Blue Valley Ban Corp.

SERVING KANSAS CITY FOR A QUARTER OF A CENTURY

COMMUNITY PHILANTHROPY ENTREPRENEURSHIP

25 YEARS OF SERVING

ROBERT D. REGNIER
PRESIDENT & CEO

As we celebrate our 25th year of serving Kansas City and I reflect on the timeline and events highlighted in this annual report, it reminds me of all the great moments we've shared over the past quarter of a century.

Each year brought with it new challenges and new opportunities to form relationships and to better serve our customers and our community.

Our strategic plan for 2014 set forth very aggressive goals for our Company, and I am pleased to report that we achieved those goals and we are well-positioned for 2015 and beyond.

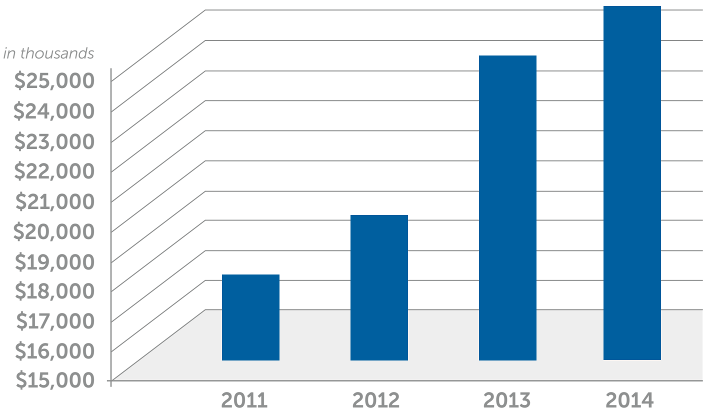
During 2014, we reduced our nonperforming assets by $11.2 million or 34.0%. As of December 31, 2014 our nonperforming assets accounted for only 3.4% of our total assets. We enhanced our leadership team with the promotion of several key officers and the addition of significant talent to both our Company's and our Bank's Board of Directors. Earnings and prudent asset management have enabled us to continue the expansion of our Bank's excess regulatory capital. Since 2011, we have expanded our Bank's excess regulatory capital by $8.8 million or 54.4%. As of December 31, 2014, the Bank had $25.1 million of capital in excess of what is required to be considered "Well Capitalized" by regulatory standards. The Bank's total regulatory capital as of December 31, 2014 exceeded $75.4 million which puts us in a good position going forward.

1989
Opened for business in a double-wide trailer on the corner of 119th & Metcalf in Overland Park, KS

1994
Growth through acquisition – Olathe banking center opens

KANSAS CITY

BANK'S EXCESS REGULATORY CAPITAL



Since 2010, one of the primary contributing factors to the strengthening of our capital position has been the expanding contribution of our net interest margin and net interest income to our earnings. We have seen our net interest margin grow 111 basis points from 2.23% as of December 31, 2010 to 3.34% as of December 31, 2014. During that period, our net interest income has increased $2.2 million, or 14.0%, from $15.9 million to $18.2 million.

We engaged creative expertise from within and outside of our organization to refine our messaging and communications

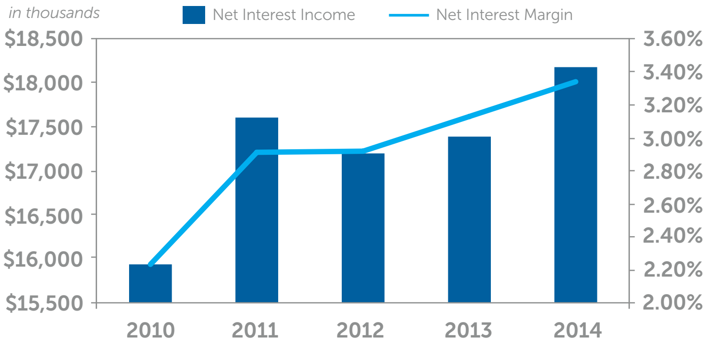
BANK EXECUTIVE TEAM

Mark A. Fortino	Bruce A. Easterly	Robert D. Regnier	Bonnie M. McConnaughy	Steve H. Fleischaker
Executive Vice President & Chief Operating Officer	*Executive Vice President & Chief Lending Officer*	*Chairman, President & Chief Executive Officer*	*Senior Vice President, Operations*	*Senior Vice President, Director of Sales & Business Development*

1994
Completed construction of new headquarters building (moved out of double-wide trailer)

1994
Began offering Wealth Management Trust Services

EXPANSION OF NET INTEREST MARGIN & NET INTEREST INCOME



From our very first day, we've aspired to give back to the community that has fostered our success, and 2014 was no exception. Last year, the Bank and our employees donated more than $288,000 to a variety of community causes, charities, and non-profits. It is important for our Company to embody a strong philanthropic presence because of the important role we play in helping the community grow and prosper. **This is why we are proud to have given over $3 million to nearly 600 local non-profits over the past 25 years.**

to clarify our brand and our identity — those tangible and intangible qualities that set us apart from other organizations. We listened to our staff, our board, our stockholders, and most importantly, our customers, who reminded us of the three pillars that have defined us since our inception 25 years ago: Community, Philanthropy and Entrepreneurship.

I have always believed that if we create a better environment for our customers and community members, business will flourish and people will seek this community as a place to live, work, and raise a family. We've seen this happen over 25 years as our Company has grown with our community. In 2014, our total deposits grew by over $20 million or 4.55%.

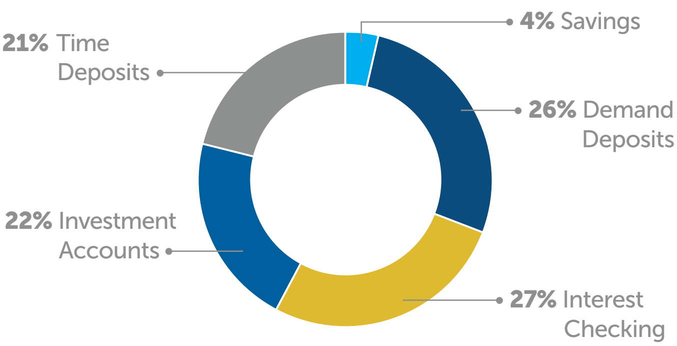
BANK BOARD

Don H. Alexander	Steven D. Wilkinson	Charles H. Hunter	Robert D. Regnier	William "Ryan" Wilkerson IV	Richard L. Bond
President, Alexander & Associates, Inc.	*Former President & CEO of Menorah Medical Center*	*Principal, Kessinger/ Hunter & Company*	*Chairman, President & CEO*	*President & CEO of Haas & Wilkerson Insurance*	*Consultant, Midwest Trust Co. & former Kansas Senate President*

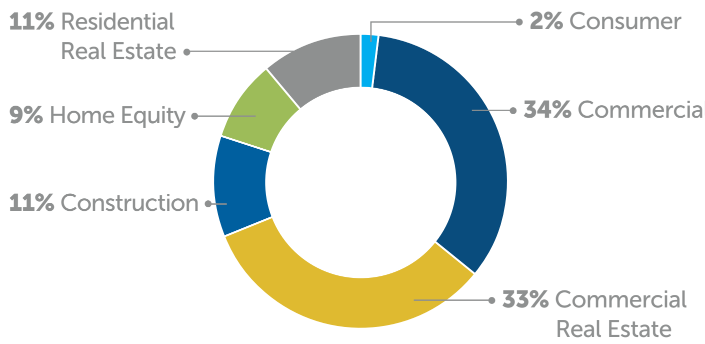
1999
Began offering Wealth Management Investment Brokerage Services

2000
Became a public company

COMPOSITION OF DEPOSIT PORTFOLIO



COMPOSITION OF LOAN PORTFOLIO



Inclusive of this growth, the mix of our deposit portfolio as of December 31, 2014 is reflective of the diverse composition and needs of our customers.

