	482	514	–	1,781	109
Construction	101	101	–	1,427	–
Home equity	468	500	–	532	3
Residential real estate	904	1,014	–	1,140	17
Lease financing	–	–	–	25	67
Consumer	–	–	–	28	1
Loans with a specific valuation allowance					
Commercial	$ 3,709	$ 3,850	$ 1,281	$ 4,298	$ 171
Commercial real estate	4,819	5,357	2,257	6,793	107
Construction	14,313	14,776	1,353	18,080	454
Home equity	2,208	2,242	296	940	3
Residential real estate	3,838	4,416	1,389	3,791	149
Lease financing	307	307	25	324	21
Consumer	–	–	–	–	–
Total impaired loans:					
Commercial	$ 3,725	$ 3,882	$ 1,281	$ 4,521	$ 227
Commercial real estate	5,301	5,871	2,257	8,574	216
Construction	14,414	14,877	1,353	19,507	454
Home equity	2,676	2,742	296	1,472	6
Residential real estate	4,742	5,430	1,389	4,931	166
Lease financing	307	307	25	349	88
Consumer	–	–	–	28	1
Total	$ 31,165	$ 33,109	$ 6,601	$ 39,382	$ 1,158

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

	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	$ 220	$ 315	$ –	$ 627	$ 24
Commercial real estate	4,080	4,700	–	3,891	37
Construction	3,203	3,203	–	3,384	–
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	$ 5,541	$ 5,585	$ 1,133	$ 2,834	$ 7
Commercial real estate	8,022	8,092	1,110	10,760	–
Construction	22,318	22,430	3,039	23,662	20
Home equity	626	648	299	411	–
Residential real estate	4,618	5,480	577	6,150	–
Lease financing	402	402	3	302	–
Consumer	–	–	–	12	–
Total:					
Commercial	$ 5,761	$ 5,900	$ 1,133	$ 3,461	$ 31
Commercial real estate	12,102	12,792	1,110	14,651	37
Construction	25,521	25,633	3,039	27,046	20
Home equity	1,211	1,235	299	513	–
Residential real estate	5,897	7,404	577	7,541	–
Lease financing	542	658	3	556	2
Consumer	52	54	–	62	3
Total	$ 51,086	$ 53,676	$ 6,161	$ 53,830	$ 93

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2012 and 2011:

(In thousands)	2012	2011
Commercial	$ 1,131	$ 2,029
Commercial real estate	1,537	1,340
Construction	910	3,058
Home equity	1,084	2,676
Residential real estate	175	2,204
Lease financing	–	18
Consumer	–	–
	$ 4,837	$ 11,325

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

Included in certain loan categories in the impaired loans are loans designated as troubled debt restructurings and classified as impaired. At December 31, 2012, the Company had $1,044,000 of commercial loans, $2,058,000 of commercial real estate loans, $10,790,000 of construction loans, $3,450,000 of residential real estate loans and $233,000 of lease financing loans that were modified in troubled debt restructurings and classified as impaired.

As a result of adopting the amendments in ASU 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring,* in 2011, the Company reassessed all restructurings for identification as troubled debt restructurings. The Company identified four loans restructured during 2011 fiscal year not originally classified as troubled debt restructurings totaling $1,066,000; however, these loans were properly classified as non-accrual impaired loans at the time of restructure and thus the allowance for loan losses was measured using the impairment measurement guidance. Accordingly, there was no change in the valuation of these loans.

During the years ended December 31, 2012 and December 31, 2011, the Company modified loans in troubled debt restructuring transactions and classified the loans as impaired. The modification of terms for the troubled debt restructuring transactions included renewals of existing loans to borrowers experiencing financial difficulties at below market rates, modification to interest-only terms or extension of the amortization period.

