



Blue Valley Ban Corp.

**Annual Report 2018**

**BLUE VALLEY BAN CORP.**

**DECEMBER 31, 2018, 2017 AND 2016**

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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, 2018 and 2017, 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, 2018, 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.

Audit Committee,  
Board of Directors and Stockholders  
Blue Valley Ban Corp.  
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*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, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Kansas City, Missouri  
March 7, 2019

**BLUE VALLEY BAN CORP.**  
**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2018 AND 2017**  
*(In thousands, except share data)*

**ASSETS**

	<u>2018</u>	<u>2017</u>
Cash and due from banks	\$ 14,294	\$ 9,394
Interest bearing deposits in other financial institutions	<u>1,841</u>	<u>4,150</u>
Cash and cash equivalents	16,135	13,544
Available-for-sale securities	104,965	102,541
Equity securities	576	589
Loans, net of allowance for loan losses of \$6,171 and \$5,535 in 2018 and 2017, respectively	555,102	529,265
Premises and equipment, net	12,105	12,322
Bank-owned real estate held for sale, net	6,488	5,915
Foreclosed assets held for sale, net	-	2,252
Interest receivable	2,298	1,888
Deferred income taxes	6,267	7,755
Prepaid expenses and other assets	8,210	7,531
FHLBank stock, Federal Reserve Bank stock, and other securities	<u>5,538</u>	<u>3,888</u>
Total assets	<u>\$ 717,684</u>	<u>\$ 687,490</u>

**BLUE VALLEY BAN CORP.**  
**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2018 AND 2017**  
*(In thousands, except share data)*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES</b>		
Deposits		
Demand	\$ 152,887	\$ 152,052
Savings, NOW and money market	325,268	315,553
Time	<u>84,418</u>	<u>101,240</u>
Total deposits	562,573	568,845
Short term debt	72,550	37,202
Long term debt	26,856	32,802
Interest payable and other liabilities	<u>2,472</u>	<u>2,392</u>
Total liabilities	<u>664,451</u>	<u>641,241</u>
<b>STOCKHOLDERS' EQUITY</b>		
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 2018 and 2017 – 471,979 shares	472	472
Common stock, par value \$1 per share; Authorized 15,000,000 shares; issued and outstanding 2018 – 5,851,027 shares; 2017 – 5,677,865 shares	5,851	5,678
Additional paid-in capital	34,638	32,108
Retained earnings	16,193	10,941
Accumulated other comprehensive loss, net of income tax (credit) of \$(1,424) in 2018 and \$(1,091) in 2017	<u>(3,921)</u>	<u>(2,950)</u>
Total stockholders' equity	<u>53,233</u>	<u>46,249</u>
Total liabilities and stockholders' equity	<u>\$ 717,684</u>	<u>\$ 687,490</u>

See Notes to Consolidated Financial Statements

**BLUE VALLEY BAN CORP.**

**CONSOLIDATED STATEMENTS OF INCOME**

**YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

*(In thousands, except per share data)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>INTEREST AND DIVIDEND INCOME</b>			
Interest and fees on loans	\$ 26,384	\$ 23,665	\$ 20,949
Available-for-sale securities	2,112	2,103	1,938
Dividends on FHLBank and Federal Reserve Bank stock	135	146	202
Federal funds sold and other short-term investments	<u>412</u>	<u>115</u>	<u>185</u>
Total interest and dividend income	<u>29,043</u>	<u>26,029</u>	<u>23,274</u>
<b>INTEREST EXPENSE</b>			
Interest-bearing demand deposits	322	258	239
Savings and money market deposit accounts	1,306	503	401
Time deposits	1,295	976	609
Federal funds purchased and short term debt	133	53	33
Long term debt, net	<u>1,523</u>	<u>1,662</u>	<u>2,307</u>
Total interest expense	<u>4,579</u>	<u>3,452</u>	<u>3,589</u>
<b>NET INTEREST INCOME</b>	24,464	22,577	19,685
<b>PROVISION FOR LOAN LOSSES</b>	<u>400</u>	<u>(900)</u>	<u>1,925</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>24,064</u>	<u>23,477</u>	<u>17,760</u>
<b>NON-INTEREST INCOME</b>			
NSF charges and service fees	788	904	1,008
Trust services	582	585	725
Investment brokerage services	488	456	405
Other service charges	1,386	1,421	1,437
Realized gains on available-for-sale securities	-	-	1,879
Unrealized gains on equity securities	417	-	-
Other income	<u>2,488</u>	<u>1,303</u>	<u>2,059</u>
Total non-interest income	<u>6,149</u>	<u>4,669</u>	<u>7,513</u>
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	14,077	10,860	10,734
Net occupancy expense	2,674	2,671	2,720
Foreclosed assets expense	1,433	2,247	3,021
Other operating expense	<u>5,065</u>	<u>5,782</u>	<u>6,413</u>
Total non-interest expense	<u>23,249</u>	<u>21,560</u>	<u>22,888</u>
<b>INCOME BEFORE INCOME TAXES</b>	6,964	6,586	2,385
<b>PROVISION FOR INCOME TAXES</b>	<u>1,701</u>	<u>6,012</u>	<u>819</u>
<b>NET INCOME</b>	<u>\$ 5,263</u>	<u>\$ 574</u>	<u>\$ 1,566</u>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<u>\$ 0.95</u>	<u>\$ 0.11</u>	<u>\$ 0.29</u>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ 0.95</u>	<u>\$ 0.11</u>	<u>\$ 0.29</u>

See Notes to Consolidated Financial Statements

**BLUE VALLEY BAN CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(In thousands)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>NET INCOME</b>	\$ 5,263	\$ 574	\$ 1,566
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of \$(333) in 2018, \$631 in 2017 and \$(1,455) in 2016	(982)	956	(2,204)
Less: reclassification adjustment for realized (gains) losses included in net income (loss), net of income taxes of \$0 in 2018, \$0 in 2017, and \$(752) in 2016	—	—	(1,127)
Comprehensive income (loss)	<u>\$ 4,281</u>	<u>\$ 1,530</u>	<u>\$ (1,765)</u>



