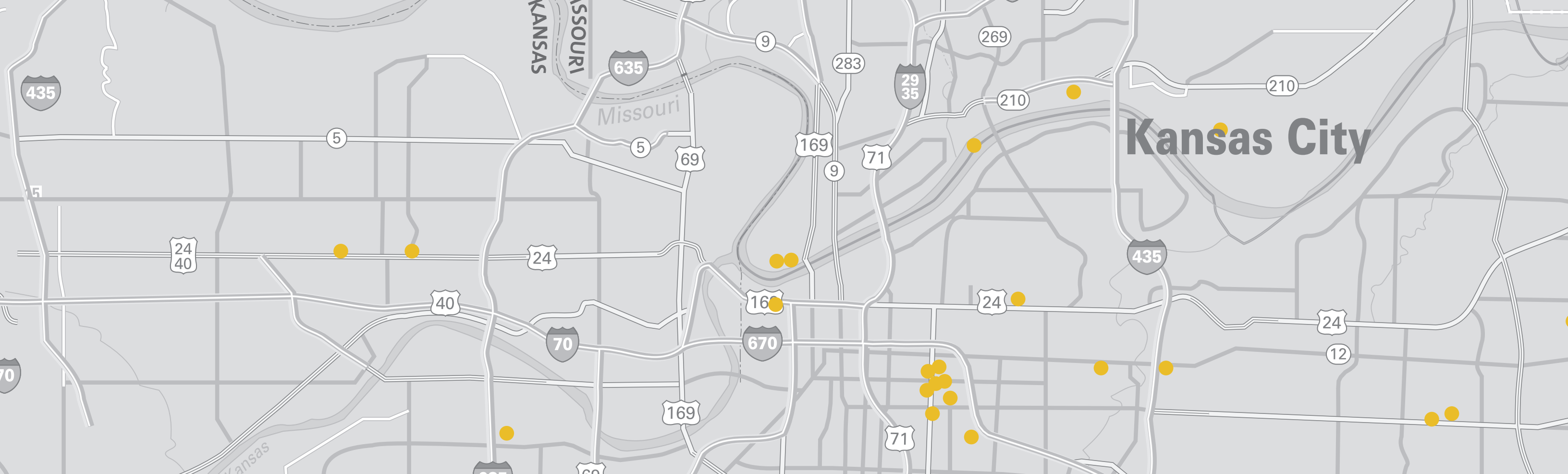
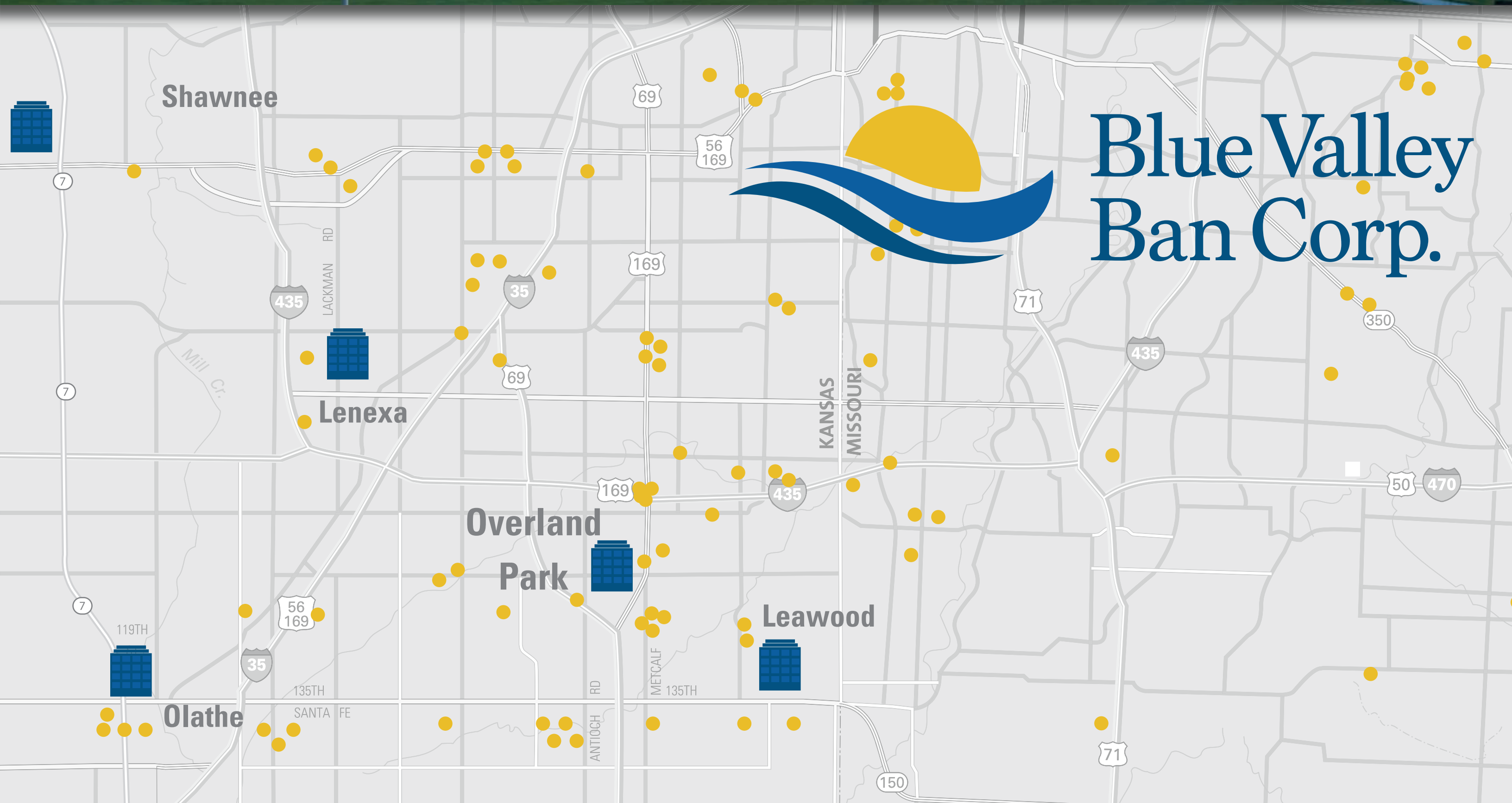



# 2015 ANNUAL REPORT

## SERVING KANSAS CITY FOR ***OVER*** A QUARTER OF A CENTURY

COMMUNITY | PHILANTHROPY | ENTREPRENEURSHIP




Blue Valley Ban Corp.

# LETTER TO STOCKHOLDERS

**ROBERT D. REGNIER**
*PRESIDENT & CEO*

2015 was a year of solid progress and growth for Blue Valley Ban Corp. ("the Company") and Bank of Blue Valley ("the Bank"). Loan growth, our redemption of the $21.75 million of Series A Fixed Rate Cumulative Preferred Stock and our completion of the acquisition of the Federal Savings Bank's Overland Park, Kansas branch were all key indicators of our progress and growth in 2015.

The average balance of our gross loans held for investment increased by nearly $17 million or 4.1% in the year ending December 31, 2015 compared to 2014. In today's low interest rate environment, loan growth is critical to improving the Company's net interest income and operating performance. Our loan growth was the result of our emphasis on and investment in marketing resources and technology, which establish a strong foundation for future growth and success.

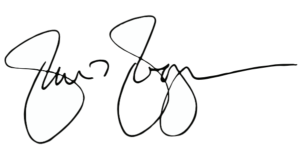
In the third quarter of 2015, the Company successfully redeemed our $21.75 million of Series A Fixed Rate Cumulative Preferred Stock, that had been outstanding since 2008, and repaid all associated accumulated dividends and interest. Improved earnings and asset quality allowed us to replace this temporary source of capital with more permanent common equity, convertible preferred stock and term loan funding that will contribute and enable the future growth and profitability of the Company.