The following table presents loans restructured and classified as troubled debt restructurings by class during the years ended December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
(In thousands)	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial	1	$ 85	$ 85	6	$ 1,417	$ 1,408
Commercial real estate	–	–	–	5	3,498	3,498
Construction	–	–	–	3	3,724	3,724
Home equity	–	–	–	–	–	–
Residential real estate	1	371	371	–	–	–
Lease financing	–	–	–	–	–	–
Consumer	–	–	–	–	–	–
Total	2	$ 456	$ 456	14	$ 8,639	$ 8,630

The following table presents troubled debt restructurings modified within the past 12 months included above that are 90 days past due or are non-accrual as of December 31, 2012:

	December 31, 2012	
	Number of Loans	Recorded Balance
(In thousands)		
Commercial	1	$ 79
Commercial real estate	–	–
Construction	–	–
Home equity	–	–
Residential real estate	–	–
Lease financing	–	–
Consumer	–	–
	1	$ 79

As of December 31, 2012, the Company had no commitments outstanding to borrowers with loans identified as troubled debt restructurings.

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of premises and equipment, stated at cost, are as follows:

(In thousands)	2012	2011
Land	$ 5,154	$ 5,154
Buildings and improvements	15,984	15,898
Furniture and equipment	8,382	8,110
	29,520	29,162
Less accumulated depreciation	14,072	13,265
Total premises and equipment	$ 15,448	$ 15,897

NOTE 5: FORECLOSED ASSETS HELD FOR SALE

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

(In thousands)	2012	2011	2010
Balance, beginning of year	$ 2,985	$ 481	$ 166
Provision charged to expense	867	3,159	734
Charge offs, net of recoveries	(668)	(655)	(419)
Balance, end of year	$ 3,184	$ 2,985	$ 481

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

(In thousands)	2012	2011	2010
Net gains on sale of foreclosed assets	$ (349)	$ (555)	$ (168)
Provision for losses	867	3,159	734
Operating expenses, net of rental income	1,361	1,921	1,656
	$ 1,879	$ 4,525	$ 2,222

NOTE 6: CORE DEPOSIT INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2012 and 2011 were:

	2012		2011	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangible	$ 1,000	$ (821)	$ 1,000	$ (679)

Amortization expense for the years ended December 31, 2012, 2011 and 2010 was $143,000, $143,000 and $219,000, respectively. Estimated amortization expense for the remainder of the amortization period is:

(In thousands)	
2013	$ 143
2014	36

NOTE 7: DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit on residential mortgages that have not closed 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 a decrease in other assets of $8,000, a decrease in other liabilities of $1,000 and a decrease in other income of $7,000 for the year ended December 31, 2012. For the year ended December 31, 2011, the Company recorded an increase in other assets of $7,000, a decrease in other liabilities of $8,000 and an increase in other income of $15,000.

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 $84,000 and an increase in other income of $84,000 for the year ended December 31, 2012. For the year ended December 31, 2011, the Company recorded a decrease in other assets of $272,000 and a decrease in other income of $272,000.

At December 31, 2012 and 2011, total mortgage loans in the process of origination amounted to $1,577,000 and $1,410,000, respectively. At December 31, 2012 and 2011, related forward commitments to sell mortgage loans amounted to approximately $7,621,000 and $7,096,000, respectively.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2012 and 2011, is disclosed in Note 20, 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 $66,840,000 on December 31, 2012 and $86,351,000 on December 31, 2011. The Company acquires brokered deposits in the normal course of business. At December 31, 2012 and 2011, brokered deposits of $27,236,000 and $34,544,000, respectively, were included in the Company's time deposit balance. Of the $27,236,000 in brokered deposits, $17,106,000 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 greater 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, 2012, the scheduled maturities of time deposits are as follows:

(In thousands)	
2013	$ 81,516
2014	18,481
2015	18,529
2016	10,345
2017	4,920
Thereafter	1,345
	$ 135,136

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, 2012 was as follows:

(In thousands)	
2013	$ 344
2014	96
2015	8
	$ 448

Consolidated rental and operating lease expenses incurred for space the Company leases from others were $0, $11,000 and $14,000 in 2012, 2011 and 2010, respectively. The Company terminated the lease for space rented from others on September 30, 2011.

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 and available-for-sale securities. At December 31, 2012 and 2011, there was no outstanding balance on the line of credit. The variable interest rate was 0.23% on December 31, 2012 and 0.26% on December 31, 2011. At December 31, 2012 approximately $2,467,000 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, 2012 and 2011, 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, 2012 approximately $37,510,000 was available. Advances are made at the discretion of the Federal Reserve Bank of Kansas City.

