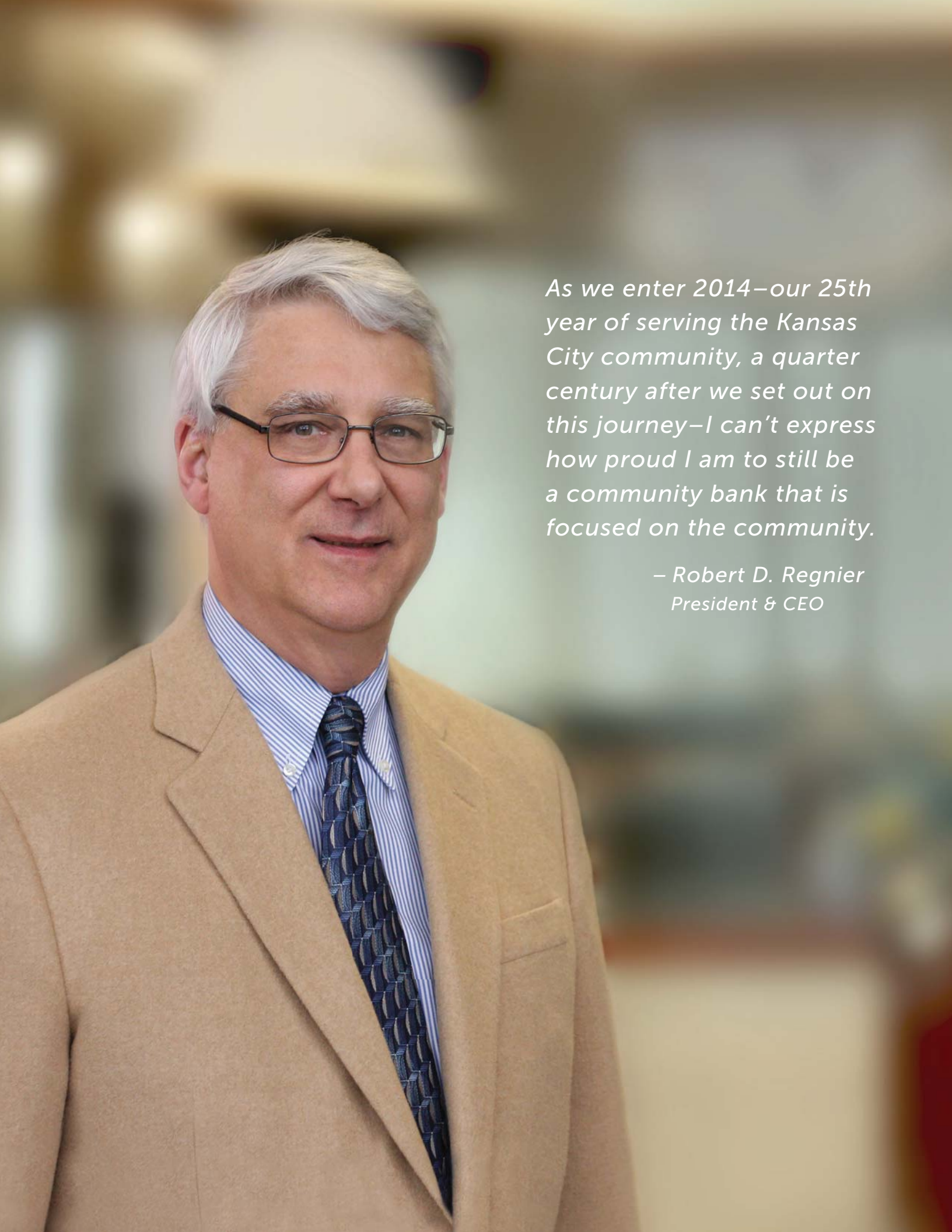


Bank of Blue Valley Charitable Fountain
Town Center Plaza, Leawood, Kansas

Blue Valley Ban Corp.

2013 ANNUAL REPORT



As we enter 2014–our 25th year of serving the Kansas City community, a quarter century after we set out on this journey–I can't express how proud I am to still be a community bank that is focused on the community.

– Robert D. Regnier
President & CEO

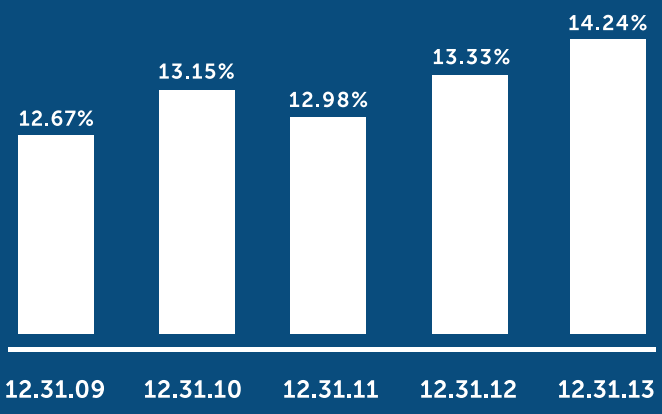
FINANCIAL PERFORMANCE

As the country and our industry continue the recovery from the recession, 2013 was a year of progress and continued success for our Company.

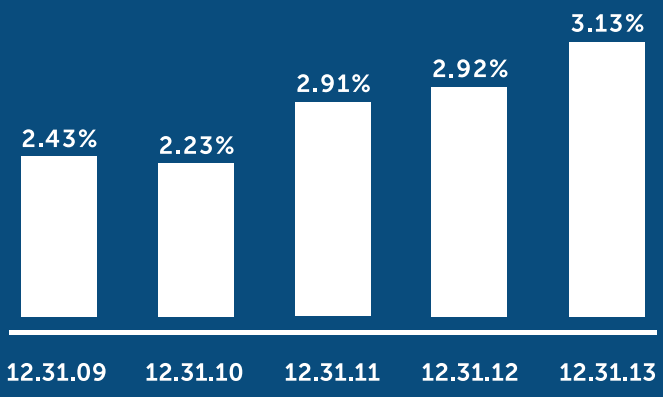
We recorded net income of $1.0 million compared to net income of $267,000 during the prior year period. The improvements in the credit quality of our loan portfolio, in addition to reduction in the amount of loan losses charged off to the allowance for loan losses, precipitated a reduction in the recorded loan loss provision in 2013 to $950,000 compared to a provision of $1.2 million during the previous year. We also improved our earnings in 2013 by our active management of the mix of our earning assets and cost of our interest-bearing liabilities, which resulted in an increase to our net interest margin. We held a common stock Rights Offering, and raised approximately $8.0 million in gross proceeds. Our subsidiary, Bank of Blue Valley continues to be in a strong financial position with Total Regulatory Capital of $73.5 million as of December 31, 2013. That exceeded the Regulatory standards for being adequately capitalized by $32.2 million and also exceeded the standards for being well capitalized by $21.9 million.

Last year also saw the end of our involvement with the Troubled Asset Relief Program ("TARP") as it relates to the preferred shares purchased by the US Treasury in December of 2008. The US Treasury continued its exit from the TARP program during 2013, selling the preferred shares to independent investors. Our participation in TARP enabled us to maintain a strong capital position during the economic downturn. We believe that the independent investors who purchased from the Treasury the preferred stock issued under the TARP program will provide future opportunities for growth and stability.

BANK OF BLUE VALLEY
EXCESS CAPITAL



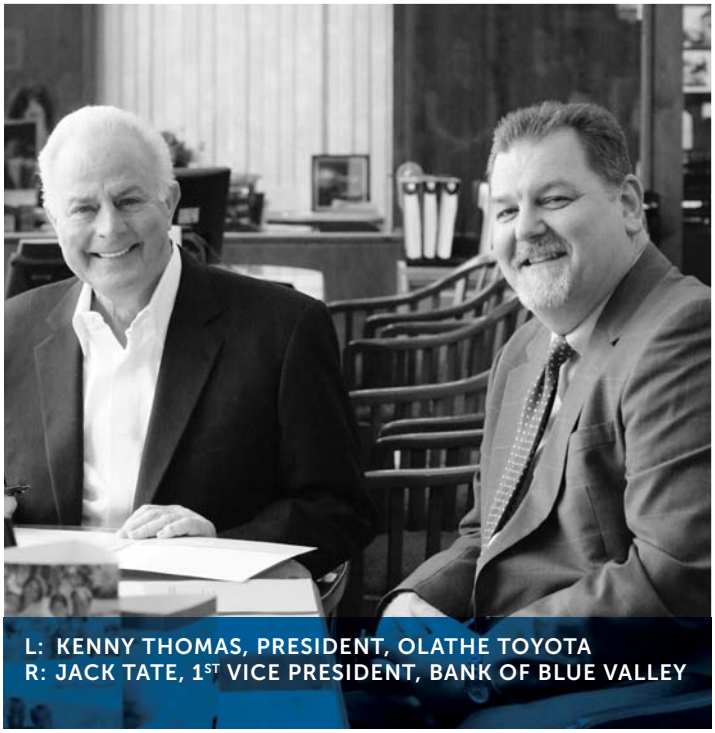
BLUE VALLEY BAN CORP.
NET INTERST MARGIN



COMMUNITY MINDED

As a community banking organization, our everyday focus is on just that... the community.

A community bank does its work through the lens of how what it does will impact, and benefit, the community. Therein lies one of the primary differences between the way a community bank approaches banking and their customers as opposed to a regional or national bank. Part of it is "enlightened self-interest." If we create a better environment for our customers and community members, then businesses will flourish and people will seek this community as a place to live, work and raise a family. As a result, the prudent banker has to weigh the credit risk of a loan with the broader benefit to the community. Thus, when a loan has a high community benefit and high risk, it can make for a very difficult business decision. As a smaller community bank, we have the ability to focus on a more finite area and thus see and experience more directly the returns on our community involvement and investment. It's no surprise that community bankers have traditionally accepted roles with civic responsibilities in public schools, hospitals and charitable organizations. Our company is no different and I am proud of our active and engaged civic involvement in Johnson County and across Kansas City.



L: KENNY THOMAS, PRESIDENT, OLATHE TOYOTA
R: JACK TATE, 1ST VICE PRESIDENT, BANK OF BLUE VALLEY



L: LISA TOMLINSON, MARKET PRESIDENT, BANK OF BLUE VALLEY
R: DR. JAY MENITOVE, PRESIDENT, CEO & MEDICAL DIRECTOR, COMMUNITY BLOOD CENTER



CLAY SHOOT BENEFITING THE HOME BUILDERS ASSOCIATION OF GREATER KANSAS CITY



GOLF TOURNAMENT BENEFITING THE DOWN SYNDROME GUILD OF GREATER KANSAS CITY



AMERICAN CANCER SOCIETY RELAY FOR LIFE

PHILANTHROPICALLY FOCUSED

From our very first day, we've looked to give back to the community that has allowed us to be so successful, and 2013 was no different.

Last year, Bank of Blue Valley and our employees donated more than $260,000 to a variety of community causes, charities and nonprofits. Our Bank of Blue Valley Charity Golf Classic, in its 12th year, raised more than $44,000 for the Down Syndrome Guild of Greater Kansas City.

I believe it is important for our Company to maintain a strong philanthropic presence in part because of the important role we play in helping the community grow and prosper. A community banker needs to take the lead at times to make sure that the non-business goals of the community are met. I personally believe that we have a better and more cohesive community when individuals share their time, talent and treasure. It brings people together in a way that business could never accomplish on its own. Volunteerism and philanthropy are dominant traits of the Midwest, particularly in Kansas City. This quality is and will continue to be a core element of our Company's culture.



ENTREPRENEURSHIP AT HEART

Small businesses are the engine that drives the American economy and our Company.

It is no exaggeration to say that the future of business in our country is dependent on the success of small business and entrepreneurs. In a study published by the Kauffman Foundation in 2009, they concluded "...from 1980-2005, nearly all net new job creation in the United States occurred in firms less than five years old. This data set also shows that without startups, net job creation for the American economy would be negative in all but a handful of years."

Because of their size and location, community banks often establish relationships with a number of small and startup businesses. The success of our country is dependent upon innovation and creativity. The vast majority of innovation and new ideas are coming from firms who have been in existence for less than 10 years. We count many of these firms among our clients. Given our deep understanding of what it takes to build and run a company, we are uniquely positioned to work with budding entrepreneurs and assist them in developing a sustainable business.

As we enter our 25th year, we also thought now was an appropriate time to take a look at our Company's brand and the image we are projecting to the community. As such, I'm pleased to introduce our new logo, which you will begin to see appear on our materials, in our ads and on our new website which will be launching later this year. While the look is now a little cleaner, a little fresher and more reflective of who we are in 2014, what will never change is our tireless commitment to meeting the needs of our customers. We will always be a place where you are known, where we understand your business, your banking needs and the value of our relationship.

With gratitude,



Robert D. Regnier
President & CEO

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-15933

BLUE VALLEY BAN CORP.

(Exact name of registrant as specified in its charter)

Kansas	**48-1070996**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11935 Riley Overland Park, Kansas	**66225-6128**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(913) 338-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Guarantee with respect to the Trust Preferred Securities, $8.00 par value, of BVBC Capital Trust I (None of which are currently outstanding)	None currently

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act Yes [ ] No [√]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes [√] No [ ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [√] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes [√] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [√]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [√]

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Securities Act Yes [ ] No [√]

As of February 28, 2014 1,807,988 shares of the Registrant's common stock were held by non-affiliates**.** The aggregate market value of these common shares, computed based on the February 28, 2014 closing price of the stock, was approximately $17.0 million. As of February 28, 2012 the registrant had 4,593,690 shares of Common Stock ($1.00 par value) outstanding.

BLUE VALLEY BAN CORP.

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Part I

Item 1: Business

The Company and Subsidiaries

As used in this Form 10-K, references to "we," "us," "our," "Company" and "Blue Valley" refer to Blue Valley Ban Corp., a Kansas corporation unless the context otherwise requires or where otherwise indicated. References to the "Bank" refer to the Company's primary wholly-owned subsidiary, Bank of Blue Valley.

Blue Valley, a Kansas corporation, is a bank holding company organized in 1989. The Bank, the Company's primary wholly-owned subsidiary, was also organized in 1989 to provide banking services to closely-held businesses and their owners, professionals and residents in Johnson County, Kansas, a high growth, demographically attractive area within the Kansas City, Missouri — Kansas Metropolitan Statistical Area (the "Kansas City MSA"). The focus of Blue Valley has been to take advantage of the current and anticipated growth in our market area as well as to serve the needs of small and mid-sized commercial customers. We believe that these customers are underserved as a result of banking consolidation in the industry generally and within our market specifically.

The Bank operates a total of five banking center locations in Johnson County, Kansas, including our main office, which includes a lobby banking center in Overland Park, as well as full-service offices in Leawood, Lenexa, Olathe, and Shawnee, Kansas.

Our lending activities are focused on commercial, commercial real estate, construction, home equity and residential real estate lending. In addition, the Bank infrequently engages in lease financing and provides consumer lending. We strive to identify, develop and maintain diversified lines of business that provide acceptable risk-adjusted returns.

We seek to develop lines of business that diversify the Bank's revenue sources, increase the Bank's non-interest income and offer additional value-added services to the Bank's customers. We develop these new or existing lines of business while monitoring related risk factors. In addition to fees generated in conjunction with lending activities, the Bank derives non-interest income by providing mortgage origination, deposit and cash management services, as well as trust and investment brokerage services.

In addition to the Bank, we have two wholly-owned subsidiaries, BVBC Capital Trust II and BVBC Capital Trust III, which were created to offer the Company's trust preferred securities and to purchase our junior subordinated debentures ("Subordinated Debentures").

Our principal executive offices are located at 11935 Riley, Overland Park, Kansas 66213, and our telephone number is (913) 338-1000.

Consolidated financial information, including a measure of profit and loss and total assets can be found in Part IV of this report.

Our Market Area

The Bank operates primarily as a community bank, serving the banking needs of small- and medium-sized companies and individuals in the Kansas City MSA. Specifically, our trade area consists of Johnson County, Kansas. We believe that coupling our strategy of providing exceptional customer service and local decision making with attractive market demographics has led to the historical growth of our total assets and deposits.

The income levels and growth rate of Johnson County, Kansas compare favorably to national averages. Johnson County's population growth rate ranks in the top 8.85% of counties nationally, and its per capita income ranks in the top 1.34% of counties nationally. Johnson County is also a significant banking market in the State of Kansas and in the Kansas City MSA. According to available industry data, as of June 30, 2013, total deposits in Johnson County, including those of banks, thrifts and credit unions, were approximately $15.2 billion, which represented 23.53% of total deposits in the state of Kansas and 33.30% of total deposits in the Kansas City MSA. We have less than 1% share of the deposits in the Kansas City MSA and approximately 3.00% of the total deposits in Johnson County, Kansas.

As our founders anticipated, the trade area surrounding our main banking facility in Overland Park, Kansas has become one of the most highly developed retail areas in the Kansas City MSA. Our Olathe, Kansas facility is located approximately 10 miles southwest of our main office. We opened our Olathe branch in 1994 when we acquired the deposits of the Olathe branch of a failed savings and loan association. We made this acquisition because it was located in a contiguous market area and we believed that it represented a stable deposit base. In 2001, the operations of this branch were moved across the street into a more suitable location which the Bank acquired. The Shawnee, Kansas banking facility is approximately 20 miles northwest of our headquarters location. We opened our Shawnee grocery branch for the convenience of our existing customers in Shawnee, and to expand our market presence in Shawnee. During the first quarter of 2001, construction of our free-standing banking facility in Shawnee, Kansas was completed and operations commenced. The Leawood, Kansas banking facility is approximately 5 miles southeast of our headquarters location. We opened our Leawood grocery branch during October of 2002 to expand our market presence in Leawood. In 2002, we also acquired land for a 20,000 square foot branch and office building in Leawood. In the second quarter of 2004 we completed construction of our freestanding banking facility in Leawood and operations commenced in that facility. During 2003 we acquired an office building in Overland Park, Kansas approximately 1 mile northwest of our headquarters location. During 2010, the Company listed the office building for lease or possible sale. In addition to leasing space at this location to tenants, we have currently consolidated our bank operations at this location. The Lenexa, Kansas banking facility is approximately 7 miles northwest of our headquarters location. The Lenexa facility was opened in February 2007 when we acquired Unison Bancorp, Inc., and its subsidiary, Western National Bank. We made this acquisition to continue our expansion in Johnson County and to establish our first presence in the Lenexa market.

Lending Activities

Overview. Our principal loan categories include commercial, commercial real estate, construction, home equity and residential mortgages. We also offer a variety of consumer loans and infrequently engage in lease financing. Our primary source of interest income is interest earned on our loan portfolio. As of December 31, 2013, our loans represented approximately 68.10% of our total assets, our legal lending limit to any one borrower was $19.0 million, and our largest single borrower as of that date had outstanding loans of $14.0 million.

From the Company's inception, we were successful in expanding our loan portfolio because of the commitment of our staff and the economic growth in our area of operation. Our staff has significant experience in lending and has been successful in offering our products to both potential and existing customers. We believe that we have been successful in maintaining our customers because of our staff's attentiveness to their financial needs and the development of professional relationships with them. We strive to become a strategic business partner with our customers, not just a source of funds.

We conduct our lending activities pursuant to the lending administration policies adopted by our Board of Directors. These policies currently require the approval of our loan committee of all commercial credits in excess of $1.5 million and all real estate credits in excess of $2.5 million. Commercial loans up to $1.5 million and real estate loans up to $2.5 million can generally be approved by the Bank's President with two loan administration officers.

Our management information systems and loan review policies are designed to monitor lending sufficiently to ensure adherence to our loan policies. The following table shows the composition of our loan portfolio at December 31, 2013.

LOAN PORTFOLIO

	As of December 31, 2013	
	Amount	**Percent**
	(In thousands)	
Commercial	$ 120,283	29.00 %
Commercial real estate	145,045	34.97
Construction	44,806	10.80
Residential real estate	44,771	10.79
Home equity	43,169	10.41
Consumer	8,885	2.14
Lease financing	7,836	1.89
Total loans and leases	414,795	100.00 %
Less allowance for loan losses	8,992	
Loans, net of allowance for loan losses	$ 405,803	

Commercial loans. As of December 31, 2013, approximately $120.3 million, or 29.00%, of our loan portfolio, represented commercial loans. The Bank has developed a strong reputation in providing and servicing small business and commercial loans. The commercial portfolio is the result of the business development efforts of the Bank's seasoned commercial lending staff, our complementary product and services mix and our reputation. Commercial loans have historically been a significant portion of our loan portfolio and we expect to continue our emphasis on this loan category.

The Bank's commercial lending activities historically have been directed to small and medium-sized companies in or near Johnson County, Kansas, with annual sales generally between $100,000 and $20 million. The Bank's commercial customers are primarily firms engaged in manufacturing, service, retail, construction, distribution and sales with significant operations in our market areas. The Bank's commercial loans are primarily secured by real estate, accounts receivable, inventory and equipment, and the Bank may seek to obtain guarantees from principal parties related to the borrower for its commercial loans. The Bank primarily underwrites its commercial loans on the basis of the borrower's cash flow, financial condition and ability to service the debt, as well as the value of any underlying collateral and the financial capacity of any guarantors.

Included in commercial loans are Small Business Administration (SBA) loans which totaled approximately $3.0 million, or 2.49% of commercial loans, at December 31, 2013. In the event of default, the SBA guarantees the repayment of a portion of the principal on these loans, plus accrued interest on the guaranteed portion of the loan. Of the $3.0 million in SBA loans, $2.2 million was government guaranteed. Under the Federal Small Business Act, the SBA may guarantee up to 85% of qualified loans of $150,000 or less and up to 75% of qualified loans in excess of $150,000, up to a maximum loan amount of $5.0 million to any one borrower. The Bank is approved to participate in the SBA Certified Lender, SBA Express and Patriot Express Programs and is an active SBA lender in our market area.

Commercial lending is subject to risks specific to the business of each borrower. In order to mitigate these risks, we seek to understand the business of each borrower, place appropriate value on any guarantee or collateral pledged to secure the loan, and govern the advance and repayment of principal as well as structure the loan amortization to maintain the adequacy of the value of any collateral during the term of the loan.

Commercial real estate loans. The Bank also makes loans to provide permanent financing for commercial facilities, retail and office buildings and churches. As of December 31, 2013, approximately $145.0 million, or 34.97% of our loan portfolio, represented commercial real estate loans. Our commercial real estate loans are underwritten on the basis of the appraised value of the property securing the loan, the cash flow and financial condition of the borrowing entity and property securing the loan, and the financial condition and capacity of guarantors.

Risks inherent in commercial real estate lending are related to the market value of the property securing the loan, the underlying cash flows, secondary repayment sources and documentation. Commercial real estate lending generally involves more risk than residential real estate lending because loan balances may be greater and repayment is dependent on the cash flows from the property securing the loan and/or the borrower's operations. We attempt to mitigate these risks by carefully assessing property values, analyzing the primary source(s) of cash flow servicing the loan, analyzing financial condition and capacity of guarantors and adhering to our lending and underwriting policies and procedures.