**BLUE VALLEY BAN CORP.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

*(In thousands, except share data)*

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>BALANCE, DECEMBER 31, 2015</b>	<u>\$ 472</u>	<u>\$ 5,371</u>	<u>\$30,657</u>	<u>\$ 8,276</u>	<u>\$ (50)</u>	<u>\$ 44,726</u>
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)
<b>BALANCE, DECEMBER 31, 2016</b>	<u>\$ 472</u>	<u>\$ 5,644</u>	<u>\$ 30,858</u>	<u>\$ 9,842</u>	<u>\$ (3,381)</u>	<u>\$ 43,435</u>
Issuance of 50,815 shares of restricted stock, net of forfeitures of 21,057, including stock-based compensation expense		30	1,225			1,255
Issuance of 3,554 shares of common stock for the employee stock purchase plan		4	25			29
Net income				574		574
Other comprehensive income					956	956
Reclassify stranded tax effects due to 2017 tax law changes				525	(525)	—
<b>BALANCE, DECEMBER 31, 2017</b>	<u>\$ 472</u>	<u>\$ 5,678</u>	<u>\$ 32,108</u>	<u>\$ 10,941</u>	<u>\$ (2,950)</u>	<u>\$ 46,249</u>
Cumulative effect adjustment ASU 2016-01				(11)	11	—
Issuance of 266,973 shares of restricted stock, net of forfeitures of 96,219, including stock-based compensation expense		171	2,510			2,681
Issuance of 2,408 shares of common stock for the employee stock purchase plan		2	20			22
Net income				5,263		5,263
Other comprehensive income					(982)	(982)
<b>BALANCE, DECEMBER 31, 2018</b>	<u>\$ 472</u>	<u>\$ 5,851</u>	<u>\$ 34,638</u>	<u>\$ 16,193</u>	<u>\$ (3,921)</u>	<u>\$ 53,233</u>

**BLUE VALLEY BAN CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

*(In thousands)*

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 5,263	\$ 574	\$ 1,566
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	857	1,378	1,607
Amortization, net of (accretion) of premiums and discounts on available-for-sale securities	733	747	689
Provision for loan losses	400	(900)	1,925
Provision for losses on foreclosed assets held for sale	830	1,483	1,419
Provision for bank-owned real estate held for sale	465	—	—
Deferred income taxes	1,706	2,446	730
Income tax expense from revaluation of deferred tax assets and liabilities	—	3,595	—
Stock dividends on FHLBank stock	(17)	(28)	(84)
Increase in value of bank owned life insurance	(175)	(173)	(172)
Net realized gains on available-for-sale securities	—	—	(1,879)
Unrealized gain on equity security	(417)	—	—
Net gain on disposal of premises and equipment	(362)	—	—
Net (gain) loss on sale of foreclosed assets	(287)	103	165
Restricted stock earned net of forfeitures	(1,193)	525	443
Compensation expense related to the Employee Stock Purchase Plan	6	3	4
Stock-based compensation expense	3,874	730	—
Originations of loans held for sale	—	—	(2,367)
Proceeds from the sale of loans held for sale	—	—	4,633
Realized gain on loans held for sale fair value adjustment	—	—	(8)
Changes in:			
Interest receivable	(410)	(103)	(58)
Net fair value of loan related commitments	—	—	57
Prepaid expenses and other assets	(512)	578	186
Interest payable and other liabilities	187	215	295
Net cash provided by operating activities	<u>10,948</u>	<u>11,173</u>	<u>9,151</u>
<b>INVESTING ACTIVITIES</b>			
Net change in loans	(49,705)	(71,723)	(116,971)
Proceeds from sale of loan participations	23,522	31,287	69,827
Purchase of premises and equipment	(2,117)	(1,152)	(1,132)
Proceeds from the sale premises and equipment	809	—	—
Proceeds from the sale of foreclosed assets, net of expenses	1,657	1,635	3,840
Purchases of available-for-sale securities	(28,891)	—	(116,526)
Purchase of equity security	(55)	—	—
Proceeds from maturities of available-for-sale securities	24,419	5,477	—
Proceeds from sale of available-for-sale securities	—	—	95,964
Purchases of FHLBank and Federal Reserve Bank stock and other securities	(2,411)	(1,376)	(1,974)
Proceeds from the redemption of FHLBank stock, Federal Reserve Bank stock, and other securities	1,263	2,760	1,618
Net cash used in investing activities	<u>(31,509)</u>	<u>(33,092)</u>	<u>(65,354)</u>
<b>FINANCING ACTIVITIES</b>			
Net increase in demand deposits, money market, NOW and savings accounts	10,551	36,703	49,956
Net increase (decrease) in time deposits	(16,822)	19,665	(20,721)
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	5,185	(4,672)	(1,871)
Repayments of long-term debt	(5,946)	(21,032)	(20,254)
Repayments of short-term debt	(114,815)	(150,815)	(16,032)
Proceeds from short-term debt	144,977	129,547	45,299
Net proceeds from the sale of stock through Employee Stock Purchase Plan	22	29	31
Net cash provided by financing activities	<u>23,152</u>	<u>9,425</u>	<u>36,408</u>
Increase (decrease) in cash and cash equivalents	2,591	(12,494)	(19,795)
Cash and cash equivalents, beginning of year	13,544	26,038	45,833
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 16,135</u>	<u>\$ 13,544</u>	<u>\$ 26,038</u>

See Notes to Consolidated Financial Statements

**BLUE VALLEY BAN CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

*(In thousands)*

	2018	2017	2016
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>			
Cash paid during the year for:			
Interest	\$ 4,611	\$ 3,288	\$ 3,686
Income taxes, net of refunds	\$ (119)	\$ 102	\$ —
Noncash investing and financing activities:			
Reclassification of premises and equipment to bank-owned real estate held for sale, net	\$ 422	\$ —	\$ —
Transfer of loans to foreclosed property, net of specific allowance	\$ —	\$ —	\$ 1,682
Unvested restricted stock issued	\$ 259	\$ —	\$ 222
Sale and financing of foreclosed assets	\$ 53	\$ 411	\$ 20
Cumulative effect adjustment ASU 2016-01	\$ (11)	\$ —	\$ —
Adoption of ASU 2018-02 – reclassification of stranded tax effects due to 2017 tax law change	\$ —	\$ 525	\$ —

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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 Company is a public business entity as defined by ASU No. 2013-12.

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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

**Effect of New Financial Accounting Standards**

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 method(s) and significant assumptions used to estimate the fair value of financial instruments that are 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 guidance requires public business entities to base their fair value disclosures for financial instruments not measured at fair value in the financial statements on the exit price notion. 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 resulted in the unrealized loss on fair value on equity securities of \$11,000, which was recorded in accumulated other comprehensive loss at December 31, 2017 and was reclassified to retained earnings on January 1, 2018. During 2018, \$417,000 of unrealized gains were recognized in net income primarily related to cost method investments without a readily determinable fair value, whose value became observable subsequent to the adoption date.

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. The Company adopted the provisions of the Update on January 1, 2019. There was no significant impact on our consolidated financial statements as the projected minimum lease payments under existing leases subject to the Update 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

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

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 No. 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 allowed 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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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 \$1.9 million at December 31, 2018.