Over the past 25 years, Bank of Blue Valley has taken pride in assisting individuals and entrepreneurs. The Bank continues to support the growth of the Kansas City community by being an active lender to area businesses and offering customizable solutions to help business owners achieve their financial goals. We have a diverse range of lending products to offer which is reflected in the composition of our loan portfolio as of December 31, 2014.

Our success in being a community-minded, philanthropic, entrepreneurial organization starts with our leadership. Our staff is consistently recognized in local publications for their leadership and outstanding service. **Over 28% of our employees and 62% of our officer staff have been with us for 10 or more years. The tenure of our employees is a significant component of our success and we are grateful for their continued loyalty.** This past December we promoted Mark Fortino, a seventeen-year employee to Executive Vice President and Chief Operating Officer of the Bank. We further enhanced our senior leadership team with the promotion of Steve Fleischaker, a fourteen-year employee, to Senior Vice President and Director of Sales and Business Development for the Bank. Mark and Steve, together with Bruce Easterly, Executive Vice President and Chief Lending Officer, and Bonnie McConnaughy, Senior Vice President, Operations, have contributed greatly to our success in the past and will be instrumental to our success going forward.

The strength of our Company and Bank Boards has been at the heart of our success since our inception. We have been fortunate to have attracted many great community leaders to our boards over the years. However, our addition of four new directors at one time is unprecedented for the organization.

- Thomas A. McDonnell, is an experienced business leader with a track record of building global organizations that are both innovative and philanthropic.
- Anne D. St. Peter is the founder of a high-growth, digital marketing and advertising agency.
- William "Ryan" Wilkerson IV is the President and CEO of a third-generation Kansas City risk management and insurance brokerage firm.
- Steven D. Wilkinson is the immediate past CEO of a major local medical center whose vision and passion over the

2001
Shawnee banking center opens

2004
Leawood banking center opens

2007
Growth through acquisition – Lenexa banking center opens

past 17 years helped them grow and expand to become one of Kansas City's best-known healthcare assets.

Tom, Anne, Ryan and Steve are all very successful in their respective careers, are highly regarded in the Kansas City community and will contribute significantly to the governance of both the Company and the Bank. I have had the good fortune to know and work with each of them and can speak to the fact they all embody our values of community, philanthropy and entrepreneurship.

We are looking forward to 2015 as we refine the Company's sales management process with the goal of cultivating new customer relationships, expanding existing customer relationships, prudent asset and deposit growth, and increasing non-interest income. We will continue to invest in our employees and we will look to enhance our market perception through active communication strategies and continued support and involvement in civic and community events, which have been at the core of our values since our inception.

Community, Philanthropy, and Entrepreneurship will continue to drive the decisions we make every day. Thank you for the relationship that we've enjoyed with each other over the past Quarter of a Century.

Robert D. Regnier
President & CEO

HOLDING COMPANY BOARD

Thomas A. McDonnell	Robert D. Taylor	Anne D. St. Peter	Robert D. Regnier	Don H. Alexander	James L. Gegg
Former CEO of DST Systems & Kauffman Foundation	*Chairman Emeritus & Director, Executive AirShare Corporation*	*Founder of Global Prairie*	*Chairman, President & CEO*	*President, Alexander & Associates, Inc.*	*Former Managing Partner with PricewaterhouseCoopers LLP*

2014
Celebrated serving Kansas City for a Quarter of a Century

BLUE VALLEY BAN CORP.

DECEMBER 31, 2014, 2013 AND 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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., which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated 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.

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.

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, 2014, 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.

/s/ BKD, LLP

Kansas City, Missouri
March 20, 2015

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, 2013, 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, 2013. 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 consolidated 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 consolidated 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, 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 28, 2014

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

(In thousands, except share data)

ASSETS

	2014	2013
Cash and due from banks	$ 26,575	$ 26,428
Interest bearing deposits in other financial institutions	42,442	14,071
Cash and cash equivalents	69,017	40,499
Available-for-sale securities	91,372	100,657
Mortgage loans held for sale, fair value	588	1,438
Loans, net of allowance for loan losses of $6,386 and $8,992 in 2014 and 2013, respectively	416,407	405,803
Premises and equipment, net	16,226	15,466
Foreclosed assets held for sale, net	16,758	25,801
Interest receivable	1,603	1,736
Deferred income taxes	13,445	4,205
Prepaid expenses and other assets	7,539	6,231
FHLBank stock, Federal Reserve Bank stock, and other securities	5,490	7,250
Total assets	$ 638,445	$ 609,086

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2014	2013
LIABILITIES		
Deposits		
Demand	$ 120,974	$ 100,965
Savings, NOW and money market	248,166	233,335
Time	99,619	114,068
Total deposits	468,759	448,368
Other interest-bearing liabilities	30,780	32,335
Long-term debt	71,528	77,887
Interest payable and other liabilities	8,918	8,268
Total liabilities	579,985	566,858
STOCKHOLDERS' EQUITY		
Capital stock		
Preferred stock, $1 par value, $1,000 liquidation preference Authorized 15,000,000 shares; issued and outstanding 2014 – 21,750 shares; 2013 – 21,750 shares	22	22
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2014 – 4,649,001 shares; 2013 – 4,326,704 shares	4,649	4,327
Additional paid-in capital	45,328	44,010
Retained earnings (Accumulated deficit)	9,030	(1,992)
Accumulated other comprehensive income (loss), net of income tax (credit) of $(380) in 2014 and $(2,759) in 2013	(569)	(4,139)
Total stockholders' equity	58,460	42,228
Total liabilities and stockholders' equity	$ 638,445	$ 609,086

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In thousands, except per share data)

	2014	2013	2012
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 20,283	$ 20,800	$ 22,852
Federal funds sold and other short-term investments	97	135	193
Available-for-sale securities	2,062	1,683	1,097
Dividends on FHLBank and Federal Reserve Bank stock	242	239	241
Total interest and dividend income	22,684	22,857	24,383
INTEREST EXPENSE			
Interest-bearing demand deposits	269	313	700
Savings and money market deposit accounts	305	275	291
Time deposits	1,247	1,661	2,487
Federal funds purchased and other interest-bearing liabilities	25	26	44
Long-term debt, net	2,668	3,196	3,670
Total interest expense	4,514	5,471	7,192
NET INTEREST INCOME	18,170	17,386	17,191
PROVISION FOR LOAN LOSSES	400	950	1,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,770	16,436	15,991
NON-INTEREST INCOME			
Loans held for sale fee income	628	1,456	2,447
NSF charges and service fees	892	968	980
Trust services	602	560	543
Investment brokerage services	509	500	434
Other service charges	1,375	1,418	1,495
Realized gains on available-for-sale securities	36	127	–
Other income	1,599	3,443	1,535
Total non-interest income	5,641	8,472	7,434
NON-INTEREST EXPENSE			
Salaries and employee benefits	10,826	11,079	10,587
Net occupancy expense	2,716	2,620	2,568
Foreclosed assets expense	2,426	3,612	2,647
Other operating expense	6,238	6,855	7,506
Total non-interest expense	22,206	24,166	23,308
INCOME BEFORE INCOME TAXES	1,205	742	117
PROVISION (BENEFIT) FOR INCOME TAXES			
Provision for income taxes	377	200	50
Valuation allowance for deferred tax asset	(11,934)	(500)	(200)
Total provision (benefit) for income taxes	(11,557)	(300)	(150)
NET INCOME	12,762	1,042	267
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	1,740	1,104	1,106
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 11,022	$ (62)	$ (839)
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ 2.40	$ (0.02)	$ (0.29)
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ 2.40	$ (0.02)	$ (0.29)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)

	2014	2013	2012
NET INCOME	$ 12,762	$ 1,042	$ 267
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $2,370 in 2014, $(2,710) in 2013 and $(60) in 2012	3,591	(4,106)	(91)
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $15 in 2014 and $51 in 2013	(21)	(76)	–
Comprehensive income (loss)	$ 16,332	$ (3,140)	$ 176