In the third quarter of 2015, we also completed the acquisition of the Federal Savings Bank's Overland Park, Kansas branch, including the acquisition of nearly $29 million of deposits and nearly 800 new customers. These new customer deposits provide a funding source for asset growth for the Company.

The enhancement of our Boards of Directors, senior leadership and marketing processes in 2015, coupled with our implementation of a new customer relationship management system, provide the foundation to better serve our existing customer base and develop new business relationships.

The Bank continues to maintain its focus on the three pillars of our organization, Community, Philanthropy and Entrepreneurship and our execution of our strategic goals for 2016 and beyond are grounded on these core principles. We are optimistic that our focus and momentum will result in future growth and success.

Thank you for your support of Blue Valley Ban Corp and Bank of Blue Valley.



**BLUE VALLEY BAN CORP.**

**DECEMBER 31, 2015, 2014 AND 2013**

**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. and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Valley Ban Corp. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 17, 2016

**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 (not presented) 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 the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit 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 audit 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 audit provides 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 (not presented) of Blue Valley Ban Corp. as of December 31, 2013, and the results of its operations and its cash flows for the year 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, 2015 AND 2014**
*(In thousands, except share data)*

**ASSETS**

| | 2015 | 2014 |
|---|---|---|
| Cash and due from banks | $ 22,178 | $ 26,575 |
| Interest bearing deposits in other financial institutions | 23,655 | 42,442 |
| Cash and cash equivalents | 45,833 | 69,017 |
| Available-for-sale securities | 91,560 | 91,372 |
| Mortgage loans held for sale, fair value | 2,258 | 588 |
| Loans, net of allowance for loan losses of $4,731 and $6,386 in 2015 and 2014, respectively | 443,962 | 416,407 |
| Premises and equipment, net | 11,739 | 16,226 |
| Bank-owned real estate held for sale, net | 5,892 | – |
| Foreclosed assets held for sale, net | 9,644 | 16,758 |
| Interest receivable | 1,727 | 1,603 |
| Deferred income taxes | 12,902 | 13,445 |
| Prepaid expenses and other assets | 7,923 | 7,539 |
| FHLBank stock, Federal Reserve Bank stock, and other securities | 4,805 | 5,490 |
| Total assets | $ 638,245 | $ 638,445 |

See Notes to Consolidated Financial Statements

**BLUE VALLEY BAN CORP.**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2015 AND 2014**
*(In thousands, except share data)*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | 2015 | 2014 |
|---|---|---|
| **LIABILITIES** | | |
| Deposits | | |
| Demand | $ 129,180 | $ 120,974 |
| Savings, NOW and money market | 251,765 | 248,166 |
| Time | 102,297 | 99,619 |
| Total deposits | 483,242 | 468,759 |
| Short term debt | 35,746 | 30,780 |
| Long term debt | 72,786 | 71,528 |
| Interest payable and other liabilities | 1,745 | 8,918 |
| Total liabilities | 593,519 | 579,985 |
| **STOCKHOLDERS' EQUITY** | | |
| Capital stock | | |
| Series A Preferred stock, $1 par value, $1,000 liquidation preference; Authorized 15,000,000 shares; issued and outstanding 2015 – 0 shares; 2014 – 21,750 shares | – | 22 |
| Series B Preferred stock, $1 par value, convertible to common stock; pari passu with common stock upon liquidation; Authorized 1,000,000 shares; issued and outstanding 2015 – 471,979 shares; 2014 – 0 shares | 472 | – |
| Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2015 – 5,371,353 shares; 2014 – 4,649,001 shares | 5,371 | 4,649 |
| Additional paid-in capital | 30,657 | 45,328 |
| Retained earnings | 8,276 | 9,030 |
| Accumulated other comprehensive income (loss), net of income tax (credit) of $(33) in 2015 and $(380) in 2014 | (50) | (569) |
| Total stockholders' equity | 44,726 | 58,460 |
| Total liabilities and stockholders' equity | $ 638,245 | $ 638,445 |

See Notes to Consolidated Financial Statements

## BLUE VALLEY BAN CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS

## YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

*(In thousands, except per share data)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **INTEREST AND DIVIDEND INCOME** | | | |
| Interest and fees on loans | $ 20,418 | $ 20,283 | $ 20,800 |
| Federal funds sold and other short-term investments | 89 | 97 | 135 |
| Available-for-sale securities | 1,880 | 2,062 | 1,683 |
| Dividends on FHLBank and Federal Reserve Bank stock | 231 | 242 | 239 |
| Total interest and dividend income | 22,618 | 22,684 | 22,857 |
| **INTEREST EXPENSE** | | | |
| Interest-bearing demand deposits | 246 | 269 | 313 |
| Savings and money market deposit accounts | 341 | 305 | 275 |
| Time deposits | 868 | 1,247 | 1,661 |
| Federal funds purchased and short term debt | 25 | 25 | 26 |
| Long term debt, net | 2,470 | 2,668 | 3,196 |
| Total interest expense | 3,950 | 4,514 | 5,471 |
| **NET INTEREST INCOME** | 18,668 | 18,170 | 17,386 |
| **PROVISION FOR LOAN LOSSES** | 1,450 | 400 | 950 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | 17,218 | 17,770 | 16,436 |
| **NON-INTEREST INCOME** | | | |
| Loans held for sale fee income | 879 | 628 | 1,456 |
| NSF charges and service fees | 1,033 | 892 | 968 |
| Trust services | 640 | 602 | 560 |
| Investment brokerage services | 518 | 509 | 500 |
| Other service charges | 1,447 | 1,375 | 1,418 |
| Realized gains (losses) on available-for-sale securities | (78) | 36 | 127 |
| Other income | 2,052 | 1,599 | 3,443 |
| Total non-interest income | 6,491 | 5,641 | 8,472 |
| **NON-INTEREST EXPENSE** | | | |
| Salaries and employee benefits | 11,205 | 10,826 | 11,079 |
| Net occupancy expense | 2,699 | 2,716 | 2,620 |
| Foreclosed assets expense | 2,522 | 2,426 | 3,612 |
| Other operating expense | 6,342 | 6,238 | 6,855 |
| Total non-interest expense | 22,768 | 22,206 | 24,166 |
| **INCOME BEFORE INCOME TAXES** | 941 | 1,205 | 742 |
| **PROVISION (BENEFIT) FOR INCOME TAXES** | | | |
| Provision for income taxes | 276 | 377 | 200 |
| Valuation allowance for deferred tax asset | – | (11,934) | (500) |
| Total provision (benefit) for income taxes | 276 | (11,557) | (300) |
| **NET INCOME** | 665 | 12,762 | 1,042 |
| **DIVIDENDS AND ACCRETION ON PREFERRED STOCK** | 1,333 | 1,740 | 1,104 |
| **NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS** | $ (668) | $ 11,022 | $ (62) |
| **BASIC EARNINGS (LOSS) PER COMMON SHARE** | $ (0.14) | $ 2.40 | $ (0.02) |
| **DILUTED EARNINGS (LOSS) PER COMMON SHARE** | $ (0.14) | $ 2.40 | $ (0.02) |

See Notes to Consolidated Financial Statements

## BLUE VALLEY BAN CORP.
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
## YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

*(In thousands)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **NET INCOME** | $ 665 | $ 12,762 | $ 1,042 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $312 in 2015, $2,370 in 2014 and $(2,710) in 2013 | 472 | 3,591 | (4,106) |
| Less: reclassification adjustment for realized (gains) losses included in net income (loss), net of income taxes of $(31) in 2015, $15 in 2014, and $51 in 2013 | 47 | (21) | (76) |
| Comprehensive income (loss) | $ 1,184 | $ 16,332 | $ (3,140) |