The Bank had a required reserve of \$303,000 with the Federal Reserve Bank at December 31, 2018. The Bank's deposit balance held at the Federal Reserve Bank on December 31, 2018 was \$1,440,000.

**Investment in Securities**

Available-for-sale securities, which include debt securities 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, 2018.

Equity securities with readily determinable fair values are measured at fair value with changes in fair value recognized in net income. Equity securities without readily determinable fair values are carried at cost, less impairment, and changes occurring as a result of an observable transaction are reported in current earnings.

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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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.



**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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.

**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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

**Fee Income**

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

**Transfers of Financial Assets**

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

**Transfers between Fair Value Hierarchy Levels**

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

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

**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 2015.

**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 \$(3,921,000) and \$(2,950,000), respectively, at December 31, 2018 and 2017.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>(In thousands, except share and per share data)</i>			
Net income available to common stockholders	\$ 5,263	\$ 574	\$ 1,566
Average common shares outstanding	5,534,784	5,432,082	5,383,621
Average common share stock options outstanding and restricted stock	<u>318</u>	<u>688</u>	<u>507</u>
Average diluted common shares	<u>5,535,102</u>	<u>5,432,770</u>	<u>5,384,128</u>
Basic earnings per share	<u>\$0.95</u>	<u>\$0.11</u>	<u>\$0.29</u>
Diluted earnings per share (A)	<u>\$0.95</u>	<u>\$0.11</u>	<u>\$0.29</u>

(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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(In thousands)</i>				
U.S. Government sponsored agencies	\$ 54,080	\$ —	\$ (3,040)	\$ 51,040
State and political subdivision securities	13,954	—	(590)	13,364
U.S. Government sponsored agencies mortgage-backed securities	32,578	—	(1,644)	30,934
U.S. Small Business Administration loan pool certificates	2,759	—	(67)	2,692
Treasury securities	4,938	—	—	4,938
Other securities	<u>2,000</u>	<u>—</u>	<u>(3)</u>	<u>1,997</u>
	<u>\$ 110,309</u>	<u>\$ —</u>	<u>\$ (5,344)</u>	<u>\$ 104,965</u>

  

	December 31, 2017			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<i>(In thousands)</i>				
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
Treasury securities	—	—	—	—
Other securities	<u>2,000</u>	<u>20</u>	<u>—</u>	<u>2,020</u>
	<u>\$ 106,571</u>	<u>\$ 20</u>	<u>\$ (4,050)</u>	<u>\$ 102,541</u>

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
<i>(In thousands)</i>		
Due in one year or less	\$ 4,938	\$ 4,938
Due after one year through five years	12,215	11,749
Due after five years through ten years	57,819	54,652
Due after ten years	—	—
Total	<u>74,972</u>	<u>71,339</u>
U.S. Government sponsored agencies mortgage-backed securities	32,578	30,934
U.S. Small Business Administration loan pool certificates	<u>2,759</u>	<u>2,692</u>
	<u>\$ 110,309</u>	<u>\$ 104,965</u>

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits were \$6,251,000 and \$5,932,000, respectively, at December 31, 2018 and \$6,303,000 and \$6,045,000, respectively, at December 31, 2017.

There were no gross gains or gross losses realized in 2018 or 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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

Certain investments in debt 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, 2018 and 2017, was \$104,965,000 and \$100,521,000, respectively, which is approximately 98.1% and 98.0%, 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. The contractual terms of the securities 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 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, 2018 or 2017.

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:

Description of Securities	December 31, 2018					
	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	<u>Total</u>
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(In thousands)</i>						
U.S. Government sponsored agencies State and political subdivision securities	\$ -	\$ -	\$ 51,040	\$ 3,040	\$ 51,040	\$ 3,040
U.S. Government sponsored agencies mortgage-backed securities	-	-	13,364	590	13,364	590
U.S. Small Business Administration loan pool certificates	-	-	30,934	1,644	30,934	1,644
Treasury securities	-	-	2,692	67	2,692	67
Other securities	-	-	4,938	-	4,938	-
	<u>1,997</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>1,997</u>	<u>3</u>
Total temporarily impaired securities	<u>\$ 1,997</u>	<u>\$ 3</u>	<u>\$ 102,968</u>	<u>\$ 5,341</u>	<u>\$ 104,965</u>	<u>\$ 5,344</u>

Description of Securities	December 31, 2017					
	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	<u>Total</u>
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(In thousands)</i>						
U.S. Government sponsored agencies State and political subdivision securities	\$ -	\$ -	\$ 52,084	\$ 2,363	\$ 52,084	\$ 2,363
U.S. Government sponsored agencies mortgage-backed securities	-	-	13,486	487	13,486	487
U.S. Small Business Administration loan pool certificates	-	-	31,800	1,124	31,800	1,124
Treasury securities	-	-	3,151	76	3,151	76
Other securities	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total temporarily impaired securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,521</u>	<u>\$ 4,050</u>	<u>\$ 100,521</u>	<u>\$ 4,050</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

***Amounts Reclassified out of Accumulated Other Comprehensive Income (Loss)***

Amounts reclassified from accumulated other comprehensive income (loss) and the affected line items in the consolidated statements of operations during the years ended December 31, 2018, 2017 and 2016 were as follows:

	Amounts Reclassified From Accumulated Other Comprehensive Income (Loss)			<u>Affected line item in the Consolidated Statements of Operations</u>
	Year Ended			
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	
<i>(In thousands)</i>				
Realized gains 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	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,127</u>	

**NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES**

Classes of loans at December 31, 2018 and 2017 include the following:

	<u>2018</u>	<u>2017</u>
<i>(In thousands)</i>		
Commercial loans	\$ 160,267	\$ 149,540
Commercial real estate loans	245,479	227,167
Construction loans	58,238	68,406
Home equity loans	23,080	25,970
Residential real estate loans	39,358	37,529
Consumer loans	19,640	13,200
Lease financing	<u>15,211</u>	<u>12,988</u>
Total loans	561,273	534,800
Less: Allowance for loan losses	<u>6,171</u>	<u>5,535</u>
Net loans	<u>\$ 555,102</u>	<u>\$ 529,265</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018, 2017 and 2016:

		For the Year Ended December 31, 2018						
<i>(In thousands)</i>	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
<b>Allowance for loan losses:</b>								
Balance, beginning of year	\$ 2,360	\$ 1,700	\$ 576	\$ 324	\$ 321	\$ 71	\$ 183	\$ 5,535
Provision charged to expense	(392)	728	(51)	(186)	107	84	110	400
Losses charged off	-	-	-	-	(4)	(51)	-	(55)
Recoveries	69	22	23	108	66	3	-	291
Balance, end of year	<u>\$ 2,037</u>	<u>\$ 2,450</u>	<u>\$ 548</u>	<u>\$ 246</u>	<u>\$ 490</u>	<u>\$ 107</u>	<u>\$ 293</u>	<u>\$ 6,171</u>