NOTE 11: LONG TERM DEBT

Long-term debt at December 31, 2012 and 2011 consisted of the following components:

(In thousands)	2012	2011
FHLBank advances (A)	$ 82,500	$ 82,500
Less: Deferred prepayment penalty on modification of FHLB advances	(977)	(1,654)
Net FHLBank advances	81,523	80,846
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	$ 101,111	$ 100,434

(A) Due in 2013, 2014, 2015, 2016 and 2018; collateralized by various assets including mortgage-backed loans and available-for-sale securities totaling $159,011,000 at December 31, 2012. Advances, at interest rates from 0.37% to 4.26% are subject to restrictions or penalties in the event of prepayment. FHLB advance availability is determined quarterly and at December 31, 2012, approximately $2,467,000 was available. Advances are made at the discretion of the FHLBank Topeka.

In the third quarter of 2010, the Company repaid $42,500,000 of FHLB advances by rolling the net present value of the repaid advances into the funding cost of $42,500,000 of new advances. A $2,569,000 modification fee was associated with the pay-off of 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. The unamortized modification fee at December 31, 2012 was approximately $977,000. 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% (3.56% at December 31, 2012 and 3.68% at December 31, 2011) 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. As of 2008, the Company may prepay the subordinated debentures, in whole or in part, at their face value plus accrued interest.

(C) Due in 2035; interest only at three month LIBOR + 1.60% (1.91% at December 31, 2012 and 2.18% at December 31, 2011) 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. As of 2010, the Company may prepay the subordinated debentures, in whole or in part, at their face value plus accrued interest.

NOTE 11: LONG TERM DEBT (Continued)

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 since April 24, 2009 for BVBC Capital Trust II and March 31, 2009 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. 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 pari 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 "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, 2012 are as follows:

(In thousands)	
2013	$ 20,000
2014	7,500
2015	20,000
2016	10,000
2017	-
Thereafter	44,588
	102,088
Less: Deferred prepayment penalty on modification of FHLB advances	(977)
	$ 101,111

NOTE 12: INCOME TAXES

The provision for income taxes consists of the following:

(In thousands)	2012	2011	2010
Taxes currently (refundable) payable	$ –	$ –	$ –
Deferred income taxes	(150)	9,823	(1,561)
	$ (150)	$ 9,823	$ (1,561)

NOTE 12: INCOME TAXES (Continued)

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

(In thousands)	2012	2011	2010
Computed at the statutory rate (34%)	$ 40	$ (2,040)	$ (1,463)
Increase (decrease) resulting from:			
Tax-exempt interest	(87)	(50)	(5)
State income taxes	77	(20)	124
Changes in the deferred tax asset valuation allowance	(200)	12,600	–
Other	20	(667)	(217)
Actual tax provision	$ (150)	$ 9,823	$ (1,561)

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2012 and 2011 consolidated balance sheets are as follows:

(In thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 3,351	$ 4,880
Net Operating Loss from Blue Valley Ban Corp. and subsidiary	9,153	7,733
Deferred compensation	80	123
Offering costs	180	190
Non-accrual loan interest	46	59
Other real estate owned reserve	1,178	1,215
Other	639	516
	14,627	14,716
Deferred tax liabilities:		
Accumulated depreciation	(253)	(321)
FHLB stock basis	(557)	(511)
Accumulated appreciation on available-for-sale securities	(29)	(89)
Prepaid intangibles	(177)	(185)
Core Deposit Intangible related to Unison Bancorp Inc. and subsidiary acquisition	(45)	(90)
Other	(9)	(9)
	(1,070)	(1,205)
Net deferred tax asset before valuation allowance	13,557	13,511
Valuation allowance:		
Beginning balance	(12,600)	–
(Increase) decrease during the period	164	(12,600)
Ending balance	(12,436)	(12,600)
Net deferred tax asset	$ 1,121	$ 911

The Company has unused Federal net operating loss carryforwards of $23,911,000, which expire starting in 2029. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $34,107,000 which expire between 2018 and 2022.