See Notes to Consolidated Financial Statements

## BLUE VALLEY BAN CORP.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

## YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

*(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, 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 |
| Redemption of 21,750 shares of Series A preferred stock | (22) | | (21,728) | | | (21,750) |
| Issuance of 471,979 shares of Series B preferred stock | 472 | | 2,832 | | | 3,304 |
| Issuance of 48,153 shares of restricted stock, net of forfeitures of 1,405 | | 47 | 308 | | | 355 |
| Issuance of 4,726 shares of common stock for the employee stock purchase plan | | 4 | 25 | | | 29 |
| Issuance of 670,878 shares of common stock | | 671 | 3,896 | | | 4,567 |
| Net income | | | | 665 | | 665 |
| Repurchase of warrants | | | (4) | | | (4) |
| Dividend on preferred shares | | | | (1,419) | | (1,419) |
| Other comprehensive income | | | | | 519 | 519 |
| **BALANCE, DECEMBER 31, 2015** | $ 472 | $ 5,371 | $30,657 | $ 8,276 | $ (50) | $ 44,726 |

See Notes to Consolidated Financial Statements

# BLUE VALLEY BAN CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

*(In thousands)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | $ 665 | $ 12,762 | $ 1,042 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,911 | 2,149 | 1,671 |
| Amortization, net of (accretion) of premiums and discounts on available-for-sale securities | 320 | 286 | 269 |
| Provision for loan losses | 1,450 | 400 | 950 |
| Provision for losses on foreclosed assets held for sale | 1,854 | 1,006 | 2,147 |
| Deferred income taxes | 196 | (11,557) | (300) |
| Stock dividends on FHLBank stock | (113) | (127) | (121) |
| Increase in value of bank owned life insurance | (172) | (169) | (167) |
| Net realized gains on available-for-sale securities | 78 | (36) | (127) |
| Net loss on disposal of premises and equipment | 19 | — | — |
| Net gain on sale of foreclosed assets | (39) | (153) | (1,069) |
| Restricted stock earned and forfeited | 355 | 274 | 288 |
| Compensation expense related to the Employee Stock Purchase Plan | 4 | 4 | 4 |
| Originations of loans held for sale | (46,750) | (29,046) | (53,278) |
| Proceeds from the sale of loans held for sale | 45,060 | 29,915 | 59,423 |
| Realized (gain) loss on loans held for sale fair value adjustment | 20 | (18) | 38 |
| Changes in: | | | |
| Interest receivable | (124) | 133 | (207) |
| Net fair value of loan related commitments | (54) | 37 | 168 |
| Prepaid expenses and other assets | (53) | (1,213) | (95) |
| Interest payable and other liabilities | (1,252) | (178) | (2,769) |
| Net cash provided by (used in) operating activities | 3,377 | 4,469 | 7,867 |
| **INVESTING ACTIVITIES** | | | |
| Net change in loans | (50,217) | (19,907) | (11,170) |
| Proceeds from sale of loan participations | 21,162 | 10,606 | 9,698 |
| Purchase of premises and equipment | (2,327) | (1,731) | (905) |
| Proceeds from the sale of foreclosed assets, net of expenses | 5,399 | 6,892 | 7,022 |
| Capitalized expenditures on foreclosed assets held for sale | — | (406) | (254) |
| Purchase of priority lien on foreclosed assets held for sale | (160) | — | (378) |
| Purchases of available-for-sale securities | (122,006) | (13,593) | (66,006) |
| Proceeds from maturities of available-for-sale securities | 81,770 | 15,000 | 29,923 |
| Proceeds from sale of available-for-sale securities | 40,516 | 13,578 | 6,159 |
| Purchases of FHLBank and Federal Reserve Bank stock and other securities | — | (73) | (3) |
| Proceeds from the redemption of FHLBank stock, Federal Reserve Bank stock, and other securities | 798 | 1,960 | 414 |
| Net cash provided by (used in) investing activities | (25,065) | 12,326 | (25,500) |
| **FINANCING ACTIVITIES** | | | |
| Net increase (decrease) in demand deposits, money market, NOW and savings accounts | 4,400 | 34,840 | (15,030) |
| Net decrease in time deposits | (19,088) | (14,449) | (21,068) |
| Net increase (decrease) in federal funds purchased and other interest-bearing liabilities | 4,966 | (1,555) | 10,667 |
| Proceeds from acquisition of bank deposits | 29,172 | — | — |
| Repayments of long-term debt | (15,246) | (7,500) | (20,000) |
| Proceeds from long-term debt | 15,500 | — | — |
| Prepayment penalty on modification of FHLBank advances | — | — | (3,866) |
| Proceeds from sale of additional stock | 7,871 | 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 | 29 | 31 | 19 |
| Dividends paid on Series A Preferred Stock | (7,346) | (979) | — |
| Repurchase of warrants | (4) | — | — |
| Redemption of Series A Preferred Stock | (21,750) | — | — |
| Net cash provided by (used in) financing activities | (1,496) | 11,723 | (42,945) |
| | | | |
| Increase (decrease) in cash and cash equivalents | (23,184) | 28,518 | (60,578) |
| Cash and cash equivalents, beginning of year | 69,017 | 40,499 | 101,077 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 45,833 | $ 69,017 | $ 40,499 |

See Notes to Consolidated Financial Statements

**BLUE VALLEY BAN CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**

*(In thousands)*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **SUPPLEMENTAL CASH FLOWS INFORMATION** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 4,857 | $ 4,261 | $ 8,648 |
| Income taxes, net of refunds | $ 80 | $ 53 | $ — |
| Noncash investing and financing activities: | | | |
| Reclassification of premises and equipment to bank-owned real estate held for sale, net | $ 5,892 | $ — | $ — |
| Transfer of loans to foreclosed property, net of specific allowance | $ 159 | $ 1,903 | $ 4,371 |
| Restricted stock issued | $ — | $ — | $ 50 |
| Preferred dividends accrued but not paid | $ — | $ 1,740 | $ 1,087 |
| Sale and financing of foreclosed assets | $ — | $ 3,607 | $ 3,038 |

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015, 2014 AND 2013

## 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 services to consumer and commercial customers in Johnson County, Kansas. The Bank has also originated residential mortgages locally and nationwide through its InternetMortgage.com website, though the strategic decision was made to discontinue originating and selling residential mortgage loans to the secondary mortgage market by the Bank beginning in 2016. 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. The amendment is intended to reduce diversity in practice by clarifying when 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 of both (1) the amount of foreclosed residential real property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. ASU 2014-4 was effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The Company's adoption of ASU 2014-04 did not have a material impact on its financial condition or results of operations.

In June, 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The guidance in this update changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires enhanced disclosures about repurchase agreements and similar transactions. The accounting changes in this update are effective for the first annual period beginning after December 15, 2014. In addition, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

In February, 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The update changes the evaluation of whether limited partnerships and similar entities are variable interest entities (VIE) or voting interest entities (VOE), and consolidation conclusions could change for entities that are already considered VIEs. The update also eliminates both the consolidation model specific to limited partnerships and the current presumption that a general partner controls a limited partnership. The amendments in the update are effective for fiscal years beginning after December 15, 2015. The Company is currently assessing the impact that this guidance may have, if any, on its consolidated financial statements.

In May, 2015, the FASB issued ASU No. 2015-07, Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share. The guidance in this update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2015 and is not expected to have a material impact on the Company's consolidated financial statements.

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

***Effect of New Financial Accounting Standards (Continued)***

In August, 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of 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 2015-14 defers the implementation for ASU 2014-09 to be effective for annual periods beginning after December 15, 2017. Early adoption is not permitted and the standard permits the use of either the retrospective or cumulative effect transition method. 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 $296,000 and the Company's noninterest-bearing cash accounts exceeded the $250,000 FDIC insurance limits by approximately $5.5 million at December 31, 2015.

The Bank had no required reserve with the Federal Reserve Bank at December 31, 2015. The Bank's deposit balance held at the Federal Reserve Bank on December 31, 2015 was $23,109,000.