		For the Year Ended December 31, 2017						
<i>(In thousands)</i>	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
<b>Allowance for loan losses:</b>								
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	<u>\$ 2,360</u>	<u>\$ 1,700</u>	<u>\$ 576</u>	<u>\$ 324</u>	<u>\$ 321</u>	<u>\$ 71</u>	<u>\$ 183</u>	<u>\$ 5,535</u>

		For the Year Ended December 31, 2016						
<i>(In thousands)</i>	Commercial	Commercial Real Estate	Construction	Home Equity	Residential Real Estate	Consumer	Lease Financing	Total
<b>Allowance for loan losses:</b>								
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	<u>\$ 3,311</u>	<u>\$ 1,561</u>	<u>\$ 441</u>	<u>\$ 313</u>	<u>\$ 372</u>	<u>\$ 123</u>	<u>\$ 43</u>	<u>\$ 6,164</u>



**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018 and 2017:

<i>(In thousands)</i>	December 31, 2018							<u>Total</u>
	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Lease Financing</u>	
<b>Allowance for loan losses:</b>								
Individually evaluated for impairment	\$ 114	\$ 24	\$ -	\$ -	\$ 110	\$ -	\$ -	\$ 248
Collectively evaluated for impairment	<u>1,923</u>	<u>2,426</u>	<u>548</u>	<u>246</u>	<u>380</u>	<u>107</u>	<u>293</u>	<u>5,923</u>
Total	\$ <u>2,037</u>	\$ <u>2,450</u>	\$ <u>548</u>	\$ <u>246</u>	\$ <u>490</u>	\$ <u>107</u>	\$ <u>293</u>	\$ <u>6,171</u>
<b>Loans:</b>								
Individually evaluated for impairment	\$ 8,213	\$ 3,171	\$ -	\$ -	\$ 599	\$ -	\$ -	\$ 11,983
Collectively evaluated for impairment	<u>152,054</u>	<u>242,308</u>	<u>58,238</u>	<u>23,080</u>	<u>38,759</u>	<u>19,640</u>	<u>15,211</u>	<u>549,290</u>
Total	\$ <u>160,267</u>	\$ <u>245,479</u>	\$ <u>58,238</u>	\$ <u>23,080</u>	\$ <u>39,358</u>	\$ <u>19,640</u>	\$ <u>15,211</u>	\$ <u>561,273</u>

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

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018 and 2017. 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.

<i>(In thousands)</i>	2018			2017		
	Pass	Classified	Total	Pass	Classified	Total
Commercial	\$ 158,106	\$ 2,161	\$ 160,267	\$ 147,033	\$ 2,508	\$ 149,540
Commercial real estate	245,479	–	245,479	227,167	–	227,167
Construction	58,238	–	58,238	68,362	44	68,406
Home equity	23,080	–	23,080	25,800	170	25,970
Residential real estate	38,759	599	39,358	37,179	350	37,529
Consumer	19,640	–	19,640	13,171	28	13,200
Lease financing	15,211	–	15,211	12,988	–	12,988
Total	\$ <u>558,513</u>	\$ <u>2,760</u>	\$ <u>561,273</u>	\$ <u>531,700</u>	\$ <u>3,100</u>	\$ <u>534,800</u>

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2018 and 2017:

<i>(In thousands)</i>	December 31, 2018						
	30-59 Days	60-89 Days	Greater than	Total		Total	Total
	Past Due	Past Due	90 Days	Past Due	Current	Loans	Loans >
Commercial	\$ –	\$ –	\$ –	\$ –	\$ 160,267	\$ 160,267	\$ –
Commercial real estate	–	–	–	–	245,479	245,479	–
Construction	–	–	–	–	58,238	58,238	–
Home equity	–	–	–	–	23,080	23,080	–
Residential real estate	413	171	–	584	38,774	39,358	–
Consumer	–	–	–	–	19,640	19,640	–
Lease financing	–	–	–	–	15,211	15,211	–
Total	\$ <u>413</u>	\$ <u>171</u>	\$ <u>–</u>	\$ <u>584</u>	\$ <u>560,689</u>	\$ <u>561,273</u>	\$ <u>–</u>

<i>(In thousands)</i>	December 31, 2017						
	30-59 Days	60-89 Days	Greater than	Total		Total	Total
	Past Due	Past Due	90 Days	Past Due	Current	Loans	Loans >
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	\$ <u>–</u>	\$ <u>–</u>	\$ <u>352</u>	\$ <u>352</u>	\$ <u>534,448</u>	\$ <u>534,800</u>	\$ <u>–</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018, 2017 and 2016:

<i>(In thousands)</i>	December 31, 2018				
	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
Loans without a specific valuation allowance:					
Commercial	\$ 46	\$ 53	\$ —	\$ 375	\$ 10
Commercial real estate	19	19	—	27	2
Construction	—	—	—	—	—
Home equity	—	—	—	—	4
Residential real estate	260	297	93	295	16
Consumer	—	—	—	2	—
Lease financing	—	—	—	—	—
Loans with a specific valuation allowance:					
Commercial	\$ 91	\$ 96	\$ 37	\$ 56	\$ 3
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Home equity	—	—	—	12	—
Residential real estate	73	89	12	139	—
Consumer	—	—	—	—	—
Lease financing	—	—	—	—	—
Total impaired loans:					
Commercial	\$ 137	\$ 149	\$ 37	\$ 431	\$ 13
Commercial real estate	19	19	—	27	2
Construction	—	—	—	—	—
Home equity	—	—	—	12	4
Residential real estate	333	386	105	434	16
Consumer	—	—	—	2	—
Lease financing	—	—	—	—	—
Total	<u>\$ 489</u>	<u>\$ 554</u>	<u>\$ 142</u>	<u>\$ 906</u>	<u>\$ 35</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

<i>(In thousands)</i>	December 31, 2017				
	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
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	\$ <u>1,345</u>	\$ <u>1,385</u>	\$ <u>249</u>	\$ <u>860</u>	\$ <u>35</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

<i>(In thousands)</i>	December 31, 2016				
	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
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	<u>\$ 777</u>	<u>\$ 954</u>	<u>\$ 83</u>	<u>\$ 6,859</u>	<u>\$ 21</u>

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2018 and 2017:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>
Commercial	\$ 37	\$ 584
Commercial real estate	—	—
Construction	—	—
Home equity	—	169
Residential real estate	293	396
Consumer	—	28
Lease financing	—	—
	<u>\$ 330</u>	<u>\$ 1,177</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018, the Company had \$100,000 of commercial loans, \$40,000 of residential real estate loans and \$19,000 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. The company did not modify any loans in a troubled debt restructuring transaction during the years ended December 31, 2018 and 2016. 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.