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 consolidated 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. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

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 (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). As of December 31, 2012 and 2011, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2012, 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, 2012 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, 2012:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 65,441	12.01%	$ 43,588	8.00%	N/A	
Bank Only	$ 72,542	13.33%	$ 43,539	8.00%	$ 54,424	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	$ 52,851	9.70%	$ 21,794	4.00%	N/A	
Bank Only	$ 65,702	12.07%	$ 21,769	4.00%	$ 32,654	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 52,851	8.10%	$ 26,084	4.00%	N/A	
Bank Only	$ 65,702	10.08%	$ 26,060	4.00%	$ 32,574	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, 2011:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 65,917	12.08%	$ 43,640	8.00%	N/A	
Bank Only	$ 70,736	12.98%	$ 43,587	8.00%	$ 54,484	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	$ 53,455	9.80%	$ 21,820	4.00%	N/A	
Bank Only	$ 63,838	11.72%	$ 21,794	4.00%	$ 32,691	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 53,455	8.04%	$ 26,609	4.00%	N/A	
Bank Only	$ 63,838	9.61%	$ 26,571	4.00%	$ 33,214	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, 2012, 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 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 "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. 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 a regulatory examination that was completed 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.

As a result of the improved financial condition of the Company and the Bank, satisfactory risk management processes and senior management oversight, and full compliance with all actionable provisions of the Agreement, the Federal Reserve Bank of Kansas City terminated the Agreement effective January 11, 2013. In order to maintain the financial soundness of the Company and the Bank, among other things, the Company and the Bank will continue to work on improvement of asset quality, maintaining an adequate allowance for loan losses, maintaining adequate capital, improving earnings, and not declaring or paying any dividends or increasing or guaranteeing any debt without prior written approval from the Federal Reserve Bank and the OSBC.

At the request of the Federal Reserve Bank of Kansas City, the Company notified the Treasury of its intention to defer the quarterly dividend payments on the Preferred Shares due to the Treasury since May 15, 2009. 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. As of December 31, 2012, the Company has deferred fifteen dividend payments. At this time, the Treasury has not elected any directors to serve on the Company's Board of Directors; however, 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, 2012, the Company had accrued $4,483,000 for the dividends and interest on outstanding Preferred Shares.

On December 18, 2012 the U.S. Treasury Department Office of Public Affairs issued a press release that stated that the Treasury will continue to conduct periodic, individual auctions of its Capital Purchase Program preferred stock and subordinated debt positions (the "CPP Securities"). According to the press release, the next auctions will include another 53 of the 218 remaining institutions in this program beginning as early as late January, 2013. The Company was listed among the 53 named. However, to date, no notification has been received by the Company that its securities are being included in the next individual or pooled auction.

NOTE 14: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2012 and 2011, the Company had loans outstanding to executive officers, directors and to companies in which the Company's and Bank's executive officers or directors were principal owners, in the amount of $13,632,000 and $12,967,000, respectively. Annual activity consisted of the following:

(In thousands)	2012	2011
Balance, beginning of year	$ 12,967	$ 20,549
New loans and advances	4,060	7,191
Repayments and reclassifications	(3,395)	(14,773)
Balance, end of year	$ 13,632	$ 12,967

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, when originated these loans did not involve more than the normal risk of collectability or present other unfavorable features.

Deposits from executive officers and directors held by the Company at December 31, 2012, and 2011 totaled $5,119,000 and $4,514,000, 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 2012, 2011 and 2010. The Company's 401(k) plan permits participants to make contributions by salary reduction, based on which the Company matches 100% of the first 3% of the employee's contribution plus 50% of the next 2% of compensation contributed by the employee. The Company's matching contributions to the 401(k) plan are vested immediately. The Company's matching contributions charged to expense for 2012, 2011 and 2010 were $234,000, $255,000 and $282,000, 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, 2012, the Company had 102,184 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.

