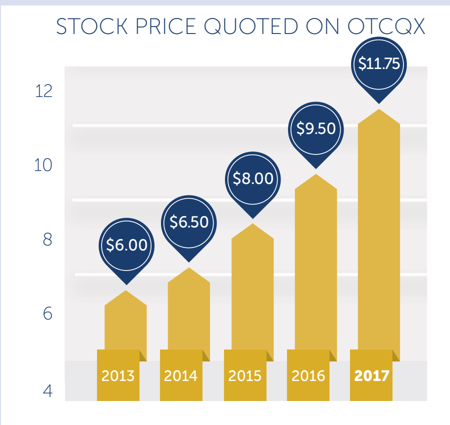
Blue Valley Ban Corp.

BUILDING SOMETHING STRONGER.

2017 ANNUAL REPORT

LETTER TO STOCKHOLDERS

2017 marked the sixth consecutive year of increase in our stock price quoted on the OTCQX. The stock traded at a low of $4.10 in 2011 and ended 2017 at $11.75. Although our stock is thinly traded, and therefore the quoted price not always indicative of the current market value, this increase is positively correlated with the improvement in earnings over the same time period. We continue to work diligently to enhance stockholder value utilizing the foundation we laid 28 years ago. The keys to our financial success over the past year were well executed strategies around the basic building blocks of being a good community bank; growth in loans and deposits through building relationships. The result was a significant increase in net interest income and overall profitability. While the enactment of the Tax Cuts and Jobs Act (Tax Reform) resulted in a one-time, non-cash charge reducing our reported net income for 2017, Tax Reform will result in improved earnings going forward as a result of a lower U.S. Corporate tax rate. Excluding the impact of the one-time non-cash Tax Reform Act charge, we increased earnings by 166% in 2017 as compared with the prior year. Notable achievements during 2017 included:



Stock price quoted on OTCQX

$11.75

9%

NET LOAN GROWTH

11%

NET DEPOSIT GROWTH

15%

NET INTEREST INCOME
(NEARLY $3 million)

Stellar loan quality with a ratio of **.22%** of nonperforming loans *(as of 12/31)*

Achieved a net recovery ratio of **0.05%** of average loans meaning we recovered more from loans previously charged off than we charged off in 2017

Achieved a strong net interest margin of **3.59%** on earning assets *(as of 12/31)*

Through a responsible growth strategy, we grew revenue, managed risks, reduced expenses and continued to reinvest in our associates and our community. Operational excellence was a strategic focus in 2017 and we reduced total non-interest expense by $1.3 million or nearly 6.2%. It's important to note that we did this while growing the business.

While we are pleased with the growth we have achieved over the last five years, the operational efficiencies we have gained, and the resulting increase in returns for our stockholders, we have more work to do and more opportunities in front of us. One of those opportunities is within our Wealth Management Division.

In 2017 we received regulatory approval for the formation of Blue Valley Wealth Advisors Inc., a Registered Investment Advisory firm that is now a part of our wealth management offerings which already included Trust and Brokerage services as well as Private Banking services. As we grow assets under management non-interest income will be enhanced. We see this as a logical compliment to the services our customers expect from a full service community bank. Blue Valley Wealth Advisors will enable us to offer goals-based wealth management services that will serve our clients well going forward.

Through prudent strategic growth of our commercial lending, retail and digital banking, and wealth management services, and further improvement of our operational efficiencies, we believe we can continue to build value for the benefit of our stockholders.

Thank you for your continued support.

ROBERT D. REGNIER
President & CEO

BLUE VALLEY BAN CORP.

DECEMBER 31, 2017, 2016 AND 2015

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Blue Valley Ban Corp. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
March 29, 2018

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017 AND 2016
(In thousands, except share data)

ASSETS

	2017	2016
Cash and due from banks	$ 9,394	$ 17,766
Interest bearing deposits in other financial institutions	4,150	8,272
Cash and cash equivalents	13,544	26,038
Available-for-sale securities	103,130	107,760
Loans, net of allowance for loan losses of $5,535 and $6,164 in 2017 and 2016, respectively	529,265	487,518
Premises and equipment, net	12,322	12,046
Bank-owned real estate held for sale, net	5,915	5,915
Foreclosed assets held for sale, net	2,252	5,883
Interest receivable	1,888	1,785
Deferred income taxes	7,755	14,304
Prepaid expenses and other assets	7,531	7,939
FHLBank stock, Federal Reserve Bank stock, and other securities	3,888	5,244
Total assets	$ 687,490	$ 674,432

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017 AND 2016
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016
LIABILITIES		
Deposits		
Demand	$ 152,052	$ 150,274
Savings, NOW and money market	315,553	280,628
Time	101,240	81,575
Total deposits	568,845	512,477
Short term debt	37,202	63,142
Long term debt	32,802	53,333
Interest payable and other liabilities	2,392	2,045
Total liabilities	641,241	630,997
STOCKHOLDERS' EQUITY		
Capital stock		
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 2017 and 2016 – 471,979 shares	472	472
Common stock, par value $1 per share; Authorized 15,000,000 shares; issued and outstanding 2017 – 5,677,865 shares; 2016 – 5,644,553 shares	5,678	5,644
Additional paid-in capital	32,108	30,858
Retained earnings	10,941	9,842
Accumulated other comprehensive loss, net of income tax (credit) of $(1,091) in 2017 and $(2,254) in 2016	(2,950)	(3,381)
Total stockholders' equity	46,249	43,435
Total liabilities and stockholders' equity	$ 687,490	$ 674,432

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands, except per share data)

	2017	2016	2015
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 23,665	$ 20,949	$ 20,418
Available-for-sale securities	2,103	1,938	1,880
Dividends on FHLBank and Federal Reserve Bank stock	146	202	231
Federal funds sold and other short-term investments	115	185	89
Total interest and dividend income	26,029	23,274	22,618
INTEREST EXPENSE			
Interest-bearing demand deposits	258	239	246
Savings and money market deposit accounts	503	401	341
Time deposits	976	609	868
Federal funds purchased and short term debt	53	33	25
Long term debt, net	1,662	2,307	2,470
Total interest expense	3,452	3,589	3,950
NET INTEREST INCOME	22,577	19,685	18,668
PROVISION FOR LOAN LOSSES	(900)	1,925	1,450
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	23,477	17,760	17,218
NON-INTEREST INCOME			
NSF charges and service fees	904	1,008	1,033
Trust services	585	725	640
Investment brokerage services	456	405	518
Other service charges	1,421	1,437	1,447
Realized gains (losses) on available-for-sale securities	-	1,879	(78)
Other income	1,303	2,059	2,931
Total non-interest income	4,669	7,513	6,491
NON-INTEREST EXPENSE			
Salaries and employee benefits	10,860	10,734	11,205
Net occupancy expense	2,671	2,720	2,699
Foreclosed assets expense	2,247	3,021	2,522
Other operating expense	5,782	6,413	6,342
Total non-interest expense	21,560	22,888	22,768
INCOME BEFORE INCOME TAXES	6,586	2,385	941
PROVISION FOR INCOME TAXES	6,012	819	276
NET INCOME	574	1,566	665
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	–	–	1,333
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 574	$ 1,566	$ (668)
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ 0.11	$ 0.29	$ (0.14)
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ 0.11	$ 0.29	$ (0.14)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In thousands)