The following table presents loans restructured and classified as troubled debt restructurings by class during the years ended December 31, 2018, 2017 and 2016.

	December 31, 2018			December 31, 2017			December 31, 2016		
	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
<i>(In thousands)</i>									
Commercial	\$ -	\$ -	\$ -	1	\$ 63	\$ 63	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-
Home equity	-	-	-	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-	-	-	-
Lease financing	-	-	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-	-	-
<b>Total</b>	<u>          </u>	<u>\$       </u>	<u>\$       </u>	<u>          </u>	<u>\$   63</u>	<u>\$   63</u>	<u>          </u>	<u>\$       </u>	<u>\$       </u>

As of December 31, 2018, the Company had no commitments outstanding to borrowers with loans identified as troubled debt restructurings.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 4: PREMISES AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
<i>(In thousands)</i>		
Land	\$ 4,414	\$ 3,954
Buildings and improvements	14,045	14,380
Furniture and equipment	<u>6,583</u>	<u>6,438</u>
	25,042	24,772
Less accumulated depreciation	<u>12,937</u>	<u>12,450</u>
Total premises and equipment	<u>\$ 12,105</u>	<u>\$ 12,322</u>

**NOTE 5: FORECLOSED ASSETS HELD FOR SALE**

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

	<u>2018</u>	<u>2017</u>
<i>(In thousands)</i>		
Construction/land development	\$ -	\$ 2,252
Residential real estate	-	-
Commercial business assets	<u>-</u>	<u>-</u>
Foreclosed assets held for sale, net	<u>\$ -</u>	<u>\$ 2,252</u>

As of December 31, 2018 and 2017, the Company had residential real estate loans in the process of foreclosure of \$0 and \$182,000.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>(In thousands)</i>			
Balance, beginning of year	\$ 2,395	\$ 2,957	\$ 3,014
Provision charged to expense	830	1,483	1,419
Charge offs, net of recoveries	<u>(2,736)</u>	<u>(2,045)</u>	<u>(1,476)</u>
Balance, end of year	<u>\$ 489</u>	<u>\$ 2,395</u>	<u>\$ 2,957</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>(In thousands)</i>			
Net (gains) losses on sale of foreclosed assets	\$ (287)	\$ 103	\$ 165
Provision for losses	830	1,483	1,419
Operating expenses, net of rental income	<u>139</u>	<u>507</u>	<u>1,347</u>
	<u>\$ 682</u>	<u>\$ 2,093</u>	<u>\$ 2,931</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 6: INTEREST-BEARING DEPOSITS**

Interest-bearing time deposits in denominations in excess of \$250,000 were \$23,434,000 on December 31, 2018 and \$6,167,000 on December 31, 2017. The Company acquires brokered deposits in the normal course of business. At December 31, 2018 and 2017 the Company's balance of brokered deposits was \$0.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

<i>(In thousands)</i>	
2019	\$ 63,799
2020	13,815
2021	3,004
2022	1,397
2023	1,744
Thereafter	<u>659</u>
	<u>\$ 84,418</u>

**NOTE 7: OPERATING LEASES**

The Company leases office space to others under noncancellable operating leases expiring in various years through 2023. Minimum future rent receivable under noncancellable operating leases at December 31, 2018 was as follows:

<i>(In thousands)</i>	
2019	\$ 1,376
2020	1,351
2021	1,126
2022	646
2023	630
Thereafter	<u>1,300</u>
	<u>\$ 6,429</u>



**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018, the Company had drawn a balance of \$38,163,000 and at December 31, 2017, the Company had drawn a balance of \$8,000,000. The variable interest rate was 2.65% on December 31, 2018 and 1.47% on December 31, 2017. FHLBank advance availability is determined quarterly and at December 31, 2018 approximately \$55,614,000 was available. Advances are secured by loans totaling \$144,477,000 as of December 31, 2018.

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, 2018 and 2017, there was no outstanding balance on the line of credit. The line of credit has a variable interest rate of federal funds rate plus 50 basis points and at December 31, 2018 approximately \$35,710,000 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, 2018, the Company had FFP lines of credit of \$18,000,000 and \$5,000,000 with no outstanding balances. The variable interest rate for the \$18,000,000 FFP line was 2.64% and 3.47% for the \$5,000,000 FFP line of credit on December 31, 2018.

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, 2018 and 2017, 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, 2018, 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:

	<u>2018</u>	<u>2017</u>
<i>(In thousands)</i>		
Balance as of December 31	\$34,387	\$29,202
Carrying value of securities pledged to secure agreements to repurchase at December 31	\$48,418	\$46,040
Average balance during the year of securities sold under agreements to repurchase	\$35,554	\$31,538
Maximum amount outstanding at any month-end during the year	\$42,716	\$35,509

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 9: LONG TERM DEBT**

Long-term debt at December 31, 2018 and 2017 consisted of the following components:

<i>(In thousands)</i>	2018	2017
Bank stock loan (A)	\$ 7,268	\$ 13,214
Revolving line of credit (B)	-	-
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	\$ 26,856	\$ 32,802

- (A) Payable in quarterly installments of principal plus interest, floating at the lender's prime rate plus 0.50% (6.00% at December 31, 2018 and 5.25% at December 31, 2017), based on a 12-year amortization, with a balloon payment of unpaid principal due in August, 2023, collateralized by the stock of the Company's subsidiary bank.
- (B) \$5,000,000 revolving line of credit, floating at the lender's prime rate plus 0.50% (6.00% at December 31, 2018). Quarterly payments of interest only and a balloon payment of unpaid principal due in August, 2023.
- (C) Due in 2033; interest-only at three-month LIBOR + 3.25% (5.79% at December 31, 2018 and 4.63% at December 31, 2017) 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% (4.40% at December 31, 2018 and 3.29% at December 31, 2017) 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 (C) 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.