Construction loans. Our construction loans include loans to home building contractors and other companies and consumers for the construction of single-family and multi-family properties and commercial buildings, such as retail and office buildings as well as land development. As of December 31, 2013, approximately $44.8 million, or 10.80% of our loan portfolio, represented real estate construction loans. The builder and developer loan portfolio has been a consistent material component of our loan portfolio over our history. The Bank's experience and reputation in this area has enabled the Bank to focus on relationships with a smaller number of select builders. Construction loans are made to qualified developers and builders to develop land for construction of residential and commercial buildings as well as to build houses to be sold following construction, pre-sold houses and model houses. These loans are generally underwritten based on several factors, including the reputation, experience, financial condition and capacity of the borrowing entity, the ratio of the loan balance to the appraised value of the property securing the loan, and general conditions of the real estate market with respect to the subdivision and surrounding area obtained from an independent third party. Construction loans are also made to individuals for houses to be constructed by builders with whom the Bank generally has an existing relationship. Such loans are made on the basis of the borrower's financial condition and capacity, the loan to value ratio, the reputation of the builder, and the borrower's pre-qualification for permanent financing. During the four years ending December 31, 2012, the Bank had experienced a decline in originations of construction loans from levels experienced previous to that period, specifically in residential real estate construction and land development, as a result of the continued decline in the real estate industry and the continued slowdown in new housing construction. During 2013, improved economic conditions have stabilized this decline.

Risks related to construction lending arise from potential decline in the market value for the completed project, reasonableness of the construction budget, ability of the borrower to fund unforeseen cost variances over the construction budget, and the borrower's ability to liquidate and repay the loan at a point when the loan-to-value ratio is the greatest. Among other factors, the Bank seeks to manage these risks by ensuring, throughout the construction process, that the loan to value ratio of the loan does not exceed acceptable levels, ensuring that funds disbursed are within parameters set by the original construction budget, and by properly documenting and analyzing each construction draw.

Residential real estate loans. Our residential real estate loan portfolio consists primarily of first and second mortgage loans secured by residential properties. As of December 31, 2013, $44.8 million, or 10.79%, of our loan portfolio consisted of residential mortgage loans. The terms of these loans typically include monthly payments based on a 15 to 30 year amortization with 3 to 7 year balloon payments to mitigate interest rate risk, and they accrue interest at a fixed or variable rate. These products and terms enable us to offer credit to individuals who are self-employed or have significant income from S-corporations, limited liability companies, partnerships or investments. These individuals are often unable to satisfy the underwriting criteria permitting the sale of their mortgages into the secondary market.

In addition, we originate residential mortgage loans with the intention of selling these loans in the secondary market. During the years ending December 31, 2013 and 2012, we originated approximately $53.3 million and $83.5 million, respectively, of residential mortgage loans held for sale, and we sold approximately $59.5 million and $81.5 million, respectively, in the secondary market. We originate conventional first mortgage loans through referrals from real estate brokers, builders, developers and prior customers as well as through our Internet websites. The

origination of a mortgage loan from the date of initial application through closing normally takes 15 to 60 days. To reduce interest rate risk on mortgage loans sold in the secondary market, we typically acquire forward commitments from investors prior to loan closing.

Our mortgage loan credit review process is consistent with the standards set by traditional secondary market sources. The lender reviews the appraised value, credit report, debt service ratios, and other credit information gathered during the underwriting process in accordance with various laws and regulations governing real estate lending. Loans originated by the Bank are sold with servicing released to maximize per loan profits while minimizing the risks and costs associated with retaining servicing rights. Commitments are typically obtained from the purchasing investor on a loan-by-loan basis on a 30, 45 or 60-day delivery commitment. Interest rates are generally committed to the borrower when a rate commitment is obtained from the investor. Loans are funded by the Bank and purchased by the investor within 30-45 days following closing pursuant to commitments obtained from the investor. We sell conventional FHA, VA, USDA conforming and jumbo loans that are available to the Bank from the various secondary market investors for cash on a limited recourse basis. Consequently, foreclosure losses on all sold loans are primarily the responsibility of the investor and not that of the Bank. In our recent experience, the Bank has not been required to repurchase significant amounts of loans. The Bank did not repurchase any loans during the years ending December 31, 2013 or December 31, 2012, and during the year ending December 31, 2011, the Company repurchased one loan from an investor for which no losses have been recognized.

As with other loans to individuals, the risks related to residential mortgage loans primarily include the sufficiency of the value of collateral securing the loan and the financial condition and capacity of the borrower. The Bank attempts to manage these risks by performing a pre-funding underwriting that includes analyzing, verifying and documenting the borrower's credit qualifications, employment stability, monthly income, identification and verification of the source and amount of down payments as well as analyzing and documenting the value of the collateral.

Home equity loans. As of December 31, 2013, our home equity loans totaled $43.2 million, or 10.41% of our loan portfolio. Home equity loans are generally secured by second liens on residential real estate. Home equity loans are subject to the same risks as other loans to individuals, including the financial strength and capacity of the borrower. The Bank attempts to mitigate these risks by carefully analyzing, verifying and documenting the borrower's credit qualifications, employment stability, monthly income, and understanding and documenting the value of the collateral.

Consumer loans. As of December 31, 2013, our consumer loans totaled $8.9 million, or 2.14% of our total loan portfolio. A substantial part of this amount consisted of installment loans to individuals in our market area. Installment lending offered directly by the Bank in our market area includes loans secured by automobiles and recreational vehicles, as well as home improvement loans, unsecured lines of credit and other loans to individuals. Consumer loans are subject to the same risks as other loans to individuals, including the financial condition and capacity of the borrower. In addition, some consumer loans are subject to the additional risk that the loan is unsecured. For loans that are secured, the underlying collateral may be rapidly depreciating and may not provide an adequate source of repayment if we are required to repossess the collateral. The Bank attempts to mitigate these risks by requiring a down payment and carefully analyzing, verifying and documenting the borrower's credit qualifications and monthly income as well as analyzing and documenting the value of the collateral.

Lease financing. Our lease portfolio includes capital leases that we have originated and leases that we have acquired from brokers or third parties. As of December 31, 2013, our lease portfolio totaled $7.8 million, or 1.89%, of our total loan portfolio. We provide lease financing for a variety of equipment and machinery, including office equipment, heavy equipment, telephone systems, tractor trailers and computers. Lease terms are generally from three to five years. We have provided lease financing in the past and will continue to do so on an infrequent basis for customers who maintain an ongoing relationship with the Bank through participation in other Bank product offerings. Our leases are generally underwritten based on several factors, including the overall credit worthiness, experience, current financial condition and capacity of the lessee, the amount of the financing to collateral value, and general conditions of the market.

The primary risks related to our lease portfolio are the value of the collateral securing the lease and specific risks related to the business of each borrower. To address these risks, we attempt to understand the business of each borrower, value the underlying collateral appropriately and structure the lease amortization to ensure that the value of the collateral exceeds the lease balance during the term of the lease.

Investment Activities

The objectives of our investment policies are to:

- secure the safety of principal;
- provide adequate liquidity;
- provide securities for use in pledging for public funds or repurchase agreements; and
- maximize after-tax income.

We conduct our investing activities pursuant to an Investment Policy adopted by our Board of Directors. The Investment Policy establishes guidelines and objectives for permissible types of investments, liquidity management, investment maturities, and investment portfolio administration. The Company invests primarily in obligations of agencies of the United States and bank qualified municipal bonds issued by state and local political subdivisions. Although direct obligations of the United States are permitted by our Investment Policy, we currently do not hold any in our portfolio. In order to ensure the safety of principal, the Company does not invest in sub-prime mortgages and typically does not invest in corporate debt or other securities even though they are permitted by our Investment Policy. In addition, we may enter into federal funds transactions with our principal correspondent banks, and depending on our liquidity position, may act as a net seller or purchaser of these funds. The sale of federal funds is effectively a short-term loan from us to another financial institution; while conversely, the purchase of federal funds is effectively a short-term loan from another financial institution to us.

Deposit Services

The principal sources of funds for the Bank are core deposits from the local market areas surrounding the Bank's banking centers, including demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and time deposits. Transaction accounts include interest-bearing and non-interest-bearing accounts, which provide the Bank with a source of fee income, a low-cost source of funds and cross-marketing opportunities. Since 2001, the Bank has realized deposit growth from commercial checking accounts. While these accounts do not earn interest, many of them receive an earnings credit on their average balance to offset the cost of other services provided by the Bank. The Bank introduced its Performance Checking product in 2007, which has proven to be an attractive product in our market area as it pays a higher rate than most checking accounts as long as the customer meets certain signature based debit card transactional requirements and at least one direct deposit or ACH debit within each statement qualification cycle. In February 2011, the Bank introduced the Ultimate Checking product which has also been an attractive product in our market area. The Ultimate Checking product is an interest-bearing demand product that pays a higher tiered rate of interest based on certain signature based debit card transactional requirements, the dollar amount of signature based debit card transactions and the customer's acceptance of e-statements. The Bank realizes non-interest income from the signature based debit card transactions that, when netted against the cost of the rate paid to the customer, results in a very attractive cost of funds for the Bank. The Bank also offers a money market account which is a daily access account that bears a tiered rate of interest and allows for limited check-writing ability. We believe transaction and money market accounts provide a stable source of funding for the Bank and provide us with the potential to cross-sell additional services to these account holders.

Time deposits and savings accounts also provide a relatively stable customer base and source of funding. Due to the nature and behavior of these deposit products, management reviews and analyzes our pricing strategy in comparison not only to competitor rates, but also in comparison to alternative funding sources. In setting deposit rates, management also considers profitability, the matching of term lengths of funding sources with assets, the attractiveness to customers, and rates offered by our competitors. The Bank is a member of the Certificate of Deposit Account Registry Service ("CDARS") and Promontory Interfinancial Network Insured Cash Sweep ("ICS") service which effectively provides depositors with Federal Deposit Insurance Corporation ("FDIC") insurance on amounts in excess of FDIC insurance coverage limits, which is currently $250,000 per insured capacity, of

certificate of deposits through CDARS, and demand and money market deposit accounts through ICS. CDARS and ICS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS and ICS banks to reach full FDIC insurance coverage on the entire deposit account balance.

Trust Services

The Bank began offering trust services in 1996. Until 1999, the Bank's trust services were offered exclusively through the employees of an unaffiliated trust company. The Bank hired a full-time officer in 1999 to develop the Bank's trust business and the trust department now has three full-time officers. Trust services are marketed to both existing Bank customers and new customers. We believe that the ability to offer trust services as a part of our financial services to customers of the Bank presents a significant cross-marketing opportunity. The services currently offered by the Bank's trust department include the administration of personal trusts, investment management agency accounts, self-directed individual retirement accounts, qualified retirement plans, corporate trust accounts and custodial trust accounts. As of December 31, 2013, the Bank's trust department administered 285 accounts, with assets under administration of approximately $155.3 million. Trust services provide the Bank with a source of fee income and additional deposits. For the years ended December 31, 2013, 2012 and 2011, the amount of our gross fee income from trust services was $560,000, $543,000 and $527,000, respectively.

Investment Brokerage Services

In 1999, the Bank began offering investment brokerage services through an unrelated broker-dealer. These services are currently offered at all of our locations. Currently, four individuals responsible for providing these services are joint employees of the Bank and the registered broker-dealer. As of December 31, 2013, the Bank's investment brokerage services had assets under administration of approximately $104.0 million. Investment brokerage services provide a source of fee income for the Bank. For the years ended December 31, 2013, 2012 and 2011, the amount of our fee income generated from investment brokerage services was $500,000, $434,000 and $387,000, respectively.

Competition

The Bank encounters competition primarily in seeking deposits and in obtaining loan customers. The level of competition for deposits in our market area is high. Our principal competitors for deposits are other financial institutions within a few miles of our locations including other banks, savings institutions and credit unions. Competition among these institutions is based primarily on interest rates offered, the quality of service provided, and the convenience and accessibility of products, services and delivery channels. Additional competition for depositors' funds comes from U.S. government securities, private issuers of debt obligations and other providers of investment alternatives for depositors.

The Bank competes in our lending, investment brokerage and trust activities with other financial institutions, such as banks and thrift institutions, credit unions, automobile financing companies, mortgage companies, securities firms, investment companies and other finance companies. Many of our competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally-insured banks and state regulations governing state-chartered banks. As a result, these non-bank competitors have some advantages over the Bank in providing certain products and services. Many of the financial institutions with which we compete are larger and possess greater financial resources, name recognition and market presence.

Trademarks

As of December 31, 2013 the Bank had the following registered trademarks:



BANK OF BLUE VALLEY
DEPOSIT I.T.
INTERNETMORTGAGE.COM

Employees

At December 31, 2013, the Bank had approximately 173 total employees, with 162 full-time employees. The Company and its other subsidiaries do not have any employees. None of the Bank's employees are subject to a collective bargaining agreement. We consider the Bank's relationship with its employees to be excellent.

Directors and Executive Officers of the Registrant

For each of our directors and our executive officers, we have set forth below their ages as of December 31, 2013, and their principal positions.

Name	Age	Positions
Directors		
Robert D. Regnier	65	President, Chief Executive Officer and Chairman of the Board of Directors of Blue Valley Ban Corp.; President, Chief Executive Officer and Chairman of the Board of Directors of the Bank
Donald H. Alexander	75	Director of Blue Valley Ban Corp. and the Bank
James Gegg	62	Director of Blue Valley Ban Corp.
Robert D. Taylor	66	Director of Blue Valley Ban Corp. and Chairman of the Audit Committee of Blue Valley Ban Corp.
Additional Directors of the Bank		
Harvey S. Bodker	78	Director of the Bank
Richard L. Bond	78	Director of the Bank
Suzanne E. Dotson	66	Director of the Bank
Charles H. Hunter	71	Director of the Bank
Executive Officers who are not Directors		
Mark A. Fortino	47	Executive Vice President and Chief Financial Officer of the Bank; Chief Financial Officer of Blue Valley Ban Corp.
Bruce A. Easterly	54	Executive Vice President – Chief Lending Officer of the Bank
Bonnie M. McConnaughy	54	Senior Vice President – Deposit Operations and e-Business Solutions of the Bank

Available Information

Our website address is http://www.bankbv.com. Information included to or referred to on our website is not incorporated by reference in or otherwise a part of this report. Financial information, including our annual reports can be obtained free of charge from our website.

Regulation and Supervision

The Company and its subsidiaries are extensively regulated under both federal and state laws. Laws and regulations to which the Company and the Bank are subject govern, among other things, the scope of business, investments, reserve levels, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. These laws and regulations are intended primarily to protect depositors, not stockholders. Any change in applicable laws or regulations may have a material effect on the Company's business and prospects, and legislative and policy changes may affect the Company's operations. The Company cannot predict the nature or the extent of the effects on its business and earnings that fiscal or monetary policies, economic controls or new federal or state legislation may have in the future.

The following references to statutes and regulations affecting the Company and the Bank are brief summaries only and do not purport to be complete and are qualified in their entirety by reference to the actual statutes and regulations.

Applicable Legislation

The enactment of the legislation described below has affected the banking industry generally and will have an on-going effect on Blue Valley Ban Corp. and its subsidiaries.

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. The Dodd-Frank Act provides for the following, among other provisions:

- Establishes a new oversight regulator, the Financial Stability Oversight Council, to monitor the financial system for systemic risk and to determine which entities pose significant risk, as well as monitor financial regulatory proposals and standards.

- Centralizes responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, with broad powers to enforce consumer protection laws and ensure that markets for consumer financial products and services are fair, transparent and competitive.

- Amends Sarbanes-Oxley Act 404(b) to make permanent the temporary exemption for smaller reporting companies (filers with less than $75 million in market cap – Blue Valley Ban Corp. is a smaller reporting company) to comply with the independent auditor attestation requirement on the company's evaluation of the effectiveness of internal controls over financial reporting.

- Changes the assessment base for FDIC insurance assessments from the amount of total domestic deposits to average consolidated total assets less average tangible equity (Tier 1 Capital) and sets a target size for the Deposit Insurance Fund.

- Permanently increases the FDIC deposit insurance per depositor from $100,000 to $250,000 and provides unlimited deposit coverage for non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012.

- Repeals the federal prohibitions on the payment of interest on demand deposits, thus permitting depository institutions to pay interest on business transactions and other accounts.

- Requires the Federal Reserve to issue rules to limit the amount of any debit card interchange fee that an issuer may receive or charge with respect to electronic debit card transactions to be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Cards issued by banks with less than $10 billion in assets are to be exempt from this requirement, thus Blue Valley Ban Corp. would be exempt from this requirement.

- Implements corporate governance revisions for public companies, including proxy access requirements for stockholders and stockholder non-binding vote on executive compensation and "golden parachute' payments.

- Restricts the ability of banks to apply trust preferred securities toward regulatory capital requirements. However, Tier 1 Capital treatment for trust preferred securities issued before May 19, 2010 is grandfathered for bank holding companies with less than $15 billion in total assets. Blue Valley Ban Corp.'s trust preferred issuances are grandfathered under this provision.

- Mortgage reform and anti-predatory lending provision places new regulations on mortgage originators to ensure a borrower's ability to repay and imposes new disclosure requirements and appraisal reforms.

The specific impact of the Dodd-Frank Act on our current activities and our financial performance will depend on the manner in which the relevant agencies develop and implement required rules and the reaction of market participants to these regulatory developments. Many provisions of the Dodd-Frank Act are subject to rulemaking

and will take effect over several years, thus making it difficult to assess the overall financial impact on us, our customers or the financial industry.

Emergency Economic Stabilization Act of 2008. The Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law on October 3, 2008. This legislation was principally designed to allow the Treasury and other government agencies to take action to restore liquidity and stability to the U.S. financial system. This legislation authorized the Treasury through the Troubled Asset Relief Program to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans and certain other financial assets, including debt and equity securities issued by financial institutions and their holding companies. The Treasury allocated $250 billion to the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"). The CPP was designed to attract broad participation by healthy institutions, to stabilize the financial system, and to increase lending for the benefit of the U.S. economy. As part of the CPP, the Treasury purchased debt and equity securities from participating institutions. Qualified participants could sell an equity interest to the Treasury up to 3% of its risk-weighted assets. These equity instruments constitute Tier 1 Capital for eligible institutions. The Company's Board of Directors approved the Company's participation in the program, and the Company entered into a Securities Purchase Agreement – Standard Terms on December 5, 2008. Pursuant to the agreement, the Company issued and sold to the Treasury 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock, along with a ten year warrant to purchase 111,083 shares of the Company's common stock, for a total cash price of $21.75 million. On October 21, 2013, the Fixed Rate Cumulative Preferred Stock was auctioned by the Treasury for $21.26 million. As a result, the Fixed Rate Cumulative Preferred Stock is now held by third party investors unaffiliated with the U.S. government and except for certain certification and disclosure requirements we are no longer subject to the rules and regulations that were established with the CPP.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") was signed into law on October 26, 2001. This legislation enhances the powers of domestic law enforcement organizations and makes numerous other changes aimed at countering the international terrorist threat to the security of the United States. Title III of the legislation most directly affects the financial services industry. It is intended to enhance the federal government's ability to fight money laundering by monitoring currency transactions and suspicious financial activities. The USA PATRIOT Act has significant implications for depository institutions involved in the transfer of money. Under the USA PATRIOT Act, a financial institution must establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts. Financial institutions must follow regulations adopted by the Treasury to encourage financial institutions, their regulatory authorities, and law enforcement authorities to share information about individuals, entities, and organizations engaged in or suspected of engaging in terrorist acts or money laundering activities. Financial institutions must follow regulations setting forth minimum standards regarding customer identification. These regulations require financial institutions to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintain records of the information used to verify the person's identity, and consult lists of known or suspected terrorists and terrorist organizations provided to the financial institution by government agencies. Every financial institution must establish anti-money laundering programs, including the development of internal policies and procedures, designation of a compliance officer, employee training, and an independent audit function.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act was signed into law on November 12, 1999. This major banking legislation expands the permissible activities of bank holding companies by permitting them to engage in activities, or affiliate with entities that engage in activities, that are "financial in nature." Activities that the Gramm-Leach-Bliley Act expressly deems to be financial in nature include, among other things, securities and insurance underwriting and agency, investment management and merchant banking. The Federal Reserve and the Treasury, in cooperation with one another, determine what additional activities are "financial in nature." With certain exceptions, the Gramm-Leach-Bliley Act similarly expands the authorized activities of subsidiaries of national banks. The provisions of the Gramm-Leach-Bliley Act authorizing the expanded powers became effective March 11, 2000.

Bank holding companies that intend to engage in activities that are "financial in nature" must elect to become "financial holding companies." Financial holding company status is only available to a bank holding company if all of its affiliated depository institutions are "well capitalized" and "well managed," based on applicable banking regulations, and have a Community Reinvestment Act rating of at least "a satisfactory record of meeting community

credit needs." Financial holding companies and banks may continue to engage in activities that are financial in nature only if they continue to satisfy the well capitalized and well managed requirements. Bank holding companies that do not elect to be financial holding companies or that do not qualify for financial holding company status may engage only in non-banking activities deemed "closely related to banking" prior to adoption of the Gramm-Leach-Bliley Act. The Company voluntarily terminated its status as a financial holding company in June 2008 as the Company was no longer engaged in activities pursuant to the Bank Holding Company Act.

The Gramm-Leach-Bliley Act also calls for "functional regulation" of financial services businesses in which functionally regulated subsidiaries of bank holding companies will continue to be regulated by the regulator that ordinarily has supervised their activities. As a result, state insurance regulators will continue to oversee the activities of insurance companies and agencies, and the Securities and Exchange Commission will continue to regulate the activities of broker-dealers and investment advisers, even where the companies or agencies are affiliated with a bank holding company. Federal Reserve authority to examine and adopt rules regarding functionally regulated subsidiaries is limited.

The Gramm-Leach-Bliley Act imposed an "affirmative and continuing" obligation on all financial service providers (not just banks and their affiliates) to safeguard consumer privacy and requires federal and state regulators, including the Federal Reserve and the FDIC, to establish standards to implement this privacy obligation. With certain exceptions, the Gramm-Leach-Bliley Act prohibits banks from disclosing to non-affiliated parties any non-public personal information about customers unless the bank has provided the customer with certain information and the customer has had the opportunity to prohibit the bank from sharing the information with non-affiliates. The new privacy obligations became effective July 1, 2001.

The Gramm-Leach-Bliley Act has been and may continue to be the subject of extensive rule making by federal banking regulators and others.

Basel III Capital Requirements. On July 2, 2013, the Board of Governors of the Federal Reserve System ("Board") approved a final rule to establish a new comprehensive regulatory capital framework for all US banking organizations. On July 9, 2013, the final rule was approved (as an interim final rule) by the Federal Deposit Insurance Corporation ("FDIC"). The Regulatory Capital Framework (Basel III) implements several changes to the US regulatory capital framework required by the Dodd-Frank Act. The new US capital framework imposes higher minimum capital requirements, additional capital buffers above those minimum requirements, a more restrictive definition of capital, and higher risk weights for various enumerated classifications of assets, the combined impact of which effectively results in substantially more demanding capital standards for US banking organizations.