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(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, 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)
Other comprehensive loss					(91)	(91)
BALANCE, DECEMBER 31, 2012	$ 22	$ 2,934	$38,746	$ (1,930)	$ 43	$ 39,815
Issuance of 44,210 shares of restricted stock, net of forfeitures of 567		44	244			288
Issuance of 4,748 shares of common stock for the employee stock purchase plan		5	14			19
Issuance of 1,344,000 shares of common stock		1,344	4,989			6,333
Net income				1,042		1,042
Accretion of discount on preferred shares			17	(17)		–
Dividend on preferred shares				(1,087)		(1,087)
Other comprehensive loss					(4,182)	(4,182)
BALANCE, DECEMBER 31, 2013	$ 22	$ 4,327	$44,010	$ (1,992)	$ (4,139)	$ 42,228
Issuance of 40,674 shares of restricted stock, net of forfeitures of 2,363		38	236			274
Issuance of 6,877 shares of common stock for the employee stock purchase plan		7	24			31
Issuance of 277,109 shares of common stock		277	1,058			1,335
Net income				12,762		12,762
Dividend on preferred shares				(1,740)		(1,740)
Other comprehensive income					3,570	3,570
BALANCE, DECEMBER 31, 2014	$ 22	$ 4,649	$45,328	$ 9,030	$ (569)	$ 58,460

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In thousands)

	2014	2013	2012
OPERATING ACTIVITIES			
Net income	$ 12,762	$ 1,042	$ 267
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,149	1,671	1,686
Amortization, net of (accretion) of premiums and discounts on available-for-sale securities	286	269	(14)
Provision for loan losses	400	950	1,200
Provision for losses on foreclosed assets held for sale	1,006	2,147	867
Deferred income taxes	(11,557)	(300)	(150)
Stock dividends on FHLBank stock	(127)	(121)	(124)
Increase in value of bank owned life insurance	(169)	(167)	(170)
Net realized gains on available-for-sale securities	(36)	(127)	—
Net gain on sale of foreclosed assets	(153)	(1,069)	(337)
Restricted stock earned and forfeited	274	288	245
Compensation expense related to the Employee Stock Purchase Plan	4	4	3
Originations of loans held for sale	(29,046)	(53,278)	(83,477)
Proceeds from the sale of loans held for sale	29,915	59,423	81,540
Realized (gain) loss on loans held for sale fair value adjustment	(18)	38	2
Changes in:			
Interest receivable	133	(207)	44
Net fair value of loan related commitments	37	168	(92)
Prepaid expenses and other assets	(1,213)	(95)	270
Interest payable and other liabilities	(1,157)	(2,769)	1,077
Net cash provided by operating activities	3,490	7,867	2,837
INVESTING ACTIVITIES			
Net change in loans	(19,907)	(11,170)	5,666
Proceeds from sale of loan participations	10,606	9,698	2,675
Purchase of premises and equipment	(1,731)	(905)	(417)
Proceeds from the sale of foreclosed assets, net of expenses	6,892	7,022	6,281
Capitalized expenditures on foreclosed assets held for sale	(406)	(254)	—
Purchase of priority lien on foreclosed assets held for sale	—	(378)	—
Purchases of available-for-sale securities	(13,593)	(66,006)	(107,192)
Proceeds from maturities of available-for-sale securities	15,000	29,923	91,000
Proceeds from sale of available-for-sale securities	13,578	6,159	—
Purchases of FHLBank and Federal Reserve Bank stock and other securities	(73)	(3)	(79)
Proceeds from the redemption of FHLBank stock, Federal Reserve Bank stock, and other securities	1,960	414	31
Net cash provided by (used in) investing activities	12,326	(25,500)	(2,035)
FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	34,840	(15,030)	25,504
Net decrease in time deposits	(14,449)	(21,068)	(31,451)
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	(1,555)	10,667	6,296
Repayments of long-term debt	(7,500)	(20,000)	—
Prepayment penalty on modification of FHLBank advances	—	(3,866)	—
Proceeds from sale of additional stock	85	—	—
Proceeds from sale of additional stock through rights offering	1,250	6,333	—
Net proceeds from the sale of stock through Employee Stock Purchase Plan	31	19	27
Net cash provided by (used in) financing activities	12,702	(42,945)	376
Increase (decrease) in cash and cash equivalents	28,518	(60,578)	1,178
Cash and cash equivalents, beginning of year	40,499	101,077	99,899
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 69,017	$ 40,499	$ 101,077

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(In thousands)

	2014	2013	2012
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash paid during the year for:			
Interest	$ 4,261	$ 8,648	$ 6,254
Income taxes, net of refunds	$ 53	$ —	$ —
Noncash investing and financing activities:			
Transfer of loans to foreclosed property, net of specific allowance	$ 1,903	$ 4,371	$ 10,518
Restricted stock issued	$ —	$ 50	$ 48
Preferred dividends accrued but not paid	$ 1,740	$ 1,087	$ 1,088
Sale and financing of foreclosed assets	$ 3,607	$ 3,038	$ 1,018

See Notes to Consolidated Financial Statements

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

Nature of Operations

The Company is a holding company for Bank of Blue Valley (the "Bank"), BVBC Capital Trust II and BVBC Capital Trust III, through 100% ownership of each.

The Bank is primarily engaged in providing a full range of banking and mortgage services to consumer and commercial 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.

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.

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

Evaluation of Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.

Effect of New Financial Accounting Standards

In January, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. ASU 2014-04 clarifies that an insubstance foreclosure, repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy the borrower’s obligation for the loan through completion of a deed in lieu of foreclosure or through a similar agreement. Additional disclosures are required. ASU 2014-4 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The Company’s adoption of ASU 2014-04 is not expected to have a material impact on its financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provided guidance applicable to contracts with customers so that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For financial institutions, significant changes are not expected because most financial instruments are not in the scope of the Update. ASU 2014-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard.

Cash and Cash Equivalents

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

The Company’s interest-bearing cash accounts exceeded the $250,000 FDIC insurance limits by approximately $83,000 at December 31, 2014.

The Bank had no required reserve at December 31, 2014. The deposit balance held at the Federal Reserve Bank on December 31, 2014 was $42,109,000.

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

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 for which 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, 2014.

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 payoff, 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 when loans are placed on non-accrual or charged off, which reduces 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 uncollectability 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 collectability 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 collateral securing the loan 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 costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs 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 sheets 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.

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 ("DTAs") 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 DTA will not be realized. As of September 30, 2014 and in consideration of the Company's sustained profitability principally resulting from improved net interest income, reduced non-interest expense, and assessment of the Company's future ability to realize its DTA, the Company recorded a recovery of its remaining \$11.8 million DTA valuation allowance. The valuation allowance at December 31, 2013 was \$11,934,000. The DTA valuation allowance had been recorded due to the Company's losses recorded over previous years, which had resulted in uncertainty of the Company's ability to recognize the DTA in future near term periods.

Tax positions 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 2011.

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 $(569,000) and $(4,139,000), respectively, at December 31, 2014 and 2013.

Reclassification

Certain reclassifications have been made to the 2013 and 2012 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net income.

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:

	2014	2013	2012
(In thousands, except share and per share data)			
Net Income	$ 12,762	$ 1,042	$ 267
Dividends and accretion on preferred stock	(1,740)	(1,104)	(1,106)
Net income (loss) available to common stockholders	$ 11,022	$ (62)	$ (839)
Average common shares outstanding	4,586,741	2,930,115	2,855,566
Average common share stock options outstanding and restricted stock (B)	9,100	21,262	11,997
Average diluted common shares (B)	4,595,841	2,951,377	2,867,563
Basic income (loss) per share	$2.40	($0.02)	($0.29)
Diluted income (loss) per share (A)	$2.40	($0.02)	($0.29)

(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, 2014, 2013 and 2012, 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. In January, 2015, the Company repurchased the warrants for $3,000 and cancelled them. There were no stock options to purchase shares of common stock outstanding at December 31, 2014, 2013 and 2012 respectively.