Aggregate annual maturities of long-term debt at December 31, 2018 are as follows:

<i>(In thousands)</i>	
2019	\$ 652
2020	689
2021	733
2022	779
2023	4,415
Thereafter	19,588
	\$ 26,856

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 10: INCOME TAXES**

The provision for income taxes consists of the following:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Taxes currently (refundable) payable	\$ (5)	\$ (29)	\$ 89
Income tax expense from revaluation of deferred tax assets and liabilities	-	3,595	-
Deferred income taxes	<u>1,706</u>	<u>2,446</u>	<u>730</u>
	<u>\$ 1,701</u>	<u>\$ 6,012</u>	<u>\$ 819</u>

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

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Computed at the statutory rate (21% or 34%)	\$ 1,463	\$ 2,239	\$ 811
Increase (decrease) resulting from:			
Tax-exempt interest	(24)	(42)	(85)
State income taxes	238	272	(33)
Deferred tax adjustment related to reduction of statutory federal income tax rate	-	3,595	-
Other	<u>24</u>	<u>(52)</u>	<u>126</u>
Actual tax provision	<u>\$ 1,701</u>	<u>\$ 6,012</u>	<u>\$ 819</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 10: INCOME TAXES (Continued)**

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2018 and 2017 consolidated balance sheets are as follows:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for loan losses	\$ 1,499	\$ 1,345
Net operating loss from Blue Valley Ban Corp. and subsidiary	2,716	3,813
Accumulated depreciation on available-for-sale securities	1,424	1,091
Deferred compensation	75	146
Offering costs	73	80
Other real estate owned reserve	120	583
Other	<u>440</u>	<u>852</u>
	<u>6,347</u>	<u>7,910</u>
Deferred tax liabilities:		
Accumulated depreciation	50	(39)
FHLB stock basis	(20)	(10)
Prepaid intangibles	(93)	(88)
Other	<u>(17)</u>	<u>(18)</u>
	<u>(80)</u>	<u>(155)</u>
Net deferred tax asset	<u>\$ 6,267</u>	<u>\$ 7,755</u>

The Company has unused Federal net operating loss carryforwards of \$10,874,000, which expire starting in 2030. The Company has unused Kansas Privilege Tax net operating loss carryforwards of \$13,112,000 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 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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 11: PREFERRED STOCK**

The Company has 471,979 shares of Series B Convertible Preferred Stock (Series B) issued and outstanding as of December 31, 2018 and 2017. 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, 2018 and 2017, the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2018, 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, 2018 that management believes have changed the Bank's position.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<i>(In thousands)</i>						
December 31, 2018:						
Common Equity Tier 1 Capital (to Risk Weighted Assets)						
Bank Only	\$ 78,779	12.04%	\$ 29,442	4.50%	\$ 42,527	6.50%
Total Capital (to Risk Weighted Assets)						
Bank Only	\$ 84,949	12.98%	\$ 52,341	8.00%	\$ 65,427	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Bank Only	\$ 78,779	12.04%	\$ 39,256	6.00%	\$ 52,341	8.00%
Tier 1 Capital (to Average Assets)						
Bank Only	\$ 78,779	10.89%	\$ 26,171	4.00%	\$ 32,713	5.00%
<i>(In thousands)</i>						
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%

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, 2018 and 2017, the capital conservation buffer was 1.88% and 1.25%, respectively. The Bank's net unrealized gain or loss on available-for-sale securities is excluded from the computations of regulatory capital above.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**NOTE 13: TRANSACTIONS WITH RELATED PARTIES**

At December 31, 2018 and 2017, the Company had loans outstanding to executive officers, directors and to companies in which the Company's and Bank's executive officers or directors were principal owners in the amount of \$19,085,000 and \$25,955,000, respectively. Annual activity consisted of the following:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 25,955	\$ 27,195
New loans and advances	14,380	19,160
Repayments and reclassifications	<u>(21,250)</u>	<u>(20,400)</u>
Balance, end of year	<u>\$ 19,085</u>	<u>\$ 25,955</u>

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, 2018, and 2017 totaled \$16,874,000 and \$9,834,000, 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 2018, 2017 and 2016. 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 2018, 2017 and 2016 were \$281,000, \$255,000 and \$276,000, respectively.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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. The Company recognizes forfeitures as they occur.

At December 31, 2018, the Company had 304,738 shares available to be granted. Summary of shares authorized, granted, and forfeited during 2018, 2017, and 2016 is presented below.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Shares available to be granted, beginning of the year	475,492	5,250	273,482
Authorized	—	500,000	—
Granted	(266,973)	(50,815)	(270,431)
Forfeited	<u>96,219</u>	<u>21,057</u>	<u>2,199</u>
Shares available to be granted, end of the year	<u>304,738</u>	<u>475,492</u>	<u>5,250</u>

Restricted shares granted to officers and directors in 2017 vested immediately. A portion of the shares granted in 2018 and 2016, 259,000 and 222,000, respectively, vest over the subsequent three years, subject to the Company meeting financial performance goals. In connection with the Agreement and Plan of Merger (the “Merger”) discussed in Note 24, certain shares from the restricted shares granted to officers in 2018 and 2016 vested ahead of schedule in December, 2018, 182,000 and 120,000, respectively. Total non-vested shares as of December 31, 2018, 2017 and 2016 were 85,000, 204,000 and 222,000, 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.

In 2018, expenses associated with restricted stock grants was \$3,898,000, of which \$2,092,000 was related to shares that vested ahead of schedule in connection with the Merger. The remaining unvested shares will also vest ahead of schedule with the closing of the Merger and the associated expense will be recognized at that time. Expenses associated with restricted stock grants were \$1,258,000 and \$465,000 for 2017 and 2016, respectively. The amount of unrecognized compensation costs was \$671,000, \$1,360,000, and \$2,220,000 as of December 31, 2018, 2017, and 2016, respectively.

During 2018, 2017 and 2016, the Company granted no stock options and there were no options outstanding and exercisable as of December 31, 2018, 2017, or 2016.

**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, 2018, the Company had 41,345 shares available to be purchased. Summary of shares for the ESPP as of December 31, 2018, 2017, and 2016 is presented below.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Shares available to be purchased, beginning of the year	43,753	47,307	52,275
Purchased	<u>(2,408)</u>	<u>(3,554)</u>	<u>(4,968)</u>
Shares available to be purchased, end of the year	<u>41,345</u>	<u>43,753</u>	<u>47,307</u>



**BLUE VALLEY BAN CORP.**

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**NOTE 16: EMPLOYEE STOCK PURCHASE PLAN (Continued)**

Information about employee stock purchase plan activity as of December 31, 2018, 2017 and 2016 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 2018, 2017 and 2016 was approximately \$2,000, \$4,000, and \$5,000, respectively.

Plan year ending January 31,	Employee Stock Purchase Plan Activity Shares purchased	Purchase Price
2018	2,408	\$ 7.82
2017	3,554	\$ 6.80
2016	4,968	\$ 5.31

**NOTE 17: OTHER INCOME/EXPENSE**

Other income consists of the following:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Rental income	\$ 1,272	\$ 814	\$ 787
Realized gain on foreclosed assets	287	(103)	(165)
Realized gain on sale of fixed asset	362	-	-
Loans held for sale fee income	-	-	95
Other income	<u>567</u>	<u>592</u>	<u>1,342</u>
Total	<u>\$ 2,488</u>	<u>\$ 1,303</u>	<u>\$ 2,059</u>

2016 other income includes approximately \$764,000 of income collected on loans previously charged off.