	2017	2016	2015
NET INCOME	$ 574	$ 1,566	$ 665
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $631 in 2017, $(1,455) in 2016 and $312 in 2015	956	(2,204)	472
Less: reclassification adjustment for realized (gains) losses included in net income (loss), net of income taxes of $0 in 2017, $(752) in 2016, and $31 in 2015	–	(1,127)	47
Comprehensive income (loss)	$ 1,530	$ (1,765)	$ 1,184

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Issuance of 270,431 shares of restricted stock, net of forfeitures of 2,199		268	175			443
Issuance of 4,968 shares of common stock for the employee stock purchase plan		5	26			31
Net income				1,566		1,566
Other comprehensive income					(3,331)	(3,331)
BALANCE, DECEMBER 31, 2016	$ 472	$ 5,644	$ 30,858	$ 9,842	$ (3,381)	$ 43,435
Issuance of 50,815 shares of restricted stock, net of forfeitures of 21,057		30	495			525
Issuance of 3,554 shares of common stock for the employee stock purchase plan		4	25			29
Stock-based compensation expense			730			730
Net income				574		574
Other comprehensive income					956	956
Reclassify stranded tax effects due to 2017 tax law changes				525	(525)	-
BALANCE, DECEMBER 31, 2017	$ 472	$ 5,678	$ 32,108	$ 10,941	$ (2,950)	$ 46,249

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands)

	2017	2016	2015
OPERATING ACTIVITIES			
Net income	$ 574	$ 1,566	$ 665
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,378	1,607	1,911
Amortization, net of (accretion) of premiums and discounts on available-for-sale securities	747	689	320
Provision for loan losses	(900)	1,925	1,450
Provision for losses on foreclosed assets held for sale	1,483	1,419	1,854
Deferred income taxes	2,446	730	196
Income tax expense from revaluation of deferred tax assets and liabilities	3,595	—	—
Stock dividends on FHLBank stock	(28)	(84)	(113)
Increase in value of bank owned life insurance	(173)	(172)	(172)
Net realized (gains) losses on available-for-sale securities	—	(1,879)	78
Net loss on disposal of premises and equipment	—	—	19
Net (gain) loss on sale of foreclosed assets	103	165	(39)
Restricted stock earned net of forfeitures	525	443	355
Compensation expense related to the Employee Stock Purchase Plan	3	4	4
Stock-based compensation expense	730	—	—
Originations of loans held for sale	—	(2,367)	(46,750)
Proceeds from the sale of loans held for sale	—	4,633	45,060
Realized (gain) loss on loans held for sale fair value adjustment	—	(8)	20
Changes in:			
Interest receivable	(103)	(58)	(124)
Net fair value of loan related commitments	—	57	(54)
Prepaid expenses and other assets	578	186	(53)
Interest payable and other liabilities	215	295	(1,250)
Net cash provided by operating activities	11,173	9,151	3,377
INVESTING ACTIVITIES			
Net change in loans	(71,723)	(116,971)	(50,217)
Proceeds from sale of loan participations	31,287	69,827	21,162
Purchase of premises and equipment	(1,152)	(1,132)	(2,327)
Proceeds from the sale of foreclosed assets, net of expenses	1,635	3,840	5,399
Purchase of priority lien on foreclosed assets held for sale	—	—	(160)
Purchases of available-for-sale securities	—	(116,526)	(122,006)
Proceeds from maturities of available-for-sale securities	5,477	—	81,770
Proceeds from sale of available-for-sale securities	—	95,964	40,516
Purchases of FHLBank and Federal Reserve Bank stock and other securities	(1,376)	(1,974)	—
Proceeds from the redemption of FHLBank stock, Federal Reserve Bank stock, and other securities	2,760	1,618	798
Net cash used in investing activities	(33,092)	(65,354)	(25,065)
FINANCING ACTIVITIES			
Net increase in demand deposits, money market, NOW and savings accounts	36,703	49,956	4,400
Net decrease in time deposits	19,665	(20,721)	(19,088)
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	(4,672)	(1,871)	4,966
Proceeds from acquisition of bank deposits	—	—	29,172
Repayments of long-term debt	(21,032)	(20,254)	(15,246)
Proceeds from long-term debt	—	—	15,500
Repayments of short-term debt	(150,815)	(16,032)	—
Proceeds from short-term debt	129,547	45,299	—
Proceeds from sale of additional stock	—	—	7,871
Net proceeds from the sale of stock through Employee Stock Purchase Plan	29	31	29
Dividends paid on Series A Preferred Stock	—	—	(7,346)
Repurchase of warrants	—	—	(4)
Redemption of Series A Preferred Stock	—	—	(21,750)
Net cash provided by (used in) financing activities	9,425	36,408	(1,496)
Decrease in cash and cash equivalents	(12,494)	(19,795)	(23,184)
Cash and cash equivalents, beginning of year	26,038	45,833	69,017
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,544	$ 26,038	$ 45,833

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands)

	2017	2016	2015
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash paid during the year for:			
Interest	$ 3,288	$ 3,686	$ 4,857
Income taxes, net of refunds	$ 102	$ –	$ 80
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	$ –	$ 1,682	$ 159
Unvested restricted stock issued	$ –	$ 222	$ –
Sale and financing of foreclosed assets	$ 411	$ 20	$ –
Adoption of ASU 2018-02 – reclassification of stranded tax effects due to 2017 tax law change	$ 525	$ –	$ –

See Notes to Consolidated Financial Statements

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

Nature of Operations

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

The Bank is primarily engaged in providing a full range of banking services to consumer and commercial customers in Johnson County, Kansas. 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 March 29, 2018, 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 December 2013, the FASB issued ASU No. 2013-12, Definition of a Public Business Entity. The standard defined a public business entity for U.S. GAAP financial reporting purposes and amended the Master Glossary. The Company has evaluated the standard and has determined it is a public business entity.

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. The Company adopted the provisions of ASU 2014-09 beginning January 1, 2018. The adoption of ASU 2014-09 did not have a significant effect on the Company's financial position, results of operations, or its financial statement disclosures.