Income available for common stockholders is reduced by dividends declared on preferred stock (whether or not they are paid) in the period in which they are declared, as well as 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, 2014			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 67,023	$ 3	$ (811)	$ 66,215
State and political subdivision securities	19,913	141	(172)	19,882
U.S. Small Business Administration loan pool certificates	4,785	–	(112)	4,673
Equity and other securities	600	2	–	602
	$ 92,321	$ 146	$ (1,095)	$ 91,372

	December 31, 2013			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 73,111	$ –	$ (4,798)	$ 68,313
State and political subdivision securities	21,467	39	(1,742)	19,764
U.S. Government sponsored agency mortgage-backed securities	7,229	35	(81)	7,183
U.S. Small Business Administration loan pool certificates	5,148	–	(338)	4,810
Equity and other securities	600	–	(13)	587
	$ 107,555	$ 74	$ (6,972)	$ 100,657

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2014, 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	$ –	$ –
Due after one year through five years	–	–
Due after five years through ten years	70,358	69,568
Due after ten years	16,578	16,529
Total	86,936	86,097
U.S. Small Business Administration loan pool certificates	4,785	4,673
Equity and other securities	600	602
	$ 92,321	$ 91,372

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits amounted to $5,875,000 and $5,780,000 at December 31, 2014 and $5,875,000 and $5,346,000 at December 31, 2013.

Gross gains of $207,000 and gross losses of $171,000 were realized in 2014 from sales of available-for-sale securities. Gross gains of $134,000 and gross losses of $7,000 were realized in 2013 from sales of available-for-sale securities. No gross gains or losses were realized in 2012 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 consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2014 and 2013, was $70,893,000 and $96,923,000, which is approximately 77.6% and 96.3%, respectively, of the Company's available-for-sale investment portfolio. These declines in fair value resulted primarily from increases in market interest rates from the date of the acquisition of the securities. 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, 2014					
	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	$ 18,772	$ 126	$ 37,440	$ 685	$ 56,212	$ 811
State and political subdivision securities	1,275	22	8,733	150	10,008	172
U.S. Small Business Administration loan pool certificates	–	–	4,673	112	4,673	112
Equity and other securities	–	–	–	–	–	–
Total temporarily impaired securities	$ 20,047	$ 148	$ 50,846	$ 947	$ 70,893	$ 1,095

	December 31, 2013					
	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	$ 68,313	$ 4,798	$ –	$ –	$ 68,313	$ 4,798
State and political subdivision securities	14,379	1,464	2,904	278	17,283	1,742
U.S. Government sponsored agency mortgage-backed securities	5,930	81	–	–	5,930	81
U.S. Small Business Administration loan pool certificates	4,810	338	–	–	4,810	338
Equity and other securities	587	13	–	–	587	13
Total temporarily impaired securities	$ 94,019	$ 6,694	$ 2,904	$ 278	$ 96,923	$ 6,972

The unrealized losses on the Company's investments in obligations of U.S. government sponsored agencies, state and political subdivision securities, U.S. government sponsored agency mortgage-backed securities and U.S. Small Business Administration loan pool certificates were caused by changes in market interest rates from various dates of purchase. 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 at maturity, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2014 or 2013.

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, 2014, 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)	2014	2013
Balance as of December 31	$30,780	$32,335
Carrying value of securities pledged to secure agreements to repurchase at December 31	$43,409	$44,643
Average balance during the year of securities sold under agreements to repurchase	$29,852	$32,426
Maximum amount outstanding at any month-end during the year	$36,281	$40,944

Amounts Reclassified out of Accumulated Other Comprehensive Income (Loss)

Amounts reclassified from accumulated other comprehensive income (loss) and the affected line items in the consolidated statements of operations during the years ended December 31, 2014 and 2013 were as follows:

	Amounts Reclassified From Accumulated Other Comprehensive Income (Loss) Year Ended		
(In thousands)	December 31, 2014	December 31, 2013	Affected line item in the Consolidated Statements of Operations
Realized gains on available-for-sale securities	$ 36	$ 127	Realized gains on available-for-sale securities (Total reclassified amount before tax)
Income taxes	(15)	(51)	Benefit for income taxes
Total reclassifications out of accumulated other comprehensive income	$ 21	$ 76	

There were no such amounts reclassified from accumulated other comprehensive income (loss) in 2012.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2014 and 2013 include the following:

(In thousands)	2014	2013
Commercial loans	$ 142,617	$ 120,283
Commercial real estate loans	138,047	145,045
Construction loans	46,798	44,806
Home equity loans	36,893	43,169
Residential real estate loans	46,985	44,771
Consumer loans	2,738	8,885
Lease financing	8,715	7,836
Total loans	422,793	414,795
Less: Allowance for loan losses	6,386	8,992
Net loans	$ 416,407	$ 405,803

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, 2014, 2013 and 2012:

	For the Year Ended December 31, 2014							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 4,556	$ 1,870	$ 1,426	$ 484	$ 618	$ 20	$ 18	$ 8,992
Provision charged to expense	1,132	(334)	(597)	103	60	(6)	42	400
Losses charged off	(3,205)	–	–	(134)	–	–	–	(3,339)
Recoveries	54	41	203	12	20	1	2	333
Balance, end of year	$ 2,537	$ 1,577	$ 1,032	$ 465	$ 698	$ 15	$ 62	$ 6,386

	For the Year Ended December 31, 2013							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Balance, beginning of year	$ 2,097	$ 3,582	$ 1,543	$ 634	$ 1,138	$ 46	$ 17	$ 9,057
Provision charged to expense	2,281	(1,067)	(38)	(180)	(37)	(26)	17	950
Losses charged off	(141)	(672)	(250)	–	(523)	–	(18)	(1,604)
Recoveries	319	27	171	30	40	–	2	590
Balance, end of year	$ 4,556	$ 1,870	$ 1,426	$ 484	$ 618	$ 20	$ 18	$ 8,992

	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

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, 2014 and 2013:

	December 31, 2014							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,590	$ 171	$ 347	$ 16	$ 15	$ –	$ –	$ 2,139
Collectively evaluated for impairment	947	1,406	685	449	683	15	62	4,247
Total	$ 2,537	$ 1,577	$ 1,032	$ 465	$ 698	$ 15	$ 62	$ 6,386
Loans:								
Individually evaluated for impairment	$ 20,299	$ 5,438	$ 8,973	$ 1,193	$ 1,449	$ –	$ –	$ 37,352
Collectively evaluated for impairment	122,318	132,609	37,825	35,700	45,536	2,738	8,715	385,441
Total	$ 142,617	$ 138,047	$ 46,798	$ 36,893	$ 46,985	$ 2,738	$ 8,715	$ 422,793

	December 31, 2013							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Lease Financing	Consumer	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 3,747	$ 635	$ 775	$ 116	$ 56	$ –	$ –	$ 5,329
Collectively evaluated for impairment	809	1,235	651	368	562	20	18	3,663
Total	$ 4,556	$ 1,870	$ 1,426	$ 484	$ 618	$ 20	$ 18	$ 8,992
Loans:								
Individually evaluated for impairment	$ 18,100	$ 7,343	$ 11,331	$ 1,307	$ 1,890	$ –	$ –	$ 39,970
Collectively evaluated for impairment	102,183	137,702	33,475	41,862	42,882	7,836	8,885	374,825
Total	$ 120,283	$ 145,045	$ 44,806	$ 43,169	$ 44,771	$ 7,836	$ 8,885	$ 414,795

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, 2014 and 2013. 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.