***Investment in Securities***

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell, but which may be sold in the future, are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported, net of related income tax effects, in accumulated other comprehensive income. Purchase premiums and discounts are amortized and accreted, respectively, to interest income using a method which approximates the level-yield method over the terms of the securities. Realized gains and losses, based on amortized cost of the specific security, are recorded on the 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 for which 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, 2015.

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.

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

***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, and interest is considered a loss, at the time the loan is 90 days past due, 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.

***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 of amounts previously charged off, 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.

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

### *Allowance for Loan Losses (Continued)*

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 |

### *Bank-Owned Real Estate Held for Sale*

Bank-owned real estate held for sale includes real estate owned by the Bank which is held for and actively marketed for sale. No depreciation expense is recorded on bank-owned real estate held for sale during the period it is held for sale; rather, it is recorded at fair value less estimated costs to sell. During 2015, the Bank consolidated the location of employees from an office building, which had been marketed for sale, to the Bank's main office in Overland Park, Kansas. The cost and accumulated depreciation of the office building was previously recorded in premises and equipment and, pursuant to the consolidation of Bank employees to the Bank's main office, was reclassified to bank-owned real estate held for sale.

### *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.

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

***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.

***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.

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

### ***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 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 2012.

### ***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 (loss) was $(50,000) and $(569,000), respectively, at December 31, 2015 and 2014.

### ***Reclassification***

Certain reclassifications have been made to the 2014 and 2013 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net income.

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

***Earnings (Loss) Per Share***

Basic earnings (loss) per share represents income available to common stockholders divided by the weighted average number of shares outstanding during each 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| *(In thousands, except share and per share data)* | | | |
| Net Income | $ 665 | $ 12,762 | $ 1,042 |
| Dividends and accretion on preferred stock | (1,333) | (1,740) | (1,104) |
| Net income (loss) available to common stockholders | $ (668) | $ 11,022 | $ (62) |
| Average common shares outstanding | 4,932,847 | 4,586,741 | 2,930,115 |
| Average common share stock options outstanding and restricted stock (B) | 705 | 9,100 | 21,262 |
| Average diluted common shares (B) | 4,933,552 | 4,595,841 | 2,951,377 |
| Basic income (loss) per share | $(0.14) | $2.40 | $(0.02) |
| Diluted income (loss) per share (A) | $(0.14) | $2.40 | $(0.02) |

(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 and 2013 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 $4,000 and cancelled them. There were no stock options to purchase shares of common stock outstanding at December 31, 2015, 2014 and 2013 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, 2015 | | | |
|---|---|---|---|---|
| *(In thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government sponsored agencies | $ 66,625 | $ 28 | $ (321) | $ 66,332 |
| State and political subdivision securities | 20,075 | 344 | (80) | 20,339 |
| U.S. Small Business Administration loan pool certificates | 4,344 | – | (53) | 4,291 |
| Equity and other securities | 600 | – | (2) | 598 |
| | $ 91,644 | $ 372 | $ (456) | $ 91,560 |

| | 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 |

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2015, 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 | 25,840 | 25,806 |
| Due after five years through ten years | 35,631 | 35,408 |
| Due after ten years | 25,229 | 25,457 |
| Total | 86,700 | 86,671 |
| U.S. Small Business Administration loan pool certificates | 4,344 | 4,291 |
| Equity and other securities | 600 | 598 |
| | $ 91,644 | $ 91,560 |

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits were $6,122,000 and $6,086,000, respectively, at December 31, 2015 and $5,875,000 and $5,780,000, respectively, at December 31, 2014.

Gross gains of $80,000 and gross losses of $158,000 were realized in 2015 from sales of available-for-sale securities. 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.

## 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, 2015 and 2014, was $58,812,000 and $70,893,000, respectively, which is approximately 64.2% and 77.6%, 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, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 49,589 | $ 321 | $ – | $ – | $ 49,589 | $ 321 |
| State and political subdivision securities | 389 | 1 | 3,945 | 79 | 4,334 | 80 |
| U.S. Small Business Administration loan pool certificates | 2,685 | 14 | 1,606 | 39 | 4,291 | 53 |
| Equity and other securities | 598 | 2 | – | – | 598 | 2 |
| Total temporarily impaired securities | $ 53,261 | $ 338 | $ 5,551 | $ 118 | $ 58,812 | $ 456 |

| | 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 |

The unrealized losses on the Company's investments in obligations of U.S. Government sponsored agencies, state and political subdivision 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, 2015 or 2014.

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

***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, 2015 and 2014 were as follows:

| | Amounts Reclassified From Accumulated Other Comprehensive Income (Loss) Year Ended | | |
|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | Affected line item in the Consolidated Statements of Operations |
| *(In thousands)* | | | |
| Realized gains (losses) on available-for-sale securities | $ (78) | $ 36 | Realized gains on available-for-sale securities (Total reclassified amount before tax) |
| Income taxes | 31 | (15) | Benefit for income taxes |
| Total reclassifications out of accumulated other comprehensive income | $ (47) | $ 21 | |

## NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2015 and 2014 include the following:

| | 2015 | 2014 |
|---|---|---|
| *(In thousands)* | | |
| Commercial loans | $ 154,189 | $ 142,617 |
| Commercial real estate loans | 143,741 | 138,047 |
| Construction loans | 54,916 | 46,798 |
| Home equity loans | 33,634 | 36,893 |
| Residential real estate loans | 46,942 | 46,985 |
| Consumer loans | 10,830 | 8,715 |
| Lease financing | 4,441 | 2,738 |
| Total loans | 448,693 | 422,793 |
| Less: Allowance for loan losses | 4,731 | 6,386 |
| Net loans | $ 443,962 | $ 416,407 |

## 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, 2015, 2014 and 2013:

| | For the Year Ended December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands)* | Commercial | Commercial Real Estate | Construction | Home Equity | Residential Real Estate | Lease Financing | Consumer | Total |
| **Allowance for loan losses:** | | | | | | | | |
| Balance, beginning of year | $ 2,537 | $ 1,577 | $ 1,032 | $ 465 | $ 698 | $ 15 | $ 62 | $ 6,386 |
| Provision charged to expense | 3,750 | (421) | (1,448) | (137) | (321) | 9 | 18 | 1,450 |
| Losses charged off | (4,354) | – | – | – | – | – | – | (4,354) |
| Recoveries | 71 | 123 | 979 | 11 | 65 | – | – | 1,249 |
| Balance, end of year | $ 2,004 | $ 1,279 | $ 563 | $ 339 | $ 442 | $ 24 | $ 80 | $ 4,731 |

| | 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 | 589 |
| Balance, end of year | $ 4,556 | $ 1,870 | $ 1,426 | $ 484 | $ 618 | $ 20 | $ 18 | $ 8,992 |