The Basel III final rule establishes a new common equity tier 1 capital ("CET1") requirement, an increase in the tier 1 capital requirement from 4.0% to 6.0% and maintains the current 8.0% total capital requirement. The new CET1 and minimum tier 1 capital requirements are effective January 1, 2015. In addition to these minimal capital ratios, the Basel final rule requires that all banking organizations maintain a "capital conservation buffer" consisting of common equity tier 1 capital ("CET1") in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. Consequently, the capital conservation buffer effectively increases the minimum CET1 capital, tier 1 capital, and total capital requirements for US banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer will be required to limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer is phased in over a 5-year period beginning January 1, 2016.

As required by Dodd-Frank, the Basel III final rule requires that capital instruments such as trust preferred securities and cumulative preferred shares be phased-out of tier 1 capital by January 1, 2016, for banking organizations that had $15 billion or more in total consolidated assets as of December 31, 2009 and permanently grandfathers as tier 1 capital such instruments issued by these smaller entities prior to May 19, 2010 (provided they do not exceed 25 percent of tier 1 capital). Our Subordinated Debentures are grandfathered under this provision.

The Basel III final rule provides banking organizations under $250 billion in total consolidated assets or under $10 billion in foreign exposures with a one-time "opt-out" right to continue excluding Accumulated Other Comprehensive Income from CET1 capital. The election to opt out must be made on the banking organization's first Call Report filed after January 1, 2015.

The Basel III final rule requires that goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities ("DTLs"), be deducted from CET1 capital. Additionally, deferred tax assets ("DTAs") that arise from net operating loss and tax credit carryforwards, net of associated DTLs and valuation allowances, are fully deducted from CET1 capital. However, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, along with mortgage servicing assets and "significant" (defined as greater than 10% of the issued and outstanding common stock of the unconsolidated financial institution) investments in the common stock of unconsolidated "financial institutions" are partially includible in CET1 capital, subject to deductions defined in the final rule.

Based on a preliminary assessment of the impact of Basel III and in consideration of the capital plan for the Company, management of the Company anticipates that the Company and Bank will be in compliance with the Basel III guidelines within the implementation periods.

Bank Holding Company Regulation

The Company is a registered bank holding company subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and such additional information as the Federal Reserve may require.

Investments and Activities. A bank holding company must obtain approval from the Federal Reserve before:

- Acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the bank or bank holding company (unless it already owns or controls the majority of the shares);
- Acquiring all or substantially all of the assets of another bank or bank holding company; or
- Merging or consolidating with another bank holding company.

The Federal Reserve will not approve any acquisition, merger or consolidation that would have a substantially anticompetitive result unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in reviewing acquisitions or mergers.

With certain exceptions, a bank holding company is also prohibited from:

- Acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company; and
- Engaging, directly or indirectly, in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries.

Bank holding companies may, however, engage in businesses found by the Federal Reserve to be "financial in nature," as described above. Finally, subject to certain exceptions, the Bank Holding Company Act, the Change in Bank Control Act, and the Federal Reserve's implementing regulations, require Federal Reserve approval prior to any acquisition of "control" of a bank holding company, such as Blue Valley Ban Corp. In general, a person or company is presumed to have acquired control if it acquires 10% of the outstanding shares of a bank or bank holding company and is conclusively determined to have acquired control if it acquires 25% or more of the outstanding shares of a bank or bank holding company.

Source of Strength. The Federal Reserve expects the Company to act as a source of financial strength and support for the Bank and to take measures to preserve and protect the Bank in situations where additional investments in the Bank may not otherwise be warranted. The Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. As of December 31, 2013, BVBC Capital Trust II and BVBC Capital Trust III are the Company's only active direct subsidiaries that are not banks.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies and banks. If the capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The Federal Reserve's capital guidelines establish a risk-based requirement expressed as a percentage of total risk-weighted assets and a leverage requirement expressed as a percentage of total average assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital (which consists principally of stockholders' equity with adjustments for disallowed deferred tax assets). The leverage requirement consists of a minimum ratio of Tier 1 capital to total average assets of 4%.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions, which is Tier 1 capital less all intangible assets, well above the minimum levels.

Dividends. The Federal Reserve has issued a policy statement concerning the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weakened the bank holding company's financial health, such as by borrowing. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. As a result of an agreement with the Federal Reserve Bank and the Office of the State Banking Commissioner of Kansas, prior regulatory approval is currently required prior to the payment of any dividends by the Company or Bank.

As long as the Fixed Rate Cumulative Preferred Stock is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities are prohibited until all accrued and unpaid dividends are paid on preferred stock, subject to certain limited exceptions. At the request of the Federal Reserve Bank of Kansas City, the Company has deferred the payment of quarterly dividends on the Fixed Rate Cumulative Preferred Stock since May 15, 2009. The Fixed Rate Cumulative Preferred Stock carries a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment, which will cause our quarterly dividend to increase from $271,875 to $493,375. Dividends compound if they accrue and are not paid. Failure by the Company to pay dividends on the Fixed Rate Cumulative Preferred Stock is not an event of default. However, a failure to pay a total of six preferred share dividends, whether or not consecutive, gives the holders of the Fixed Rate Cumulative Preferred Stock the right to elect two directors to the Company's Board of Directors. That right continues until the Company pays all dividends in arrears. As of December 31, 2013, the Company has deferred 19 dividend payments. In 2012, the holder of the Fixed Rate Cumulative Preferred Stock, elected James L. Gegg to serve on the Company's Board of Directors. This board seat was terminated in 2013 upon completion of the auction of our Fixed Rate Cumulative Preferred Stock by the Treasury to private investors, almost all of whom have waived their right to elect directors. In recognition of Mr. Gegg's valuable contributions, the Board of Directors subsequently appointed Mr. Gegg to the Board on a full-time basis.

Bank Regulations

The Bank operates under a Kansas state bank charter and is subject to regulation by the Office of the State Bank Commissioner and the Federal Reserve Bank. The Office of the State Bank Commissioner and the Federal Reserve Bank regulate or monitor all areas of the Bank's operations, including capital requirements, issuance of stock, declaration of dividends, interest rates, deposits, loans, investments, borrowings, record keeping, establishment of branches, acquisitions, mergers, information technology and employee responsibility and conduct. The Office of the State Bank Commissioner places limitations on activities of the Bank, including the issuance of capital notes or debentures and the holding of real estate and personal property, and requires the Bank to maintain a certain ratio of reserves against deposits. The Office of the State Bank Commissioner requires the Bank to file a report annually, in addition to any periodic report requested.

The Board of Directors of the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and related primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank substantially complied with all terms of the written agreement.

As a result of a November 12, 2012 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of the Written Agreement, the Federal Reserve Bank of Kansas City terminated the November 4, 2009 Written Agreement and, effective January 11, 2013, replaced it with a Memorandum of Understanding. The MOU's purpose is to maintain the financial soundness of the Company and the Bank, and provides among other things, the Company and the Bank will continue to work on improvement of asset quality, maintain an adequate allowance for loan losses, maintain adequate capital, improve earnings, and not declare or pay any dividends or increase or guarantee any debt without prior written approval from the Federal Reserve Bank and the OSBC.

Deposit Insurance. The FDIC, through its Deposit Insurance Fund, insures the Bank's deposit accounts up to the applicable limits of the FDIC. The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raised the current standard maximum deposit insurance amount to $250,000. The FDIC bases deposit insurance premiums on each FDIC-insured institution based on the perceived risk each bank presents to its Deposit Insurance Fund. Each institution is assigned to one of the four risk categories based on its capital, supervisory ratings and other factors. In October 2010, the FDIC adopted a new deposit insurance fund restoration plan to ensure the fund reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC at least semi-annually will update its loss and income projections for the deposit insurance fund, and, if needed, will increase or decrease assessment rates, following notice, and recommend rulemaking if required.

In addition to deposit insurance premiums, institutions also pay an assessment based on insured deposits to service debt issued by the Financing Corporation (FICO assessment), a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the fund. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered, insured non-member banks, such as the Bank: (1) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total average assets of 4%; and (2) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. These capital requirements are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions.

Tier 1 capital generally consists of equity capital and non cumulative perpetual preferred stock, adjusted for such items as net unrealized gains (losses) on available-for-sale securities, disallowed deferred tax assets and disallowed servicing assets. Total risk-based capital consists of Tier 1 capital (as defined above) plus allowance and loan losses up to a maximum of 1.25% of risk-weighted assets and certain permanent and maturing capital instruments that do not qualify as Tier 1 capital.

The federal banking regulators also have broad power to take "prompt corrective action" to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends upon whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Under the prompt corrective action rules, an institution is:

- "Well capitalized" if the institution has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

- "Adequately capitalized" if the institution has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater.

- "Undercapitalized" if the institution has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage ratio that is less than 4%.

- "Significantly undercapitalized" if the institution has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3%.

- "Critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

As of December 31, 2013, the Bank had capital in excess of the regulatory requirements for a "well capitalized" institution.

The federal banking regulators must take prompt corrective action with respect to capital deficient institutions. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include:

- Placing limits on asset growth and restrictions on activities, including the establishment of new branches;

- Requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired;

- Restricting transactions with affiliates;

- Restricting the interest rate the institution may pay on deposits;

- Requiring that senior executive officers or directors be dismissed;

- Requiring the institution to divest subsidiaries;

- Prohibiting the payment of principal or interest on subordinated debt; and

- Appointing a receiver for the institution.

Companies controlling an undercapitalized institution are also required to guarantee the subsidiary institution's compliance with the capital restoration plan subject to an aggregate limitation of the lesser of 5% of the institution's assets at the time it received notice that it was undercapitalized or the amount of the capital deficiency when the institution first failed to meet the plan. The Federal Deposit Insurance Act generally requires the appointment of a conservator or receiver within 90 days after an institution becomes critically undercapitalized.

Federal Deposit Insurance Corporation Improvement Act. The Bank, having over $500 million in total assets, is subject to requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA 112). The primary purpose of FDICIA 112 is to provide a framework for early risk identification in financial management through an effective system of internal controls. Annual reporting requirements under FDICIA are as follows: (1) Annual audited financial statements; (2) Management report stating management's responsibility for preparing the institution's annual financial statements, establishing and maintaining an adequate internal control structure and procedures for financial reporting and for complying with laws and regulations, and assessment by management of the institution's compliance with such laws and regulations; and (3) For insured depository institutions with consolidated total assets over $1.0 billion or more, the independent public accountant who audits the institution's financial statements shall examine, attest to, and report separately on the assertion of management concerning the effectiveness of the institution's internal control structure and procedures for financial reporting.

Insider Transactions. The Bank is subject to restrictions on extensions of credit to executive officers, directors, principal stockholders or any related interest of these persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as the terms available for third parties and must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to lending limits and restrictions on overdrafts to these persons.

Community Reinvestment Act Requirements. The Community Reinvestment Act (CRA) of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. In its most recent CRA examination dated August 13, 2012, the Bank received a rating of "Satisfactory."

State Bank Activities. With limited exceptions, FDIC-insured state banks, like the Bank, may not make or retain equity investments of a rate or in an amount that are not permissible for national banks and also may not engage as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

Regulations Governing Extensions of Credit. The Bank is subject to restrictions on extensions of credit to the Company and on investments in the Company's securities and using those securities as collateral for loans. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest and operating expenses. Further, the Bank Holding Company Act and Federal Reserve regulations prohibit a bank holding company and its subsidiaries from engaging in various tie-in arrangements in connection with extensions of credit, leases or sales of property or furnishing of services.

Reserve Requirements. Effective December 27, 2012, the Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts. For net transaction accounts, the first $12.4 million is exempt from reserve requirements. A three percent reserve ratio will be assessed on net transaction accounts over $12.4 million up to and including $79.5 million. A ten percent reserve ratio is assessed on net transaction accounts in excess of $79.5 million (subject to adjustment by the Federal Reserve). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements

Other Regulations

Interest and various other charges collected or contracted for by the Bank are subject to state usury laws and other federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions. The Federal Truth in Lending Act governs disclosures of credit terms to consumer borrowers. The Home Mortgage Disclosure Act of 1975 requires financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves. The Equal Credit Opportunity Act prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit. The Fair and Accurate Credit Transactions Act of 2003 governs the use and provision of information to credit reporting agencies. This act also requires financial institutions to establish reasonable procedures of identifying identity theft. The Fair Debt Collection Act governs the manner in which consumer debts may be collected by collection agencies. The various federal agencies charged with the responsibility of implementing these federal laws have adopted various rules and regulations. The deposit operations of the Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, the Electronic Funds Transfer Act, and Regulation E issued by the Federal Reserve to implement that Act, which govern automatic deposits to and withdrawals from the use of ATMs and other electronic banking services.

Item 1A: Risk Factors

The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company and they are not necessarily presented in order of significance. Additional risks and uncertainties could also adversely affect the Company's business and financial results. If any or a combination of these risks occurs, our business, financial condition or results of operations could be adversely affected and the market price of the Company's stock could decline. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitute forward-looking statements, the risk factors set forth below are cautionary statements identifying important factors that could cause the Company's actual results to differ from those expressed in any forward-looking statements.

Our operations may be adversely affected if we are unable to maintain and increase our deposit base and secure adequate funding.

We fund our banking and lending activities primarily through demand, savings and time deposits and, to a lesser extent, lines of credit, sale/repurchase facilities from various financial institutions, securities sold under agreement to repurchase and FHLBank borrowings. The success of our business depends in part on our ability to maintain and increase our deposit base and our ability to maintain access to other funding sources. Our inability to obtain funding on favorable terms, on a timely basis, or at all, would adversely affect our operations and financial condition.

The loss of our key personnel could adversely affect our operations.

We are a relatively small organization and depend on the services of all of our employees. Our growth and development to date has depended in a large part on a few key employees who have primary responsibility for maintaining personal relationships with our largest customers. The unexpected loss of services of one or more of these key employees could have a material adverse effect on our operations. Our key employees are Robert D. Regnier, Mark A. Fortino, Bruce A. Easterly, and Bonnie M. McConnaughy. Each of these persons is an officer of the Bank. We do not have written employment or non-compete agreements with any of these key employees; however, if employment was terminated, Mr. Regnier would lose 8,930 Blue Valley Ban Corp. Restricted Stock Awards and Mr. Fortino, Mr. Easterly, and Ms. McConnaughy would each lose 1,000 of Blue Valley Ban Corp. Restricted Stock Awards. We carry bank owned life insurance policies on each of these executive officers.

Changes in interest rates may adversely affect our earnings and cost of funds.

Changes in interest rates affect our operating performance and financial condition in diverse ways. A substantial part of our profitability depends on the difference between the rates we receive on loans and investments and the rates we pay for deposits and other sources of funds. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal monetary and fiscal policies, and economic conditions generally. Historically, net interest spreads for many financial institutions have widened and narrowed in response to these and other factors, which are often collectively referred to as "interest rate risk." We try to minimize our exposure to interest rate risk, but are unable to eliminate it. As discussed on page **[52]**, we use an asset/liability modeling system to analyze our current sensitivity to instantaneous and permanent changes in interest rates. The system simulates our asset and liability base and projects future net interest income results under several interest rate assumptions. This allows management to view how changes in interest rates will affect the spread between the yield received on assets and the cost of deposits and borrowed funds. Among other strategies, we attempt to mitigate the risk from increases in interest rates by maintaining a significant level of adjustable rate loans in our portfolio, and attempt to mitigate the risk from declines in interest rates by implementing rate floors for our adjustable rate loan portfolio and managing our level of fixed rate liabilities. As illustrated in the Interest-Rate Sensitivity Analysis on page **[54]**, as of December 31, 2013, approximately 55% of our loan portfolio has variable rates, and approximately 50% of our loan portfolio matures or reprices in 90 days or less. As a result of the number of adjustable rate loans in our portfolio, increases in interest rates will expose us to greater risk of delinquencies and defaults on such loans, which could lead to decreased earnings. In addition, increased interest rates may decrease the number of loans that we originate, which could also lead to decreased earnings.

Because our business is concentrated in the Kansas City MSA, a downturn in the economy of the Kansas City MSA may adversely affect our business.

Our success is dependent to a significant extent upon the general economic conditions in the Kansas City MSA, including Johnson County, Kansas, and, in particular, the conditions for the medium- and small-sized businesses that are the focus of our customer base. Adverse changes in economic conditions in the Kansas City MSA, including Johnson County, Kansas, could impair our ability to collect loans, reduce our growth rate and have a negative effect on our overall financial condition.

If our allowance for loan losses is insufficient to absorb losses in our loan portfolio, it will adversely affect our financial condition and results of operations.

Some borrowers may not repay loans that we make to them. This risk is inherent in the banking business. Like all financial institutions, the Company maintains an allowance for loan losses to absorb probable loan losses in our loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio credit quality, economic and regulatory conditions and unidentified losses inherent in the current loan portfolio. However, we cannot predict loan losses with certainty, and we cannot assure you that our allowance will be sufficient to cover our future loan losses. Loan losses in excess of our reserves would have a material adverse effect on our financial condition and results of operations.

In addition, various regulatory agencies, as an integral part of the examination process, periodically review our loan portfolio. These agencies may require us to add to the allowance for loan losses based on their judgments and interpretations of information available to them at the time of their examinations. If these agencies require us to increase our allowance for loan losses, our earnings will be adversely affected in the period in which the increase occurs.

Our concentration of loans secured by real estate may continue to adversely affect our financial condition and results of operations.

As of December 31, 2013, approximately $145.0 million, or 34.97% of our loan portfolio, represented commercial real estate loans, approximately $44.8 million, or 10.80% represented construction loans, approximately $44.8 million, or 10.79%, of our loan portfolio consisted of residential mortgage loans and approximately $43.2 million, or 10.41% represented home equity loans. A downturn in the real estate market, the deterioration in the value of collateral, and the local and national economic recessions would adversely affect our customers' ability to sell or refinance real estate and repay their loans. In the event we are required to foreclose on a property securing one of our mortgage loans, or otherwise pursue remedies in order to protect our investment, we may be unable to recover enough value from the collateral to prevent a loss.

We may incur significant costs if we foreclose on environmentally contaminated real estate.

If we foreclose on a defaulted real estate loan to recover our investment, we may be subject to environmental liabilities in connection with the underlying real property. It is also possible that hazardous substances or wastes may be discovered on these properties during our ownership or after they are sold to a third party. If they are discovered on a property that we have acquired through foreclosure or otherwise, we may be required to remove those substances and clean up the property. We may have to pay for the entire cost of any removal and clean-up without the contribution of any other third parties. We may also be liable to tenants and other users of neighboring properties. These costs or liabilities may exceed the fair value of the property. In addition, we may find it difficult or impossible to sell the property prior to or following any environmental clean-up.

The Bank is subject to possible future repurchase and indemnification demands on mortgage loans previously sold to investors.

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

If we are not able to compete effectively in the highly competitive banking industry, our business will be adversely affected.

Our business is extremely competitive. Many of our competitors are, or are affiliates of, enterprises that have greater resources, name recognition and market presence than we do. Some of our competitors are not regulated as extensively as we are and, therefore, may have greater flexibility in competing for business. Some of these competitors are subject to similar regulation but have the advantages of established customer bases, higher lending limits, extensive branch networks, numerous ATMs, and more ability to absorb the costs of maintaining technology or other factors.

Blue Valley and the Bank are subject to extensive governmental regulation.

Blue Valley and the Bank are subject to extensive governmental regulation. Blue Valley, as a bank holding company, is regulated primarily by the Federal Reserve Bank. The Bank is a commercial bank chartered by the State of Kansas and regulated by the Federal Reserve, the Federal Deposit Insurance Corporation, and the OSBC. These federal and state bank regulators have the ability, should the situation require, to impose significant regulatory and operational restrictions as well as levy monetary fines and/or penalties upon us and the Bank. Any such restrictions imposed by federal and state bank regulators could affect the profitability of the Blue Valley and the Bank.

The Company and Bank have entered into an agreement with the Federal Reserve Bank of Kansas City, which requires us to dedicate a significant amount of resources to complying with the agreement and may have a material adverse effect on our operations and the value of our securities.

The Board of Directors of the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and related primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank substantially complied with all terms of the written agreement.

As a result of a November 12, 2012 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of the Written Agreement, the Federal Reserve Bank of Kansas City terminated the November 4, 2009 Written Agreement and, effective January 11, 2013, replaced it with the MOU. The MOU's purpose is to maintain the financial soundness of the Company and the Bank, and provides among other things, the Company and the Bank will continue to work on improvement of asset quality, maintain an adequate allowance for loan losses, maintain adequate capital, improve earnings, and not declare or pay any dividends or increase or guarantee any debt without prior written approval from the Federal Reserve Bank and the OSBC.

If the Company and Bank do not comply with the MOU, we could be subject to the assessment of civil money penalties, further regulatory sanctions, or other regulatory enforcement actions.

We are not paying dividends on our common stock and are deferring distributions on our preferred stock, had previously deferred distributions on our subordinated debentures, and are otherwise restricted from paying cash dividends on our common stock. The failure to resume paying dividends and distributions may adversely affect us.

Under the terms of the MOU, prior regulatory approval is currently required before the payment of any dividends. The Company relies on dividends from the Bank to assist in making debt service and dividend payments. There is no assurance that the Company will resume paying dividends on its common stock. Even if the Company resumes paying dividends, future payment of cash dividends on its common stock, if any, will be subject to the prior payment of any unpaid dividends and deferred distributions on the Subordinated Debentures and the Fixed Rate Cumulative Preferred Stock. Under the governing documents of our Subordinated Debentures issued by BVBC Capital Trust II and III, the quarterly payments since April 24, 2009 for BVBC Capital Trust II and since March 31, 2009 for BVBC Capital Trust III had been deferred through December 30, 2013. We had received regulatory approval and utilized the proceeds from the December 23, 2013 initial close of our December 2013 Offering to bring current all previously accrued and unpaid dividends and interest on our Subordinated Debentures issued by BVBC Capital Trust II and III prior to December 31, 2013. Subsequent to December 31, 2013, we received approval for the Bank to pay dividends to the Company to pay amounts needed to pay quarterly dividends due in March and April, 2014 for our Subordinated Debentures.

In addition, at the request of the Federal Reserve Bank of Kansas City, we have deferred the quarterly dividend payment on the Fixed Rate Cumulative Preferred Stock since May 15, 2009. The Fixed Rate Cumulative Preferred Stock carries a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment, which will cause our quarterly dividend to increase from $271,875 to $493,375. Dividends compound if they accrue and are not paid. Failure by us to pay the preferred share dividend is not an event of default and we have accrued for all deferred dividends and compounded interest through December 31, 2013. As of December 31, 2013 and December 31, 2012, we had accrued $5.8 million and $4.5 million, respectively, for dividends and interest on the Fixed Rate Cumulative Preferred Stock.

Confidential customer information transmitted through the Bank's online banking service is vulnerable to security breaches and computer viruses, which could expose the Bank to litigation and adversely affect its reputation and ability to generate deposits.

The Bank provides its customers with the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. The Bank's network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. The Bank may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to mitigate damage caused by security breaches or viruses. To the extent that the Bank's activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing and potential customers to lose confidence in the Bank's systems and could adversely affect its reputation and its ability to retain and/or grow deposits

Item 1B: Unresolved Staff Comments

No items are reportable.