	2014			2013		
(In thousands)	Pass	Classified	Total	Pass	Classified	Total
Commercial	$ 134,786	$ 7,831	$ 142,617	$ 113,254	$ 7,029	$ 120,283
Commercial real estate	135,662	2,385	138,047	140,874	4,171	145,045
Construction	44,054	2,744	46,798	34,922	9,885	44,806
Home equity	36,085	808	36,893	42,587	582	43,169
Residential real estate	46,002	983	46,985	43,162	1,610	44,771
Lease financing	2,738	–	2,738	7,836	–	7,836
Consumer	8,715	–	8,715	8,885	–	8,885
Total	$ 408,042	$ 14,751	$ 422,793	$ 391,519	$ 23,276	$ 414,795

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2014 and 2013:

	December 31, 2014						
(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	$ 764	$ 4,579	$ 266	$ 5,609	$ 137,008	$ 142,617	$ –
Commercial real estate	–	–	903	903	137,144	138,047	–
Construction	–	–	660	660	46,138	46,798	–
Home equity	–	376	50	426	36,467	36,893	–
Residential real estate	476	191	59	726	46,259	46,985	–
Lease financing	–	–	–	–	2,738	2,738	–
Consumer	–	–	–	–	8,715	8,715	–
Total	$ 1,240	$ 5,146	$ 1,938	$ 8,324	$ 414,469	$ 422,793	$ –

	December 31, 2013						
	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	$ 16	$ –	$ –	$ 16	$ 120,267	$ 120,283	$ –
Commercial real estate	–	–	–	–	145,045	145,045	–
Construction	–	–	660	660	44,146	44,806	–
Home equity	–	8	100	108	43,061	43,169	–
Residential real estate	267	475	119	861	43,910	44,771	–
Lease financing	–	–	–	–	7,836	7,836	–
Consumer	–	–	–	–	8,885	8,885	–
Total	$ 283	$ 483	$ 879	$ 1,645	$ 413,150	$ 414,795	$ –

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, 2014, 2013 and 2012:

	December 31, 2014				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 110	$ 110	$ –	$ 166	$ 6
Commercial real estate	1,308	1,322	–	640	23
Construction	1,405	1,405	–	1,433	43
Home equity	–	–	–	132	6
Residential real estate	97	155	–	623	28
Lease financing	–	–	–	123	7
Consumer	95	95	–	–	–
Loans with a specific valuation allowance:					
Commercial	$ 2,896	$ 2,914	$ 909	$ 1,584	$ 5
Commercial real estate	–	–	–	75	–
Construction	2,084	2,085	134	2,117	109
Home equity	368	380	7	198	–
Residential real estate	–	–	–	114	–
Lease financing	–	–	–	–	–
Consumer	–	–	–	–	–
Total impaired loans:					
Commercial	$ 3,006	$ 3,024	$ 909	$ 1,750	$ 11
Commercial real estate	1,308	1,322	–	715	23
Construction	3,489	3,490	134	3,550	152
Home equity	368	380	7	330	6
Residential real estate	97	155	–	737	28
Lease financing	–	–	–	123	7
Consumer	95	95	–	–	–
Total	$ 8,363	$ 8,466	$ 1,050	$ 7,205	$ 227

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

	December 31, 2013				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 52	$ 54	$ –	$ 666	$ 18
Commercial real estate	423	423	–	470	69
Construction	1,419	1,419	–	1,504	45
Home equity	–	–	–	–	–
Residential real estate	800	1,017	–	2,458	94
Lease financing	–	–	–	205	12
Consumer	154	154	–	–	–
Loans with a specific valuation allowance:					
Commercial	$ 5,332	$ 5,355	$ 3,533	$ 938	$ 13
Commercial real estate	–	–	–	1,022	–
Construction	2,250	2,250	168	5,556	284
Home equity	232	238	56	202	–
Residential real estate	220	275	31	1,059	–
Lease financing	–	–	–	–	–
Consumer	–	–	–	–	–
Total impaired loans:					
Commercial	$ 5,385	$ 5,408	$ 3,533	$ 1,604	$ 31
Commercial real estate	423	423	–	1,492	69
Construction	3,669	3,669	168	7,060	328
Home equity	232	238	56	202	–
Residential real estate	1,020	1,292	31	3,517	94
Lease financing	–	–	–	205	12
Consumer	154	154	–	–	–
Total	$ 10,883	$ 11,184	$ 3,788	$ 14,081	$ 534

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

	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

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2014 and 2013:

(In thousands)	2014	2013
Commercial	$ 2,876	$ 5,194
Commercial real estate	903	–
Construction	727	660
Home equity	368	232
Residential real estate	97	1,020
Lease financing	–	–
Consumer	–	–
	$ 4,971	$ 7,106

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, 2014, the Company had $131,000 of commercial loans, $405,000 of commercial real estate loans, $2,762,000 of construction loans, and $95,000 of lease financing loans that were modified in troubled debt restructurings and classified as impaired.

The Company evaluates and classifies loans in accordance with ASU 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, as amended. During the year ending December 31, 2014, the Company modified one loan in a troubled debt restructuring transaction and classified the loan as impaired. During the year ended December 31, 2013, the Company modified no loans in troubled debt restructuring transactions. During the year ending December 31, 2012, the Company modified two 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. None of the loans that were restructured subsequently defaulted within twelve months of the date of the restructure.

The following table presents loans restructured and classified as troubled debt restructurings by class during the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014			December 31, 2013			December 31, 2012		
(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	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial	–	$ –	$ –	–	$ –	$ –	1	$ 85	$ 85
Commercial real estate	–	–	–	–	–	–	–	–	–
Construction	1	69	69	–	–	–	–	–	–
Home equity	–	–	–	–	–	–	–	–	–
Residential real estate	–	–	–	–	–	–	1	371	371
Lease financing	–	–	–	–	–	–	–	–	–
Consumer	–	–	–	–	–	–	–	–	–
Total	1	$ 69	$ 69	–	$ –	$ –	2	$ 456	$ 456

As of December 31, 2014, 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)	2014	2013
Land	$ 5,154	$ 5,154
Buildings and improvements	17,984	16,493
Furniture and equipment	9,015	8,778
	32,153	30,425
Less accumulated depreciation	15,927	14,959
Total premises and equipment	$ 16,226	$ 15,466

NOTE 5: FORECLOSED ASSETS HELD FOR SALE

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

(In thousands)	2014	2013	2012
Balance, beginning of year	$ 4,050	$ 3,184	$ 2,985
Provision charged to expense	1,006	2,147	867
Charge offs, net of recoveries	(823)	(1,281)	(668)
Balance, end of year	$ 4,233	$ 4,050	$ 3,184

Income and expenses applicable to foreclosed assets at December 31 include the following:

(In thousands)	2014	2013	2012
Net gains on sale of foreclosed assets	$ (153)	$ (1,069)	$ (337)
Provision for losses	1,006	2,147	867
Operating expenses, net of rental income	1,192	901	1,349
	$ 2,045	$ 1,979	$ 1,879

NOTE 6: DERIVATIVE INSTRUMENTS

The Company may have 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 no change in other assets or other liabilities for the year ended December 31, 2014 and 2013.

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 a decrease in other assets of $37,000 and a decrease in other income of $37,000 for the year ended December 31, 2014. For the year ended December 31, 2013, the Company recorded a decrease in other assets of $144,000 and a decrease in other income of $144,000.

At December 31, 2014 and 2013, total mortgage loans in the process of origination amounted to $0 and $216,000, respectively. At December 31, 2014 and 2013, related forward commitments to sell mortgage loans amounted to approximately $588,000 and $1,438,000, respectively.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2014 and 2013, is disclosed in Note 20, Disclosures about Fair Value of Assets and Liabilities.

NOTE 7: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations in excess of $250,000 were $19,811,000 on December 31, 2014 and $18,377,000 on December 31, 2013. The Company acquires brokered deposits in the normal course of business. At December 31, 2014 and 2013, brokered deposits of $27,670,000 and $28,060,000, respectively, were included in the Company's time deposit balance. Of the $27,670,000 in brokered deposits at December 31, 2014, $17,540,000 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, 2014, the scheduled maturities of time deposits are as follows:

(In thousands)	
2015	$ 69,806
2016	17,305
2017	5,893
2018	3,723
2019	1,971
Thereafter	921
	$ 99,619

NOTE 8: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2021. Minimum future rent receivable under noncancellable operating leases at December 31, 2014 was as follows:

(In thousands)	
2015	$ 797
2016	775
2017	688
2018	600
2019	621
Thereafter	1,030
	$ 4,511

The Company incurred no consolidated rental and operating lease expenses for space it leases from others in 2014, 2013, and 2012.