## 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, 2015 and 2014:

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands)* | Commercial | Commercial Real Estate | Construction | Home Equity | Residential Real Estate | Lease Financing | Consumer | Total |
| **Allowance for loan losses:** | | | | | | | | |
| Individually evaluated for impairment | $ 371 | $ 31 | $ 120 | $ 6 | $ 8 | $ – | $ – | $ 536 |
| Collectively evaluated for impairment | 1,633 | 1,248 | 443 | 333 | 434 | 24 | 80 | 4,195 |
| Total | $ 2,004 | $ 1,279 | $ 563 | $ 339 | $ 442 | $ 24 | $ 80 | $ 4,731 |
| **Loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 13,312 | $ 4,373 | $ 7,467 | $ 779 | $ 1,166 | $ – | $ 8 | $ 27,105 |
| Collectively evaluated for impairment | 140,877 | 139,368 | 47,449 | 32,855 | 45,776 | 4,441 | 10,822 | 421,587 |
| Total | $ 154,189 | $ 143,741 | $ 54,916 | $ 33,634 | $ 46,942 | $ 4,441 | $ 10,830 | $ 448,693 |

| | 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 |

## 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, 2015 and 2014. 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.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *(In thousands)* | Pass | Classified | Total | Pass | Classified | Total |
| Commercial | $ 148,671 | $ 5,518 | $ 154,189 | $ 134,786 | $ 7,831 | $ 142,617 |
| Commercial real estate | 142,295 | 1,446 | 143,741 | 135,662 | 2,385 | 138,047 |
| Construction | 53,121 | 1,795 | 54,916 | 44,054 | 2,744 | 46,798 |
| Home equity | 33,258 | 376 | 33,634 | 36,085 | 808 | 36,893 |
| Residential real estate | 45,776 | 1,166 | 46,942 | 46,002 | 983 | 46,985 |
| Lease financing | 4,441 | – | 4,441 | 2,738 | – | 2,738 |
| Consumer | 10,822 | 8 | 10,830 | 8,715 | – | 8,715 |
| Total | $ 438,384 | $ 10,309 | $ 448,693 | $ 408,042 | $ 14,751 | $ 422,793 |

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2015 and 2014:

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(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 | $ – | $ – | $ 3,285 | $ 3,285 | $ 150,904 | $ 154,189 | $ – |
| Commercial real estate | – | – | – | – | 143,741 | 143,741 | – |
| Construction | – | – | – | – | 54,916 | 54,916 | – |
| Home equity | – | – | – | – | 33,634 | 33,634 | – |
| Residential real estate | 218 | 237 | – | 455 | 46,487 | 46,942 | – |
| Lease financing | – | – | – | – | 4,441 | 4,441 | – |
| Consumer | – | – | – | – | 10,830 | 10,830 | – |
| Total | $ 218 | $ 237 | $ 3,285 | $ 3,740 | $ 444,953 | $ 448,693 | $ – |

| | 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 | $ – |

**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, 2015, 2014 and 2013:

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
| Loans without a specific valuation allowance: | | | | | |
| Commercial | $ 1,065 | $ 1,065 | $ – | $ 492 | $ 3 |
| Commercial real estate | 52 | 52 | – | 531 | 20 |
| Construction | 728 | 728 | – | 1,121 | 39 |
| Home equity | 76 | 84 | – | 241 | 2 |
| Residential real estate | 472 | 647 | – | 424 | 159 |
| Lease financing | – | – | – | 57 | – |
| Consumer | – | – | – | – | – |
| Loans with a specific valuation allowance: | | | | | |
| Commercial | $ 2,372 | $ 2,372 | $ 259 | $ 5,033 | $ 5 |
| Commercial real estate | – | – | – | 371 | – |
| Construction | 1,795 | 1,801 | 70 | 1,868 | 92 |
| Home equity | 63 | – | – | 4 | – |
| Residential real estate | – | 63 | – | 15 | – |
| Lease financing | – | – | – | – | – |
| Consumer | – | – | – | – | – |
| Total impaired loans: | | | | | |
| Commercial | $ 3,437 | $ 3,437 | $ 259 | $ 5,525 | $ 8 |
| Commercial real estate | 52 | 52 | – | 902 | 20 |
| Construction | 2,523 | 2,529 | 70 | 2,989 | 131 |
| Home equity | 76 | 84 | – | 245 | 2 |
| Residential real estate | 535 | 710 | – | 439 | 159 |
| Lease financing | – | – | – | 57 | – |
| Consumer | – | – | – | – | – |
| Total | $ 6,623 | $ 6,812 | $ 329 | $ 10,157 | $ 320 |

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

| | 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 |

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2015 and 2014:

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| Commercial | $ 3,285 | $ 2,876 |
| Commercial real estate | – | 903 |
| Construction | – | 727 |
| Home equity | 76 | 368 |
| Residential real estate | 595 | 97 |
| Lease financing | – | – |
| Consumer | – | – |
| | $ 3,956 | $ 4,971 |

## 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, 2015, the Company had $153,000 of commercial loans, $52,000 of commercial real estate loans, and $2,461,000 of construction 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 ended December 31, 2015, the Company modified no loans in troubled debt restructuring transactions. 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. The modification of terms for the troubled debt restructuring transaction presented in the table below included renewal of an existing loan to a borrower experiencing financial difficulties with an extension of the amortization period. The loan that was restructured in 2014 did not subsequently default 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, 2015, 2014 and 2013:

| | December 31, 2015 | | | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| *(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 | – | $ – | $ – | – | $ – | $ – | – | $ – | $ – |
| Commercial real estate | – | – | – | – | – | – | – | – | – |
| Construction | – | – | – | 1 | 69 | 69 | – | – | – |
| Home equity | – | – | – | – | – | – | – | – | – |
| Residential real estate | – | – | – | – | – | – | – | – | – |
| Lease financing | – | – | – | – | – | – | – | – | – |
| Consumer | – | – | – | – | – | – | – | – | – |
| Total | – | $ – | $ – | 1 | $ 69 | $ 69 | – | $ – | $ – |

As of December 31, 2015, 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:

| | 2015 | 2014 |
|---|---|---|
| *(In thousands)* | | |
| Land | $ 3,954 | $ 5,154 |
| Buildings and improvements | 12,698 | 17,984 |
| Furniture and equipment | 6,015 | 9,015 |
| | 22,667 | 32,153 |
| Less accumulated depreciation | 10,928 | 15,927 |
| Total premises and equipment | $ 11,739 | $ 16,226 |

## NOTE 5: FORECLOSED ASSETS HELD FOR SALE

Major classifications of foreclosed assets held for sale, net are as follows:

| | 2015 | 2014 |
|---|---|---|
| *(In thousands)* | | |
| Construction | $ 8,173 | $ 11,061 |
| Commercial real estate | – | 3,922 |
| Residential real estate | 1,471 | 1,775 |
| Foreclosed assets held for sale, net | $ 9,644 | $ 16,758 |

As of December 31, 2015 and 2014, the Company had residential real estate loans in the process of foreclosure of $63,000 and $50,000.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| *(In thousands)* | | | |
| Balance, beginning of year | $ 4,233 | $ 4,050 | $ 3,184 |
| Provision charged to expense | 1,854 | 1,006 | 2,147 |
| Charge offs, net of recoveries | (3,073) | (823) | (1,281) |
| Balance, end of year | $ 3,014 | $ 4,233 | $ 4,050 |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| *(In thousands)* | | | |
| Net gains on sale of foreclosed assets | $ (39) | $ (153) | $ (1,069) |
| Provision for losses | 1,854 | 1,006 | 2,147 |
| Operating expenses, net of rental income | 658 | 1,192 | 901 |
| | $ 2,473 | $ 2,045 | $ 1,979 |

## 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. The Company recorded no change in other assets or other liabilities for the year ended December 31, 2015 and 2014.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period on a best efforts basis. Due to the mark to market adjustment on commitments to sell loans held for sale the Company recorded an increase in other assets of $54,000 and an increase in other income of $54,000 for the year ended December 31, 2015. For the year ended December 31, 2014, the Company recorded a decrease in other assets of $37,000 and a decrease in other income of $37,000.

At December 31, 2015 and 2014, total mortgage loans in the process of origination amounted to $655,000 and $0, respectively. At December 31, 2015 and 2014, related forward commitments to sell mortgage loans amounted to approximately $2,258,000 and $588,000, respectively.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2015 and 2014, 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 $11,882,000 on December 31, 2015 and $19,811,000 on December 31, 2014. The Company acquires brokered deposits in the normal course of business. At December 31, 2015 and 2014, brokered deposits of $27,809,000 and $27,670,000, respectively, were included in the Company’s time deposit balance. Of the $27,809,000 in brokered deposits at December 31, 2015, $21,660,000 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, 2015, the scheduled maturities of time deposits are as follows:

| *(In thousands)* | |
|---|---|
| 2016 | $ 69,052 |
| 2017 | 15,556 |
| 2018 | 11,534 |
| 2019 | 2,391 |
| 2020 | 3,221 |
| Thereafter | 543 |
| | $ 102,297 |

## NOTE 8: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2022. Minimum future rent receivable under noncancellable operating leases at December 31, 2015 was as follows:

| *(In thousands)* | |
|---|---|
| 2016 | $ 772 |
| 2017 | 726 |
| 2018 | 696 |
| 2019 | 718 |
| 2020 | 736 |
| Thereafter | 481 |
| | $ 4,129 |

The Company incurred no consolidated rental and operating lease expenses for space it leases from others in 2015, 2014, and 2013.