Item 2: Properties

The Bank currently operates five full service banking centers, which includes our principal office located at 11935 Riley in Overland Park, Kansas, and an operations center location. In January 2009, the Company placed the 7900 College Boulevard location up for lease or possible sale. The portions of these premises listed below as subleased are leased to third parties. The following table sets forth the locations of the banking and operations centers, dates opened, mortgage indebtedness, and occupancy:

Location	Year Occupied	Mortgage Indebtedness as of December 31, 2013	Occupancy
Overland Park Banking Center 11935 Riley Overland Park, KS *	1994	None	100%
Olathe Banking Center 1235 E. Santa Fe Olathe, KS **	2001	None	100%
Shawnee Banking Center 5520 Hedge Lane Terrace Shawnee, KS **	2001	None	100%
College Boulevard Office 7900 College Boulevard Overland Park, KS *	2003	None	24% by Bank and common area 65% by Sublessor 11% Marketed for Sublease
Leawood Banking Center 13401 Mission Road Leawood, KS *	2004	None	47% by Bank and common area 50% by Sublessor 3% Marketed for Sublease
Lenexa Banking Center 9500 Lackman Road Lenexa, KS **	2007	None	100%

***** The building is owned by Blue Valley Building Corp.
** The building is owned by the Bank.

Item 3: Legal Proceedings

We are periodically involved in routine litigation incidental to our business. We are not a party to any pending litigation that we believe is likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 4: Mine Safety Disclosures

No items are reportable.

Part II

Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Common Stock

We are a reporting company under the Securities Exchange Act of 1934 (the "1934 Act"), as amended, as a result of a registration statement filed with the Securities and Exchange Commission in December, 2013 for a common stock rights offering that we completed during January 2014. On January 16, 2014, we filed a Form 15 with the Securities and Exchange Commission suspending our reporting obligations under the 1934 Act. Shares of our common stock are quoted on the OTCQB under the trading symbol "BVBC." As of January 31, 2014, there were approximately 174 stockholders of record of our common stock. The following table sets forth the high and low bid prices of the Company's common stock since the first quarter of 2012 based on closing stock price quotations provided by *Yahoo.com*. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2013		2012	
Fiscal Quarter	High	Low	High	Low
First	$ 9.50	$ 4.50	$ 5.50	$ 3.85
Second	7.90	7.25	3.55	3.55
Third	7.55	6.26	4.49	4.00
Fourth	8.00	6.00	4.50	4.50

Dividends

The Company's consolidated net income consists largely of the operations of the Bank; therefore, our ability to pay dividends on our common stock is subject to the receipt of dividends from the Bank. The ability of the Bank to pay dividends to us, and thus our ability to pay dividends to our stockholders, is regulated by federal banking laws. In addition, as we elect to defer dividends on our Preferred Shares or if we elect to defer interest payments on our outstanding junior subordinated debentures, we are prohibited from paying dividends on our common stock during such deferral. As a result of a Memoranda of Understanding (MOU) with the Federal Reserve Bank (for more information see Regulatory Matters section in Management's Discussion and Analysis of Financial Condition and Results of Operations), the Company and Bank have agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. After that agreement is terminated, our Board of Directors anticipates restoration of the ability to declare future dividends, subject to limitations imposed by regulatory capital guidelines and approval, as permitted by the Company's profitability and liquidity. We have not declared or paid a cash dividend to our common stockholders since 2007, and we do not know when we will be able to resume paying cash dividends.

Item 6: Selected Financial Data

The following table presents our consolidated financial data as of and for the five years ended December 31, 2013, and should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is included elsewhere in this Form 10-K. The selected balance sheet and statements of operations data, insofar as they relate to the five years in the five-year period ended December 31, 2013, have been derived from our audited consolidated financial statements.

	As of and for the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except share and per share data)				
Selected Statements of Operations Data					
Interest and dividend income:					
Interest and fees on loans	$ 20,800	$ 22,852	$ 25,277	$ 28,011	$ 33,996
Federal funds sold and other short-term investments	135	193	151	245	144
Available-for-sale securities	1,683	1,097	1,202	1,825	1,943
Dividends on Federal Home Loan Bank and Federal Reserve Bank Stock	239	241	225	222	211
Total interest and dividend income	22,857	24,383	26,855	30,303	36,294
Interest expense:					
Interest-bearing demand deposits	313	700	1,611	2,343	2,589
Savings and money market deposit accounts	275	291	346	438	490
Other time deposits	1,661	2,487	3,755	7,746	10,742
Funds borrowed	3,222	3,714	3,543	3,836	4,166
Total interest expense	5,471	7,192	9,255	14,363	17,987
Net interest income	17,386	17,191	17,600	15,940	18,307
Provision for loan losses	950	1,200	3,300	3,095	21,635
Net interest income (loss) after provision for loan losses	16,436	15,991	14,300	12,845	(3,328)
Non-interest income:					
Loans held for sale fee income	1,456	2,447	2,120	3,506	2,785
NSF charges and service fees	968	980	944	1,062	1,472
Other service charges	2,478	2,472	2,276	2,021	1,778
Realized gains on available-for-sale securities	127	–	–	885	346
Other income	3,443	1,535	984	1,145	1,664
Total non-interest income	8,472	7,434	6,324	8,619	8,045
Non-interest expense:					
Salaries and employee benefits	11,079	10,587	10,955	11,753	12,272
Net occupancy expense	2,620	2,568	2,599	2,756	2,811
Foreclosed assets expense	3,612	2,647	5,219	2,708	3,862
Other operating expense	6,855	7,506	7,851	8,550	8,896
Total non-interest expense	24,166	23,308	26,624	25,767	27,841
Income (loss) before income taxes	742	117	(6,000)	(4,303)	(23,124)
Provision (benefit) for income taxes	(300)	(150)	9,823	(1,561)	(8,514)
Net Income (loss)	1,042	267	15,823	(2,742)	(14,610)
Dividends and accretion on preferred stock	1,104	1,106	1,106	1,105	1,045
Net loss available to common stockholders	$ (62)	$ (839)	$ (16,929)	$ (3,847)	$ (15,655)
Per Share Data					
Basic earnings	$ (0.02)	$ (0.29)	$ (6.03)	$ (1.38)	$ (5.68)
Diluted earnings	(0.02)	(0.29)	(6.03)	(1.38)	(5.68)
Dividends	0.00	0.00	0.00	0.00	0.00
Book value basic (at end of period)	4.73	6.18	6.60	12.66	14.09
Weighted average common shares outstanding:					
Basic	2,930,115	2,855,566	2,806,299	2,773,039	2,754,419
Diluted	2,951,376	2,867,563	2,827,888	2,788,154	2,762,603
Dividend payout ratio	0.00%	0.00%	0.00%	0.00 %	0.00 %

	As of and for the Year Ended December 31,				
	2013	2012	2011	2010	2009
			(In thousands)		
Selected Balance Sheet Data (at end of period):					
Total available-for-sale securities	$ 100,657	$ 77,845	$ 61,790	$ 63,640	$ 72,757
Total mortgage loans held for sale, fair value	1,438	7,621	5,686	8,162	8,752
Total loans	414,795	415,671	438,843	492,454	554,111
Total assets	609,086	657,005	654,452	723,101	773,967
Total deposits	448,368	484,466	490,413	541,218	590,110
Funds borrowed	110,222	122,779	115,806	118,505	118,208
Total stockholders' equity	42,228	39,815	40,455	57,164	60,603
Trust assets under administration	155,315	140,976	129,580	125,702	105,071
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Net interest margin (1)	3.13%	2.92%	2.91%	2.23%	2.43%
Non-interest income to average assets	1.36	1.14	0.93	1.09	0.99
Non-interest expense to average assets	3.87	3.57	3.90	3.26	3.42
Net overhead ratio (2)	2.52	2.43	2.97	2.14	2.40
Efficiency ratio (3)	93.45	94.65	111.29	104.92	105.65
Return on average assets (4)	0.17	0.04	(2.32)	(0.35)	(1.79)
Return on average equity (5)	(0.37)	(4.97)	(51.84)	(10.25)	(33.07)
Asset Quality Ratios:					
Non-performing loans to total loans	1.71%	1.16%	2.58%	6.16%	6.30%
Allowance for possible loan losses to:					
Total loans	2.17	2.18	3.01	2.99	3.61
Non-performing loans	126.55	187.23	116.46	48.53	57.33
Net charge-offs to average total loans	0.25	1.24	1.04	1.61	2.30
Non-performing loans to total assets	1.17	0.74	1.73	4.20	4.51
Non-performing assets to total assets	5.40	5.60	6.20	6.98	7.02
Foreclosed assets held for sale to non-performing assets	78.41	86.85	72.09	39.89	35.77
Texas Ratio (6)	45.81	49.16	52.59	54.91	54.90
Classified asset ratio (7)	64.61	73.69	96.68	107.84	129.10
Balance Sheet Ratios:					
Loans to deposits	92.51%	85.80%	89.48%	90.99%	93.90%
Average interest-earning assets to average interest-bearing liabilities	116.53	118.52	116.17	113.18	115.08
Capital Ratios:					
Total equity to total assets	6.93%	6.06%	6.18%	7.91%	7.83%
Total capital to risk-weighted assets ratio	13.90	12.01	12.08	12.66	12.54
Tier 1 capital to risk-weighted assets ratio	11.96	9.70	9.80	11.39	11.26
Tier 1 capital to average assets ratio	10.07	8.17	8.04	9.04	9.07
Average equity to average assets ratio	6.07	6.07	7.97	7.48	8.47

(1) Net interest income, on a full tax-equivalent basis, divided by average interest-earning assets.
(2) Non-interest expense less non-interest income divided by average total assets.
(3) Non-interest expense divided by the sum of net interest income plus non-interest income.
(4) Net income divided by average total assets.
(5) Net loss available to common stockholders divided by average common equity.
(6) The sum of non-performing assets and loans past due > 90 days divided by tangible equity capital plus the allowance for loan losses (Bank ratio).
(7) Classified assets divided by the sum of Tier 1 Capital plus the allowance for loan losses (Bank ratio)

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following presents management's discussion and analysis of our financial condition and results of operations as of the dates and for the periods indicated. You should read this discussion in conjunction with our "Selected Consolidated Financial Data," our consolidated financial statements and the accompanying notes, and other financial data contained elsewhere in this report.

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, can generally be identified by use of the words "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," or the negative of these terms or other comparable terminology. The Company is unable to predict the actual results of its future plans or strategies with certainty. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing; inability to maintain or increase deposit base and secure adequate funding; a continued deterioration of general economic conditions or the demand for housing in the Company's market areas; deterioration in the demand for mortgage financing; legislative or regulatory changes; regulatory action; continued adverse developments in the Company's loan or investment portfolio; any inability to obtain funding on favorable terms; the Company's non-payment on TARP funds or Trust Preferred Securities; the loss of key personnel; significant increases in competition; potential unfavorable actions from rating agencies; potential unfavorable results of litigation to which the Company may become a party; and the possible dilutive effect of potential acquisitions or expansions. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We operate in a very competitive and rapidly changing environment. New risks emerge from time to time, and it is not possible for us to predict all risk factors. Nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Critical Accounting Policies

Please refer to Note 1 of our consolidated financial statements where we present a listing and discussion of our most significant accounting policies. After a review of these policies, we determined that accounting for the allowance for loan losses and income taxes are deemed critical accounting policies because of the valuation techniques used, and the sensitivity of certain financial statement amounts to the methods, as well as the assumptions and estimates, underlying these policies. Accounting for these critical areas requires subjective and complex judgments that could be subject to revision as new information becomes available.

As presented in Note 1 and Note 3 to the consolidated financial statements, the allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio as of the balance sheet date. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The adequacy of the allowance for loan losses is analyzed monthly based on internal loan reviews and qualitative measurements of our loan portfolio. Management assesses the adequacy of the allowance for loan losses based upon a number of factors including, among others:

- analytical reviews of loan loss experience in relationship to outstanding loans and commitments;
- problem and non-performing loans and other loans presenting credit concerns;
- trends in loan growth, portfolio composition and quality;
- appraisals of the value of collateral; and
- management's judgment with respect to current economic conditions and their impact on the existing loan portfolio.

The Bank computes its allowance for loan losses by assigning specific reserves to impaired loans, plus a general reserve based on loss factors applied to the rest of the loan portfolio. The specific reserve on impaired loans is computed as the amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market value or the fair value of the collateral if the loan is collateral dependent. The general reserve loss factors are determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. The Bank has further refined its risk grading system by developing associated reserve factors for each risk grade.

As discussed in Notes 1 and 12 of the consolidated financial statements, the Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). 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. Deferred income taxes represent the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. 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 tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The 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 the management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company regularly monitors taxing authorities for changes in laws and regulations and their interpretations of the judicial system.

Overview

2012 was a pivotal year for us in terms of operating results and asset quality improvement, and these trends have continued through 2013. We recorded net income of $1.0 million (net loss available to common stockholders of $62,000 after dividends and accretion on preferred stock) compared to net income of $267,000 (net loss available to common stockholders of $839,000 after dividends and accretion on preferred stock) during the prior year period. Our net interest income increased $200,000, or 1.13%, to $17.4 million compared to $17.2 million in the prior year. Additionally, our asset quality has continued to improve, which was a contributing factor for our improved performance in 2013. Non-performing assets (non-accrual loans plus foreclosed assets held for sale) of $32.9 million as of December 31, 2013 were reduced by 10.51% from $36.8 million as of December 31, 2012 as a result of write-downs and sales of foreclosed assets held for sale, improving economic conditions and continued prudent credit administration by management. The improvements in the credit quality of our loan portfolio, in addition to reduction in the amount of loan losses charged off to the allowance for loan losses, precipitated a reduction in the recorded loan loss provision in 2013 to $950,000 compared to a provision of $1.2 million during the previous year. As a result of the improvement in our credit quality during 2013, we recorded negative provisions for loan losses of $1.7 million during the year, however, near the end of January, 2014, based on a review of updated financial information from the borrower and discussions with the borrower, we determined that the credit quality of a $5.0 million commercial loan relationship had deteriorated substantially in the previous period. This precipitated a downgrade to the loans in the relationship and necessitated that we record a $2.65 million provision as of December 31, 2013, resulting in a provision for loan losses of $950,000 for the year ending December 31, 2013. The recorded balance of foreclosed assets for sale declined to $25.8 million at December 31, 2013 from $31.9 million at December 31, 2012. We continue to actively market and manage these properties. For the year ended December 31, 2013, non-interest income increased 13.96% to $8.5 million from $7.4 million for the year ended December 31, 2012, and for the year ended December 31, 2013 non-interest expense increased 3.68% to $24.2 million from $23.3 million for the year ended December 31, 2012. Our loss per share on a diluted basis was $0.02 for the year ending December 31, 2013, an improvement compared to diluted loss per share of $0.29 for the year ended December 31, 2012. Our year to date returns on average assets and average common stockholders' equity for 2013 were 0.17% and negative 0.37%, compared to 0.04% and negative 4.97%, respectively, for the year ended December 31, 2012.

Net interest income for the year ending December 31, 2013 was $17.4 million, a slight increase of $195,000 or 1.13%, compared to $17.2 million for 2012. Despite a decline in total average earning assets of approximately

$30.5 million or 5.16%, this relative stability of our net interest income resulted from the reduction in average balance of time deposits, our reduction in rates on deposits and investment of available liquidity to increase and diversify our investment portfolio. Total interest income declined by approximately $1.5 million or 6.26%. Our yield on interest earning assets, on a fully tax equivalent (FTE) basis, declined slightly, to 4.11% in 2013 compared to 4.14% in 2012. The $30.5 million decline in average earning assets in 2013 compared to 2012 was principally in our loan portfolio and other short-term investments, though some of the decline in these categories was offset by increases in our investment securities portfolio. Total interest expense declined by approximately $1.7 million or 23.61%. Average interest bearing liabilities declined by approximately $17.7 million or 3.55%. The decline in interest expense was a result of the decrease in average interest bearing liabilities plus a decrease in rates paid on deposits and securities sold under agreement to repurchase ("repo accounts"), included in other interest-bearing liabilities, in 2013 compared to 2012. As market rates have declined, we have continued to lower rates on deposit accounts and repo accounts to match the current deposit and repo account rates in our market. In addition, we had account balances from various previous time deposit promotions which, upon maturity, were either redeemed and the funds were withdrawn or were renewed at lower market rates. Recent increases in longer-term market interest rates have not had a material impact on our net interest income due to the repricing characteristics of our interest earning assets and interest-bearing liabilities, and the indices upon which their rates are derived. Future changes in interest rates can impact our operating performance and financial condition in diverse ways. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal monetary and fiscal policies, and economic conditions generally. Our analysis of the impact of changes in interest rates on page **[52]** indicates that, at December 31, 2013, in the event of a sudden and sustained increase in prevailing market rates, our net interest income would be expected to increase. This is a result of the Bank's asset sensitive position and loans repricing at a faster rate in a rising rate environment than our interest-bearing liabilities. In the decreasing rate scenarios, the adjustable rate assets (loans) reprice to lower rates faster than our liabilities, but our fixed-rate liabilities – long-term FHLBank advances and existing time deposits – would not decrease in rate as much as market rates. In addition, fixed rate loans might experience an increase in prepayments, further decreasing yields on earning assets and causing net income to decrease. The Bank has placed floors on its loans over the last several years which would limit the decline in yield earned on the loan portfolio in a declining rate environment.

Analysis of the credit quality of our loan portfolio and other factors used to determine the level of the Allowance for Loan Losses precipitated a provision for loan loss of $950,000 for 2013 compared to a provision for loan losses of $1.2 million in 2012. During 2013, we experienced a decline in the balance of the total loan portfolio as well as a relatively high ratio of net recoveries to loans charged off during the year compared to recent periods. The provision for loan losses recorded in 2012 was primarily related to declines in collateral values of commercial and commercial real estate loans.

Non-interest income increased 13.96% to $8.5 million in 2013 compared to $7.4 million in 2012. The increase in non-interest income resulted from our realization of approximately $1.0 million of income upon payment of the deferred interest due for BVBC Capital Trust III due to a change in assumptions in the calculation for interest due on the securities, an increase of $770,000 in gains realized on the sale of foreclosed assets held for sale and $127,000 of gains realized from the sale of available for sale investment securities, which were offset by a decline of approximately $990,000 or 41.50% in fee income from loans held for sale. Fluctuations in mortgage interest rates during 2013 resulted in a decline in mortgage refinance volume across our industry, which negatively impacted our mortgage operations and resulted in a decline in our loans held for sale fee income in 2013.

Non-interest expense increased 3.68% to $24.1 million in 2013 from $23.3 million in 2012. The increase in non-interest expense was primarily attributed to increases of $965,000 or 36.46%, in foreclosed assets expense, $492,000, or 4.65%, in salaries and employee benefits expenses, partially offset by a decrease of $651,000 in other operating expense. We recorded a provision for losses on foreclosed assets held for sale of $2.1 million in 2013, compared to a provision of $866,000 in 2012. This increase is principally the result of the write-down of the recorded value of a single unique foreclosed asset held for sale. Other expenses related to foreclosed assets held for sale declined $316,000, or 17.75% in 2013. The decline in other operating expense in 2013 was primarily the result of a decline in FDIC premiums and regulatory fees expense, which have primarily resulted from improvements in our asset quality, as well as a decline in professional fees resulting from our decision to discontinue filing reports with the Securities and Exchange Commission as well as improvements in asset quality.

Total assets at December 31, 2013 were $609.1 million, a decrease of $47.9 million, or 7.29%, from $657.0 million at December 31, 2012. Deposits at December 31, 2013 were $448.4 million compared with $484.5 million at December 31, 2012, a decrease of $36.1 million, or 7.45%. Stockholders' equity at December 31, 2013 was $42.2 million compared with $39.8 million at December 31, 2012, an increase of $2.4 million, or 6.06%.

Loans at December 31, 2013 totaled $414.8 million, a decrease of $876,000, or 0.21%, compared to December 31, 2012. The loan to deposit ratio at December 31, 2013 was 92.51% compared to 85.80% at December 31, 2012. Our funding philosophy for loans not held for sale is to primarily increase deposits from retail and commercial deposit sources and secondarily use other borrowing sources as necessary to fund loans within the limits of the Bank's capital base.

Net Interest Income

A primary component of our net income is our net interest income. Net interest income is determined by the spread between the fully tax equivalent (FTE) yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities, as well as the relative amounts of such assets and liabilities. FTE net interest margin is determined by dividing FTE net interest income by average interest-earning assets. The following discussion should be read along with analysis of the "Average Balances, Yields and Rates" table on page 32.

Years ended December 31, 2013 and 2012. FTE net interest income increased to $17.6 million for 2013 from $17.2 million in 2012, an increase of $308,000, or 1.79%.

FTE interest income for 2013 was $23.0 million, a decrease of $1.4 million, or 5.78%, from $24.4 million in 2012. The decrease was a result of a slight overall decline in yields on average earning assets, a decline in the average earning asset volume and a change in the earning asset mix. The overall yield on average earning assets declined slightly by 3 basis points to 4.11% in 2013 compared to 4.14% in 2012. This decline was realized primarily in the yield on loans, which declined 23 basis points. In addition, the average outstanding balance of loans decreased $20.1 million in 2013, or 4.68%, compared to 2012. The average balance of federal funds sold and other short-term investments also decreased $30.0 million, or 36.09% in 2013 compared to 2012. The declines in these earning asset categories were partially offset by an increase in the combined average balance of taxable and non-taxable available for sale investment securities of $19.7 million, or 29.52% in 2013 compared to 2012, as we deployed excess liquidity and diversified our investment portfolio. The decline in the average balance of higher yielding loans in 2013 was a result of loan payoffs, suppressed loan demand due to current economic conditions and competitive factors. The change in the mix of the available for sale securities portfolio enabled the average FTE yield on available-for-sale securities to increase by approximately 40 basis points in 2013 to 2.13% from 1.73%.

Interest expense for 2013 was $5.5 million, a decrease of $1.7 million, or 23.93%, from $7.2 million in 2012. The decline in interest expense resulted from a decrease in the average balance of time deposits and the average rate paid on interest-bearing deposits and repo agreements, included in other interest-bearing liabilities. The average rate on interest bearing deposits declined to 0.64% in 2013 from 0.92% in 2012 and the average rate paid on repo agreements declined to 0.08% in 2013 from 0.23% in 2012. As market rates have declined, we continued to lower our rates on deposit accounts and repo agreements to match the current deposit and repo agreement rates in our market. Further, as a result, we continued to have time deposit account balances from various previous time deposit promotions which, upon maturity, either redeemed and the funds were withdrawn or renewed at lower market rates. Additionally, we restructured $40.0 million of our $62.5 million of FHLBank advances during the fourth quarter of 2013, further reducing overall interest expense on these borrowings.

Years ended December 31, 2012 and 2011. FTE net interest income for 2012 decreased to $17.2 million from $17.6 million in 2011, a decrease of $351,000, or 1.99%.