NOTE 16: EQUITY INCENTIVE COMPENSATION (Continued)

During 2012, 2011 and 2010, the Company granted no stock options, but did grant 55,155, 40,666 and 29,640 shares of restricted common stock, respectively. Restricted stock grants to the President of the Company vest immediately at such time when the United States Department of Treasury no longer holds any equity securities of the Company acquired through the TARP Capital Purchase Program. Other 2012 recipients of the restricted stock grant who are employees vested immediately. 2011 and 2010 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 2012, 2011 and 2010. The non-vested shares were 30,730, 40,529, and 49,308 as of December 31, 2012, 2011 and 2010, respectively. The cost basis of the restricted shares granted which is 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. Expenses associated with restricted stock grants were $272,000, $300,000, and 608,000 for 2012, 2011 and 2010, respectively. The amount of unrecognized compensation costs was $97,000, $127,000, and $264,000 as of December 31, 2012, 2011, and 2010, respectively. During 2012, 2011 and 2010, 0, 7,437 and 7,454 shares of restricted stock were forfeited, respectively.

A summary of the status of option shares under the plan at December 31, 2012, 2011 and 2010, and changes during the years then ended, is presented below:

	2012		2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	10,575	$ 25.00	24,375	$ 22.07	33,875	$ 20.51
Exercised	–	–	–	–	–	–
Forfeited	10,575	25.00	13,800	19.82	9,500	16.50
Outstanding, end of year	0	$ 0.00	10,575	$ 25.00	24,375	$ 22.07
Intrinsic value of shares exercised	$ –		$ –		$ –	
Options exercisable, end of year	0	$ 0.00	10,575	$ 25.00	24,375	$ 22.07

There were no options outstanding and exercisable as of December 31, 2012.

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 2012, 2011 and 2010 was approximately $3,000, $4,000 and $3,000, respectively. Information about employee stock purchase plan activity as of December 31, 2012, 2011 and 2010 is set forth in the following table.

	Employee Stock Purchase Plan Activity	
Plan year ending January	Shares purchased	Purchase Price
2012	6,508	$ 3.49
2011	2,628	$ 6.80
2010	3,465	$ 8.71

NOTE 18: OTHER INCOME/EXPENSE

Other income consists of the following:

(In thousands)	2012	2011	2010
Rental income	$ 556	$ 378	$ 264
Realized gain on foreclosed assets	521	578	434
Other income	458	28	447
Total	$ 1,535	$ 984	$ 1,145

Other operating expenses consist of the following:

(In thousands)	2012	2011	2010
FDIC assessments	$ 1,324	$ 1,509	$ 2,076
Professional fees	1,383	1,237	1,520
Data processing	1,104	1,110	1,278
ATM and network fees	745	758	743
Loan processing fees	194	283	308
Other expense	2,756	2,954	2,625
Total	$ 7,506	$ 7,851	$ 8,550

NOTE 19: 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 Topic 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 differences between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale were gains of $32,000 at December 31, 2012 and $34,000 at December 31, 2011 and a loss of $144,000 at December 31, 2010. Losses from fair value changes included in loans held for sale fee income were $2,000 and $33,000 for the years ended December 31, 2012 and 2010, respectively, and income from fair value changes included in loans held for sale fee income was $178,000 for the year ended December 31, 2011. 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 20 for additional disclosures regarding fair value of mortgage loans held for sale.

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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.

Recurring Measurements

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, 2012 and 2011:

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2012:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 63,148	$ –	$ 63,148	$ –
State and political subdivision securities	14,074	–	14,074	–
Equity and other securities	623	623	–	–
Mortgage loans held for sale	7,621	–	7,621	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	184	–	–	184
Total assets	$ 85,650	$ 623	$ 84,843	$ 184
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	1	–	–	1
Total liabilities	$ 1	$ –	$ –	$ 1
December 31, 2011:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 61,171	$ –	$ 61,171	$ –
Equity and other securities	619	619	–	–
Mortgage loans held for sale	5,686	–	5,686	–
Commitments to originate loans	8	–	–	8
Forward sales commitments	100	–	–	100
Total assets	$ 67,584	$ 619	$ 66,857	$ 108
Liabilities:				
Commitments to originate loans	$ 1	$ –	$ –	$ 1
Forward sales commitments	–	–	–	–
Total liabilities	$ 1	$ –	$ –	$ 1

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the Company's consolidated balance sheets, as well as the general classification of such assets and liabilities 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. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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

The fair value of commitments to originate loans and the fair value of forward sales commitments are estimated 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.