In January, 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities). The guidance is intended to improve the recognition and measurement of financial instruments for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 requires equity investments (other than equity method or consolidation) to be measured at fair value with changes in fair value recognized in net income, eliminated available-for-sale classification (changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values, and eliminated the cost method for equity securities without readily determinable fair values. Entities will be permitted to elect to record equity securities without readily determinable fair values at cost, less impairment, with changes in the basis reported in current earnings. ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminates the requirement for non-public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is to be required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requires a reporting organization to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2017. The Company adopted the provisions of ASU 2016-01 beginning January 1, 2018. The adoption of ASU 2016-01 did not have a significant effect on the Company's financial position, results of operations, or its financial statement disclosures.

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

Effect of New Financial Accounting Standards (Continued)

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires a lessee to recognize a right-of-use asset and liability on the balance sheet for leases with lease terms greater than 12 months. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements. Our preliminary finding is that the new pronouncement will not have a significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the new pronouncement is immaterial to the financial condition of the Company.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance removes the existing “probable” and “incurred” loss recognition threshold and requires an entity to estimate lifetime expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts, including estimates for prepayments. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU does not prescribe a specific method to estimate credit losses. ASU 2016-13 is effective for public business entities that are not SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 (i.e., January 1, 2021, for calendar year entities). We are currently evaluating the impact that the standard will have on our consolidated financial statements, and are currently evaluating various loss estimation methodologies.

In February 2018, FASB issued ASU 2018-02 “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” which permits entities to reclassify tax effects stranded in accumulated other comprehensive income (loss) (AOCI) as a result of the Tax Cuts and Jobs Act (the “Tax Act”). ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018; however, early adoption is permitted. The Company adopted the provisions of ASU 2018-02 which resulted in a reclassification from AOCI to retained earnings in the amount of $525,000, which is reflected in the 2017 consolidated financial statements. The adoption of ASU 2018-02 during 2017 allows the Company to align the tax effects included in accumulated other comprehensive income (loss) with the revised federal tax rates included in the Tax Act.

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

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 cash accounts exceeded the $250,000 FDIC insurance limits by approximately $1.4 million at December 31, 2017.

The Bank had no required reserve with the Federal Reserve Bank at December 31, 2017. The Bank's deposit balance held at the Federal Reserve Bank on December 31, 2017 was $3,732,000.

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, 2017.

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.

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.

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

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)

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 on 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.

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 2014.

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 $(2,950,000) and $(3,381,000), respectively, at December 31, 2017 and 2016.

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:

(In thousands, except share and per share data)	2017	2016	2015
Net Income	$ 574	$ 1,566	$ 665
Dividends and accretion on preferred stock	–	–	(1,333)
Net income (loss) available to common stockholders	$ 574	$ 1,566	$ (668)
Average common shares outstanding	5,432,082	5,383,621	4,932,847
Average common share stock options outstanding and restricted stock	688	507	705
Average diluted common shares	5,432,770	5,384,128	4,933,552
Basic income (loss) per share	$0.11	$0.29	$(0.14)
Diluted income (loss) per share (A)	$0.11	$0.29	$(0.14)

(A) Diluted earnings per share above excludes conversion of the Company's Series B Preferred Stock, which is subject to conversion limitations as described in Note 11.

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, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 54,447	$ –	$ (2,363)	$ 52,084
State and political subdivision securities	13,973	–	(487)	13,486
U.S. Government sponsored agencies mortgage-backed securities	32,924	–	(1,124)	31,800
U.S. Small Business Administration loan pool certificates	3,227	–	(76)	3,151
Equity and other securities	2,600	20	(11)	2,609
	$ 107,171	$ 20	$ (4,061)	$ 103,130

	December 31, 2016			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government sponsored agencies	$ 59,835	$ –	$ (3,249)	$ 56,586
State and political subdivision securities	13,992	–	(644)	13,348
U.S. Government sponsored agencies mortgage-backed securities	33,262	–	(1,628)	31,634
U.S. Small Business Administration loan pool certificates	3,706	–	(103)	3,603
Equity and other securities	2,600	–	(11)	2,589
	$ 113,395	$ –	$ (5,635)	$ 107,760

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2017, 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	8,050	7,821
Due after five years through ten years	62,370	59,770
Due after ten years	–	–
Total	70,420	67,591
U.S. Government sponsored agencies mortgage-backed securities	32,924	31,800
U.S. Small Business Administration loan pool certificates	3,227	3,151
Equity securities	600	588
	$ 107,171	$ 103,130

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits were $6,303,000 and $6,045,000, respectively, at December 31, 2017 and $6,183,000 and $6,022,000, respectively, at December 31, 2016.

There were no gross gains or gross losses realized in 2017 from sales of available-for-sale securities. Gross gains of $1.9 million and gross losses of $5,000 were realized in 2016 from sales of available-for-sale securities. Gross gains of $80,000 and gross losses of $158,000 were realized in 2015 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, 2017 and 2016, was $101,110,000 and $105,760,000, respectively, which is approximately 98.1% and 98.1%, 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, 2017					
	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	$ –	$ –	$ 52,084	$ 2,363	$ 52,084	$ 2,363
State and political subdivision securities	–	–	13,486	487	13,486	487
U.S. Government sponsored agencies mortgage-backed securities	–	–	31,800	1,124	31,800	1,124
U.S. Small Business Administration loan pool certificates	–	–	3,151	76	3,151	76
Equity securities	–	–	589	11	589	11
Total temporarily impaired securities	$ –	$ –	$ 101,110	$ 4,061	$ 101,110	$ 4,061

	December 31, 2016					
	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	$ 56,586	$ 3,249	$ –	$ –	$ 56,586	$ 3,249
State and political subdivision securities	13,348	644	–	–	13,348	644
U.S. Government sponsored agencies mortgage-backed securities	31,634	1,628	–	–	31,634	1,628
U.S. Small Business Administration loan pool certificates	3,603	103	–	–	3,603	103
Equity and other securities	589	11	–	–	589	11
Total temporarily impaired securities	$ 105,760	$ 5,635	$ –	$ –	$ 105,760	$ 5,635

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

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, 2017 or 2016.