FTE interest income for 2012 was $24.4 million, a decrease of $2.4 million, or 8.99%, from $26.9 million in 2011. The decrease was a result of an overall decline in yields on average earning assets, a decline in the average earning asset volume and a change in the earning asset mix. The overall yield on average earning assets decreased 29 basis points to 4.14% compared to 4.43% in 2011. This decline was realized primarily in yields on loans and loans held

for sale, with respective declines of 12 basis points and 51 basis points. In addition, the average outstanding balance of loans declined $35.0 million, or 7.54% in 2012 compared to 2011. Partially offsetting the decline in the average balance of loans, the average balance of federal funds sold and other short-term investments increased by $19.5 million, or 30.72% in 2012 compared to 2011. The decline in the average balance of higher yielding loans in 2013 was a result of loan payoffs, suppressed loan demand due to current economic conditions and competitive factors. The average balance for available-for-sale securities was materially unchanged at $66.8 million in 2012 compared to 2011. The yields on taxable available-for-sale securities continued to decline, to an average rate of 1.55% in 2012 from an average rate of 1.80% in 2011. As higher yielding securities matured or were called, the funds from the maturities were reinvested in a lower-yielding interest rate environment. However, we diversified its investment portfolio in 2012 with the purchase of non-taxable investment securities available for sale which earned an average FTE yield of 3.88%. Consequently, the average FTE yield for total investment securities available for sale was 1.73% in 2012, compared to 1.80% in 2011.

Interest expense for 2012 was $7.2 million, a decrease of $2.1 million, or 22.29%, from $9.3 million in 2011. The decline in interest expense resulted from a decrease in the average rate paid on average interest-bearing deposits and a decrease in the average balance of time deposits. The average rate paid on total average interest-bearing deposits decreased to 0.92% for the year ended December 31, 2012, compared to 1.41% in 2011, a decrease of 49 basis points. As market rates declined, we lowered its rates on deposit accounts to match the current deposit rates in our market. Further, as a result, we continued to have time deposit account balances from various previous time deposit promotions which, upon maturity, either redeemed and the funds were withdrawn or renewed at lower market rates.

Average Balance Sheets. The following table sets forth for the periods and as of the dates indicated, information regarding our average balances of assets and liabilities as well as the dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities and the resultant rates or costs. Ratio, yield and rate information are based on average daily balances where available; otherwise, average monthly balances have been used. Non-accrual loans are included in the calculation of average balances for loans for the periods indicated.

AVERAGE BALANCES, YIELDS AND RATES

	Year Ended December 31,								
	2013			2012			2011		
(In thousands)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Assets									
Federal funds sold and other short-term investments	$ 53,167	$ 135	0.25%	$ 83,186	$ 193	0.23%	$ 63,635	$ 151	0.24 %
Available-for-sale securities – taxable	71,339	1,267	1.78	61,710	958	1.55	66,913	1,202	1.80
Available-for-sale securities –non- taxable	15,170	587	3.87	5,084	197	3.88			
Mortgage loans held for sale	3,957	119	3.01	4,107	142	3.47	3,820	152	3.98
Loans, net of unearned discount and fees (1)	409,882	20,681	5.05	430,008	22,710	5.28	465,053	25,125	5.40
Federal Home Loan and Federal Reserve Bank Stock	6,556	239	3.64	6,473	241	3.71	6,377	225	3.53
Total earning assets	560,071	23,028	4.11	590,568	24,441	4.14	605,798	26,855	4.43
Cash and due from banks – non-interest bearing	17,244			17,366			33,724		
Allowance for loan losses	(8,611)			(10,544)			(13,708)		
Premises and equipment, net	15,580			15,742			16,048		
Other assets	39,544			39,832			41,104		
Total assets	$ 623,828			$ 652,965			$ 682,966		
Liabilities and Stockholders' Equity									
Deposits-interest bearing:									
Interest-bearing demand accounts	$ 121,214	$ 313	0.26%	$ 126,500	$ 700	0.55%	$ 133,531	$ 1,611	1.21 %
Savings and money market deposits	108,062	275	0.25	96,176	291	0.30	82,462	346	0.42
Time deposits	123,457	1,661	1.35	156,739	2,487	1.59	188,906	3,755	1.99
Total interest-bearing deposits	352,733	2,249	0.64	379,415	3,478	0.92	404,899	5,712	1.41
Other interest-bearing liabilities	31,661	26	0.08	18,674	44	0.23	17,045	41	0.24
Long-term debt	96,218	3,196	3.32	100,213	3,670	3.66	99,537	3,502	3.52
Total interest-bearing liabilities	480,612	5,471	1.14	498,302	7,192	1.44	521,481	9,255	1.77
Non-interest bearing deposits	98,295			105,226			98,927		
Other liabilities	11,571			9,779			8,151		
Stockholders' equity	38,150			39,657			54,407		
Total liabilities and stockholders' equity	$ 628,628			$ 652,965			$ 682,966		
FTE net interest income/spread		$ 17,557	2.97%		$ 17,249	2.70%		$ 17,600	2.66 %
FTE net interest margin			3.13%			2.92%			2.91 %

(1) Includes average balances and income from loans on non-accrual status.

Analysis of Changes in Net Interest Income Due to Changes in Interest Rates and Volumes. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase or decrease related to changes in balances and changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to:

- changes in rate, reflecting changes in rate multiplied by the prior period volume; and
- changes in volume, reflecting changes in volume multiplied by the current period rate.

CHANGES IN INTEREST INCOME AND EXPENSE VOLUME AND RATE VARIANCES

Year Ended December 31,
(In thousands)

	2013 Compared to 2012			2012 Compared to 2011		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Rate	Change Due to Volume	Total Change
Federal funds sold and other short-term investments	$ 19	$ (77)	$ (58)	$ (3)	$ 45	$ 42
Available-for-sale securities – taxable	138	171	309	(163)	(81)	(244)
Available-for-sale securities – nontaxable	-	390	390	-	197	197
Mortgage loans held for sale	(19)	(5)	(24)	(19)	10	(10)
Loans, net of unearned discount and fees	(1,014)	(1,015)	(2,029)	(564)	(1,851)	(2,415)
Federal Home Loan and Federal Reserve Bank Stock	(5)	4	(1)	11	4	16
Total interest income	(881)	(532)	(1,413)	(738)	(1,676)	(2,414)
Interest-bearing demand accounts	(373)	(14)	(387)	(873)	(38)	(911)
Savings and money market deposits	(46)	30	(16)	(97)	42	(55)
Time deposits	(378)	(448)	(826)	(754)	(514)	(1,268)
Other interest-bearing liabilities	(28)	10	(18)	(1)	4	3
Long-term debt	(342)	(132)	(474)	143	25	168
Total interest expense	(1,167)	(554)	(1,721)	(1,582)	(481)	(2,063)
Net interest income	$ 286	$ 22	$ 308	$ 845	$ (1,196)	$ (351)

Provision for Loan Losses

We make provisions for loan losses in amounts management deems necessary to maintain the allowance for loan losses at an appropriate level. The allowance for loan losses is based upon the analysis of numerous factors, including general economic conditions, analysis of impaired and classified loans, general reserve factors, changes in loan mix, and current and historical charge-offs by loan type. The historical charge off information currently utilized is based on a three year weighted average of net charge offs by loan type with greater weight given to more current data due to the assessed relevance. Our credit administration function performs monthly analyses on the loan portfolio to assess and report on risk levels, delinquencies, internal ranking system and overall credit exposure. Management and the Bank's Board of Directors review the allowance for loan losses monthly, including assessment of the factors listed above. Economic conditions monitored include, but are not limited to: Johnson County, KS and U.S. unemployment rates; trends in home sales; consumer confidence; trends in U.S. Gross Domestic Product and

leading economic indicators; foreclosure rates; commercial real estate vacancy rates; stock market performance; inflation; and interest rates. The allowance for loan losses represents our best estimate of probable losses that have been incurred as of the respective balance sheet dates.

Years ended December 31, 2013 and 2012. Analysis of the credit quality of our loan portfolio and other factors used to determine the level of the Allowance for Loan Losses precipitated a provision for loan loss of $950,000 for 2013 compared to a provision for loan losses of $1.2 million in 2012. During 2013, we experienced a decline in the balance of the total loan portfolio as well as a relatively high ratio of net recoveries to loans charged off during the year compared to recent periods. We charged off loans totaling $1.6 million to the allowance for loan losses and received recoveries totaling $590,000 in 2013, compared to 2012, when we charged off loans totaling $6.1 million to the allowance for loan losses and received recoveries totaling $785,000. The improvements in the credit quality of our loan portfolio, in addition to reduction in the amount of loan losses charged off to the allowance for loan losses, precipitated a reduction in the recorded loan loss provision in 2013 to $950,000 compared to a provision of $1.2 million during the previous year. As a result of the improvement in our credit quality during 2013, we had recorded negative provisions for loan losses of $1.7 million during the year, however, near the end of January, 2014, we determined that the credit quality of a $5.0 million commercial loan relationship had deteriorated substantially in the previous period, which precipitated a downgrade to the loans and necessitated that we record a $2.65 million provision as of December 31, 2013. The provision for loan losses recorded during the year ending December 31, 2012 was primarily related to declines in collateral values of commercial loans. The allowance for loan losses as a percentage of loans was 2.17% at December 31, 2013, compared to 2.18% at December 31, 2012. Management believes they have identified the significant classified and non-performing loans and will continue to exercise prudent efforts to pursue collection of these loans. If real estate and general economic conditions are more adverse than management anticipates and losses increase, we could experience higher than anticipated loan losses in the future.

Years ended December 31, 2012 and 2011. During the year ended December 31, 2012, we recorded a $1.2 million provision for loan losses compared to $3.3 million for the year ended December 31, 2011, a decrease of $2.1 million, or 63.64%. In 2012, we experienced a reduction in non-performing loans by $6.5 million, or 57.29%. During the year ending December 31, 2012, we charged off loans totaling $6.1 million to the allowance for loan losses and received recoveries totaling $785,000, compared to the previous year, when we charged off loans totaling $5.5 million to the allowance for loan losses and received recoveries totaling $672,000. The provision for loan losses recorded in 2012 was primarily related to declines in collateral values of commercial and commercial real estate loans. The allowance for loan losses as a percentage of loans was 2.18% at December 31, 2012, compared to 3.01% in 2011.

Non-interest Income

The following table describes the items of our non-interest income for the periods indicated:

NON-INTEREST INCOME

	Year Ended December 31,		
	2013	**2012**	**2011**
(In thousands)			
Loans held for sale fee income	$ 1,456	$ 2,447	$ 2,120
NSF charges and service fees	968	980	944
Other service charges	2,478	2,472	2,276
Realized gains on available-for-sale securities	127	-	-
Other income	3,443	1,535	984
Total non-interest income	$ 8,472	$ 7,434	$ 6,324

Years ended December 31, 2013 and 2012. Non-interest income increased 13.96% to $8.5 million in 2013 compared to $7.4 million in 2012. The increase in non-interest income resulted from our realization of approximately $1.0 million of income upon payment of the deferred interest due for BVBC Capital Trust III due to a change in assumptions in the calculation for interest due on the securities and an increase of $770,000 in gains

realized on the sale of foreclosed assets held for sale, included in other income, and $127,000 of gains realized from the sale of available for sale investment securities, which were offset by a decline of approximately $990,000, or 41.50%, in loans held for sale fee income. Fluctuations in mortgage interest rates during 2013 resulted in a decline in mortgage refinance volume across our industry, which negatively impacted our mortgage operations and resulted in a decline in our loans held for sale fee income in 2013. Sustainability of the level of loans held for sale fee income is primarily dependent upon economic factors, the interest rate environment and the efficiency and functionality of the secondary market, and secondarily dependent on our ability to adapt to regulatory changes, introduction of new products into the market and alternative delivery channels. NSF charges and service fees income and other service charges income, which includes income from trust services, investment brokerage, merchant bankcard processing and debit card processing, were not materially changed during the year ended December 31, 2013 compared to the prior year period. Future growth of NSF charges and service fee income and other service charge income is primarily dependent on new product development and growth in our customer base and is also subject to the impact of regulatory changes. Securities were sold at a gain during 2013 to better position the available-for-sale securities portfolio in consideration of the current interest rate environment. No securities were sold in 2012.

Years ended December 31, 2012 and 2011. Non-interest income increased $1.1 million from the prior year to $7.4 million for 2012 compared with $6.3 million for 2011, an increase of 17.55%. Loans held for sale fee income increased $327,000, or 15.42%, in 2012 compared to 2011. The volume of closed residential mortgage loans held for sale increased in 2012 to $83.5 million, from $66.0 million in 2011 as a result of the a favorable interest rate environment and stabilizing to slightly improving economic factors. NSF charges and service fees were materially unchanged in 2012 compared to 2011. Other service charge income, which includes income from trust services, investment brokerage, merchant bankcard processing and debit card processing, increased by $196,000, or 8.61% in 2012 compared to 2011. This increase was primarily a result of increased debit & ATM card fee income, due to increased usage, and investment service fee income. Other income increased $551,000, or 56.00%, primarily due to mark to market adjustments on commitments to sell loans and an increase in rental income on foreclosed assets held for sale. The net change in fair value of mortgage loan-related commitments for 2012 was $76,000 compared to a loss of $257,000 in 2011, an increase of $333,000. The fair value on these commitments fluctuates based on the market rates for mortgage loans. Rental income on foreclosed assets held for sale increased $131,000 in 2012 compared to 2011 as a result of the transfer of a loan, secured by a leased property, to foreclosed assets held for sale in 2012.

Non-interest Expense

The following table describes the items of our non-interest expense for the periods indicated.

NON-INTEREST EXPENSE

	Year Ended December 31,		
	2013	**2012**	**2011**
(In thousands)			
Salaries and employee benefits	$ 11,079	$ 10,587	$ 10,955
Net occupancy expense	2,620	2,568	2,599
Foreclosed asset expense	3,612	2,647	5,219
Other operating expense	6,855	7,506	7,851
Total non-interest expenses	$ 24,166	$ 23,308	$ 26,624

Years ended December 31, 2013 and 2012. Non-interest expense increased 3.68% to $24.2 million in 2013 from $23.3 million in 2012. The increase in non-interest expense was primarily attributed to increases of $965,000 or 36.46%, in foreclosed assets expense, $492,000, or 4.65%, in salaries and employee benefits expenses due to merit increases and personnel changes, partially offset by a decrease of $651,000 in other operating expense. We recorded a provision for losses on foreclosed assets held for sale of $2.1 million in 2013, compared to a provision of $866,000 in 2012. This increase is principally the result of the write-down of the recorded value of a single unique foreclosed asset held for sale. Other expenses related to foreclosed assets held for sale, including insurance, appraisals, utilities, real estate property taxes, legal, repairs and maintenance, and associated loss on sale, declined $258,000, or

16.05% in 2013. The decline in other operating expense in 2013 was primarily the result of a decline in FDIC premiums and regulatory fees expense, which have primarily resulted from improvements in our asset quality, as well as a decline in professional fees resulting from our decision to discontinue filing reports with the Securities and Exchange Commission as well as improvements in asset quality.

Years ended December 31, 2012 and 2011. Non-interest expense decreased $3.3 million, or 12.45% to $23.3 million during 2012, compared to $26.6 million in the prior year. The decrease in non-interest expense was attributable to a reduction in foreclosed assets expense by $2.6 million, or 49.28%, compared to 2011. We recorded a provision for losses on foreclosed assets held for sale of $867,000 in 2012, compared to a provision of $3.2 million in 2011, a reduction of $2.3 million or 72.55% in 2012. Other expenses related to foreclosed assets held for sale, including insurance, appraisals, utilities, real estate property taxes, legal, repairs and maintenance, and associated loss on sale, declined $280,000, or 13.59% in 2012. We continue to actively maintain, manage and market these foreclosed properties with the intent to prudently facilitate their sale.

Other factors contributing to the change in non-interest expense in 2012 included a decrease in salaries and employee benefits of $368,000, or 3.36%, resulting from the reduction in the number of employees and reduction in compensation expense related to the vesting of restricted shares. Other operating expenses declined $345,000, or 4.39%, compared to the prior year, due to a reduction in FDIC premiums and regulatory fees. FDIC premiums and regulatory fees decreased resulted primarily from improvements in our asset quality as well as a decline in the Bank's assessment base.

Income Taxes

Years ended December 31, 2013, 2012 and 2011. We recognized an income tax provision of $200,000 and $50,000 for the years ending December 31, 2013 and 2012, respectively, and income tax benefit of $2.8 million during 2011. The provision (benefit) in each year reflects our net income (loss). Our consolidated effective income tax rates, before consideration of the valuation allowance, of 27%, 43% and 46% for the three years ended December 31, 2013, respectively, vary from the statutory rate principally due to the effects of state income taxes and non-taxable income and non-deductible expenses. Due to our losses recorded over the four years ending December 31, 2011 and information available relating to our ability to recognize the deferred tax asset in future near term periods, we assessed the deferred tax asset during that year and recognized a $12.6 million valuation allowance on the deferred tax asset. We recognized a small portion of this valuation allowance, $500,000 and $200,000, in 2013 and 2012, respectively, as a result of our positive earnings. As we continue to recognize profits in the future, we may be able to recognize additional portions of this allowance in future years.

Financial Condition

Our total assets at December 31, 2013 were $609.1 million, a decrease of $47.9 million or 7.29% from $657.0 million at December 31, 2012. Total deposits at December 31, 2013 were $448.4 million, a decrease of $36.1 million or 7.45% from $484.5 million at December 31, 2012. Stockholders' equity increased $2.4 million, or 6.06%, to $42.2 million at December 31, 2013 compared to $39.8 million at December 31, 2012. We held a common stock Rights Offering ("Offering"), and had raised net proceeds of approximately $6.3 million with the December 23, 2013 initial close of the Offering, with a subsequent final closing on January 15, 2014. The purpose of the initial close of the Offering provided funding to bring all previously accrued and unpaid dividends and interest on our Subordinated Debentures, and avoid a default on those Subordinated Debentures at December 31, 2013. The increase to stockholders' equity from the Offering was partially offset by a loss in accumulated other comprehensive income of $4.2 million, resulting from the impact of changes in market interest rates on the unrealized appreciation (depreciation) on available-for-sale securities, net of income taxes.

Investment securities. The primary objectives of our investment portfolio are to secure the safety of principal, to provide adequate liquidity and to provide securities for use in pledging for public funds or repurchase agreements. Income is a secondary consideration. As a result, we generally do not invest in corporate debt, sub-prime mortgages and other higher yielding investments. As of December 31, 2013, the securities in our investment portfolio were

classified as available-for-sale in order to provide management the greatest amount of flexibility in managing the overall interest rate risk of the portfolio as market conditions change over time and to provide us with an additional source of liquidity when necessary as pledging requirements permit.

Total investment securities at December 31, 2013 were $100.7 million, an increase of $22.8 million or 29.30% from $77.8 million at December 31, 2012. The increases to the investment portfolio during 2013 and 2012 occurred as we deployed excess liquidity and diversified our investment portfolio. The Company sold approximately $5.5 million of available for sale investment securities, and realized a net-gain of $127,000 in 2013, to better position the available-for-sale investment securities portfolio in consideration of the current interest rate environment. No securities were sold in 2012. We had $29.9 million and $91.0 million in available-for-sale securities called or mature during the years ended December 31, 2013 and 2012, respectively, and we invested $66.0 million and $107.2 million into purchases of available for sale securities during the respective periods.

The following table presents the composition of our available-for-sale investment portfolio by major category at the dates indicated.

INVESTMENT SECURITIES PORTFOLIO COMPOSITION

	At December 31,		
	2013	**2012**	**2011**
(In thousands)			
U.S. government sponsored agency securities	$ 68,313	$ 63,148	$ 61,171
State and political subdivision securities	19,764	14,074	
U.S. government sponsored agency mortgage-backed securities	7,183	–	–
U.S. small business administration loan pool certificates	4,810	–	–
Equity and other securities	587	623	619
Total	$ 100,657	$ 77,845	$ 61,790

The following table sets forth the maturities, carrying value, and average yields for securities in our investment portfolio at December 31, 2013. Yields are presented on a tax equivalent basis. Expected maturities could differ from contractual maturities due to unscheduled repayments.

MATURITY OF INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities	
	Carrying Value	**Average Yield**	**Carrying Value**	**Average Yield**	**Carrying Value**	**Average Yield**	**Carrying Value**	**Average Yield**	**Carrying Value**	**Average Yield**
(In thousands)										
Available-For-Sale										
U.S. government sponsored agency securities	$ –	%	$ –	%	$ 9,839	2.03 %	$ 58,474	1.89 %	$ 68,313	1.59 %
State and political subdivision securities	–		–		386	2.22	19,378	3.52	19,764	3.33
U.S government sponsored agencies mortgage-backed securities with no defined maturity	–		–		–		–		7,183	1.92
U.S. small business loan pool certificates with no defined maturity	–		–		–		–		4,810	2.27
Equity and other securities with no defined maturity	–		–		–		–		587	2.04
Total available-for-sale	$ –	%	$ –	%	$ 10,225	2.04 %	$ 77,852	2.30 %	$ 100,657	2.07 %

Loans Held for Sale. Mortgage loans held for sale at December 31, 2013 were $1.4 million, a $6.2 million, or 81.13%, decrease from $7.6 million at December 31, 2012. Total mortgage loans held for sale at December 31, 2012 increased $1.9 million, or 34.03%, compared to $5.7 million at December 31, 2011. We have elected to carry loans held for sale at fair value. The decline in both the recorded balance as of December 31, 2013 as well as in the volume of residential mortgage loans held for sale originated during the year ended December 31, 2013 compared to the comparable prior year period were the result of fluctuations in mortgage interest rates during 2013 and the resultant decline in mortgage refinance volume across our industry, which negatively impacted our mortgage operations in 2013. Our principal funding source for mortgage loans held for sale are our core deposits. Core deposits are demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than $250,000 (excluding brokered deposits).

Loans. Our loan portfolio is a key source of income, and since our inception, has been a principal component of our revenue. Our loan portfolio reflects an emphasis on commercial, commercial real estate, construction, home equity and residential real estate lending. We also offer a variety of consumer loans and infrequently engage in lease financing. We emphasize commercial lending to professionals, businesses and their owners. Commercial loans and loans secured by commercial real estate accounted for 63.97%, 62.24% and 64.83% of our total loans at December 31, 2013, 2012 and 2011, respectively.

Total loans were $414.8 million at December 31, 2013, a decrease of $876,000, or 0.21% from $415.7 million at December 31, 2012. During 2013, we were able to stabilize the previous declining trend in loans as a result of our increased origination volume due to our business development efforts and a more stable/improving economic conditions as well as a reduction in the foreclosure and transfer to foreclosed property held for sale. Approximately $4.4 million of loans were transferred to foreclosed property during the year ended December 31, 2013 compared to $10.5 million in 2012.

The loan to deposit ratio increased to 92.51% as of December 31, 2013 compared to 85.80% at December 31, 2012 and 89.48% at December 31, 2011.

The following table sets forth the composition of the Company's loan portfolio by loan type as of the dates indicated. The amounts in the following table are shown net of discounts and other deductions.