Level 3 Reconciliation

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

(In thousands)	Commitments to Originate Loans	Forward Sales Commitments
Balance as of December 31, 2011	$ 7	$ 100
Total realized and unrealized gains (losses):		
Included in net income (loss)	(7)	83
Balance as of December 31, 2012	$ –	$ 183
Balance as of December 31, 2010	$ (8)	$ 372
Total realized and unrealized gains (losses):		
Included in net income (loss)	15	(272)
Balance as of December 31, 2011	$ 7	$ 100

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Realized and unrealized gains and losses for items reflected in the table above are included in other income in the consolidated statement of operations.

Nonrecurring Measurements

The following table presents the fair value measurements at December 31, 2012 and 2011 of assets and liabilities measured at fair value on a non-recurring basis during the respective year:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2012:				
Impaired loans, net of reserves	$ 5,480	$ –	$ –	$ 5,480
Foreclosed assets held for sale, net	17,894	–	–	17,894
	$ 23,374	$ –	$ –	$ 23,374
December 31, 2011:				
Impaired loans, net of reserves	$ 21,139	$ –	$ –	$ 21,139
Foreclosed assets held for sale, net	12,826	–	–	12,826
	$ 33,965	$ –	$ –	$ 33,965

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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 estimating fair value 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 and the assets are recorded at the lower of carrying amount or fair value less cost to sell.

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at 12/31/12		Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Commitments to Originate Loans	$	–	Market comparable prices	Quoted prices for similar loans Estimated Customer Fallout Rate	NA
Forward Sales Commitments	$	183	Market comparable prices	Quoted prices for similar loans	2.75%-3.375% (3.17%)
Collateral-dependent impaired loans	$	5,480	Market comparable properties	Quoted prices for similar loans	9.00%-80.00% (18.00%)
Foreclosed assets held for Sale, net	$	17,894	Market comparable properties	Comparability adjustments (%)	Not available

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Commitments to Originate Loans

The significant unobservable inputs used in the fair value measurement of the Company's commitments to originate loans are the discount rate and estimated customer fallout rate. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, changes in either of those inputs will not affect the other input.

Forward Sales Commitments

The significant unobservable input used in the fair value measurement of the Company's forward sales commitment is the discount rate. Significant increases (decreases) in this input would result in a significantly lower (higher) fair value measurement.

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments not previously disclosed at December 31, 2012 and 2011.

	2012		2011	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	$ 101,077	$ 101,077	$ 99,899	$ 99,899
Loans, net of allowance for loan losses (Level 3)	406,614	408,041	425,654	428,698
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities (Level 3)	7,540	7,540	7,369	7,369
Interest receivable (Level 3)	1,529	1,529	1,573	1,573
Financial liabilities:				
Deposits (Level 3)	484,466	487,059	490,413	492,688
Securities sold under agreement to repurchase and other interest-bearing liabilities (Level 3)	21,668	21,668	15,372	15,372
Long-term debt (Level 3)	101,111	95,216	100,434	94,411
Interest payable (Level 3)	4,166	4,166	3,228	3,228
Unrecognized financial instruments (net of amortization):				
Commitments to extend credit (Level 3)	–	–	–	–
Letters of credit (Level 3)	–	–	–	–
Lines of credit (Level 3)	–	–	–	–

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

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these deposits approximates fair value. 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.

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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 the fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer prices for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

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

The fair value of commitments to originate loans 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.

NOTE 21: 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, 2012 and 2011, the Company had outstanding commitments to originate loans aggregating approximately $28,268,000 and $22,744,000, 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. Total mortgage loans in the process of origination amounted to $1,577,000 and $1,410,000 at December 31, 2012 and 2011, respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates. Mortgage loans held for sale amounted to $7,621,000 and $5,686,000 at December 31, 2012 and 2011, respectively.

Forward commitments to sell mortgage loans are obligations to sell loans at a specified price on or before a specified future date. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Company is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Related forward commitments to sell mortgage loans amounted to approximately $7,621,000 and $7,096,000 at December 31, 2012 and 2011, respectively.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit 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 $889,000 and $853,000 at December 31, 2012 and 2011, respectively, with terms ranging from one year to three years with the majority expiring in one year.