NOTE 9: SHORT TERM DEBT

The Company has a line of credit with the FHLBank of Topeka (FHLB) which is collateralized by various assets. At December 31, 2014 and 2013, there was no outstanding balance on the line of credit. The variable interest rate was 0.25% on December 31, 2014 and 0.19% on December 31, 2013. At December 31, 2014 approximately $28,363,000 was available. Advances are made at the discretion of the FHLBank 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, 2014 and 2013, 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, 2014 approximately $27,339,000 was available. Advances are made at the discretion of the Federal Reserve Bank of Kansas City.

The Company has unsecured Federal Funds Purchased ("FFP") lines of credit with commercial banks. At December 31, 2014, the Company had a $17,000,000 and $5,000,000 FFP line of credit with no outstanding balances. The variable interest rate for the $17,000,000 FFP line of credit was 0.39% and for the $5,000,000 FFP line of credit was 0.22% on December 31, 2014. At December 31, 2013, the Company had a $5,000,000 FFP line of credit with no outstanding balance. The variable interest rate for the $5,000,000 FFP line of credit was 0.20% on December 30, 2013.

NOTE 10: LONG TERM DEBT

Long-term debt at December 31, 2014 and 2013 consisted of the following components:

(In thousands)	2014	2013
FHLBank advances (A)	$ 55,000	$ 62,500
Less: Deferred prepayment penalty on modification of FHLBank advances	(3,060)	(4,201)
Net FHLBank advances	51,940	58,299
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	$ 71,528	$ 77,887

(A) Due in 2015, 2016 and 2018; collateralized by various assets including mortgage-backed loans and available-for-sale securities totaling $119,839,000 at December 31, 2014. Advances, at interest rates from 0.32% to 1.84% are subject to restrictions or penalties in the event of prepayment. FHLBank advance availability is determined quarterly and at December 31, 2014, approximately $28,363,000 was available. Advances are made at the discretion of the FHLBank Topeka.

In the fourth quarter of 2013 and third quarter of 2010, the Company repaid FHLBank advances totaling $40.0 million and $42.5 million, respectively, of FHLBank advances by rolling the net present value of the repaid advances into the funding cost of $40.0 million and $42.5 million, respectively, of new advances. A modification fee of $3.9 million and $2.6 million, respectively, was associated with the pay-off of the original FHLBank advances which is amortized as an adjustment of interest expense over the remaining term of the new FHLBank advances using the straight line method. The unamortized modification fee at December 31, 2014 was approximately $3.1 million. These transactions 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% (3.48% at December 31, 2014 and 3.49% at December 31, 2013) 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% (1.86% at December 31, 2014 and 1.85% at December 31, 2013) 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 10: LONG TERM DEBT (Continued)

At the request of the Federal Reserve Bank of Kansas City, quarterly payments had been deferred on the Company's outstanding trust preferred securities. Under the governing documents of our Subordinated Debentures issued by BVBC Capital Trust II and III, the quarterly payments since April 24, 2009 for BVBC Capital Trust II and since March 31, 2009 for BVBC Capital Trust III had been deferred through December 30, 2013. 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. The Company received regulatory approval and utilized the proceeds from the December 23, 2013 initial close of our Common Stock Rights Offering to bring current all previously accrued and unpaid dividends and interest on our Subordinated Debentures issued by BVBC Capital Trust II and III prior to December 31, 2013. Subsequent to December 31, 2013, the Company received approval for the Bank to pay dividends to the Company to pay amounts needed to pay quarterly dividends due in March and April, 2014 for our Subordinated Debentures.

For both BVBC Capital Trust II and BVBC Capital Trust III, during a deferral period, 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 Fixed Rate Cumulative Preferred Stock ("Preferred Shares"), or (ii) making any payment on any debt security that is ranked pari passu with the debt securities issued by the respective trusts. See Note 13, Regulatory Matters for additional information.

Aggregate annual maturities of long-term debt at December 31, 2014 are as follows:

(In thousands)	
2015	$ 15,000
2016	-
2017	15,000
2018	25,000
2019	-
Thereafter	19,588
	74,588
Less: Deferred prepayment penalty on modification of FHLB advances	(3,060)
	$ 71,528

NOTE 11: INCOME TAXES

The provision for income taxes consists of the following:

(In thousands)	2014	2013	2012
Taxes currently (refundable) payable	$ –	$ –	$ –
Deferred income taxes	(11,557)	(300)	(150)
	$ (11,557)	$ (300)	$ (150)

NOTE 11: 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)	2014	2013	2012
Computed at the statutory rate (34%)	$ 410	$ 252	$ 40
Increase (decrease) resulting from:			
Tax-exempt interest	(198)	(163)	(87)
State income taxes	(37)	(27)	77
Changes in the deferred tax asset valuation allowance	(11,934)	(502)	(164)
Other	202	140	16
Actual tax provision	$(11,557)	$ (300)	$ (150)

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2014 and 2013 consolidated balance sheets are as follows:

(In thousands)	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 2,363	$ 3,327
Net operating loss from Blue Valley Ban Corp. and subsidiary	8,977	8,475
Accumulated depreciation on available-for-sale securities	380	2,759
Deferred compensation	10	27
Offering costs	159	170
Non-accrual loan interest	118	116
Other real estate owned reserve	1,645	1,374
Other	534	856
	14,186	17,104
Deferred tax liabilities:		
Accumulated depreciation	(114)	(215)
FHLB stock basis	(346)	(555)
Prepaid intangibles	(275)	(187)
Other	(6)	(8)
	(741)	(965)
Net deferred tax asset before valuation allowance	13,445	16,139
Valuation allowance:		
Beginning balance	(11,934)	(12,436)
(Increase) decrease during the period	11,934	502
Ending balance	–	(11,934)
Net deferred tax asset	$ 13,445	$ 4,205

The Company has unused Federal net operating loss carryforwards of $22,895,000, which expire starting in 2029. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $32,109,000 which expire between 2019 and 2022.

NOTE 12: FIXED RATE CUMULATIVE PREFERRED STOCK

In an October, 2013 auction to private investors and as part of its outlined strategy to wind down its remaining Troubled Asset Relief Program investments, the U.S. Treasury ("the Treasury") sold its 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock (the "Preferred Shares") investment in the Company, which had been previously issued and sold by the Company pursuant to the Treasury's Capital Purchase Plan (the "CPP"). The Preferred Shares have a liquidation preference of $1,000 per share, and carried a 5% per year cumulative preferred dividend rate, payable quarterly, which increased to 9% beginning with the May 15, 2014 quarterly payment. Dividends compound if they accrue and are not paid. 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.
- 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.
- The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements.

The Preferred Shares included ten year warrants to purchase 111,083 shares of the Company's common stock for $29.37 per share which were retained by the Treasury subsequent to the October, 2013 auction. In January, 2015, the Company repurchased the warrants for $3,000 and cancelled them.

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, 2014 and 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2014, 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, 2014 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, 2014:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 72,757	14.45%	$ 40,277	8.00%	N/A	
Bank Only	$ 75,438	14.98%	$ 40,274	8.00%	$ 50,343	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	$ 63,129	12.54%	$ 20,138	4.00%	N/A	
Bank Only	$ 69,143	13.73%	$ 20,137	4.00%	$ 30,206	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 63,129	10.19%	$ 24,773	4.00%	N/A	
Bank Only	$ 69,143	11.14%	$ 24,836	4.00%	$ 31,045	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, 2013:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 71,811	13.90%	$ 41,321	8.00%	N/A	
Bank Only	$ 73,451	14.24%	$ 41,267	8.00%	$ 51,583	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	$ 61,777	11.96%	$ 20,661	4.00%	N/A	
Bank Only	$ 66,972	12.98%	$ 20,633	4.00%	$ 30,950	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	$ 61,777	10.07%	$ 24,550	4.00%	N/A	
Bank Only	$ 66,972	10.80%	$ 24,793	4.00%	$ 30,991	5.00%

The Company and Bank are subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval.