	As of December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(In thousands)									
Commercial	$ 120,283	29.00 %	$ 115,520	27.79 %	$ 130,398	29.71 %	$ 144,181	29.28 %	$ 142,528	25.72 %
Commercial real estate	145,045	34.97	143,198	34.45	154,109	35.12	169,253	34.37	167,581	30.24
Construction	44,806	10.80	46,515	11.19	48,438	11.04	64,641	13.13	113,077	20.41
Home equity	43,169	10.41	49,529	11.92	59,750	13.61	64,289	13.05	66,586	12.02
Residential real estate	44,771	10.79	43,584	10.49	37,882	8.63	36,903	7.49	45,014	8.12
Lease financing	7,836	1.89	10,054	2.42	2,268	0.52	5,530	1.12	11,259	2.03
Consumer	8,885	2.14	7,271	1.74	5,998	1.37	7,657	1.56	8,066	1.46
Total loans and leases	414,795	100.00 %	415,671	100.00 %	438,843	100.00 %	492,454	100.00 %	554,111	100.00 %
Less allowance for loan losses	8,992		9,057		13,189		14,731		20,000	
Loans, net	$ 405,803		$ 406,614		$ 425,654		$ 477,723		$ 534,111	

Collateral and Concentration. Management monitors concentrations of loans to individuals or businesses involved in a single industry over 25% of Tier 1 Capital and concentrations in excess of 10% of total loans. At December 31, 2013, 2012 and 2011, substantially all of our loans were collateralized with real estate, inventory, accounts receivable and/or other assets or were guaranteed by the Small Business Administration. Loans to individuals and businesses in the construction industry totaled $44.8 million, or 10.80%, of total loans, as of December 31, 2013. Of the $44.8 million, approximately $29.6 million were for new single and multi-family housing construction and $15.4 million were for land subdivisions. The builder and developer loan portfolio has been a consistent component of our loan portfolio over our history. However, new loan origination volume in this industry has slowed as a result of the

decline in the real estate and construction industry. The Bank's lending limit under federal law to any one borrower was $19.0 million at December 31, 2013. The Bank's largest single borrower, net of participations, at December 31, 2013 had outstanding loans of $14.0 million.

The following table presents the aggregate maturities of loans in each major category of our loan portfolio as of December 31, 2013, excluding the allowance for loan and valuation losses. Additionally, the table presents the dollar amount of all loans due more than one year after December 31, 2013 which have predetermined interest rates (fixed) or adjustable interest rates (variable). Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments or the timing of loan sales.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

	As of December 31, 2013					
					More than One Year	
	Less than one year	One to five years	Over five years	Total	Fixed	Variable
(In thousands)						
Commercial	$ 57,501	$ 47,012	$ 15,770	$ 120,283	$ 31,679	$ 31,103
Commercial Real Estate.....	34,680	81,226	29,139	145,045	82,475	27,890
Construction.....	31,389	13,417	—	44,806	1,470	11,947

Non-accrual loans included in the more than one year category for fixed rate loans were $1.6 million and for variable rate loans were $16,000.

Non-performing Assets

Non-performing assets consist primarily of loans past due 90 days or more, non-accrual loans and foreclosed real estate. Generally loans are placed on non-accrual status at 90 days past due and interest accrued to date is considered a loss, unless the loan is well-secured and in the process of collection. Interest accrued but not collected for the loans placed on non-accrual or charged off is reversed against interest income. The interest on these loans is generally accounted for on a cash basis or a cost recovery method, meaning interest is not recognized until the past due balance has been collected. Loans may be returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table sets forth our non-performing assets as of the dates indicated:

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
(In thousands)					
Commercial and all other loans:					
Past due 90 days or more	$ -	$ -	$ -	$ -	$ -
Non-accrual	5,194	1,131	2,029	2,896	1,327
Commercial real estate loans:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	-	1,537	1,340	10,088	13,267
Construction loans:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	660	910	3,058	10,417	11,205
Home equity loans:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	232	175	2,676	1,211	344
Residential real estate loans:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	1,020	1,084	2,204	5,553	8,404
Lease financing:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	-	-	18	140	335
Consumer loans:					
Past due 90 days or more	-	-	-	-	-
Non-accrual	-	-	-	52	6
Debt securities and other assets (excluding other real estate owned and other repossessed assets):					
Past due 90 days or more	-	-	-	-	-
Non-accrual	-	-	-	-	-
Total non-performing loans	7,106	4,837	11,325	30,357	34,888
Foreclosed assets held for sale	25,801	31,936	29,246	20,144	19,434
Total non-performing assets	$ 32,907	$ 36,773	$ 40,571	$ 50,501	$ 54,322
Total non-performing loans to total loans	1.71 %	1.16 %	2.58 %	6.16 %	6.30 %
Total non-performing loans to total assets	1.16	0.74	1.73	4.20	4.51
Allowance for loan losses to non-performing loans	89.26	187.22	116.46	48.53	57.33
Non-performing assets to loans and foreclosed assets held for sale	7.47	8.22	8.67	9.85	9.47

NON-PERFORMING ASSETS

Non-performing assets. Non-performing assets declined to $32.9 million at December 31, 2013 from $36.8 million at December 31, 2012, a reduction of $3.9 million, or 10.51%. Non-performing assets at December 31, 2012 declined $3.8 million, or 9.36% from $40.6 million at December 31, 2011. Non-performing loans increased by $2.3 million, or 46.91% to $7.1 million as of December 31, 2013, compared to $4.8 million at December 31, 2012. Non-performing loans as of December 31, 2012 declined $6.5 million, or 57.29% from $11.3 million at December 31, 2011. The balance of non-performing loans as of December 31, 2013 was significantly impacted by our determination, near the end of January, 2014, that the credit quality of a $5.0 million commercial loan relationship had deteriorated substantially in the previous period, which precipitated a downgrade to the loans in the relationship to nonaccrual status. Prior to the recognition of the downgrade to this commercial loan relationship, we had experienced significant declines to non-performing loans which were attributable to loan pay-offs and pay-downs, upgrades, charge-offs and foreclosures. Future weakening in real estate and general economic conditions could cause us to experience an increase in non-performing loans and foreclosed assets held for sale. We closely monitor

non-performing credit relationships and our philosophy has been to value non-performing loans at their estimated collectible value and prudently manage these situations. Foreclosed assets held for sale were $25.8 million at December 31, 2013 compared to $31.9 million as of December 31, 2012 and $29.2 million at December 31, 2011. During the years ending December 31, 2013 and December 31, 2012, we sold $6.0 million and $5.9 million in foreclosed assets, respectively, and transferred $4.4 million and $10.5 million in loans to foreclosed assets, respectively. We are actively marketing these properties and working to reduce the balance of foreclosed assets held for sale.

As illustrated in the table above, during the most recent five years ending December 31, 2013, our ratio of non-performing loans to total loans has declined from its highest year-end point during that period, 6.30% as of December 31, 2009 to 1.71% as of December 31, 2013, primarily due to our focus on improving credit quality. As of December 31, 2013 and December 31, 2012, our ratio of allowance for loan losses to non-performing loans was 89.26%, compared to 187.23% at December 31, 2012. We continue to aggressively manage defaults in the loan portfolio. Management intends to continue to vigorously pursue collection of all charged-off loans.

The following table sets forth the amount of gross interest income that would have been recorded had the non-accrual loans in the Non-Performing Asset table on page 42 been current and accruing during the period and the amount of interest income on the non-performing loans included in net income for the year ended December 31, 2013.

	Year Ended December 31, 2013
(In thousands)	
Gross interest income (since date of non-accrual) if the loans had been current and accruing interest	$ 396
Interest income reversed at time loans placed on non-accrual	32
Cash interest received during the period	72

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that we will not receive all scheduled payments of principal and interest due according to the contractual terms of the loan agreement. This includes loans that are delinquent 90 days or more, non-accrual loans, troubled debt restructurings and certain other loans identified by management. For loans placed on non-accrual, accrual of interest is discontinued and interest accrued but not collected is reversed against interest income at the time the loans are delinquent 90 days or when management believes that full collection of principal and interest under the original loan contract is unlikely to occur. Interest on non-accrual loans is generally accounted for on a cash basis or cost recovery method, meaning interest is not recognized until the full past due principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired loans totaled $10.9 million at December 31, 2013, $20.2 million at December 31, 2012, and $31.2 million at December 31, 2011, with related allowances for loan losses of $3.8 million, $3.1 million, and $6.6 million, respectively.

Included in certain loan categories in the impaired loans are loans designated as troubled debt restructurings and classified as impaired. At December 31, 2013, the Company had $271,000 of commercial loans, $423,000 of commercial real estate loans, $3.0 million of construction loans and $154,000 of lease financing loans that were modified in troubled debt restructurings and classified as impaired.

Total interest income of $534,000, $1.0 million and $1.2 million was recognized on average impaired loans of $14.1 million, $26.4 million and $39.4 million for 2013, 2012 and 2011, respectively. Included in this total is cash basis interest income of $72,000, $199,000 and $270,000 recognized on non-accrual impaired loans during 2013, 2012 and 2011, respectively.

Allowance For Loan Losses. The adequacy of the allowance is analyzed monthly based on internal loan reviews and quality measurements of our loan portfolio. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged-off, net of recoveries. The Bank computes its allowance by assigning specific reserves to impaired loans, and then applies general reserves, based on loss factors, to the remainder of the loan portfolio. The loss factors are determined based on such items as management's evaluation of risk in the portfolio, current and projected local and national economic conditions, loan growth, loan trends and classifications and historical loss experience. Specific allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of the loan collateral.

The following table sets forth information regarding changes in our allowance for loan and valuation losses for the periods indicated.

SUMMARY OF LOAN LOSS EXPERIENCE AND RELATED INFORMATION

	As of and for the Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
(In thousands)					
Balance at beginning of period	$ 9,057	$ 13,189	$ 14,731	$ 20,000	$ 12,368
Loans charged-off:					
Commercial loans	141	2,030	582	1,364	4,713
Commercial real estate loans	672	2,239	1,218	2,985	374
Construction loans	250	882	2,352	3,662	7,716
Home equity loans		417	725	387	653
Residential real estate loans	523	540	637	660	1,480
Lease financing	-	9	-	43	109
Consumer loans	18	-	-	7	58
Total loans charged-off	1,604	6,117	5,514	9,108	15,103
Recoveries:					
Commercial loans	319	179	282	390	259
Commercial real estate loans	27	20	91	171	123
Construction loans	171	481	60	123	592
Home equity loans	30	58	48	17	31
Residential real estate loans	40	43	157	11	72
Lease financing			25	14	21
Consumer loans	2	4	9	18	2
Total recoveries	589	785	672	744	1,100
Net loans charged-off	1,014	5,332	4,842	8,364	14,003
Allowance of acquired company	-	-	-	-	-
Provision for loan losses	950	1,200	3,300	3,095	21,635
Balance at end of period	$ 8,992	$ 9,057	$ 13,189	$ 14,731	$ 20,000
Loans outstanding:					
Average	$ 406,112	$ 430,008	$ 465,053	$ 518,010	$ 608,080
End of period	414,795	415,617	438,843	492,454	554,111
Ratio of allowance for loan losses to loans outstanding:					
Average	2.21 %	2.11 %	2.84 %	2.84 %	3.29 %
End of period	2.17	2.18	3.01	2.99	3.61
Ratio of net charge-offs to:					
Average loans	0.25	1.24	1.04	1.61	2.30
End of period loans	0.24	1.28	1.10	1.70	2.53

The following table shows our allocation of the allowance for loan losses by specific category at the end of each of the periods shown. Management attempts to allocate specific portions of the allowance for loan losses based on specifically identifiable problem loans. However, the allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,									
	2013		2012		2011		2010		2009	
(In thousands)	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance
Commercial	$ 4,556	50.66 %	$ 2,097	23.15 %	$ 2,987	22.65 %	$ 3,339	22.67 %	$ 3,630	18.15 %
Commercial real estate	1,870	20.79	3,582	39.55	3,772	28.60	3,974	26.98	7,253	36.27
Construction	1,426	15.86	1,543	17.04	2,721	20.63	4,579	31.08	5,929	29.65
Home equity	484	5.39	634	7.00	1,338	10.14	1,262	8.57	1,061	5.31
Residential real estate	618	6.88	1,138	12.56	2,312	17.53	1,488	10.10	1,737	8.69
Lease financing	20	0.22	46	0.51	30	0.23	38	0.26	238	1.19
Consumer	18	0.20	17	0.19	29	0.22	51	0.35	152	0.76
Total	$ 8,992	100.00 %	$ 9,057	100.00 %	$ 13,189	100.00 %	$ 14,731	100.00 %	$ 20,000	100.00 %

Deposits. Deposits are the primary funding source for the Company. Deposits declined by $36.1 million, or 7.45%, to $448.4 million during the year ended December 31, 2013, compared to $484.5 million as of December 31, 2012. The decline in deposits was primarily caused by a decline in time deposits of $21.1 million, or 15.59% and a decrease in demand deposits of $12.7 million, or 11.20%. The decline in demand deposits was attributed to the December 31, 2012 expiration of FDIC Transaction Account Guarantee ("TAG") program. Since 2008, the TAG program has provided unlimited deposit insurance on non-interest bearing transaction accounts for participating institutions. The Bank was a TAG participant. In contemplation of the December 31, 2012 expiration of the TAG program, we proactively engaged our large demand deposit customers to assist them in determining prudent alternate deposit / investment products. Consequently, we were able to substantially offset the reduction in demand deposit balances caused by the expiration of the TAG program with customer reallocation of funds into the Bank's Certificate of Deposit Account Registry Service ("CDARS") and Promontory Interfinancial Network Insured Cash Sweep ("ICS") programs as well as the Bank's securities sold under agreement to repurchase ("repo") accounts, included in other interest-bearing liabilities. For the year ended December 31, 2013 customer placed in the CDARS and ICS deposit programs increased by approximately $5.4 million and repo balances increased by $10.7 million. The decline in time deposits was primarily attributable to the decline in market interest rates. As market rates have declined, we have continued to lower our rates on time deposit accounts to match the current time deposit rates in our market. As a result of lower time deposit rates, as time deposits have matured some accounts have not renewed; rather, have redeemed and the funds were withdrawn.

The Bank introduced its Performance and Ultimate Checking products in 2007 and 2011, respectively. The Performance and Ultimate Checking products continue to be attractive to our market as these products pay a higher rate of interest to the customer as long as the customer meets certain signature based debit card transactional requirements and at least one ACH or direct deposit within each statement qualification cycle. The Bank realizes non-interest income from the signature based debit card transactions, when netted against the cost of the rate paid to the customer, results in a very attractive cost of funds for the Bank. The Performance and Ultimate Checking products have enabled us to focus more on transaction based deposits that develop stronger customer relationships with the Bank versus time deposits that are principally rate driven. We believe this will yield a lower cost funding base over time and positively impact the value of our franchise. We have traditionally offered market-competitive rates on our deposit products and believe they provide us with a more attractive source of funds than other alternative sources such as Federal Home Loan Bank borrowings, due to our ability to cross-sell additional services to these account holders. In addition, we continue to analyze alternative strategies to grow our deposits including opening additional banking centers in markets management considers underserved, offering new products, and

obtaining brokered deposits as allowed by our Funds Management policy and as deemed prudent by management and our Board of Directors.

The following table sets forth the balances for each major category of our deposit accounts and the weighted-average interest rates paid for interest-bearing deposits for the periods indicated:

DEPOSITS

	Year Ended December 31,								
	2013			2012			2011		
	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent Of Deposits	Weighted Average Rate
(In thousands)									
Demand	$ 100,965	22.52 %	— %	$ 113,698	23.47 %	— %	$ 100,842	20.56 %	— %
Savings	17,229	3.84	0.10	16,243	3.35	0.11	13,814	2.82	0.19
Interest-bearing demand	126,802	28.28	0.26	127,597	26.34	0.55	133,702	27.26	1.21
Money Market	89,304	19.92	0.28	91,792	18.95	0.34	75,468	15.39	0.46
Time Deposits	114,068	25.44	1.36	135,136	27.89	1.59	166,587	33.97	1.99
Total deposits	$ 448,368	100.00 %		$ 484,466	100.00 %		$ 490,413	100.00 %	

The following table sets forth the amount of our time deposits that are $100,000 and greater by time remaining until maturity as of December 31, 2013:

AMOUNTS AND MATURITIES OF TIME DEPOSITS OF $100,000 OR MORE

	As of December 31, 2013	
	Amount	Weighted Average Rate
(In thousands)		
Three months or less	$ 15,659	0.25 %
Over three months through six months	5,462	0.84
Over six months through twelve months	16,062	1.01
Over twelve months	27,578	2.26
Total	$ 64,761	1.34 %

Liquidity and Capital Resources

Liquidity. Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of marketable assets, such as residential mortgage loans or a portfolio of SBA loans. Other sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of core deposits, liquid assets and accessibility to the money and capital markets. The funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization. Core deposits, defined as demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than $250,000 (excluding brokered deposits), were 90.17% of our total deposits at December 31, 2013 and 91.57% of total deposits at December 31, 2012.

The Bank is a member of the Certificate of Deposit Account Registry Service ("CDARS") and Promontory Interfinancial Network Insured Cash Sweep ("ICS") service which effectively provides depositors with Federal Deposit Insurance Corporation (FDIC) insurance on amounts in excess of FDIC insurance standard coverage limits,

which is currently $250,000 per insured capacity, on certificates of deposit through CDARS, and demand and money market deposit accounts through ICS. CDARS and ICS allow the Bank to break large deposits into smaller amounts and place them in a network of other CDARS and ICS banks to reach full FDIC insurance coverage on the entire deposit account balance. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS and ICS programs are Bank customer relationships that management views as core deposits. If CDARS deposits under $250,000 placed in the CDARS program are added back, our core deposit ratio would have been 94.17% at December 31, 2013 and 95.10% at December 31, 2012. Generally, our funding strategy is to fund loan growth with core deposits and utilize alternative sources of funds such as advances/borrowings from the FHLBank of Topeka ("FHLB"), as well as the brokered CD market to provide for additional liquidity needs, as necessary, and take advantage of opportunities for lower costs.

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member institutions. The Bank, as a member of the FHLBank of Topeka, is required to acquire and hold shares of capital stock in the FHLBank of Topeka in an amount of 0.2% of our total assets as of December 31 of the preceding calendar year to meet the asset based stock requirement and 5.00% of our total outstanding FHLB advances to meet the activity-based stock requirement. The Bank is currently in compliance with this requirement, with a $4.3 million investment in stock of the FHLBank of Topeka as of December 31, 2013. The Bank had $62.5 million and $82.5 million in outstanding long-term advances from the FHLBank of Topeka at December 31, 2013 and 2012. If needed, FHLB borrowings are also used to fund originations of mortgage loans held for sale. Advance availability with the FHLB fluctuates depending on levels of available collateral and is determined daily with regards to mortgage loans held for sale and quarterly with regards to overall availability. Advances are made subject to the discretion of the FHLBank of Topeka. At December 31, 2013, approximately $23.3 million was available but unused as the Bank was operating with cash and cash equivalents of approximately $40.5 million.

We use other forms of short-term debt for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit. The Bank has a line of credit with the Federal Reserve Bank of Kansas City. The availability on the line of credit fluctuates depending on the level of available collateral, which includes commercial and commercial real estate loans. Availability on the line of credit at December 31, 2013 was $37.2 million. Advances are made subject to the discretion of the Federal Reserve Bank of Kansas City.

We also use the brokered deposit market as a source of liquidity. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS and ICS programs are Bank customer relationships that management views as core deposits. As of December 31, 2013, the Bank had approximately $32.6 million in brokered deposits of which $22.5 million were customer funds placed in the CDARS and/or ICS Demand programs, compared to $27.2 million in brokered deposits of which $17.1 million were customer funds placed in the CDARS program at December 31, 2012. The increase in brokered deposits during 2013 was primarily the result of the new ICS Demand accounts of $4.5 million. As discussed previously, the December 31, 2012 expiration of the TAG program caused a reduction in demand deposit balances, which precipitated customer reallocation of funds placed into the CDARS and/or ICS Demand programs.

As a result of the Memorandum of Understanding ("MOU") entered into effective January 11, 2013 with the Federal Reserve Bank and the Office of the State Banking Commissioner of Kansas, approval is currently required prior to the payment of any dividends. The Company relies on dividends from the Bank to assist in making debt service and dividend payments. Under the governing documents of our Subordinated Debentures issued by BVBC Capital Trust II and III, the quarterly payments since April 24, 2009 for BVBC Capital Trust II and since March 31, 2009 for BVBC Capital Trust III had been deferred through December 30, 2013. We had received regulatory approval and utilized the proceeds from the December 23, 2013 initial close of our Offering to bring current all previously accrued and unpaid dividends and interest on our Subordinated Debentures issued by BVBC Capital Trust II and III prior to December 31, 2013. Subsequent to December 31, 2013, we received approval for the Bank to pay dividends to the Company to pay amounts needed to pay quarterly dividends due in March and April, 2014 for our Subordinated Debentures.

In addition, at the request of the Federal Reserve Bank of Kansas City, we have deferred the quarterly dividend payment on the Fixed Rate Cumulative Preferred Stock since May 15, 2009. The Fixed Rate Cumulative Preferred Stock carries a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment, which will cause our quarterly dividend to increase from $271,875 to $493,375. Dividends compound if they accrue and are not paid. Failure by us to pay the preferred share dividend is not an event of default and we have accrued for all deferred dividends and compounded interest through December 31, 2013. As of December 31, 2013 and December 31, 2012, we had accrued $5.8 million and $4.5 million, respectively, for dividends and interest on the Fixed Rate Cumulative Preferred Stock.

The following table sets forth a summary of our short-term debt during and as of the end of each period indicated.

SHORT-TERM DEBT

(In thousands)	Amount outstanding at period end	Average amount outstanding during the period (1)	Maximum Outstanding At any Month end	Weighted average interest rate during the period	Weighted Average interest rate at period end
At or for the year ended December 31, 2013:					
Federal Home Loan Bank borrowings	$ –	$ 3	$ –	0.19 %	– %
Federal Funds purchased	–	3	–	0.56	–
Federal Reserve Bank line of credit	–	–	–	–	–
Repurchase agreements and other interest bearing liabilities	32,335	34,021	40,944	0.08	0.08
Total	$ 32,335	$ 34,027		0.08	0.08
At or for the year ended December 31, 2012:					
Federal Home Loan Bank borrowings	$ –	$ 3	$ –	0.23 %	– %
Federal Funds purchased	–	3	–	1.05	–
Federal Reserve Bank line of credit	–	–	–	–	–
Repurchase agreements and other interest bearing liabilities	21,668	18,669	22,071	0.23	0.23
Total	$ 21,668	$ 18,675		0.23	0.23
At or for the year ended December 31, 2011:					
Federal Home Loan Bank borrowings	$ –	$ 2	$ –	0.24 %	– %
Federal Funds purchased	–	2	–	1.14	–
Federal Reserve Bank line of credit	–	–	–	–	–
Repurchase agreements and other interest bearing liabilities	15,372	17,041	20,111	0.24	0.24
Total	$ 15,372	$ 17,045		0.24	0.24

(1) Calculations are based on daily averages where available and monthly averages otherwise.

Capital Resources. At December 31, 2013, our total stockholders' equity was $42.2 million, and our equity to asset ratio was 6.93%. At December 31, 2012, our total stockholders' equity was $39.8 million, and our equity to asset ratio was 6.06%.