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, 2012, the Company had unused lines of credit to borrowers aggregating approximately $146,913,000 for commercial, commercial real estate and construction lines and $33,570,000 for open-end consumer lines of credit. At December 31, 2011, the Company had unused lines of credit to borrowers aggregating approximately $141,238,000 for commercial, commercial real estate and construction lines and $38,446,000 for open-end consumer lines of credit.

NOTE 21: COMMITMENTS, CREDIT RISKS AND CURRENT ECONOMIC CONDITIONS (Continued)

The Bank is subject to possible future repurchase and indemnification demands for future losses realized by investors for alleged breaches of representations and warranties on mortgage loans previously sold to investors. The financial services industry has been materially and adversely impacted by a prolonged period of negative economic conditions, including but not limited to high levels of unemployment, declines in asset values, as well as delinquencies and defaults on loans. These defaults on loans include possible "strategic defaults" which are characterized by borrowers that appear to have the financial means to meet the debt service requirements of their loans, however, elect not to do so because the value of the assets securing their debts may have declined below the amount of the debt or in consideration of statutory restrictions which impede a lender's ability to exercise prudent collection efforts or foreclose in an efficient manner. For three years ending December 31, 2012, the Company has repurchased 1 loan from an investor totaling $458,000 for which no losses have been recognized. Additionally, during the three years ending December 31, 2012, the Company has recognized indemnification losses totaling approximately $255,000 for loans previously sold to investors. The financial statements have been prepared using values and information currently available to the Company; however, there can be no assurance that the impact of these conditions will cease or reverse to mitigate possible risk of future potential losses by the Bank.

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated 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.

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 and capital that could negatively impact the Company's and Bank's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's and Bank's regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company's and Bank's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

NOTE 22: 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 23: 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: Nat ure of Operations and Summary of Significant Accounting Policies" in the Company's Consolidated Financial Statements.

	2012				2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 6,002	$ 6,097	$ 6,060	$ 6,224	$ 6,736	$ 6,837	$ 6,631	$ 6,651
Interest expense	1,636	1,737	1,849	1,970	2,098	2,207	2,410	2,540
Net interest income	4,366	4,360	4,211	4,254	4,638	4,630	4,221	4,111
Provision for loan losses	-	650	100	450	600	700	2,000	-
Net interest income after provision for loan losses	4,366	3,710	4,111	3,804	4,038	3,930	2,221	4,111
Non-interest income	1,981	2,165	1,678	1,610	1,758	1,717	1,445	1,404
Non-interest expense	6,188	5,524	5,866	5,730	6,882	7,672	5,882	6,188
Income (loss) before income taxes	159	351	(77)	(316)	(1,086)	(2,025)	(2,216)	(673)
Provision (benefit) for income taxes	(147)	(1)	(1)	(1)	10,136	-	(69)	(244)
Net income (loss)	306	352	(76)	(315)	(11,222)	(2,025)	(2,147)	(429)
Dividends on preferred shares	290	272	272	272	290	290	272	272
Net income (loss) available to common shareholders	$ 16	$ 80	$ (348)	$ (587)	$ (11,512)	$ (2,297)	$ (2,419)	$ (701)
Net Income (loss) per Share Data								
Basic	$ 0.01	$ 0.03	$ (0.12)	$ (0.21)	$ (4.10)	$ (0.82)	$ (0.86)	$ (0.25)
Diluted	$ 0.01	$ 0.03	$ (0.12)	$ (0.21)	$ (4.10)	$ (0.82)	$ (0.86)	$ (0.25)
Balance Sheet								
Total assets	$657,005	$662,917	$656,457	$671,946	$654,452	$677,511	$691,580	$693,776
Total loans, net	406,614	421,243	419,928	427,094	425,654	442,496	443,878	462,009
Stockholders' equity	39,815	39,573	39,440	39,833	40,455	51,912	54,310	56,368

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 24: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2012 and 2011