## 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, 2015 and 2014, there was no outstanding balance on the line of credit. The variable interest rate was 0.48% on December 31, 2015 and 0.25% on December 31, 2014. At December 31, 2015 approximately $47,986,000 was available. Advances are made subject to 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, 2015 and 2014, 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, 2015 approximately $38,448,000 was available. Advances are made subject to 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, 2015, the Company had FFP lines of credit of $15,000,000, $17,000,000 and $5,000,000 with no outstanding balances. The variable interest rate for the $15,000,000 FFP line was 0.30%, 0.64% for the $17,000,000 FFP line of credit, and 1.40% for the $5,000,000 FFP line of credit on December 31, 2015. At December 31, 2014, the Company had FFP lines of credit of $17,000,000 and $5,000,000 with no outstanding balances. The variable interest rate for the $17,000,000 FFP line of credit was 0.39% and 0.22% for the $5,000,000 FFP line of credit on December 30, 2014.

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. As of December 31, 2015 and 2014, all of the Company's sales of securities under agreements to repurchase had overnight contractual maturities. The securities underlying the agreements are book-entry securities issued by U.S. Government sponsored agencies, held in safekeeping with a third party custodian and pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2015, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity.

## NOTE 9: SHORT TERM DEBT (Continued)

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

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| Balance as of December 31 | $35,746 | $30,780 |
| Carrying value of securities pledged to secure agreements to repurchase at December 31 | $51,446 | $43,409 |
| Average balance during the year of securities sold under agreements to repurchase | $29,195 | $29,852 |
| Maximum amount outstanding at any month-end during the year | $37,066 | $36,281 |

## NOTE 10: LONG TERM DEBT

Long-term debt at December 31, 2015 and 2014 consisted of the following components:

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| FHLBank advances (A) | $ 40,000 | $ 55,000 |
| Less: Deferred prepayment penalty on modification of FHLBank advances | (2,055) | (3,060) |
| Net FHLBank advances | 37,945 | 51,940 |
| Bank stock loan (B) | 15,253 | – |
| Subordinated Debentures – BVBC Capital Trust II (C) | 7,732 | 7,732 |
| Subordinated Debentures – BVBC Capital Trust III (D) | 11,856 | 11,856 |
| Total long-term debt | $ 72,786 | $ 71,528 |

(A) Due in 2017 and 2018; collateralized by various assets including mortgage-backed loans and available-for-sale securities totaling $125,891,000 at December 31, 2015. 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, 2015, approximately $47,986,000 was available. Advances are made at the discretion of the FHLBank Topeka.

In the fourth quarter of 2013, the Company repaid FHLBank advances totaling $40.0 million by rolling the net present value of the repaid advances into the funding cost of $40.0 million of new advances. A modification fee of $3.9 million 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, 2015 was approximately $2.1 million. These transactions reduced the effective interest rate, as well as modified the maturity date on these borrowings.

(B) Payable in quarterly installments of principal plus interest, floating at the lender's prime rate plus 1.00%, based on a 12-year amortization, with a balloon payment of unpaid principal due in August, 2020, collateralized by the stock of the Company's subsidiary bank.

(C) Due in 2033; interest-only at three-month LIBOR + 3.25% (3.58% at December 31, 2015 and 3.48% at December 31, 2014) 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.

(D) Due in 2035; interest-only at three-month LIBOR + 1.60% (2.21% at December 31, 2015 and 1.86% at December 31, 2014) 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)**

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.

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, which was redeemed in 2015 (see Note 12: Preferred Stock), 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, 2015 are as follows:

| | |
|---|---|
| *(In thousands)* | |
| 2016 | $ 1,008 |
| 2017 | 16,052 |
| 2018 | 26,101 |
| 2019 | 1,152 |
| 2020 | 10,940 |
| Thereafter | 19,588 |
| | 74,841 |
| Less: Deferred prepayment penalty on modification of FHLB advances | (2,055) |
| | $ 72,786 |

**NOTE 11: INCOME TAXES**

The provision for income taxes consists of the following:

| *(In thousands)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Taxes currently (refundable) payable | $ 16 | $ – | $ – |
| Deferred income taxes | 260 | (11,557) | (300) |
| | $ 276 | $ (11,557) | $ (300) |

## 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)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Computed at the statutory rate (34%) | $ 320 | $ 410 | $ 252 |
| Increase (decrease) resulting from: | | | |
| Tax-exempt interest | (209) | (198) | (163) |
| State income taxes | (627) | (37) | (27) |
| Changes in the deferred tax asset valuation allowance | – | (11,934) | (502) |
| Other | 227 | 202 | 140 |
| Actual tax provision | $ 276 | $(11,557) | $ (300) |

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2015 and 2014 consolidated balance sheets are as follows:

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 1,750 | $ 2,363 |
| Net operating loss from Blue Valley Ban Corp. and subsidiary | 9,423 | 8,977 |
| Accumulated depreciation on available-for-sale securities | 33 | 380 |
| Deferred compensation | 12 | 10 |
| Offering costs | 149 | 159 |
| Non-accrual loan interest | 31 | 118 |
| Other real estate owned reserve | 1,487 | 1,645 |
| Other | 612 | 534 |
| | 13,497 | 14,186 |
| Deferred tax liabilities: | | |
| Accumulated depreciation | (44) | (114) |
| FHLB stock basis | (299) | (346) |
| Prepaid intangibles | (238) | (275) |
| Other | (14) | (6) |
| | (595) | (741) |
| Net deferred tax asset before valuation allowance | 12,902 | 13,445 |
| Valuation allowance: | | |
| Beginning balance | – | (11,934) |
| (Increase) decrease during the period | – | 11,934 |
| Ending balance | – | – |
| Net deferred tax asset | $ 12,902 | $ 13,445 |

The Company has unused Federal net operating loss carryforwards of $24,801,000, which expire starting in 2029. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $33,030,000 which expire between 2019 and 2022.

## NOTE 12: PREFERRED STOCK

In August, 2015, the Company redeemed its $21.75 million of Series A Fixed Rate Cumulative Preferred Stock (the "Series A"). As part of the transaction, the Company also repaid associated accumulated dividends and interest on the Series A. The transaction included issuance of approximately $4.7 million of Common Stock and approximately $3.3 million of Series B Convertible Preferred Stock ("Series B") as well as term loan funding provided by a third party lender and existing liquidity. Each share of Series B is convertible into one share of Common Stock (i) at the option of the holder or upon the written request of the Company, subject to a limitation that the holder and their affiliates will not own or control more than 9.9% of the outstanding Common Stock of the Company, or any other class of voting shares of the Company upon such conversion, or (ii) automatically upon the transfer of any shares of Series B to a non-affiliate of the holder in a permissible transfer (as defined in the Certificate of Designations governing the Series B).

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 Series A 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 Series A had 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 compounded if they accrued and were not paid. During the time that the Series A were outstanding, a number of restrictions applied to the Company, including, among others:

- The Series A had a senior rank. The Company was not free to issue other preferred stock senior to the Series A.

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

- Failure to pay the Series A dividend was not an event of default.

- The Company's Series A qualified as Tier 1 capital in accordance with regulatory capital requirements.