For regulatory capital measurement purposes, our risk-based capital has three primary components. The first is common equity of our common stockholders, the second is composed of the balance our Subordinated Debentures issued by BVBC Capital Trust II and III and the third is preferred equity of our Fixed Rate Cumulative Preferred Stock. The Federal Reserve Board's risk-based guidelines establish a risk-adjusted ratio, relating capital to different categories of assets and off-balance sheet exposures, such as loan commitments and standby letters of credit. These guidelines place a strong emphasis on tangible stockholder's equity as the core element of the capital base, with appropriate recognition of other components of capital. At December 31, 2013, our Tier 1 capital ratio was 10.07%, while our total risk-based capital ratio was 13.90%, both of which exceed the capital minimums established in the risk-based capital requirements.

Our risk-based capital ratios at December 31, 2013, 2012 and 2011 are presented below.

RISK-BASED CAPITAL

	December 31,		
	2013	**2012**	**2011**
(In thousands)			
Tier 1 capital			
Stockholders' equity	$ 42,228	$ 39,815	$ 40,455
Intangible assets	(36)	(179)	(321)
Unrealized (appreciation) depreciation on available-for-sale securities and derivative instruments	4,131	(43)	(123)
Disallowed deferred tax asset	–	–	–
Trust preferred securities (1)	15,453	13,257	13,444
Total Tier 1 capital	61,776	52,850	53,455
Tier 2 capital			
Qualifying allowance for loan losses	6,479	6,898	6,897
Trust preferred securities (1)	3,547	5,743	5,556
Qualifying unrealized gains on available-for-sale equity securities	–	9	9
Total Tier 2 capital	10,026	12,590	12,462
Total risk-based capital	$ 71,802	$ 65,440	$ 65,917
Risk weighted assets	$ 516,506	$ 544,847	545,494
Ratios at end of period			
Total capital to risk-weighted assets ratio	13.90 %	12.01 %	12.08 %
Tier 1 capital to risk-weighted assets ratio	11.96 %	9.70 %	9.80 %
Tier 1 capital to average assets ratio (leverage ratio)	10.07 %	8.10 %	8.04 %
Minimum guidelines			
Total capital to risk-weighted assets ratio	8.00 %	8.00 %	8.00 %
Tier 1 capital to risk-weighted assets ratio	4.00 %	4.00 %	4.00 %
Tier 1 capital to average assets ratio (leverage ratio)	4.00 %	4.00 %	4.00 %

(1) Federal Reserve guidelines for calculation of Tier 1 capital limits the amount of cumulative trust preferred securities which can be included in Tier 1 capital to 25% of total Tier 1 capital (Tier 1 capital before reduction of intangibles). Only $15.4 million, $13.3 million and $13.4 million of the trust preferred securities balance of $19.0 million has been included in Tier 1 capital as of December 31, 2013, 2012 and 2011, respectively.

On December 5, 2008, we issued and sold to the United States Department of Treasury 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock, along with a ten year warrant to purchase 111,083 shares of our common stock for $29.37 per share, for a total cash price of $21.75 million. The Transaction occurred pursuant to the Treasury's CPP which was designed to attract broad participation by institutions, to stabilize the financial system and to increase lending for the benefit of the U.S. economy. Participation in the CPP subjected us to certain restrictions, including limits on our ability to pay dividends and repurchase our capital stock, limitations on executive compensation, and increased oversight by the Treasury, regulators and Congress. On October 21, 2013, the Fixed Rate Cumulative Preferred Stock was auctioned by the Treasury for $21.26 million. As a result, the Fixed Rate Cumulative Preferred Stock is now held by third party investors unaffiliated with the U.S. government and except for certain certification and disclosure requirements we are no longer subject to the rules and regulations that were established with the CPP. The Fixed Rate Cumulative Preferred Stock carries a 5% per year cumulative

preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment, which will cause our quarterly dividend to increase from $271,875 to $493,375. Dividends compound if they accrue and are not paid. During the time that the Fixed Rate Cumulative Preferred Stock is outstanding, a number of restrictions apply to us, including, among others:

- The Fixed Rate Cumulative Preferred Stock has a senior rank. The Company is not free to issue other preferred stock that is senior to the Fixed Rate Cumulative Preferred Stock.
- If the Company were to pay a cash dividend in the future, any such dividend would have to be discontinued if a dividend were missed on the Fixed Rate Cumulative Preferred Stock. Thereafter, dividends on common stock could be resumed only if all preferred share dividends in arrears were paid. Similar restrictions apply to the Company's ability to repurchase common stock if dividends on the Fixed Rate Cumulative Preferred Stock are missed.
- Failure to pay dividends on the Fixed Rate Cumulative Preferred Stock is not an event of default.

The Warrant is exercisable immediately and expires in ten years, or December 5, 2018, from its original issue. The Warrant has anti-dilution protections and certain other protections for the holder, as well as potential registration rights upon written request from the Treasury. If requested by the Treasury, the Warrant (and the underlying common stock) may need to be listed on a national securities exchange. The Treasury has agreed not to exercise voting rights with respect to common shares it may acquire upon exercise of the Warrant.

Capital ratios increased in 2013, compared to 2012, as a result of the Company's 2013 rights offering to holders of record of its common stock as of the close of business on October 29, 2013. The Company received gross cash proceeds of approximately $6.7 million in the December 23, 2013 first closing of the Offering, and approximately $1.3 million in the January 15, 2014 final closing of the rights offering, with a total of approximately 1.6 million shares of common stock being issued. Approximately $2.9 million of the net proceeds of the initial close of the rights offering were used to pay current the deferred interest on our Subordinated Debentures, with the remaining proceeds retained by us for future general corporate purposes.

Contractual Obligations

Our known contractual obligations outstanding as of December 31, 2013 are presented below.

		Payments due by Period				
	Total	**Amortization**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
(In thousands)						
Time deposit obligations	$ 114,068	$ –	$ 65,399	$ 38,864	$ 8,835	$ 970
Long-term debt obligations	82,088	–	7,500	15,000	40,000	19,588
Less: Deferred prepayment penalty on modification of Federal Home Loan Bank advances	(4,201)	(4,201)	–	–	–	–
Total obligations	$ 181,955	$ (4,201)	$ 72,899	$ 53,864	$ 48,835	$ 20,558

Inflation

The consolidated financial statements and related data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our

performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as inflation. Additional discussion of the impact of interest rate changes is included in Item 7A: Qualitative and Quantitative Disclosure About Market Risk. In addition, we disclose the estimated fair value of our financial instruments in Note 20 to the consolidated financial statements included in this report.

Off-Balance Sheet Arrangements

The Company enters into off-balance sheet arrangements in the ordinary course of business. Our off-balance sheet arrangements generally are limited to commitments to extend credit, mortgage loans in the process of origination and forward commitments to sell those mortgage loans, letters of credit and lines of credit.

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 payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2013, the Company had outstanding commitments to originate loans aggregating approximately $6.4 million. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to $216,000 at December 31, 2013. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates. Mortgage loans held for sale amounted to $1.4 million at December 31, 2013.

Forward commitments to sell mortgage loans are obligations to sell loans at a specified price on or before a specified future date. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Company is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Related forward commitments to sell mortgage loans were approximately $1.4 million at December 31, 2013.

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 $995,000 at December 31, 2013, with terms ranging from one year to three years.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2013, the Company has unused lines of credit to borrowers aggregating approximately $165.2 million for commercial, commercial real estate, and construction lines and $31.9 for open-end consumer lines of credit.

Regulatory Matters

The Board of Directors of the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by

the regulators in May 2009, and related primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank substantially complied with all terms of the written agreement.

As a result of a November 12, 2012 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of the Written Agreement, the Federal Reserve Bank of Kansas City terminated the November 4, 2009 Written Agreement and, effective January 11, 2013, replaced it with a Memorandum of Understanding. The MOU's purpose is to maintain the financial soundness of the Company and the Bank, and provides among other things, the Company and the Bank will continue to work on improvement of asset quality, maintain an adequate allowance for loan losses, maintain adequate capital, improve earnings, and not declare or pay any dividends or increase or guarantee any debt without prior written approval from the Federal Reserve Bank and the OSBC.

Item 7A: Qualitative and Quantitative Disclosure About Market Risk

As a continuing part of our financial strategy, we attempt to manage the impact of fluctuations in market interest rates on our net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Our funds management policy and interest rate risk policy are established by our Bank Board of Directors and monitored by our Asset/Liability Management Committee. Our funds management policy sets standards within which we are expected to operate. These standards include guidelines for liquidity, loan limits as a percentage of funding sources, exposure to correspondent banks and brokers, and reliance on non-core deposits. Our funds management policy also establishes the reporting requirements to our Bank Board of Directors. Our interest rate risk policy includes guidelines for exposure and monitoring interest rate risk fluctuations and establishes reporting requirements to the Bank's Board of Directors. Our investment policy complements our funds management policy by establishing criteria by which we may purchase securities. These criteria include approved types of securities, brokerage sources, terms of investment, quality standards, and diversification. Our liquidity contingency funding plan is established by our Bank Board of Directors and monitored by our Asset/Liability Management Committee. Our liquidity contingency funding plan sets guidelines for the Company to monitor and control its liquidity position as well as ensure appropriate contingency liquidity plans are actively in place and consistent with the current and forecasted needs of the Company.

We use an asset/liability modeling system to analyze the Company's current sensitivity to instantaneous and permanent changes in interest rates. The system simulates the Company's asset and liability base and projects future net interest income results under several interest rate assumptions. This allows management to view how changes in interest rates will affect the spread between the yield received on assets and the cost of deposits and borrowed funds.

The asset/liability modeling system is also used to analyze the net economic value of equity at risk under instantaneous shifts in interest rates. The "net economic value of equity at risk" is defined as the market value of assets less the market value of liabilities plus/minus the market value of any off-balance sheet positions. By effectively looking at the present value of all future cash flows on or off the balance sheet, the net economic value of equity modeling takes a longer-term view of interest rate risk.

We strive to maintain a position such that current changes in interest rates will not affect net interest income or the economic value of equity by more than 5%, per 50 basis points. The following table sets forth the estimated percentage change in the Bank's net interest income over the next twelve month period and net economic value of equity at risk at December 31, 2013 based on the indicated instantaneous and permanent changes in interest rates.

Changes in Interest Rates	Net Interest Income (next 12 months)	Net Economic Value of Equity at Risk
400 basis point rise	14.95%	(16.88)%
300 basis point rise	9.86%	(13.22)%
200 basis point rise	4.31%	(9.73)%
100 basis point rise	1.42%	(5.30)%
Base Rate Scenario	-	-
100 basis point decline	(1.89)%	3.81%

The above table indicates that, at December 31, 2013, in the event of a sudden and sustained increase in prevailing market rates, our net interest income would be expected to increase. This is a result of the Bank's asset sensitive position and loans repricing at a higher rate in a rising rate environment. Another consideration in a rising interest rate scenario is the impact of mortgage financing, which could decline, leading to lower loans held for sale fee income, though the impact is difficult to quantify or project. In the decreasing rate scenarios, the adjustable rate assets (loans) reprice to lower rates faster than our liabilities, but our liabilities – long-term FHLB advances and existing time deposits – would not decrease in rate as much as market rates. In addition, fixed rate loans might experience an increase in prepayments, further decreasing yields on earning assets and causing net income to

decrease. The Bank has placed floors on its loans over the last several years which has and would limit the decline in yield earned on the loan portfolio in a declining rate environment.

The above table also indicates that, at December 31, 2013, in the event of a sudden increase in prevailing market rates, the economic value of our equity would decline. Under a rising rate environment, our estimated market value of assets could decrease due to fixed rate loans and investments with rates lower than market rates. These assets are likely to remain until maturity in this rate environment. Given our current asset/liability position, a 100 basis point decline in interest rates will result in a slight increase. This increase in the economic value of our equity is projected due to our increase in fixed rate assets. As the demand and volume of loans has declined, we have increased investments in fixed rate securities. In addition, our estimated market value of loans could increase in a falling rate environment as a result of fixed rate loans, net of possible prepayments. However, the estimated market value increase in fixed rate loans is offset by time deposits unable to reprice to lower rates immediately and fixed-rate callable FHLB advances. The likelihood of advances being called in a decreasing rate environment is diminished resulting in the advances existing until final maturity, which has the effect of lowering the economic value of equity.

The following table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2013, based on the information and assumptions set forth below.

INTEREST-RATE SENSITIVITY ANALYSIS

	Expected Maturity or Repricing Date (In thousands)						
	0-90 Days	91-365 Days	1 year	1 to 2 years	2 to 5 years	Thereafter	Total
Interest-Earning Assets:							
Fixed Rate Loans	$ 16,465	$ 19,078	$ 35,543	$ 36,049	$ 83,114	$ 32,866	$ 187,572
Average Interest Rate	7.17 %	5.52 %	6.29 %	5.13 %	4.81 %	5.07 %	5.20 %
Variable Rate Loans	192,504	11,193	203,697	4,869	17,899	2,196	228,661
Average Interest Rate	14.61 %	3.62 %	4.55 %	5.12 %	4.97 %	4.28 %	4.60 %
Fixed Rate Investments	-	-				100,070	100,070
Average Interest Rate	- %	- %	%	%	%	2.37 %	2.37 %
Variable Rate Investments	587	-	587	-	-	-	587
Average Interest Rate	2.34 %	- %	2.34 %	- %	- %	- %	2.34 %
Interest Bearing Deposits	14,071	-	14,071	-	-	-	14,071
Average Interest Rate	0.24 %	- %	0.24 %	- %	- %	- %	0.24 %
Federal Funds Sold	-	-	-	-	-	-	-
Average Interest Rate	- %	- %	- %	- %	- %	- %	- %
Total interest-earning assets	$ 223,627	$ 30,271	$ 253,898	$ 40,918	$ 101,013	$ 135,132	$ 530,961
Interest-Bearing Liabilities:							
Interest-bearing demand	$ 126,514	$ -	$ 126,514	$ -	$ -	$ -	$ 126,514
Average Interest Rate	0.36 %	- %	0.36 %	- %	- %	- %	0.36 %
Savings and money market	106,821	-	106,821	-	-	-	106,821
Average Interest Rate	0.25 %	- %	0.25 %	- %	- %	- %	0.25 %
Time deposits	25,015	40,384	65,399	27,428	20,271	970	114,068
Average Interest Rate	0.35 %	0.93 %	0.71 %	1.76 %	2.13 %	1.64 %	1.22 %
Funds borrowed	88,072	7,296	95,368	14,854	-	-	110,222
Average Interest Rate	0.73 %	1.57 %	0.80 %	1.86 %	- %	- %	0.94 %
Total interest-bearing liabilities	$ 346,422	$ 47,680	$ 394,102	$ 42,282	$ 20,271	$ 970	$ 457,625
Cumulative:							
Rate sensitive assets (RSA)	$ 223,627	$ 30,271	$ 253,898	$ 294,816	$ 395,829	$ 530,961	$ 530,961
Rate sensitive liabilities (RSL)	346,422	47,680	394,102	436,384	456,655	457,625	457,625
GAP (GAP = RSA – RSL)	(122,796)	(17,408)	(140,204)	(141,368)	(60,826)	73,336	73,336
RSA/RSL	64,55 %	63.49 %	64.42 %	67.56 %	86.68 %	116.03 %	
RSA/Total assets	36.75	4.98	41.77	48.49	65.09	87.26	
RSL/Total assets	56.94	7.84	64.77	71.72	75.05	75.21	
GAP/Total assets	(20.18)	(2.86)	(23.04)	(23.23)	(9.96)	12.05	
GAP/RSA	(54.91)	(57.51)	(55.22)	(47.92)	(15.31)	13.81	

Certain assumptions contained in the above table may affect the presentation. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities lag behind changes in market interest rates.

Disclosures about fair values of financial instruments, which reflect changes in market prices and rates, can be found in Note 20 to the consolidated financial statements included in this report.

Item 8: Financial Statements and Supplementary Data

See index to Blue Valley Ban Corp. financial statements on page F-1.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No items are reportable.

Item 9A: Controls and Procedures

Management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2013. Based upon the evaluation, management concluded that the Company's disclosure controls and procedures are effective to ensure that all material information requiring disclosure in this annual report was made known to them in a timely manner.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. During the fourth fiscal quarter, the Company made no significant changes in internal controls over financial reporting or in other factors that could materially affect or be reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting:

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report to this annual report.

Item 9B: Other Information

No items are reportable.

Part III

Item 10: Directors, Executive Officers and Corporate Governance

Information regarding the Bank's directors and executive officers is included in Part I of this Form 10-K under the caption "Directors and Executive Officers of the Registrant."

The Company has adopted a code of conduct that applies to our principal executive, financial, and accounting officers. A copy of our code of conduct can be obtained free of charge by contacting us directly at:

Investor Relations
11935 Riley
Overland Park, KS 66213
913.338.1000
Email: ir@bankbv.com

We intend to disclose any amendments to, or waivers from, any provision of our code of conduct that applies to our chief executive officer, chief financial officer, or chief accounting officer by posting such information to our website located at www.BankBV.com.

Item 11: Executive Compensation

Participation in the U.S. Treasury's Capital Purchase Plan

The Emergency Economic Stabilization Act of 2008 was signed into law on October 3, 2008. This legislation was principally designed to allow the Treasury and other government agencies to take action to restore liquidity and stability to the U.S. financial system. This legislation authorized the Treasury, through the Troubled Asset Relief Program, to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans and certain other financial assets, including debt and equity securities issued by financial institutions and their holding companies. The Treasury allocated $250 billion to the TARP CPP. Our Board of Directors approved the Company's participation in the program and the Company entered into a Securities Purchase Agreement – Standard Terms on December 5, 2008. Pursuant to the agreement, the Company issued and sold to the Treasury 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock, along with a ten year warrant to purchase 111,083 shares of the Company's common stock, for a total cash price of $21.75 million. On October 21, 2013, the Fixed Rate Cumulative Preferred Stock was auctioned by the Treasury for $21.26 million. As a result, the Fixed Rate Cumulative Preferred Stock is now held by third party investors unaffiliated with the U.S. government. In connection with participation in the CPP, the Company is required under The American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, to fulfill its final corporate governance obligations with respect to the portion of the current fiscal year in which Treasury held the Fixed Rate Cumulative Preferred Stock.

These additional obligations include: (i) semi-annual meetings of the Compensation Committee of our Board of Directors (comprised entirely of independent directors) to discuss and evaluate employee compensation plans in light of an assessment of any risk posed from such compensation plans; and (ii) written certifications by the chief executive officer and chief financial officer with respect to compliance with the compensation requirements of the American Recover and Reinvestment Act of 2009 (the "ARRA"). The ARRA amended EESA to require a financial institution's chief executive officer and chief financial officer to annually certify that the financial institution is in compliance with the compensation requirements of the ARRA during the period in which Treasury held the Fixed Rate Cumulative Preferred Stock. The Compensation Committee has complied in all material respects with the EESA, the ARRA and all applicable rules and regulations, as the same are promulgated or amended from time to time with respect to the period in which Treasury held the Fixed Rate Cumulative Preferred Stock.

The Summary Compensation Table below provides summary information concerning compensation that was paid or accrued for fiscal years ended December 31, 2013 and 2012 to or on behalf of the Chief Executive Officer, Chief Financial Officer, and the other executive officers whose salary and bonus for 2013 exceeded $100,000. Executive

officers do not have employment contracts assuring continued employment, but do have oral agreements for "at will" employment as discussed below.

SUMMARY COMPENSATION TABLE

Name and Principal Positions	Year	Salary	Bonus (1)	Stock Awards (2)	All Other Comp (3)	Total
Robert D. Regnier	2013	$ 272,700	$ 20,489	$ 50,000	$ 13,502	$ 376,691
President, Chief Executive Officer and Chairman of the Board of Directors of the Company; President, Chief Executive Officer and Director of the Bank	2012	$ 272,700	$ -	$ 37,953	$ 12,254	$ 322,907
Mark A. Fortino	2013	$ 187,500	$ 43,125	$ -	$ 9,504	$ 240,129
Chief Financial Officer of the Company; Executive Vice President and Chief Financial Officer of the Bank	2012	$ 177,500	$ 10,872	$ 8,500	$ 8,052	$ 204,924
Bruce A. Easterly	2013	$ 182,500	$ 42,775	$ -	$ 9,409	$ 234,684
Executive Vice President – Chief Lending Officer of the Bank	2012	$ 172,500	$ 10,566	$ 8,500	$ 8,240	$ 199,806
Bonnie M. McConnaughy	2013	$ 127,500	$ 18,925	$ -	$ 6,090	$ 152,515
Senior Vice President – Deposit Operations and e-Business Solutions of the Bank	2012	$ 117,500	$ 7,197	$ 8,500	$ 5,405	$ 138,602

(1) Discretionary Bonus plus Service Awards.

(2) In December 2013, the Company's Board of Directors approved restricted stock awards for 2013 performance with a grant date of December 18, 2013. Mr. Regnier was awarded 10,000 shares of stock, which vested immediately, subject to restrictions on transferability imposed by ARRA as a result of the Company's participation in the CPP. Management's estimate of the fair value of our common stock at grant date, December 19, 2012, was $5.00 per share based upon the analysis completed for the most recent rights offering on December 6, 2013. In December 2012, the Company's Board of Directors approved restricted stock awards for 2012 performance with a grant date of December 19, 2012. Mr. Regnier was awarded 8,930 shares of stock, which vested on October 21, 2013, subject to restriction on transferability imposed by ARRA as a result of the Company's participation in the CPP. Mr. Fortino, Mr. Easterly, and Ms. McConnaughy were each awarded 2,000 shares of restricted stock which vested immediately. Management's estimate of the fair value of our common stock at grant date, December 19, 2012 was $4.25 per share based upon the last trade which occurred on December 19, 2012. In December 2011, the Company's Board of Directors approved restricted stock awards for 2011 performance with a grant date of December 21, 2011. Mr. Regnier was awarded 8,000 shares of stock, which vested on October 21, 2013, subject to restrictions on transferability imposed by ARRA as a result of the Company's participation in the CPP. Mr. Fortino, Mr. Easterly, and Ms. McConnaughy were each awarded 1,000 shares of restricted stock which vest on December 21. 2014. Management's estimate of the fair value of our common stock at grant date, December 21, 2011, was $4.30 per share based upon the last trade which occurred on December 21, 2011.

(3) All Other Compensation is comprised of the following amounts:

Name		401(k) Match	Profit Sharing Contribution	Premiums for Group Term Life Insurance	Cash Dividends Paid on Stock Awards (a)	Perquisites(b)	Total All Other Compensation
Robert D. Regnier	2013	$ 10,200	$ -	$ 3,302	$ -	$ -	$ 13,500
	2012	$ 10,000	$ -	$ 1,650	$ -	$ 604	$ 12,254
Mark A. Fortino	2013	$ 9,235	$ -	$ 269	$ -	$ -	$ 9,504
	2012	$ 7,812	$ -	$ 240	$ -	$ -	$ 8,052
Bruce A. Easterly	2013	$ 9,011	$ -	$ 398	$ -	$ -	$ 9,409
	2012	$ 7,636	$ -	$ 354	$ -	$ -	$ 7,990
Bonnie M. McConnaughy	2013	$ 5,857	$ -	$ 233	$ -	$ -	$ 6,090
	2012	$ 5,209	$ -	$ 196	$ -	$ -	$ 5,405

(a) No cash dividends were paid in 2013 and 2012.

(b) Perquisites for Mr. Regnier include personal use of the Company car.