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, 2017 and 2016 were as follows:

	Amounts Reclassified From Accumulated Other Comprehensive Income (Loss) Year Ended		
(In thousands)	December 31, 2017	December 31, 2016	Affected line item in the Consolidated Statements of Operations
Realized gains (losses) on available-for-sale securities	$ –	$ 1,879	Realized gains on available-for-sale securities (Total reclassified amount before tax)
Income taxes	–	(752)	Benefit for income taxes
Total reclassifications out of accumulated other comprehensive income	$ –	$ 1,127	

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2017 and 2016 include the following:

(In thousands)	2017	2016
Commercial loans	$ 149,540	$ 163,765
Commercial real estate loans	227,167	193,449
Construction loans	68,406	48,542
Home equity loans	25,970	29,691
Residential real estate loans	37,529	39,921
Consumer loans	13,200	11,039
Lease financing	12,988	7,275
Total loans	534,800	493,682
Less: Allowance for loan losses	5,535	6,164
Net loans	$ 529,265	$ 487,518

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, 2017, 2016 and 2015:

	For the Year Ended December 31, 2017							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
Allowance for loan losses:								
Balance, beginning of year	$ 3,311	$ 1,561	$ 441	$ 313	$ 372	$ 123	$ 43	$ 6,164
Provision charged to expense	(1,076)	119	104	22	(157)	(52)	140	(900)
Losses charged off	(20)	–	–	(25)	(26)	–	–	(71)
Recoveries	145	20	31	14	132	–	–	342
Balance, end of year	$ 2,360	$ 1,700	$ 576	$ 324	$ 321	$ 71	$ 183	$ 5,535

	For the Year Ended December 31, 2016							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
Allowance for loan losses:								
Balance, beginning of year	$ 2,004	$ 1,279	$ 563	$ 339	$ 442	$ 80	$ 24	$ 4,731
Provision charged to expense	2,979	268	(1,237)	(53)	(94)	43	19	1,925
Losses charged off	(2,296)	–	–	–	–	–	–	(2,296)
Recoveries	624	14	1,115	27	24	–	–	1,804
Balance, end of year	$ 3,311	$ 1,561	$ 441	$ 313	$ 372	$ 123	$ 43	$ 6,164

	For the Year Ended December 31, 2015							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
Allowance for loan losses:								
Balance, beginning of year	$ 2,537	$ 1,577	$ 1,032	$ 465	$ 698	$ 62	$ 15	$ 6,386
Provision charged to expense	3,750	(421)	(1,448)	(137)	(321)	18	9	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	$ 80	$ 24	$ 4,731

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

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment methods as of December 31, 2017 and 2016:

	December 31, 2017							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 289	$ 12	$ 36	$ 116	$ 19	$ 28	$ –	$ 500
Collectively evaluated for impairment	2,071	1,688	540	208	302	155	71	5,035
Total	$ 2,360	$ 1,700	$ 576	$ 324	$ 321	$ 183	$ 71	$ 5,535
Loans:								
Individually evaluated for impairment	$ 12,394	$ 1,802	$ 44	$ 170	$ 350	$ 28	$ –	$ 14,788
Collectively evaluated for impairment	137,146	225,365	68,362	25,800	37,179	13,172	12,988	520,012
Total	$ 149,540	$ 227,167	$ 68,406	$ 25,970	$ 37,529	$ 13,200	$ 12,988	$ 534,800

	December 31, 2016							
(In thousands)	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ 230	$ 12	$ 45	$ 37	$ 3	$ –	$ –	$ 327
Collectively evaluated for impairment	3,081	1,549	396	276	369	123	43	5,837
Total	$ 3,311	$ 1,561	$ 441	$ 313	$ 372	$ 123	$ 43	$ 6,164
Loans:								
Individually evaluated for impairment	$ 9,567	$ 1,885	$ 54	$ 428	$ 530	$ –	$ –	$ 12,464
Collectively evaluated for impairment	154,198	191,564	48,488	29,263	39,391	11,039	7,275	481,218
Total	$ 163,765	$ 193,449	$ 48,542	$ 29,691	$ 39,921	$ 11,039	$ 7,275	$ 493,682

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, 2017 and 2016. 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.

	2017			2016		
(In thousands)	Pass	Classified	Total	Pass	Classified	Total
Commercial	$ 147,033	$ 2,508	$ 149,540	$ 160,842	$ 2,923	$ 163,765
Commercial real estate	227,167	–	227,167	193,449	–	193,449
Construction	68,362	44	68,406	48,488	54	48,542
Home equity	25,800	170	25,970	29,263	428	29,691
Residential real estate	37,179	350	37,529	39,391	530	39,921
Consumer	13,171	28	13,200	11,039	–	11,039
Lease financing	12,988	–	12,988	7,275	–	7,275
Total	$ 531,700	$ 3,100	$ 534,800	$ 489,747	$ 3,935	$ 493,682

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2017 and 2016:

	December 31, 2017						
(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	$ –	$ –	$ 160	$ 160	$ 149,380	$ 149,540	$ –
Commercial real estate	–	–	–	–	227,167	227,167	–
Construction	–	–	–	–	68,406	68,406	–
Home equity	–	–	68	68	25,902	25,970	–
Residential real estate	–	–	96	96	37,433	37,529	–
Consumer	–	–	28	28	13,172	13,200	–
Lease financing	–	–	–	–	12,988	12,988	–
Total	$ –	$ –	$ 352	$ 352	$ 534,448	$ 534,800	$ –

	December 31, 2016						
(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	$ –	$ 17	$ –	$ 17	$ 163,748	$ 163,765	$ –
Commercial real estate	–	–	–	–	193,449	193,449	–
Construction	–	–	–	–	48,542	48,542	–
Home equity	228	–	75	303	29,388	29,691	–
Residential real estate	401	–	83	484	39,437	39,921	–
Consumer	–	–	–	–	11,039	11,039	–
Lease financing	–	–	–	–	7,275	7,275	–
Total	$ 629	$ 17	$ 158	$ 804	$ 492,878	$ 493,682	$ –

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, 2017, 2016 and 2015:

	December 31, 2017				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 612	$ 598	$ –	$ 256	$ 10
Commercial real estate	35	35	–	41	3
Construction	–	–	–	–	–
Home equity	23	31	–	39	–
Residential real estate	312	336	–	260	18
Consumer	–	–	–	–	–
Lease financing	–	–	–	–	–
Loans with a specific valuation allowance:					
Commercial	$ 105	$ 106	$ 50	$ 101	$ 4
Commercial real estate	–	–	–	–	–
Construction	–	–	–	–	–
Home equity	146	150	116	59	–
Residential real estate	84	100	55	90	–
Consumer	28	29	28	14	–
Lease financing	–	–	–	–	–
Total impaired loans:					
Commercial	$ 717	$ 704	$ 50	$ 357	$ 14
Commercial real estate	35	35	–	41	3
Construction	–	–	–	–	–
Home equity	169	181	116	98	–
Residential real estate	396	436	55	350	18
Consumer	28	29	28	14	–
Lease financing	–	–	–	–	–
Total	$ 1,345	$ 1,385	$ 249	$ 860	$ 35

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

	December 31, 2016				
(In thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 82	$ 100	$ –	$ 490	$ 5
Commercial real estate	45	45	–	49	–
Construction	–	–	–	599	–
Home equity	74	84	–	207	–
Residential real estate	442	585	–	494	16
Consumer	–	–	–	–	–
Lease financing	–	–	–	–	–
Loans with a specific valuation allowance:					
Commercial	$ 63	$ 63	$ 54	$ 1,467	$ –
Commercial real estate	–	–	–	–	–
Construction	–	–	–	3,485	–
Home equity	29	29	27	14	–
Residential real estate	42	48	2	54	–
Consumer	–	–	–	–	–
Lease financing	–	–	–	–	–
Total impaired loans:					
Commercial	$ 145	$ 163	$ 54	$ 1,957	$ 5
Commercial real estate	45	45	–	49	–
Construction	–	–	–	4,084	–
Home equity	103	113	27	221	–
Residential real estate	484	633	2	548	16
Consumer	–	–	–	–	–
Lease financing	–	–	–	–	–
Total	$ 777	$ 954	$ 83	$ 6,859	$ 21