NOTE 13: REGULATORY MATTERS (Continued)

As a result of a 2012 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of a November 4, 2009 Written Agreement with the Federal Reserve Bank of Kansas City ("FRB"), the FRB terminated the Written Agreement and, effective January 11, 2013, replaced it with a Memorandum of Understanding ("MOU"). The MOU's purpose was to maintain the financial soundness of the Company and the Bank, and provided, among other things, the Company and the Bank would continue to work on improvement of asset quality, maintain an adequate allowance for loan losses, maintain adequate capital, improve earnings, and not declare or pay any dividends or increase or guarantee any debt without prior written approval from the FRB and the Office of the State Banking Commissioner of Kansas ("OSBC"). As a result of a 2014 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of the MOU, the FRB terminated the July 11, 2013 MOU and, effective February 12, 2015, replaced it with an MOU requiring FRB approval for the Company to declare or pay dividends, pay interest on its trust preferred securities or receive dividends from the Bank. Consequently, under the terms of the February 12, 2015 MOU, the Bank is no longer subject to a regulatory agreement.

At the request of the FRB, the Company had deferred the payment of quarterly dividends on the Preferred Shares since May 15, 2009. The Preferred Shares carried a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increased to 9% beginning with the May 15, 2014 quarterly payment, which caused the Company's quarterly dividend to increase from $271,875 to $489,375. Dividends compound if they accrue and are not paid; however, failure by the Company to pay the preferred share dividend is not an event of default. The Company paid the quarterly dividend and accrued interest expense for the quarters ending August 15, 2014 and November 15, 2014, and the Company had accrued for all other deferred dividends declared and compounded interest through December 31, 2014. As of December 31, 2014 and December 31, 2013, the Company had accrued $6.8 million and $5.8 million, respectively, for dividends and interest on the Preferred Shares.

NOTE 14: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2014 and 2013, 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 $19,011,000 and $17,066,000, respectively. Annual activity consisted of the following:

(In thousands)	2014	2013
Balance, beginning of year	$ 17,066	$ 13,632
New loans and advances	15,033	14,144
Repayments and reclassifications	(13,088)	(10,710)
Balance, end of year	$ 19,011	$ 17,066

These loans and other extensions of credit 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, 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, 2014, and 2013 totaled $4,824,000 and $4,501,000, 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 2014, 2013 and 2012. 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 2014, 2013 and 2012 were $268,000, $281,000 and $234,000, 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.

At December 31, 2014, the Company had 20,230 shares available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

During 2014, 2013 and 2012, the Company granted no stock options, but did grant 40,674, 44,210 and 55,155 shares of restricted common stock, respectively. All restricted stock granted in 2014, restricted stock granted in 2013 to employees and restricted stock granted in 2012 to employees other than the President vested immediately. Restricted stock granted to the President in 2012 fully vested in 2014. Restricted stock granted in 2011 to employees other than the President fully vested in the stock in 2014. Recipients of the restricted stock grant who are directors vested immediately in 2014, 2013 and 2012. The non-vested shares were 0, 11,930, and 30,730 as of December 31, 2014, 2013 and 2012, 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 $282,000, $257,000, and $295,000 for 2014, 2013 and 2012, respectively. The amount of unrecognized compensation costs was $0, $23,000, and $97,000 as of December 31, 2014, 2013, and 2012, respectively. No shares were forfeited during 2014, 2013 and 2012.

A summary of the status of option shares under the plan at December 31, 2014, 2013 and 2012, and changes during the years then ended, is presented below:

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	–	$ –	–	$ –	10,575	$ 25.00
Exercised	–	–	–	–	–	–
Forfeited	–	–	–	–	10,575	25.00
Outstanding, end of year	0	$ –	0	$ –	0	$ 0.00
Intrinsic value of shares exercised	$ –		$ –		$ –	
Options exercisable, end of year	0	$ 0.00	0	$ 0.00	0	$ 0.00

There were no options outstanding and exercisable as of December 31, 2014.

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 2014, 2013 and 2012 was approximately $4,000, $4,000 and $3,000, respectively. Information about employee stock purchase plan activity as of December 31, 2014, 2013 and 2012 is set forth in the following table.

	Employee Stock Purchase Plan Activity	
Plan year ending January 31,	Shares purchased	Purchase Price
2014	6,877	$ 3.83
2013	4,748	$ 3.49
2012	6,508	$ 3.49

NOTE 18: OTHER INCOME/EXPENSE

Other income consists of the following:

	2014	2013	2012
(In thousands)			
Rental income	$ 909	$ 719	$ 556
Realized gain on foreclosed assets	236	1,292	521
Other income	454	1,432	458
Total	$ 1,599	$ 3,443	$ 1,535

2013 other income includes the realization of approximately $1.0 million of income upon payment of the deferred interest due for BVBC Capital Trust III due to a change in assumptions in the calculation for interest due on the securities.

Other operating expenses consist of the following:

	2014	2013	2012
(In thousands)			
Data processing	$ 1,085	$ 1,082	$ 1,104
FDIC assessments	798	824	1,324
ATM and network fees	768	741	745
Professional fees	740	784	1,383
Loan processing fees	154	175	194
Other expense	2,693	3,249	2,756
Total	$ 6,238	$ 6,855	$ 7,506

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 composed entirely of mortgage loans held for immediate sale in the secondary market with servicing released. 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 $13,000 at December 31, 2014, losses of $6,000 at December 31, 2013 and gains of $32,000 at December 31, 2012. Gains from fair value changes included in loans held for sale fee income were $18,000 and losses from fair value changes included in loans held for sale fee income were $38,000 and $2,000 for the years ended December 31, 2013 and 2012, respectively. Interest income on loans held for sale is included in interest and fees on loans 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.

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

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the Company's consolidated balance sheet and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

		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, 2014:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 66,215	$ –	$ 66,215	$ –
State and political subdivision securities	19,882	–	19,882	–
U.S. Small Business Administration loan pool certificates	4,673	–	4,673	–
Equity and other securities	602	602	–	–
Mortgage loans held for sale	588	–	588	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	3	–	–	3
Total assets	$ 91,963	$ 602	$ 91,358	$ 3
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	–	–	–	–
Total liabilities	$ –	$ –	$ –	$ –
December 31, 2013:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 68,313	$ –	$ 68,313	$ –
State and political subdivision securities	19,764	–	19,764	–
U.S. Government sponsored agency mortgage-backed securities	7,183	–	7,183	–
U.S. Small Business Administration loan pool certificates	4,810	–	4,810	–
Equity and other securities	587	587	–	–
Mortgage loans held for sale	1,438	–	1,438	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	40	–	–	40
Total assets	$ 102,135	$ 587	$ 101,508	$ 40
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	–	–	–	–
Total liabilities	$ –	$ –	$ –	$ –

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:

	Commitments to Originate Loans	Forward Sales Commitments
(In thousands)		
Balance as of December 31, 2013	$ –	$ 40
Total realized and unrealized gains (losses):		
Included in net income (loss)	–	(37)
Balance as of December 31, 2014	$ –	$ 3
Balance as of December 31, 2012	$ –	$ 184
Total realized and unrealized gains (losses):		
Included in net income (loss)	–	(144)
Balance as of December 31, 2013	$ –	$ 40

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, 2014 and 2013 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, 2014:				
Impaired loans, net of reserves	$ 3,439	$ –	$ –	$ 3,439
Foreclosed assets held for sale, net	7,618	–	–	7,618
	$ 11,057	$ –	$ –	$ 11,057
December 31, 2013:				
Impaired loans, net of reserves	$ 4,685	$ –	$ –	$ 4,685
Foreclosed assets held for sale, net	13,983	–	–	13,983
	$ 18,668	$ –	$ –	$ 18,668

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 12/31/14	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	$ 3	Market comparable prices	Quoted prices for similar loans	2.75%-3.625% (3.38%)
Collateral-dependent impaired loans	$ 3,439	Market comparable properties	Comparability adjustments (%)	9.00%-100.00% (28.00%)
Foreclosed assets held for Sale, net	$ 16,758	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 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 either 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, 2014 and 2013.