Other operating expenses consist of the following:

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Data processing	\$ 899	\$ 877	\$ 1,006
FDIC assessments	281	423	445
ATM and network fees	532	547	559
Professional fees	694	649	684
Other expense	<u>2,659</u>	<u>3,286</u>	<u>3,719</u>
Total	<u>\$ 5,065</u>	<u>\$ 5,782</u>	<u>\$ 6,413</u>

2018 professional fees includes approximately \$160,000 of legal expense and other expense includes approximately \$8,000 of miscellaneous expense related to the Merger as discussed in Note 24.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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, 2018, 2017 and 2016. No gains or losses from fair value changes included in loans held for sale fee income were realized for the years ended December 31, 2018 and 2017, and gains from fair value changes were \$8,000 for the year ended December 31, 2016. Interest income on loans held for sale is included in interest and fees on loans in the Company's consolidated statement of operations. See Note 20 for additional disclosures regarding fair value of mortgage loans held for sale.

**NOTE 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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018 and 2017:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
December 31, 2018:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	\$ 51,040	\$ —	\$ 51,040	\$ —
State and political subdivision securities	13,364	—	13,364	—
U.S. Government sponsored agencies mortgage-backed securities	30,934	30,934	—	—
U.S. Small Business Administration loan pool certificates	2,692	—	2,692	—
Treasury securities	4,938	4,938	—	—
Other securities	1,997	—	1,997	—
Equity securities	<u>576</u>	<u>576</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 105,541</u>	<u>\$ 36,448</u>	<u>\$ 69,093</u>	<u>\$ —</u>
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	<u>589</u>	<u>589</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 103,130</u>	<u>\$ 32,389</u>	<u>\$ 70,741</u>	<u>\$ —</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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.

***Nonrecurring Measurements***

The following table presents the fair value measurements at December 31, 2018 and 2017 of assets and liabilities measured at fair value on a non-recurring basis during the respective year:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
December 31, 2018:				
Impaired loans, net of reserves	\$ 2,586	\$ —	\$ —	\$ 2,586
Equity securities	1,274		1,274	
December 31, 2017:				
Impaired loans, net of reserves	\$ 799	\$ —	\$ —	\$ 799
Foreclosed assets held for sale, net	1,942	—	—	1,942
Equity securities	789		789	

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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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.

**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 12/31/18	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 2,586	Market comparable properties	Comparability adjustments (%)	15.00%-100.00% (18.00%)
Foreclosed assets held for sale, net	\$ –	Market comparable properties	Comparability adjustments (%)	Not available
	Fair Value at 12/31/17	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 799	Market comparable properties	Comparability adjustments (%)	15.00%-100.00% (21.00%)
Foreclosed assets held for sale, net	\$ 1,942	Market comparable properties	Comparability adjustments (%)	Not available

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018 and 2017.

<i>(In thousands)</i>	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	\$ 16,135	\$ 16,135	\$ 13,544	\$ 13,544
Loans, net of allowance for loan losses (Level 3)	555,102	541,224	529,265	516,033
FHLBank stock, Federal Reserve Bank stock, and other securities (Level 3)	4,264	4,264	3,099	3,099
Interest receivable (Level 3)	2,298	2,298	1,888	1,888
Financial liabilities:				
Deposits (Level 3)	562,573	575,231	568,845	581,644
Short term debt (Level 3)	72,550	72,550	37,202	37,202
Long term debt (Level 3)	26,856	23,056	32,802	29,897
Interest payable (Level 3)	369	369	400	400

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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, 2018 and 2017, the Company had outstanding commitments to originate loans aggregating approximately \$5,140,000 and \$1,080,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

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 \$241,000 and \$247,000 at December 31, 2018 and 2017, 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, 2018, the Company had unused lines of credit to borrowers aggregating approximately \$164,386,000 for commercial, commercial real estate and construction lines and \$29,865,000 for open-end consumer lines of credit. 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.

**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.

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**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.

	2018				2017			
	<u>Fourth Quarter</u>	<u>Third Quarter</u>	<u>Second Quarter</u>	<u>First Quarter</u>	<u>Fourth Quarter</u>	<u>Third Quarter</u>	<u>Second Quarter</u>	<u>First Quarter</u>
	<i>(In thousands, except per share data)</i>							
Interest income	\$ 7,894	\$ 7,166	\$ 7,196	\$ 6,787	\$ 6,760	\$ 6,650	\$ 6,473	\$ 6,146
Interest expense	<u>1,305</u>	<u>1,180</u>	<u>1,146</u>	<u>948</u>	<u>873</u>	<u>889</u>	<u>857</u>	<u>833</u>
Net interest income	6,589	5,986	6,050	5,839	5,887	5,761	5,616	5,313
Provision for loan losses	<u>—</u>	<u>—</u>	<u>100</u>	<u>300</u>	<u>(400)</u>	<u>(500)</u>	<u>—</u>	<u>—</u>
Net interest income after provision for loan losses	6,589	5,986	5,950	5,539	6,287	6,261	5,616	5,313
Non-interest income	1,654	1,571	1,765	1,159	1,241	1,130	1,147	1,151
Non-interest expense	<u>8,086</u>	<u>5,127</u>	<u>5,346</u>	<u>4,690</u>	<u>5,933</u>	<u>5,600</u>	<u>4,994</u>	<u>5,033</u>
Income (loss) before income taxes	157	2,430	2,369	2,008	1,595	1,791	1,769	1,431
Provision (benefit) for income taxes	<u>(120)</u>	<u>664</u>	<u>619</u>	<u>538</u>	<u>4,183</u>	<u>654</u>	<u>646</u>	<u>529</u>
Net income (loss)	<u>277</u>	<u>1,766</u>	<u>1,750</u>	<u>1,470</u>	<u>(2,588)</u>	<u>1,137</u>	<u>1,123</u>	<u>902</u>
Dividends on preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) available to common shareholders	<u>\$ 277</u>	<u>\$ 1,766</u>	<u>\$ 1,750</u>	<u>\$ 1,470</u>	<u>\$ (2,588)</u>	<u>\$ 1,137</u>	<u>\$ 1,123</u>	<u>\$ 902</u>
Net Income (loss) per Share Data								
Basic	<u>\$ 0.05</u>	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.27</u>	<u>\$ (0.48)</u>	<u>\$ 0.21</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.27</u>	<u>\$ (0.48)</u>	<u>\$ 0.21</u>	<u>\$ 0.20</u>	<u>\$ 0.17</u>
Balance Sheet								
Total assets	\$717,684	\$728,402	\$696,281	\$711,979	\$687,490	\$698,425	\$693,448	\$682,905
Total loans, net	555,102	527,287	518,560	532,569	529,265	525,100	519,052	497,815
Stockholders' equity	53,233	50,126	48,201	46,238	46,249	49,135	47,726	45,383

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.