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

	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
Consumer	–	–	–	–	–
Lease financing	–	–	–	57	–
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	–	–	–	4	–
Residential real estate	63	63	–	15	–
Consumer	–	–	–	–	–
Lease financing	–	–	–	–	–
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
Consumer	–	–	–	–	–
Lease financing	–	–	–	57	–
Total	$ 6,623	$ 6,812	$ 329	$ 10,157	$ 320

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2017 and 2016:

(In thousands)	2017	2016
Commercial	$ 584	$ 17
Commercial real estate	–	–
Construction	–	–
Home equity	169	484
Residential real estate	396	103
Consumer	28	–
Lease financing	–	–
	$ 1,177	$ 604

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, 2017, the Company had $133,000 of commercial loans and $35,000 of commercial real estate 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, 2017, the Company modified one loan in a troubled debt restructuring transaction and classified the loan as impaired. The modification 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 adjustment to the interest rate and extension of the amortization period. During the years ended December 31, 2016 and 2015, the Company modified no loans in troubled debt restructuring transactions.

The following table presents loans restructured and classified as troubled debt restructurings by class during the years ended December 31, 2017, 2016 and 2015.

	December 31, 2017			December 31, 2016			December 31, 2015		
(In thousands)	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial	1	$ 63	$ 63	–	$ –	$ –	–	$ –	$ –
Commercial real estate	–	–	–	–	–	–	–	–	–
Construction	–	–	–	–	–	–	–	–	–
Home equity	–	–	–	–	–	–	–	–	–
Residential real estate	–	–	–	–	–	–	–	–	–
Lease financing	–	–	–	–	–	–	–	–	–
Consumer	–	–	–	–	–	–	–	–	–
Total	1	$ 63	$ 63	–	$ –	$ –	–	$ –	$ –

As of December 31, 2017, 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:

	2017	2016
(In thousands)		
Land	$ 3,954	$ 3,954
Buildings and improvements	14,380	13,475
Furniture and equipment	6,438	6,200
	24,772	23,629
Less accumulated depreciation	12,450	11,583
Total premises and equipment	$ 12,322	$ 12,046

NOTE 5: FORECLOSED ASSETS HELD FOR SALE

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

	2017	2016
(In thousands)		
Construction/land development	$ 2,252	$ 4,751
Residential real estate	–	182
Commercial business assets	–	950
Foreclosed assets held for sale, net	$ 2,252	$ 5,883

As of December 31, 2017 and 2016, the Company had residential real estate loans in the process of foreclosure of $182,000 and $104,000.

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

	2017	2016	2015
(In thousands)			
Balance, beginning of year	$ 2,957	$ 3,014	$ 4,233
Provision charged to expense	1,483	1,419	1,854
Charge offs, net of recoveries	(2,045)	(1,476)	(3,073)
Balance, end of year	$ 2,395	$ 2,957	$ 3,014

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

	2017	2016	2015
(In thousands)			
Net (gains) losses on sale of foreclosed assets	$ 103	$ 165	$ (39)
Provision for losses	1,483	1,419	1,854
Operating expenses, net of rental income	507	1,347	658
	$ 2,093	$ 2,931	$ 2,473

NOTE 6: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations in excess of $250,000 were $6,167,000 on December 31, 2017 and $9,015,000 on December 31, 2016. The Company acquires brokered deposits in the normal course of business. At December 31, 2017 and 2016, brokered deposits of $98,120,000 and $50,850,000, respectively, were included in the Company's time deposit balance. All of the $98,120,000 in brokered deposits at December 31, 2017 represented customer funds placed through the Promontory Interfinancial Network LLC ("Promontory') in the Certificate of Deposit Account Registry Service ("CDARS") or Insured Cash Sweep service ("ICS"). The Bank is a member of Promontory which allows depositors to receive FDIC insurance in amounts of $250,000 per depositor, per FDIC insured bank, per ownership category. Promontory allows the Bank to place amounts exceeding the standard insurance limits per FDIC insured bank with other members of Promontory. Promontory allows FDIC insured member banks to break large deposits in to smaller amounts and place them with other Promontory member banks in the CDARS or ICS programs to ensure full FDIC insurance coverage is attained. Although classified as brokered deposits for regulatory purposes, funds placed through Promontory are Bank customer relationships which management views as core funding.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

(In thousands)	
2018	$ 79,528
2019	13,047
2020	5,076
2021	1,738
2022	1,351
Thereafter	500
	$ 101,240

NOTE 7: OPERATING LEASES

The Company 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, 2017 was as follows:

(In thousands)	
2018	$ 800
2019	749
2020	771
2021	524
2022	30
Thereafter	-
	$ 2,874

NOTE 8: 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, 2017, the Company had drawn a balance of $8,000,000 and at December 31, 2016, the Company had drawn a balance of $29,267,000. The variable interest rate was 1.47% on December 31, 2017 and 0.72% on December 31, 2016. FHLBank advance availability is determined quarterly and at December 31, 2017 approximately $91,850,000 was available. Advances are secured by loans totaling $146,812,000 as of December 31, 2017.

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, 2017 and 2016, 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, 2017 approximately $31,462,000 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, 2017, the Company had FFP lines of credit of $15,000,000 and $5,000,000 with no outstanding balances. The variable interest rate for the $17,000,000 FFP line was 1.64% and 1.63% for the $5,000,000 FFP line of credit on December 31, 2017.

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, 2017 and 2016, 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, 2017, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity.

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

(In thousands)	2017	2016
Balance as of December 31	$29,202	$33,875
Carrying value of securities pledged to secure agreements to repurchase at December 31	$46,040	$47,563
Average balance during the year of securities sold under agreements to repurchase	$31,538	$31,865
Maximum amount outstanding at any month-end during the year	$35,509	$42,178

NOTE 9: LONG TERM DEBT

Long-term debt at December 31, 2017 and 2016 consisted of the following components:

(In thousands)	2017	2016
FHLBank advances (A)	$ –	$ 20,000
Less: Deferred prepayment penalty on modification of FHLBank advances	–	(500)
Net FHLBank advances	–	19,500
Bank stock loan (B)	13,214	14,245
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	$ 32,802	$ 53,333

(A) Collateralized by various assets including mortgage-backed loans and available-for-sale securities totaling $146,812,000 at December 31, 2017. FHLBank advance availability is determined quarterly and at December 31, 2017, approximately $91,850,000 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. In the fourth quarter of 2016, the Company repaid $20.0 million of FHLBank advances and recognized an expense of approximately $750,000 for the unamortized modification fee on the advances paid off. The remaining unamortized modification fee at December 31, 2016 was approximately $500,000. These transactions reduced the effective interest rate, as well as modified the maturity date on these borrowings. The balance of the FHLBank advances was paid in full during 2017 in quarterly payments of $5.0 million and the remaining modification fee of $500,000 was recognized as expense during the year.