The Company had deferred the payment of quarterly dividends on the Series A since May 15, 2009. The Series A 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. Series A dividends compounded if they accrued and were not paid; however, failure by the Company to pay the preferred share dividend was 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 Series A. All remaining accrued dividends and accrued interest on the Series A were paid upon the August, 2015 redemption of the Series A.

The Series A 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 $4,000 and cancelled them.

## NOTE 13: REGULATORY MATTERS

The Bank is 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 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 Bank'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 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) common equity Tier 1 capital (as defined in the regulations) to total risk-weighted assets and of Tier I capital to average assets (as defined). As of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which it was subject. Prior to 2015, the Company was subject to quantitative measures established by regulation to ensure capital adequacy that required the Company to maintain minimum amounts and ratios 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, the Company met all capital adequacy reporting requirements to which it was subject.

As of December 31, 2015, 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, 2015 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, 2015: | | | | | | |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Bank Only | $ 66,201 | 11.79% | $ 25,271 | 4.50% | $ 36,502 | 6.50% |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Bank Only | $ 70,933 | 12.63% | $ 44,926 | 8.00% | $ 56,157 | 10.00% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Bank Only | $ 66,201 | 11.79% | $ 33,694 | 6.00% | $ 44,926 | 8.00% |
| Tier 1 Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Bank Only | $ 66,201 | 10.52% | $ 22,463 | 4.00% | $ 28,079 | 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, 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% |

Financial institutions are highly regulated and are occasionally subject to various financial and operational restrictions. Currently, the Company is limited in its ability to declare or pay dividends, pay interest on its trust preferred securities and outstanding debt or receive dividends from the Bank.

## NOTE 14: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2015 and 2014, 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 $31,045,000 and $19,011,000, respectively. Annual activity consisted of the following:

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| Balance, beginning of year | $ 19,011 | $ 17,066 |
| New loans and advances | 35,178 | 15,033 |
| Repayments and reclassifications | (23,144) | (13,088) |
| Balance, end of year | $ 31,045 | $ 19,011 |

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, 2015, and 2014 totaled $5,625,000 and $4,824,000, 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 2015, 2014 and 2013. 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 2015, 2014 and 2013 were $284,000, $268,000 and $281,000, 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, 2015, the Company had 273,482 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 2015, 2014 and 2013, the Company granted no stock options, but did grant 48,153, 40,674 and 44,210 shares of restricted common stock, respectively. All restricted stock granted in 2015, 2014 and 2013 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. The non-vested shares were 0, 0, and 11,930 as of December 31, 2015, 2014 and 2013, 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, was amortized to compensation expense ratably over the applicable vesting period. Expenses associated with restricted stock grants were $365,000, $282,000, and $257,000 for 2015, 2014 and 2013, respectively. The amount of unrecognized compensation costs was $0, $0, and $23,000 as of December 31, 2015, 2014, and 2013, respectively. No shares were forfeited during 2015, 2014 and 2013.

There were no options outstanding and exercisable as of December 31, 2015, 2014 or 2013.

## 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 2015, 2014 and 2013 was approximately $4,000, $4,000 and $3,000, respectively. Information about employee stock purchase plan activity as of December 31, 2015, 2014 and 2013 is set forth in the following table.

| | Employee Stock Purchase Plan Activity | |
|---|---|---|
| Plan year ending January 31, | Shares purchased | Purchase Price |
| 2015 | 4,726 | $ 5.31 |
| 2014 | 6,877 | $ 3.83 |
| 2013 | 4,748 | $ 3.49 |

## NOTE 18: OTHER INCOME/EXPENSE

Other income consists of the following:

| *(In thousands)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Rental income | $ 792 | $ 909 | $ 719 |
| Realized gain on foreclosed assets | 44 | 236 | 1,292 |
| Other income | 1,216 | 454 | 1,432 |
| Total | $ 2,052 | $ 1,599 | $ 3,443 |

2015 other income includes the realization of approximately $658,000 of income from the settlement of collection litigation. 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:

| *(In thousands)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Data processing | $ 1,078 | $ 1,085 | $ 1,082 |
| FDIC assessments | 545 | 798 | 824 |
| ATM and network fees | 589 | 768 | 741 |
| Professional fees | 975 | 740 | 784 |
| Loan processing fees | 154 | 154 | 175 |
| Other expense | 3,001 | 2,693 | 3,249 |
| Total | $ 6,342 | $ 6,238 | $ 6,855 |

## 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 losses of $8,000 at December 31, 2015, gains of $13,000 at December 31, 2014 and losses of $6,000 at December 31, 2013. Lossses from fair value changes included in loans held for sale fee income were $21,000 for the year ended December 31, 2015, gains from fair value changes included in loans held for sale fee income were $18,000 for the year ended December 31, 2014 and losses from fair value changes included in loans held for sale fee income were $2,000 for the year ended December 31, 2013. 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, 2015 and 2014:

| | | 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, 2015: | | | | |
| Assets: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government sponsored agencies | $ 66,332 | $ – | $ 66,332 | $ – |
| State and political subdivision securities | 20,339 | – | 20,339 | – |
| U.S. Small Business Administration loan pool certificates | 4,291 | – | 4,291 | – |
| Equity and other securities | 598 | 598 | – | – |
| Mortgage loans held for sale | 2,258 | – | 2,258 | – |
| Commitments to originate loans | – | – | – | – |
| Forward sales commitments | 57 | – | – | 57 |
| Total assets | $ 93,875 | $ 598 | $ 93,220 | $ 57 |
| Liabilities: | | | | |
| Commitments to originate loans | $ – | $ – | $ – | $ – |
| Forward sales commitments | – | – | – | – |
| Total liabilities | $ – | $ – | $ – | $ – |
| 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 | $ – | $ – | $ – | $ – |

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

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

***Available-for-Sale Securities***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

***Mortgage Loans Held for Sale***

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

***Commitments to Originate Loans and Forward Sales Commitments***

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

## *Level 3 Reconciliation*

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

| *(In thousands)* | Commitments to Originate Loans | Forward Sales Commitments |
|---|---|---|
| Balance as of December 31, 2014 | $ – | $ 3 |
| Total realized and unrealized gains (losses): | | |
| Included in net income (loss) | – | 54 |
| Balance as of December 31, 2015 | $ – | $ 57 |
| 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 |

**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, 2015 and 2014 of assets and liabilities measured at fair value on a non-recurring basis during the respective year:

| | | 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, 2015: | | | | |
| Impaired loans, net of reserves | $ 5,282 | $ – | $ – | $ 5,282 |
| Foreclosed assets held for sale, net | 6,157 | – | – | 6,157 |
| | $ 11,439 | $ – | $ – | $ 11,439 |
| 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 |

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 12/31/15 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Forward Sales Commitments | $ 57 | Market comparable prices | Quoted prices for similar loans | 3.125%-3.875% (3.50%) |
| Collateral-dependent impaired loans | $ 5,282 | Market comparable properties | Comparability adjustments (%) | 15.00%-100.00% (12.00%) |
| Foreclosed assets held for sale, net | $ 6,157 | Market comparable properties | Comparability adjustments (%) | Not available |

| | Fair Value at 12/31/14 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| 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 | $ 7,618 | 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, 2015 and 2014.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| *(In thousands)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents (Level 1) | $ 45,833 | $ 45,833 | $ 69,017 | $ 69,017 |
| Loans, net of allowance for loan losses (Level 3) | 443,962 | 441,526 | 416,407 | 416,882 |
| FHLBank stock, Federal Reserve Bank stock, and other securities (Level 3) | 4,805 | 4,805 | 5,490 | 5,490 |
| Interest receivable (Level 3) | 1,727 | 1,727 | 1,603 | 1,603 |
| Financial liabilities: | | | | |
| Deposits (Level 3) | 483,242 | 483,875 | 468,759 | 469,596 |
| Short term debt (Level 3) | 35,746 | 35,746 | 30,780 | 30,780 |
| Long term debt (Level 3) | 72,786 | 70,545 | 71,528 | 71,676 |
| Interest payable (Level 3) | 235 | 235 | 1,242 | 1,242 |
| 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)

***Short Term Debt***

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, 2015 and 2014, the Company had outstanding commitments to originate loans aggregating approximately $750,000 and $4,512,000, 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 $655,000 and $0 at December 31, 2015 and 2014, 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 $2,258,000 and $588,000 at December 31, 2015 and 2014, 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 $2,258,000 and $588,000 at December 31, 2015 and 2014, 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 $1,098,000 and $974,000 at December 31, 2015 and 2014, 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, 2015, the Company had unused lines of credit to borrowers aggregating approximately $148,649,000 for commercial, commercial real estate and construction lines and $31,639,000 for open-end consumer lines of credit. 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.