**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Condensed Balance Sheets  
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<i>(In thousands)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 29	\$ 1,869
Investments in subsidiaries:		
Bank of Blue Valley	77,771	73,485
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	<u>1,982</u>	<u>3,308</u>
Total Assets	<u>\$ 80,370</u>	<u>\$ 79,250</u>
<b>LIABILITIES</b>		
Long-term debt	\$ 7,268	\$ 13,214
Subordinated debentures	19,588	19,588
Other liabilities	<u>281</u>	<u>199</u>
Total Liabilities	<u>27,137</u>	<u>33,001</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	472	472
Common stock	5,851	5,678
Additional paid-in capital	34,638	32,108
Retained earnings	16,193	10,941
Accumulated other comprehensive loss, net of income tax (credit) of \$(1,424) in 2018 and \$(1,091) in 2017	<u>(3,921)</u>	<u>(2,950)</u>
Total Stockholders' Equity	<u>53,233</u>	<u>46,249</u>
Total Liabilities and Stockholders' Equity	<u>\$ 80,370</u>	<u>\$ 79,250</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

**Condensed Statements of Income**  
**Years Ended December 31, 2018, 2017 and 2016**

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Income			
Dividends from subsidiaries	\$ 5,868	\$ 1,676	\$ 2,242
Other income	<u>29</u>	<u>22</u>	<u>18</u>
	5,897	1,698	2,260
Expenses	<u>5,873</u>	<u>2,686</u>	<u>1,732</u>
Income before income taxes and equity in undistributed net income (loss) of subsidiaries	24	(988)	528
Income tax expense (benefit)	<u>29</u>	<u>863</u>	<u>(583)</u>
Income before equity in undistributed net income (loss) of subsidiaries	(5)	(1,851)	1,111
Equity in undistributed net income (loss) of subsidiaries	<u>5,268</u>	<u>2,425</u>	<u>455</u>
Net income	<u>\$ 5,263</u>	<u>\$ 574</u>	<u>\$ 1,566</u>

**Condensed Statements of Comprehensive Income (Loss)**  
**Years Ended December 31, 2018, 2017 and 2016**

<i>(In thousands)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net income	\$ 5,263	\$ 574	\$ 1,566
Other comprehensive income (loss)			
Change in unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes (credit) of \$(333) in 2018, \$631 in 2017, and \$(1,455) in 2016	(982)	956	(2,204)
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of \$0 in 2018, \$0 in 2017, \$(752) in 2016	<u>—</u>	<u>—</u>	<u>(1,127)</u>
Comprehensive income (loss)	<u>\$ 4,281</u>	<u>\$ 1,530</u>	<u>\$ (1,765)</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

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

**Condensed Statements of Cash Flows**  
**Years Ended December 31, 2018, 2017 and 2016**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>(In thousands)</i>			
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 5,263	\$ 574	\$ 1,566
Items not requiring (providing) cash:			
Deferred income taxes	1,310	863	(1,469)
Equity in undistributed net income of subsidiaries	(5,268)	(2,425)	(455)
Restricted stock earned	(1,113)	575	443
Forfeiture of unvested restricted common stock	(80)	(50)	-
Stock-based compensation expense	3,874	730	-
Changes in:			
Other assets	17	(3)	330
Other liabilities	<u>81</u>	<u>18</u>	<u>10</u>
Net cash provided by operating activities	<u>4,084</u>	<u>282</u>	<u>425</u>
<b>FINANCING ACTIVITIES</b>			
Repayments of long-term debt	(5,946)	(1,032)	(1,008)
Proceeds from sale of common stock through ESPP	<u>22</u>	<u>29</u>	<u>31</u>
Net cash used in financing activities	<u>(5,924)</u>	<u>(1,003)</u>	<u>(977)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,840)	(721)	(552)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,869</u>	<u>2,590</u>	<u>3,142</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 29</u>	<u>\$ 1,869</u>	<u>\$ 2,590</u>

**BLUE VALLEY BAN CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018, 2017 AND 2016**

**Note 24: Evaluation of Subsequent Events**

On January 16, 2019, the Company entered into an Agreement and Plan of Merger (the “Merger”) pursuant to which the Company will be acquired by Heartland Financial USA, Inc. (“Heartland”). The Company expects the Merger to close during the second quarter of 2019 and is subject to approval by bank regulators and Company shareholders. Holders of 53.6% of the outstanding shares of the Company’s Common stock have agreed to vote in favor of the merger.

Prior to closing, each issued and outstanding share of the Company’s Series B Preferred stock will be converted into a share of Common stock of the Company. Also prior to closing, all unvested shares of the Company’s Common stock will become vested. At closing, each share of the company’s Common stock will be extinguished and converted into .3271 shares of Heartland Common stock. The exchange ratio may be adjusted if the Company does not achieve certain financial targets as of the closing date.

Simultaneously with the closing of the transaction, Bank of Blue Valley will merge with and into Morrill & Janes Bank and Trust Company, a wholly-owned subsidiary of Heartland. The surviving bank will change its name to Bank of Blue Valley and will have assets of approximately \$1.3 billion and will operate 13 banking centers serving the Kansas City metropolitan area and surrounding communities.

During the year ended December 31, 2018 the Company incurred expenses related to the Merger (“Transaction expenses”) of \$2,260,000. Transaction expenses included legal, accounting and equity compensation as described in Note 15 and Note 17.

Subsequent events have been evaluated through March 7, 2019, the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.

# STOCKHOLDER INFORMATION

## CORPORATE OFFICE

11935 Riley St.  
Overland Park, KS 66213

913.338.1000  
913.234.7145 (fax)

## HELPLINE

913.338.1000

## WEBSITE

[www.bankbv.com](http://www.bankbv.com)

## 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](http://www.bankbv.com/about) or contact Mark A. Fortino, Chief Financial Officer, at our corporate office.

## STOCK QUOTATION SYMBOL

Shares of Blue Valley Ban Corp. common stock are currently quoted on the OTCQX under the symbol BVBC.

## TRANSFER AGENT AND REGISTRAR

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

[www.astfinancial.com](http://www.astfinancial.com)

Stockholder Services: 800.937.5449

## AUDITORS

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

## CORPORATE COUNSEL

Hunton Andrews Kurth LLP  
1445 Ross Avenue, Suite 3700  
Dallas, TX 75202-2799

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

## MARKET MAKER

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

Local trading desk: 913.345.4200