(B) Payable in quarterly installments of principal plus interest, floating at the lender's prime rate plus 1.00% (5.25% at December 31, 2017 and 4.75% at December 31, 2016), 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% (4.63% at December 31, 2017 and 4.14% at December 31, 2016) 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% (3.29% at December 31, 2017 and 2.60% at December 31, 2016) 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 9: LONG TERM DEBT (Continued)

Aggregate annual maturities of long-term debt at December 31, 2017 are as follows:

(In thousands)	
2018	$ 1,064
2019	1,122
2020	1,181
2021	1,247
2022	1,314
Thereafter	26,874
	32,802

NOTE 10: INCOME TAXES

The provision for income taxes consists of the following:

(In thousands)	2017	2016	2015
Taxes currently (refundable) payable	$ (29)	$ 89	$ 16
Income tax expense from revaluation of deferred tax assets and liabilities	3,595	-	-
Deferred income taxes	2,446	730	260
	$ 6,012	$ 819	$ 276

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

(In thousands)	2017	2016	2015
Computed at the statutory rate (34%)	$ 2,239	$ 811	$ 320
Increase (decrease) resulting from:			
Tax-exempt interest	(42)	(85)	(209)
State income taxes	272	(33)	52
Deferred tax adjustment related to reduction of statutory federal income tax rate	3,595	–	–
Other	(52)	126	113
Actual tax provision	$ 6,012	$ 819	$ 276

NOTE 10: INCOME TAXES (Continued)

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2017 and 2016 consolidated balance sheets are as follows:

(In thousands)	2017	2016
Deferred tax assets:		
Allowance for loan losses	$ 1,345	$ 2,281
Net operating loss from Blue Valley Ban Corp. and subsidiary	3,813	7,894
Accumulated depreciation on available-for-sale securities	1,091	2,254
Deferred compensation	146	8
Offering costs	80	139
Non-accrual loan interest	–	58
Other real estate owned reserve	583	1,173
Other	852	998
	7,910	14,805
Deferred tax liabilities:		
Accumulated depreciation	(39)	(121)
FHLB stock basis	(10)	(80)
Prepaid intangibles	(88)	(279)
Other	(18)	(21)
	(155)	(501)
Net deferred tax asset	$ 7,755	$ 14,304

The Company has unused Federal net operating loss carryforwards of $15,108,000, which expire starting in 2030. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $19,403,000 which expire between 2019 and 2025.

On December 22, 2017 the Tax Act was enacted, which, among other changes, reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018 and changed or limited certain tax deductions. As a result of the Tax Act, the Bank's deferred tax assets and liabilities were revalued and resulted in a one-time income tax expense of approximately $3.6 million during the fourth quarter of 2017. The Bank assessed the tax law changes as a result of the Tax Act and believes that the assumptions and judgments utilized in determining the final and provisional amounts recorded in the consolidated financial statements as of December 31, 2017 are appropriate. The Bank may adjust its initial assumptions and judgments based on future tax law changes or accounting guidance, if any, or other adjustments related to the Bank's filing of its 2017 federal and state income tax returns during 2018. However, the Bank believes that any future adjustments to the provisional amounts included in the income tax expense of $3.6 million that was recognized as a result of the Tax act will not be material.

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

NOTE 11: 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).

NOTE 12: 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, 2017 and 2016, the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2017, 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, 2017 that management believes have changed the Bank's position.

NOTE 12: REGULATORY MATTERS (Continued)

The Bank's actual capital amounts and ratios are also presented in the following 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, 2017:						
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Bank Only	$ 73,236	11.49%	$ 28,682	4.50%	$ 41,430	6.50%
Total Capital						
(to Risk Weighted Assets)						
Bank Only	$ 78,771	12.36%	$ 50,991	8.00%	$ 63,738	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Bank Only	$ 73,236	11.49%	$ 38,243	6.00%	$ 50,991	8.00%
Tier 1 Capital						
(to Average Assets)						
Bank Only	$ 73,236	10.56%	$ 25,495	4.00%	$ 31,869	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, 2016:						
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Bank Only	$ 67,063	11.19%	$ 26,981	4.50%	$ 38,972	6.50%
Total Capital						
(to Risk Weighted Assets)						
Bank Only	$ 73,227	12.21%	$ 47,966	8.00%	$ 59,958	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Bank Only	$ 67,063	11.19%	$ 35,975	6.00%	$ 47,966	8.00%
Tier 1 Capital						
(to Average Assets)						
Bank Only	$ 67,063	10.14%	$ 23,983	4.00%	$ 29,979	5.00%

Effective January 1, 2015, the Bank became subject to new capital regulations ("Basel III Capital Rules"), adopted by the Federal Reserve, which establish a new comprehensive capital framework for U.S. banks and are phased in over a multi-year schedule. The above minimum capital requirements exclude the capital conservation buffer implemented by the Basel III Capital Rules. The Bank is required maintain the capital conservation buffer in excess of its capital adequacy limitations for common equity tier 1 capital, total capital and tier 1 capital to avoid certain limitations on distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is phased-in to 2.50% of risk-weighted assets by 2019. As of December 31, 2017 and 2016, the capital conservation buffer was 1.25% and 0.625%, respectively. The Bank's net unrealized gain or loss on available-for-sale securities is excluded from the computations of regulatory capital above.

NOTE 13: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2017 and 2016, 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 $25,955,000 and $27,195,000, respectively. Annual activity consisted of the following:

(In thousands)	2017	2016
Balance, beginning of year	$ 27,195	$ 30,961
New loans and advances	19,160	30,425
Repayments and reclassifications	(20,400)	(34,191)
Balance, end of year	$ 25,955	$ 27,195

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, 2017, and 2016 totaled $9,834,000 and $8,671,000, respectively.

NOTE 14: 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 2017, 2016 and 2015. 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 2017, 2016 and 2015 were $255,000, $276,000 and $284,000, respectively.

NOTE 15: 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, 2017, the Company had 475,492 shares available to be granted. Summary of shares authorized, granted, and forfeited during 2017, 2016, and 2015 is presented below.