(In thousands)	2012	2011
ASSETS		
Cash and cash equivalents	$ 646	$ 743
Investments in subsidiaries:		
Bank of Blue Valley	65,924	64,282
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	18	55
Total Assets	$ 67,176	$ 65,668
LIABILITIES		
Subordinated debentures	$ 19,588	$ 19,588
Other liabilities	7,773	5,625
Total Liabilities	27,361	25,213
STOCKHOLDERS' EQUITY		
Preferred Stock	22	22
Common stock	2,934	2,879
Additional paid-in capital	38,746	38,511
Retained earnings (Accumulated deficit)	(1,930)	(1,091)
Accumulated other comprehensive income, net of income tax of $29 and $89 as of December 31, 2012 and 2011, respectively	43	134
Total Stockholders' Equity	39,815	40,455
Total Liabilities and Stockholders' Equity	$ 67,176	$ 65,668

NOTE 24: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Operations
Years Ended December 31, 2012, 2011 and 2010

(In thousands)	2012	2011	2010
Income			
Dividends from subsidiaries	$ –	$ –	$ –
Other income	20	19	20
	20	19	20
Expenses	1,486	1,291	1,496
Loss before income taxes and equity in undistributed net loss of subsidiaries	(1,466)	(1,272)	(1,476)
Income tax (benefit)	(494)	(1,142)	(531)
Valuation allowance on deferred tax asset	494	2,169	–
Loss before equity in undistributed net loss of subsidiaries	(1,466)	(2,299)	(945)
Equity in undistributed net loss of subsidiaries	1,733	(13,524)	(1,797)
Net income (loss)	$ 267	$ (15,823)	$ (2,742)

Condensed Statements of Comprehensive Income (Loss)
Years Ended December 31, 2012, 2011 and 2010

(In thousands)	2012	2011	2010
Net income (loss)	$ 267	$ (15,823)	$ (2,742)
Other comprehensive income (loss)			
Change in un realized appreciation on available-for-sale securities, net of income taxe s (credit) of $(60) in 2012, $69 in 2011 and $(49) in 2010	(91)	104	(73)
Comprehensive income (loss)	$ 176	$ (15,719)	$ (2,815)

NOTE 24: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2012, 2011 and 2010

(In thousands)	2012	2011	2010
OPERATING ACTIVITIES			
Net Income (loss)	$ 267	$ (15,823)	$ (2,742)
Items not requiring (providing) cash:			
Deferred income taxes	0	1,197	(417)
Equity in undistributed net loss (income) of subsidiaries	(1,733)	13,524	1,797
Restricted stock earned	245	77	428
Changes in:			
Other assets	37	(38)	–
Other liabilities	1,060	943	842
Net cash used in operating activities	(124)	(120)	(92)
INVESTING ACTIVITIES			
Capital contributed to subsidiary	–	–	–
Net cash used in investing activities	–	–	–
FINANCING ACTIVITIES			
Proceeds from sale of common stock through Employee Stock Purchase Plan (ESPP)	27	21	35
Net cash provided by financing activities	27	21	35
DECREASE IN CASH AND CASH EQUIVALENTS	(97)	(99)	(57)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	743	842	899
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 646	$ 743	$ 842

blue valley ban corp.

STOCKHOLDER INFORMATION 2012

corporate office

11935 Riley
PO Box 26128
Overland Park, KS 66225-6128
913.338.1000 l 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 15, 2013 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 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 quoted on the OTCQB 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

Stifel, Nicolaus & Company, Incorporated
One Financial Plaza
501 N Broadway, 9th Floor
St. Louis, MO 63102-2102
Local trading desk: 913.345.4200

BlueValley Ban Corp.

Member FDIC

A place where YOU are known!

OVERLAND PARK | 11935 RILEY | OVERLAND PARK, KS 66213

OLATHE | 1235 E. SANTA FE | OLATHE, KS 66061

SHAWNEE | 5520 HEDGE LANE TERRACE | SHAWNEE, KS 66226

LEAWOOD | 13401 MISSION ROAD | LEAWOOD, KS 66209

LENEXA | 9500 LACKMAN ROAD | LENEXA, KS 66219

WWW.BANKBV.COM | 913.338.1000

EQUAL HOUSING LENDER