## 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, 2015, the Company has repurchased no loans from investors. Additionally, during the three years ending December 31, 2015, the Company has recognized indemnification losses and claims totaling approximately $379,000 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.

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| | *(In thousands, except per share data)* | | | | | | | |
| Interest income | $ 5,775 | $ 5,790 | $ 5,625 | $ 5,428 | $ 5,626 | $ 5,606 | $ 5,753 | $ 5,699 |
| Interest expense | 948 | 986 | 991 | 1,025 | 1,084 | 1,134 | 1,165 | 1,131 |
| Net interest income | 4,827 | 4,804 | 4,634 | 4,403 | 4,542 | 4,472 | 4,588 | 4,568 |
| Provision for loan losses | 200 | - | 1,250 | - | - | - | 100 | 300 |
| Net interest income after provision for loan losses | 4,627 | 4,804 | 3,384 | 4,403 | 4,542 | 4,472 | 4,488 | 4,268 |
| Non-interest income | 1,329 | 2,034 | 1,529 | 1,599 | 1,458 | 1,366 | 1,607 | 1,210 |
| Non-interest expense | 5,834 | 6,736 | 5,131 | 5,067 | 5,339 | 5,469 | 5,986 | 5,412 |
| Income (loss) before income taxes | 122 | 102 | (218) | 935 | 661 | 369 | 109 | 66 |
| Provision (benefit) for income taxes | 30 | 18 | (98) | 326 | 229 | (11,786) | - | - |
| Net income (loss) | 92 | 84 | (120) | 609 | 432 | 12,155 | 109 | 66 |
| Dividends on preferred shares | - | 196 | 648 | 489 | 490 | 489 | 489 | 272 |
| Net income (loss) available to common shareholders | $ 92 | $ (112) | $ (768) | $ 120 | $ (58) | $ 11,666 | $ (380) | $ (206) |
| Net Income (loss) per Share Data | | | | | | | | |
| Basic | $ 0.02 | $ (0.02) | $ (0.17) | $ 0.03 | $ (0.01) | $ 2.54 | $ (0.08) | $ (0.05) |
| Diluted | $ 0.02 | $ (0.02) | $ (0.17) | $ 0.03 | $ (0.01) | $ 2.54 | $ (0.08) | $ (0.05) |
| Balance Sheet | | | | | | | | |
| Total assets | $638,245 | $643,642 | $619,850 | $621,089 | $638,445 | $634,688 | $620,500 | $628,469 |
| Total loans, net | 443,962 | 434,408 | 433,613 | 415,293 | 416,407 | 416,321 | 408,388 | 411,258 |
| Stockholders' equity | 44,726 | 44,380 | 57,606 | 59,130 | 58,460 | 57,520 | 45,285 | 44,306 |

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, 2015 and 2014

| *(In thousands)* | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 3,142 | $ 4,193 |
| Investments in subsidiaries: | | |
| Bank of Blue Valley | 72,080 | 76,849 |
| BVBC Capital Trust II | 232 | 232 |
| BVBC Capital Trust III | 356 | 356 |
| Other assets | 3,928 | 3,321 |
| Total Assets | $ 79,738 | $ 84,951 |
| **LIABILITIES** | | |
| Long-term debt | $ 15,253 | $ – |
| Subordinated debentures | 19,588 | 19,588 |
| Other liabilities | 171 | 6,903 |
| Total Liabilities | 35,012 | 26,491 |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock | 472 | 22 |
| Common stock | 5,371 | 4,649 |
| Additional paid-in capital | 30,657 | 45,328 |
| Retained earnings | 8,276 | 9,030 |
| Accumulated other comprehensive income (loss), net of income tax (credit) of $(33) in 2015 and $(380) in 2014 | (50) | (569) |
| Total Stockholders' Equity | 44,726 | 58,460 |
| Total Liabilities and Stockholders' Equity | $ 79,738 | $ 84,951 |

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

### Condensed Statements of Operations
### Years Ended December 31, 2015, 2014 and 2013

| *(In thousands)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Income | | | |
| Dividends from subsidiaries | $ 6,944 | $ 412 | $ – |
| Other income | 16 | 16 | 1,045 |
| | 6,960 | 428 | 1,045 |
| Expenses | 1,517 | 1,300 | 1,138 |
| Income before income taxes and equity in undistributed net income (loss) of subsidiaries | 5,443 | (872) | (93) |
| Income tax benefit | (510) | (435) | – |
| Valuation allowance on deferred tax asset | – | (2,796) | – |
| Income (loss) before equity in undistributed net loss of subsidiaries | 5,953 | 2,359 | (93) |
| Equity in undistributed net income (loss) of subsidiaries | (5,288) | 10,403 | 1,135 |
| Net income | $ 665 | $ 12,762 | $ 1,042 |

### Condensed Statements of Comprehensive Income (Loss)
### Years Ended December 31, 2015, 2014 and 2013

| *(In thousands)* | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income | $ 665 | $ 12,762 | $ 1,042 |
| Other comprehensive income (loss) | | | |
| Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $312 in 2015, $2,370 in 2014, and $(2,710) in 2013 | 473 | 3,591 | (4,106) |
| Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $(31) in 2015, $14 in 2014, and $51 in 2013 | 47 | (21) | (76) |
| Comprehensive income (loss) | $ 1,185 | $ 16,332 | $ (3,140) |

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

### Condensed Statements of Cash Flows
### Years Ended December 31, 2015, 2014 and 2013

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| *(In thousands)* | | | |
| **OPERATING ACTIVITIES** | | | |
| Net Income (loss) | $ 665 | $ 12,762 | $ 1,042 |
| Items not requiring (providing) cash: | | | |
| Deferred income taxes | (569) | (3,294) | – |
| Equity in undistributed net loss (income) of subsidiaries | 5,288 | (10,403) | (1,135) |
| Restricted stock earned | 355 | 274 | 288 |
| Changes in: | | | |
| Other assets | (37) | 58 | (68) |
| Other liabilities | (8,152) | (703) | (2,992) |
| Net cash used in operating activities | (2,450) | (1,306) | (2,865) |
| **INVESTING ACTIVITIES** | | | |
| Capital contributed to subsidiary | – | – | – |
| Net cash used in investing activities | – | – | – |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from long-term debt | 15,500 | – | – |
| Repayments of long-term debt | (247) | – | – |
| Proceeds from sale of additional stock | 7,871 | 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) | 29 | 31 | 19 |
| Repurchase of TARP Warrant | (4) | – | – |
| Redemption of Series A Preferred Stock | (21,750) | – | – |
| Net cash provided by financing activities | 1,399 | 1,366 | 6,352 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (1,051) | 60 | 3,487 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 4,193 | 4,133 | 646 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 3,142 | $ 4,193 | $ 4,133 |

# STOCKHOLDER INFORMATION

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### HELPLINE

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### WEBSITE

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### ANNUAL MEETING OF STOCKHOLDERS

The annual meeting will be held on May 18, 2016 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.

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