	2017	2016	2015
Shares available to be granted, beginning of the year	5,250	273,482	20,230
Authorized	500,000	–	300,000
Granted	(50,815)	(270,431)	(48,153)
Forfeited	21,057	2,199	1,405
Shares available to be granted, end of the year	475,492	5,250	273,482

Restricted shares granted to officers and directors in 2017 and 2015 vested immediately. 222,000 of the shares granted in 2016 vest over the subsequent three years, subject to the Company meeting financial performance goals. Total non-vested shares as of December 31, 2017, 2016 and 2015 were 204,000, 222,000, and 0, respectively. The cost basis of the restricted shares granted to officers which is equal to the fair value of the Company's stock on the date of grant, is amortized to compensation expense ratably over the applicable vesting period. The cost basis of restricted shares granted to directors which is equal to the fair value of the Company's stock on the date of grant, is amortized to other operating expense ratably over the applicable vesting period. Expenses associated with restricted stock grants were $1,258,000, $465,000, and $365,000 for 2017, 2016 and 2015, respectively. The amount of unrecognized compensation costs was $1,360,000, $2,220,000, and $0 as of December 31, 2017, 2016, and 2015, respectively.

During 2017, 2016 and 2015, the Company granted no stock options and there were no options outstanding and exercisable as of December 31, 2017, 2016, or 2015.

NOTE 16: 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 stockholders of the Company. At December 31, 2017, the Company had 43,753 shares available to be purchased. Summary of shares for the ESPP as of December 31, 2017, 2016, and 2015 is presented below.

	2017	2016	2015
Shares available to be purchased, beginning of the year	47,307	52,275	57,001
Purchased	(3,554)	(4,968)	(4,726)
Shares available to be purchased, end of the year	43,753	47,307	52,275

NOTE 16: EMPLOYEE STOCK PURCHASE PLAN (Continued)

Information about employee stock purchase plan activity as of December 31, 2017, 2016 and 2015 is set forth in the following table. 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. Expense associated with the plan recognized in 2017, 2016 and 2015 was approximately $4,000, $5,000, and $4,000, respectively.

Employee Stock Purchase Plan Activity

Plan year ending January 31,	Shares purchased	Purchase Price
2017	3,554	$ 6.80
2016	4,968	$ 5.31
2015	4,726	$ 5.31

NOTE 17: OTHER INCOME/EXPENSE

Other income consists of the following:

(In thousands)	2017	2016	2015
Rental income	$ 814	$ 787	$ 792
Realized gain on foreclosed assets	154	89	44
Loans held for sale fee income	–	95	879
Other income	335	1,088	1,216
Total	$ 1,303	$ 2,059	$ 2,931

2016 other income includes approximately $764,000 of income collected on loans previously charged off. 2015 other income includes the realization of approximately $658,000 of income from the settlement of collection litigation.

Other operating expenses consist of the following:

(In thousands)	2017	2016	2015
Data processing	$ 877	$ 1,006	$ 1,078
FDIC assessments	423	445	545
ATM and network fees	547	559	589
Professional fees	649	684	975
Other expense	3,286	3,719	3,155
Total	$ 5,782	$ 6,413	$ 6,342

As discussed in Note 9, the Company recognized an expense (included in other expense above) of approximately $750,000 for the unamortized modification fee on the advances paid off during 2016.

NOTE 18: 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 was $0 at December 31, 2017 and 2016, compared to losses of $8,000 at December 31, 2015. No gains or losses from fair value changes included in loans held for sale fee income were realized for the year ended December 31, 2017, gains from fair value changes were $8,000 for the year ended December 31, 2016 and losses from fair value changes were $21,000 for the year ended December 31, 2015. 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 19 for additional disclosures regarding fair value of mortgage loans held for sale.

NOTE 19: 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 19: 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, 2017 and 2016:

		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, 2017:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 52,084	$ –	$ 52,084	$ –
State and political subdivision securities	13,486	–	13,486	–
U.S. Government sponsored agencies mortgage-backed securities	31,800	31,800	–	–
U.S. Small Business Administration loan pool certificates	3,151	–	3,151	–
Other securities	2,020	–	2,020	–
Equity securities	589	589	–	–
Mortgage loans held for sale	–	–	–	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	–	–	–	–
Total assets	$ 103,130	$ 32,389	$ 70,741	$ –
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	–	–	–	–
Total liabilities	$ –	$ –	$ –	$ –
December 31, 2016:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 56,586	$ –	$ 56,586	$ –
State and political subdivision securities	13,348	–	13,348	–
U.S. Government sponsored agencies mortgage-backed securities	31,634	31,634	–	–
U.S. Small Business Administration loan pool certificates	3,603	–	3,603	–
Other securities	2,000	–	2,000	–
Equity securities	589	589	–	–
Mortgage loans held for sale	–	–	–	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	–	–	–	–
Total assets	$ 107,760	$ 32,223	$ 75,537	$ –
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	–	–	–	–
Total liabilities	$ –	$ –	$ –	$ –

NOTE 19: 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.

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.

Nonrecurring Measurements

The following table presents the fair value measurements at December 31, 2017 and 2016 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, 2017:				
Impaired loans, net of reserves	$ 799	$ –	$ –	$ 799
Foreclosed assets held for sale, net	1,942	–	–	1,942
	$ 2,741	$ –	$ –	$ 2,741
December 31, 2016:				
Impaired loans, net of reserves	$ 322	$ –	$ –	$ 322
Foreclosed assets held for sale, net	1,299	–	–	1,299
	$ 1,621	$ –	$ –	$ 1,621

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.

NOTE 19: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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 19: 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 12/31/17	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Forward Sales Commitments	$ –	Market comparable prices	Quoted prices for similar loans	– (–)
Collateral-dependent impaired loans	$ 799	Market comparable properties	Comparability adjustments (%)	15.00%-100.00% (19.00%)
Foreclosed assets held for sale, net	$ 1,942	Market comparable properties	Comparability adjustments (%)	Not available

	Fair Value at 12/31/16	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Forward Sales Commitments	$ –	Market comparable prices	Quoted prices for similar loans	– (–)
Collateral-dependent impaired loans	$ 322	Market comparable properties	Comparability adjustments (%)	15.00%-100.00% (21.00%)
Foreclosed assets held for sale, net	$ 1,299	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 19: 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, 2017 and 2016.

	2017		2016	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	$ 13,544	$ 13,544	$ 26,038	$ 26,038
Loans, net of allowance for loan losses (Level 3)	529,265	527,022	487,518	481,599
FHLBank stock, Federal Reserve Bank stock, and other securities (Level 3)	3,888	3,888	5,244	5,244
Interest receivable (Level 3)	1,888	1,888	1,785	1,785
Financial liabilities:				
Deposits (Level 3)	568,845	569,326	512,477	512,903
Short term debt (Level 3)	37,202	37,202	63,142	63,142
Long term debt (Level 3)	32,802	29,897	53,333	52,840
Interest payable (Level 3)	400	400	238	238
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 19: 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 20: 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, 2017 and 2016, the Company had outstanding commitments to originate loans aggregating approximately $1,080,000 and $3,800,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

The strategic decision was made for the Company to discontinue originating and selling residential mortgage loans to the secondary mortgage market by the Bank beginning in 2016. Mortgage loans in the process of origination represented amounts that the Company plans to fund within a normal period of 60 to 90 days and which were intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to $0 at December 31, 2017 and 2016. Mortgage loans held for sale amounted to $0 at December 31, 2017 and 2016.