	2014		2013	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	$ 69,017	$ 69,017	$ 40,499	$ 40,499
Loans, net of allowance for loan losses (Level 3)	416,407	416,682	405,803	408,445
FHLBank stock, Federal Reserve Bank stock, and other securities (Level 3)	5,490	5,490	7,250	7,250
Interest receivable (Level 3)	1,603	1,603	1,736	1,736
Financial liabilities:				
Deposits (Level 3)	468,759	469,596	448,368	450,027
Securities sold under agreement to repurchase and other interest-bearing liabilities (Level 3)	30,780	30,780	32,335	32,335
Long-term debt (Level 3)	71,528	71,676	77,887	78,240
Interest payable (Level 3)	1,242	1,242	989	989
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.

FHLBank 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. The collateral securing these agreements varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2014 and 2013, the Company had outstanding commitments to originate loans aggregating approximately $4,512,000 and $6,388,000, 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 $0 and $216,000 at December 31, 2014 and 2013, 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 $588,000 and $1,438,000 at December 31, 2014 and 2013, 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 $588,000 and $1,654,000 at December 31, 2014 and 2013, 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 $974,000 and $955,000 at December 31, 2014 and 2013, 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. The collateral securing these agreements 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, 2014, the Company had unused lines of credit to borrowers aggregating approximately $144,574,000 for commercial, commercial real estate and construction lines and $33,153,000 for open-end consumer lines of credit. At December 31, 2013, the Company had unused lines of credit to borrowers aggregating approximately $165,238,000 for commercial, commercial real estate and construction lines and $31,866,000 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 the three years ending December 31, 2014, the Company has repurchased no loans from investors. Additionally, during the three years ending December 31, 2014, the Company has recognized indemnification losses and claims totaling approximately $371,000 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 economic environment 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: Nature of Operations and Summary of Significant Accounting Policies" in the Company's Consolidated Financial Statements.

	2014				2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 5,626	$ 5,606	$ 5,753	$ 5,699	$ 5,824	$ 5,651	$ 5,680	$ 5,702
Interest expense	1,084	1,134	1,165	1,131	990	1,444	1,505	1,532
Net interest income	4,542	4,472	4,588	4,568	4,834	4,207	4,175	4,170
Provision for loan losses	-	-	100	300	2,650	(1,200)	(500)	-
Net interest income after provision for loan losses	4,542	4,472	4,488	4,268	2,184	5,407	4,675	4,170
Non-interest income	1,458	1,366	1,607	1,210	3,293	1,685	1,738	1,756
Non-interest expense	5,339	5,469	5,986	5,412	5,934	6,289	6,093	5,850
Income (loss) before income taxes	661	369	109	66	(457)	803	320	76
Provision (benefit) for income taxes	229	(11,786)	-	-	(300)	-	-	-
Net income (loss)	432	12,155	109	66	(157)	803	320	76
Dividends on preferred shares	490	489	489	272	288	272	272	272
Net income (loss) available to common shareholders	$ (58)	$ 11,666	$ (380)	$ (206)	$ 445	$ 531	$ 48	$ (196)
Net Income (loss) per Share Data								
Basic	$ (0.01)	$ 2.54	$ (0.08)	$ (0.05)	$ (0.15)	$ 0.18	$ 0.02	$ (0.07)
Diluted	$ (0.01)	$ 2.54	$ (0.08)	$ (0.05)	$ (0.15)	$ 0.18	$ 0.02	$ (0.07)
Balance Sheet								
Total assets	$638,445	$634,688	$620,500	$628,469	$609,086	$632,806	$636,776	$645,527
Total loans, net	416,407	416,321	408,388	411,258	405,803	399,521	399,410	406,369
Stockholders' equity	58,460	57,520	45,285	44,306	42,229	36,244	37,594	39,348

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, 2014 and 2013

(In thousands)	2014	2013
ASSETS		
Cash and cash equivalents	$ 4,193	$ 4,133
Investments in subsidiaries:		
Bank of Blue Valley	76,849	62,877
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	3,321	86
Total Assets	$ 84,951	$ 67,684
LIABILITIES		
Subordinated debentures	$ 19,588	$ 19,588
Other liabilities	6,903	5,868
Total Liabilities	26,491	25,456
STOCKHOLDERS' EQUITY		
Preferred Stock	22	22
Common stock	4,649	4,327
Additional paid-in capital	45,328	44,010
Retained earnings (Accumulated deficit)	9,030	(1,992)
Accumulated other comprehensive income (loss), net of income tax (credit) of $(380) in 2014 and $(2,759) in 2013	(569)	(4,139)
Total Stockholders' Equity	58,460	42,228
Total Liabilities and Stockholders' Equity	$ 84,951	$ 67,684

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

Condensed Statements of Operations
Years Ended December 31, 2014, 2013 and 2012

(In thousands)	2014	2013	2012
Income			
Dividends from subsidiaries	$ 412	$ –	$ –
Other income	16	1,045	20
	428	1,045	20
Expenses	1,300	1,138	1,486
Loss before income taxes and equity in undistributed net loss of subsidiaries	(872)	(93)	(1,466)
Income tax benefit	(435)	–	(494)
Valuation allowance on deferred tax asset	(2,796)	–	494
Income (loss) before equity in undistributed net loss of subsidiaries	2,359	(93)	(1,466)
Equity in undistributed net income (loss) of subsidiaries	10,403	1,135	1,733
Net income	$ 12,762	$ 1,042	$ 267

Condensed Statements of Comprehensive Income (Loss)
Years Ended December 31, 2014, 2013 and 2012

(In thousands)	2014	2013	2012
Net income	$ 12,762	$ 1,042	$ 267
Other comprehensive income (loss)			
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $2,370 in 2014, $(2,710) in 2013, and $(60) in 2012	3,591	(4,106)	(91)
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $15 in 2014, and $51 in 2013	(21)	(76)	–
Comprehensive income (loss)	$ 16,332	$ (3,140)	$ 176

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

Condensed Statements of Cash Flows
Years Ended December 31, 2014, 2013 and 2012

(In thousands)	2014	2013	2012
OPERATING ACTIVITIES			
Net Income (loss)	$ 12,762	$ 1,042	$ 267
Items not requiring (providing) cash:			
Deferred income taxes	(3,294)	–	–
Equity in undistributed net loss (income) of subsidiaries	(10,403)	(1,135)	(1,733)
Restricted stock earned	274	288	245
Changes in:			
Other assets	58	(68)	37
Other liabilities	(703)	(2,992)	1,060
Net cash used in operating activities	(1,306)	(2,865)	(124)
INVESTING ACTIVITIES			
Capital contributed to subsidiary	–	–	–
Net cash used in investing activities	–	–	–
FINANCING ACTIVITIES			
Proceeds from sale of additional stock	85	–	–
Proceeds from sale of additional stock through rights offering	1,250	6,333	–
Proceeds from sale of common stock through Employee Stock Purchase Plan (ESPP)	31	19	27
Net cash provided by financing activities	1,366	6,352	27
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	60	3,487	(97)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,133	646	743
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,193	$ 4,133	$ 646

STOCKHOLDER INFORMATION

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PO Box 26128
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913.234.7145 (fax)

HELPLINE

913.338.1000

WEBSITES

www.bankbv.com
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ANNUAL MEETING OF STOCKHOLDERS

The annual meeting will be held on May 20, 2015 at 5:30 p.m. at the Corporate Office, 11935 Riley St., Overland Park, KS 66213.

INVESTOR INQUIRIES

To request additional copies of our Annual Report or to inquire about other stockholder issues, visit our Investor Relations webpage at www.bankbv.com/about 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 OTCQX under the symbol BVBC.

TRANSFER AGENT AND REGISTRAR

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LEAWOOD

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LENEXA

9500 LACKMAN RD | LENEXA, KS 66219