Forward commitments to sell mortgage loans were obligations to sell loans at a specified price on or before a specified future date. These commitments were acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Company was 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 $0 at December 31, 2017 and 2016.

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 $247,000 and $655,000 at December 31, 2017 and 2016, 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, 2017, the Company had unused lines of credit to borrowers aggregating approximately $171,638,000 for commercial, commercial real estate and construction lines and $36,415,000 for open-end consumer lines of credit. At December 31, 2016, the Company had unused lines of credit to borrowers aggregating approximately $179,229,000 for commercial, commercial real estate and construction lines and $33,866,000 for open-end consumer lines of credit.

NOTE 20: COMMITMENTS, CREDIT RISKS AND CURRENT ECONOMIC CONDITIONS (Continued)

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 21: LEGAL CONTINGENCIES

The Company and/or its subsidiaries have various unrelated legal proceedings, most of which involve loan foreclosure activity pending, which, in the aggregate, are not expected to have a material adverse effect on the financial position of the Company and its subsidiaries.

NOTE 22: 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.

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 6,760	$ 6,650	$ 6,473	$ 6,146	$ 6,075	$ 5,787	$ 5,708	$ 5,704
Interest expense	873	889	857	833	861	896	904	928
Net interest income	5,887	5,761	5,616	5,313	5,214	4,891	4,804	4,776
Provision for loan losses	(400)	(500)	–	–	950	–	500	475
Net interest income after provision for loan losses	6,287	6,261	5,616	5,313	4,264	4,891	4,304	4,301
Non-interest income	1,241	1,130	1,147	1,151	2,679	1,617	1,905	1,312
Non-interest expense	5,933	5,600	4,994	5,033	6,742	5,712	5,260	5,174
Income (loss) before income taxes	1,595	1,791	1,769	1,431	201	796	949	439
Provision (benefit) for income taxes	4,183	654	646	529	67	234	369	149
Net income (loss)	(2,588)	1,137	1,123	902	134	562	580	290
Dividends on preferred shares	–	–	–	–	–	–	–	–
Net income (loss) available to common shareholders	$ (2,588)	$ 1,137	$ 1,123	$ 902	$ 134	$ 562	$ 580	$ 290
Net Income (loss) per Share Data								
Basic	$ (0.48)	$ 0.21	$ 0.20	$ 0.17	$ 0.02	$ 0.10	$ 0.11	$ 0.06
Diluted	$ (0.48)	$ 0.21	$ 0.20	$ 0.17	$ 0.02	$ 0.10	$ 0.11	$ 0.06
Balance Sheet								
Total assets	$687,490	$698,425	$693,448	$682,905	$674,432	$693,449	$645,363	$649,027
Total loans, net	529,265	525,100	519,052	497,815	487,518	454,593	441,345	442,505
Stockholders' equity	46,249	49,135	47,726	45,383	43,435	47,366	47,146	45,736

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 23: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2017 and 2016

(In thousands)	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,869	$ 2,590
Investments in subsidiaries:		
Bank of Blue Valley	73,485	70,104
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	3,308	4,168
Total Assets	$ 79,250	$ 77,450
LIABILITIES		
Long-term debt	$ 13,214	$ 14,245
Subordinated debentures	19,588	19,588
Other liabilities	199	182
Total Liabilities	33,001	34,015
STOCKHOLDERS' EQUITY		
Preferred stock	472	472
Common stock	5,678	5,644
Additional paid-in capital	32,108	30,858
Retained earnings	10,941	9,842
Accumulated other comprehensive loss, net of income tax (credit) of $(1,091) in 2017 and $(2,254) in 2016	(2,950)	(3,381)
Total Stockholders' Equity	46,249	43,435
Total Liabilities and Stockholders' Equity	$ 79,250	$ 77,450

NOTE 23: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Operations
Years Ended December 31, 2017, 2016 and 2015

(In thousands)	2017	2016	2015
Income			
Dividends from subsidiaries	$ 1,676	$ 2,242	$ 6,944
Other income	22	18	16
	1,698	2,260	6,960
Expenses	2,686	1,732	1,517
Income before income taxes and equity in undistributed net income (loss) of subsidiaries	(988)	528	5,443
Income tax expense (benefit)	863	(583)	(510)
Income before equity in undistributed net income (loss) of subsidiaries	(1,851)	1,111	5,953
Equity in undistributed net income (loss) of subsidiaries	2,425	455	(5,288)
Net income	$ 574	$ 1,566	$ 665

Condensed Statements of Comprehensive Income (Loss)
Years Ended December 31, 2017, 2016 and 2015

(In thousands)	2017	2016	2015
Net income	$ 574	$ 1,566	$ 665
Other comprehensive income (loss)			
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of $631 in 2017, $(1,455) in 2016, and $312 in 2015	956	(2,204)	472
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $0 in 2017, $(752) in 2016, and $31 in 2015	–	(1,127)	47
Comprehensive income (loss)	$ 1,530	$ (1,765)	$ 1,185

NOTE 23: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY) (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
(In thousands)			
OPERATING ACTIVITIES			
Net Income (loss)	$ 574	$ 1,566	$ 665
Items not requiring (providing) cash:			
Deferred income taxes	863	(1,469)	(569)
Equity in undistributed net loss (income) of subsidiaries	(2,425)	(455)	5,288
Restricted stock earned	575	443	355
Forfeiture of unvested restricted common stock	(50)	–	–
Stock-based compensation expense	730	–	–
Changes in:			
Other assets	(3)	330	(37)
Other liabilities	18	10	(8,152)
Net cash provided by (used in) operating activities	282	425	(2,450)
FINANCING ACTIVITIES			
Proceeds from long-term debt	–	–	15,500
Repayments of long-term debt	(1,032)	(1,008)	(247)
Proceeds from sale of additional stock	–	–	7,871
Proceeds from sale of common stock through Employee Stock Purchase Plan (ESPP)	29	31	29
Repurchase of TARP Warrant	–	–	(4)
Redemption of Series A Preferred Stock	–	–	(21,750)
Net cash provided by (used in) financing activities	(1,003)	(977)	1,399
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(721)	(552)	(1,051)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,590	3,142	4,193
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,869	$ 2,590	$ 3,142

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STOCKHOLDER INFORMATION

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ANNUAL MEETING OF STOCKHOLDERS

The annual meeting will be held on May 16, 2018 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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