Employment Agreements

Mr. Regnier, Mr. Fortino, Mr. Easterly, and Ms. McConnaughy each has an oral agreement with the Company for "at will" employment which includes the following:

1. Entitlement to a salary, adjusted annually by the Company's Board of Directors;
2. Eligibility for incentive awards under the 1998 Equity Incentive Plan, as determined by the Company's Board of Directors;
3. Entitlement to medical and disability insurance and other forms of health, life and other insurance and/or benefits provided by the Company to its employees; and
4. Entitlement to paid time off and all other employee benefits provided by the Company to its employees, except for Mr. Regnier who is not eligible to participate in the Employee Stock Purchase Plan due to his greater than 5% ownership in the Company.

We have change of control agreements in place with four of our key employees, Mr. Regnier, Mr. Fortino, Mr. Easterly and Ms. McConnaughy. Our Board of Directors determined it was in the best interests of the Company and its stockholders to ensure that the Company and its affiliates will have the continued dedication of these executives, notwithstanding the possibility, threat or occurrence of a change in control. Our Board believes it is imperative to diminish the inevitable distraction of the executive by virtue of the personal uncertainties and risks created by a potential change in control and to provide the executive with a compensation package competitive with those of other corporations who may seek to employ our executives. Upon a change of control, the Company shall pay the above named executives a lump sum cash amount equal to the product of: (i) two, and (ii) the sum of Executive's annual base salary at the rate in effect immediately preceding the change in control plus the cash bonus paid to

Executive with respect to the most recently closed fiscal year of the Company. If full payment is made to Executive as described above, for a period of one year following such payment, Executive covenants and agrees not to attempt to directly or indirectly recruit, solicit, or induce, anyone employed with the Company or any of its affiliates and agrees not to or attempt to solicit, divert, or take away any clients, customers, or accounts, or prospective clients, customers, or accounts of the Company or any of its affiliates.

Equity Compensation Plan Information

The following table provides information as of December 31, 2013, with respect to the compensation plan under which common shares of Blue Valley Ban Corp. are authorized for issuance to certain officers in exchange for services provided. The 1998 Equity Incentive Plan, amended and restated as of May 14, 2003, provides for the issuance of equity-based awards, including restricted stock and stock options. There were no unexercised options outstanding as of December 31, 2013.

Plan Category	Number of Common Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Common Shares Remaining Available for Future Issuance Under Equity Plans (Excluding Shares Reflected in Column (a))
Equity compensation plans approved by stockholders	-	-	58,541
Equity compensation plans not approved by stockholders	-	-	-
Total	$ -	$ -	$ 58,541

2012 Director Compensation

The Company pays each of our non-employee directors in common stock of the Company a fee of $1,500 for each meeting of our Board of Directors, and a fee of $350 for each committee meeting that each attends. An employee of the Company or a subsidiary receives no additional compensation for serving as a director. Directors are also eligible to receive stock options, restricted stock and deferred share unit grants under our 1998 Equity Incentive Plan. In December 2013, each non-employee director of the Company was awarded 2,000 shares of our stock for performance during 2013. Mr. Regnier received 10,000 shares of restricted stock as discussed above under Executive Compensation.

Name	Year	Fees Earned or Paid in Cash(1) ($)	Stock Awards (2) ($)	Option Awards ($)	Non –Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total Compensation ($)
Donald H. Alexander	2013	$ 24,950	$ 10,000	-	-	-	$ 34,950
Robert D. Taylor	2013	$ 7,400	$ 10,000	-	-	-	$ 17,400
James L. Gegg	2013	$ 9,250	$ 10,000	-	-	-	$ 19,250

(1) Fees earned were converted to shares of the Company's common stock during 2013. In December 2013, the following shares of common stock were issued to each non-employee directors: Mr. Alexander – 4,990 shares; Mr. Taylor – 1,480 shares; and Mr. Gegg – 1,850 shares.

(2) All non-employee directors received 2,000 shares, which vested immediately. Management's estimate of the fair value of our common stock at December 18, 2013, the grant date, was $5.00 per share based upon the recent rights offering which occurred on December 6, 2013.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth beneficial ownership information for the Company's common stock as of February 28, 2014 for (1) persons known by the Company to own of record or beneficially five percent or more of the outstanding common stock; (2) the Company's directors; (3) each of the executive officers of the Company named in the Summary Compensation Table included herein; and (4) all of the directors and executive officers of the Company as a group. Unless otherwise indicated, the address of each person listed below is c/o 11935 Riley, Overland Park, Kansas 66213. This information has been prepared based upon the SEC's "beneficial ownership" rules and information available to the Company. Unless otherwise indicated, each of the following persons has sole voting and investment power with respect to the shares of common stock beneficially owned. A person is considered to have shared voting and investment power over shares indicated as being owned by the spouse or the IRA of the spouse of that person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (2)		Percentage of Class (8)
Robert D. Regnier	1,377,291	(1)(3)	29.98%
Thomas A. McDonnell	412,225	(1)(4)	7.22%
Donald H. Alexander	317,838	(1)	6.92%
The Delmar Equity Partners LLP	316,200	(1)	6.88%
Robert D. Taylor	48,964	(1)	1.07%
James L. Gegg	10,595	(1)	*
Mark A. Fortino	27,374	(1)(5)	*
Bruce A. Easterly	16,213	(1)(6)	*
Bonnie M. McConnaughy	9,715	(1)(7)	*
All directors and executive officers, 7 in number, as a group	1,807,988		39.36%

(1) All entries based on information provided to us by our directors and executive officers.

(2) For purposes of this table, a person is considered to beneficially own shares of common stock if he or she directly or indirectly has or shares voting power, which includes the power to vote or to direct the voting of the shares, or investment power, which includes the power to dispose or direct the disposition of the shares, or if he/she has the right to acquire the shares under options which are exercisable currently or within 60 days of February 28, 2014. Each person named in the above table has sole voting power and sole investment power with respect to the indicated shares unless otherwise noted. A person is considered to have shared voting and investment power over shares indicated as being owned by the spouse or the IRA of the spouse of that person.

(3) Includes 172,970 shares held in family limited partnerships and a corporate entity; 1,054,561 shares held individually; 51,432 shares held in retirement accounts; 8,930 shares issued to Mr. Regnier under the restricted stock award program; and 89,398 shares held in a family limited partnership with his spouse.

(4) Consists of 3,600 shares held individually; 408,625 shares jointly held by Mr. McDonnell and his spouse in a trust. Mr. McDonnell is not a director or executive officer of the Company, but is a beneficial owner of over five percent of the outstanding common stock.

(5) Consists of 15,155 shares held individually; 1,000 shares issued to Mr. Fortino under the restricted stock award program; 10,331 shares jointly held by Mr. Fortino and his spouse in a trust; and 888 shares held individually by his spouse.

(6) Consists of 15,213 shares held individually; 1,000 shares issued to Mr. Easterly under the restricted stock award program.

(7) Consists of 7,615 shares held individually; 1,100 shares jointly held by Ms. McConnaughy and her spouse; 1,000 shares issued to Ms. McConnaughy under the restricted stock award program.

(8) Based on the number of shares of common stock outstanding on March 31, 2014, which was 4,593,687 shares

* Less than 1%.

Item 13: Certain Relationships, Related Transactions, and Director Independence

The Bank periodically makes loans to our executive officers and directors, the members of their immediate families and companies with which they are affiliated. As of December 31, 2013 the Bank had aggregate loans outstanding to such persons of approximately $17.1 million, which represented 40.41% of our stockholders' equity of $42.2 million on that date. These loans at the time of origination:

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Bank;
- did not involve more than the normal risk of collectibility or present other unfavorable features; and
- were being paid as agreed.

Director Independence

Our Board of Directors reviews and determines the independence of each Director and nominee for election as a Director. Our Board of Directors applies the definition of "independent directors", as defined by the listing standards of the New York Stock Exchange. Our Board of Directors has determined that each of the following non-employee directors of the Company is independent:

Donald H. Alexander
Robert D. Taylor
James L. Gegg

Our Board of Directors determined that Robert D. Regnier, as an employed executive officer of the Company, is not independent.

Item 14: Principal Accounting Fees and Services

BKD, LLP has served as independent auditor of the Company since 1989. Such services include the audit of the financial statements of the Company for the recently completed fiscal year and other appropriate services as approved.

The following is a summary of fees billed by BKD, LLP for professional services rendered during the fiscal years ended December 31, 2013 and 2012:

(in thousands)	**2013**	**2012**
Audit fees	$ 184	$ 89
Audit-Related fees	11	-
Tax fees	11	18
All other fees	-	-
Total	$ 206	$ 107

Audit fees paid to BKD, LLP are for professional services rendered for the audit of the Company's annual consolidated financial statements, reviews of the financial statements included in the Company's Reports on Form S-1 filing in 2013, and FHA lender audit. Audit-related fees are for professional services rendered for the agreed-upon procedures examination of the Bank's Trust Department. Tax fees include fees paid for the preparation and review of the Company's state and federal tax returns, and tax consulting services. All other fees include other permitted advisory services. The Audit Committee has considered and found that the provision of services by BKD, LLP covered above is compatible with maintaining their independence. During 2013, 100% of the total fees disclosed in the Independent Auditor Fee Information table were specifically approved by the Audit Committee.

The Company's Audit Committee has adopted the following guidelines for pre-approval of audit and permitted non-audit services provided by the Company's independent auditor. Annually the Audit Committee will review the fee proposal and engagement letter for audit services to be performed, along with other permitted services including audit-related and tax services to be provided by the independent registered public accountant. If agreed to by the Audit Committee, the engagement letter is formally accepted by the Audit Committee.

For non-audit services, the Company's management submits to the Audit Committee for approval significant non-audit services that it recommends the Audit Committee engage the independent auditor to provide for the fiscal year. The Audit Committee has delegated to the Chair of the Audit Committee the authority to grant pre-approval for non-audit services not to exceed $15,000 per engagement. The decision of the Chair is then presented to the full Audit Committee at its next scheduled meeting. Company management and the independent auditor will each confirm to the Audit Committee that each non-audit service recommended is permissible under all applicable legal requirements.

Part IV

Item 15: Exhibits, Financial Statement Schedules

(a) The financial statements and financial statement schedules listed in the accompanying index to consolidated financial statements and financial statement schedules are filed as part of this Form 10-K.

(b) The exhibits listed in the accompanying exhibit index are filed as part of this Form 10-K.

(c) None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 28, 2014 By: /s/ Robert D. Regnier
Robert D. Regnier, President,
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities listed on the dates indicated

Date: March 28, 2014 By: /s/ Robert D. Regnier
Robert D. Regnier, President,
Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 28, 2014 By: /s/ Mark A. Fortino
Mark A. Fortino, Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 28, 2014 By: /s/ Donald H. Alexander
Donald H. Alexander, Director

Date: March 28, 2014 By: / s/ Robert D. Taylor
Robert D. Taylor, Director

Date: March 28, 2014 By: /s/ James L. Gegg
James L. Gegg, Director

Exhibits

2.1	Agreement and Plan of Merger between Unison Bancorp, Inc., BVBC Acquisition I, Inc. and Blue Valley Ban Corp., dated as of November 2, 2006.*****
2.2	Acquisition Agreement and Plan of Merger among Northland National Bank, Blue Valley Ban Corp. and Western National Bank, dated as of March 2, 2007.*****
2.3	Purchase and Assumption Agreement among Northland National Bank, Bank of Blue Valley and Blue Valley Ban Corp., dated as of March 2, 2007.*****
3.1	Amended and Restated Articles of Incorporation of Blue Valley Ban Corp. *
3.2	Bylaws, as amended, of Blue Valley Ban Corp. *
3.3	Certificate of Designations dated December 3, 2008.******
4.1	1998 Equity Incentive Plan. *
4.2	1994 Stock Option Plan. *
4.3	Agreement as to Expenses and Liabilities. *
4.4	Indenture dated April 10, 2003, between Blue Valley Ban Corp. and Wilmington Trust Company **
4.5	Amended and Restated Declaration of Trust dated April 10, 2003 **
4.6	Guarantee Agreement dated April 10, 2003 **
4.7	Fee Agreement dated April 10, 2003 **
4.8	Specimen of Floating Rate Junior Subordinated Debt Security **
4.9	Junior Subordinated Indenture dated as of July 29, 2005 between Blue Valley Ban Corp. and Wilmington Trust Company***
4.10	Amended and Restated Declaration of Trust dated July 29, 2005***
4.11	Guarantee Agreement dated July 29, 2005***
4.12	Warrant to purchase Common Stock dated December 5, 2008.******
10.1	Promissory Note of Blue Valley Building dated July 15, 1994. *
10.2	Mortgage, Assignment of Leases and Rents and Security Agreement between Blue Valley Building and Businessmen's Assurance Company of America, dated July 15, 1994. *
10.3	Assignment of Leases and Rents between Blue Valley Building and Businessmen's Assurance Company of America dated July 15, 1994. *
10.4	Line of Credit Note with JP Morgan Chase dated June 15, 2005 ****
10.5	Term Note with JP Morgan Chase dated June 15, 2005 ****

10.6 Letter Agreement dated December 5, 2008, including Securities Purchase Agreement – Standard Terms, incorporated by reference herein, between Blue Valley Ban Corp. and the United States Department of Treasury.******

10.7 Amendment and Waiver by and among Bank of Blue Valley, Blue Valley Ban Corp. and its Senior Executive Officers.******

11.1 Statement regarding computation of per share earnings. Please see p. F-16.

21.1 Subsidiaries of Blue Valley Ban Corp.

23.3 Consent of BKD, LLP.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Certification of the Principal Executive Officer pursuant to Section 111 of the Emergency Economic Stabilization Act of 2008.

99.2 Certification of the Principal Financial Officer pursuant to Section 111 of the Emergency Economic Stabilization Act of 2008.

101. Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flow and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text*******

* Filed with the SEC on April 10, 2000 as an Exhibit to Blue Valley Ban Corp.'s Registration Statement on Form S-1, Amendment No. 1, File No. 333-34328. Exhibit incorporated herein by reference.

** Filed with the SEC on March 19, 2004 as an Exhibit to Blue Valley Ban Corp.'s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

*** Filed with the SEC on August 3, 2005 as an Exhibit to Blue Valley Ban Corp.'s Current Report on Form 8-K. Exhibit incorporated herein by reference.

**** Filed with the SEC on March 27, 2006 as an Exhibit to Blue Valley Ban Corp.'s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

***** Filed with the SEC on March 29, 2007 as an Exhibit to Blue Valley Ban Corp.'s Annual Report on Form 10-K. Exhibit incorporated herein by reference.

****** Filed with the SEC on December 8, 2008 as an Exhibit to Blue Valley Ban Corp.'s Current Report on Form 8-K. Exhibit incorporated herein by reference.

******* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

BLUE VALLEY BAN CORP.

DECEMBER 31, 2013, 2012 AND 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Blue Valley Ban Corp. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Valley Ban Corp. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
March 28, 2014

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

(In thousands, except share data)

ASSETS

	2013	2012
Cash and due from banks	$ 26,428	$ 33,353
Interest bearing deposits in other financial institutions	14,071	67,724
Federal funds sold	–	–
Cash and cash equivalents	40,499	101,077
Available-for-sale securities	100,657	77,845
Mortgage loans held for sale, fair value	1,438	7,621
Loans, net of allowance for loan losses of $8,992 and $9,057 in 2013 and 2012, respectively	405,803	406,614
Premises and equipment, net	15,466	15,448
Foreclosed assets held for sale, net	25,801	31,936
Interest receivable	1,736	1,529
Deferred income taxes	4,205	1,121
Prepaid expenses and other assets	6,195	6,095
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	7,250	7,540
Core deposit intangible asset, at amortized cost	36	179
Total assets	$ 609,086	$ 657,005

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2013	2012
LIABILITIES		
Deposits		
Demand	$ 100,965	$ 113,698
Savings, NOW and money market	233,335	235,632
Time	114,068	135,136
Total deposits	448,368	484,466
Other interest-bearing liabilities	32,335	21,668
Long-term debt	77,887	101,111
Interest payable and other liabilities	8,268	9,945
Total liabilities	566,858	617,190
STOCKHOLDERS' EQUITY		
Capital stock		
Preferred stock, $1 par value, $1,000 liquidation preference		
Authorized 15,000,000 shares; issued and outstanding		
2013 – 21,750 shares; 2012 – 21,750 shares	22	22
Common stock, par value $1 per share;		
Authorized 15,000,000 shares; issued and outstanding		
2013 – 4,326,704 shares; 2012 – 2,934,123 shares	4,327	2,934
Additional paid-in capital	44,010	38,746
Accumulated deficit	(1,992)	(1,930)
Accumulated other comprehensive income (loss), net of income tax (credit) of $(2,759) in 2013 and $29 in 2012	(4,139)	43
Total stockholders' equity	42,228	39,815
Total liabilities and stockholders' equity	$ 609,086	$ 657,005

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands, except per share data)

	2013	2012	2011
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 20,800	$ 22,852	$ 25,277
Federal funds sold and other short-term investments	135	193	151
Available-for-sale securities	1,683	1,097	1,202
Dividends on FHLBank and Federal Reserve Bank stock	239	241	225
Total interest and dividend income	22,857	24,383	26,855
INTEREST EXPENSE			
Interest-bearing demand deposits	313	700	1,611
Savings and money market deposit accounts	275	291	346
Time deposits	1,661	2,487	3,755
Federal funds purchased and other interest-bearing liabilities	26	44	41
Long-term debt, net	3,196	3,670	3,502
Total interest expense	5,471	7,192	9,255
NET INTEREST INCOME	17,386	17,191	17,600
PROVISION FOR LOAN LOSSES	950	1,200	3,300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,436	15,991	14,300
NON-INTEREST INCOME			
Loans held for sale fee income	1,456	2,447	2,120
NSF charges and service fees	968	980	944
Trust services	560	543	527
Investment brokerage services	500	434	387
Other service charges	1,418	1,495	1,362
Realized gains on available-for-sale securities	127	–	–
Other income	3,443	1,535	984
Total non-interest income	8,472	7,434	6,324
NON-INTEREST EXPENSE			
Salaries and employee benefits	11,079	10,587	10,955
Net occupancy expense	2,620	2,568	2,599
Foreclosed assets expense	3,612	2,647	5,219
Other operating expense	6,855	7,506	7,851
Total non-interest expense	24,166	23,308	26,624
INCOME (LOSS) BEFORE INCOME TAXES	742	117	(6,000)
PROVISION (BENEFIT) FOR INCOME TAXES			
Provision (benefit) for income taxes	200	50	(2,777)
Valuation allowance for deferred tax asset	(500)	(200)	12,600
Total provision (benefit) for income taxes	(300)	(150)	9,823
NET INCOME (LOSS)	1,042	267	(15,823)
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	1,104	1,106	1,106
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (62)	$ (839)	$ (16,929)
BASIC LOSS PER SHARE	$ (0.02)	$ (0.29)	$ (6.03)
DILUTED LOSS PER SHARE	$ (0.02)	$ (0.29)	$ (6.03)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(In thousands)

	2013	2012	2011
NET INCOME (LOSS)	$ 1,042	$ 267	$ (15,823)
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(2,710) in 2013, $(60) in 2012 and $69 in 2011	(4,106)	(91)	104
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $51 in 2013	(76)	–	–
Comprehensive income (loss)	$ (3,140)	$ 176	$ (15,719)

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands, except share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2010	$ 22	$ 2,843	$38,431	$15,838	$ 30	$57,164
Issuance of 40,466 shares of restricted stock, net of forfeitures of 7,437		33	44			77
Issuance of 2,628 shares of common stock for the employee stock purchase plan		3	18			21
Net loss				(15,823)		(15,823)
Accretion of discount on preferred shares			18	(18)		–
Dividend on preferred shares				(1,088)		(1,088)
Other comprehensive income					104	104
BALANCE, DECEMBER 31, 2011	$ 22	$ 2,879	$38,511	$(1,091)	$ 134	$ 40,455
Issuance of 55,155 shares of restricted stock, net of forfeitures of 6,698		48	197			245
Issuance of 6,508 shares of common stock for the employee stock purchase plan		7	20			27
Net income				267		267
Accretion of discount on preferred shares			18	(18)		–
Dividend on preferred shares				(1,088)		(1,088)
Other comprehensive loss					(91)	(91)
BALANCE, DECEMBER 31, 2012	$ 22	$ 2,934	$38,746	$(1,930)	$ 43	$39,815
Issuance of 44,210 shares of restricted stock, net of forfeitures of 567		44	244			288
Issuance of 4,748 shares of common stock for the employee stock purchase plan		5	14			19
Issuance of 1,344,000 shares of common stock		1,344	4,989			6,333
Net income				1,042		1,042
Accretion of discount on preferred shares			17	(17)		–
Dividend on preferred shares				(1,087)		(1,087)
Other comprehensive loss					(4,182)	(4,182)
BALANCE, DECEMBER 31, 2013	$ 22	$ 4,327	$44,010	$(1,992)	$ (4,139)	$ 42,228

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands)

	2013	2012	2011
OPERATING ACTIVITIES			
Net income (loss)	$ 1,042	$ 267	$ (15,823)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,671	1,686	1,661
Amortization, net of (accretion) of premiums and discounts on available-for-sale securities	269	(14)	(62)
Provision for loan losses	950	1,200	3,300
Provision for losses on foreclosed assets held for sale	2,147	867	3,159
Deferred income taxes	(300)	(150)	9,823
Stock dividends on FHLBank stock	(121)	(124)	(106)
Increase in value of bank owned life insurance	(167)	(170)	—
Net realized gains on available-for-sale securities	(127)	—	—
Net gain on sale of foreclosed assets	(1,069)	(337)	(555)
Restricted stock earned and forfeited	288	245	77
Compensation expense related to the Employee Stock Purchase Plan	4	3	4
Originations of loans held for sale	(53,278)	(83,477)	(66,014)
Proceeds from the sale of loans held for sale	59,423	81,540	68,668
Realized (gain) loss on loans held for sale fair value adjustment	38	2	(178)
Changes in:			
Interest receivable	(207)	44	210
Net fair value of loan related commitments	168	(92)	257
Prepaid expenses and other assets	(97)	270	(172)
Interest payable and other liabilities	(2,769)	1,077	490
Net cash provided by operating activities	7,865	2,837	4,739
INVESTING ACTIVITIES			
Net change in loans	(5,928)	5,666	28,561
Proceeds from sale of loan participations	4,456	2,675	2,854
Purchase of premises and equipment	(905)	(417)	(499)
Proceeds from the sale of foreclosed assets, net of expenses	7,022	6,281	5,638
Capitalized expenditures on foreclosed assets held for sale	(254)	—	—
Purchase of priority lien on foreclosed assets held for sale	(378)	—	—
Purchases of available-for-sale securities	(66,006)	(107,192)	(64,915)
Proceeds from maturities of available-for-sale securities	29,923	91,000	67,000
Proceeds from sale of available-for-sale securities	6,159	—	—
Purchases of bank owned life insurance	—	—	(4,000)
Purchases of FHLBank and Federal Reserve Bank stock and other securities	(3)	(79)	(100)
Proceeds from the redemption of FHLBank stock, Federal Reserve Bank stock, and other securities	414	31	—
Net cash provided by (used in) investing activities	(25,500)	(2,035)	34,539
FINANCING ACTIVITIES			
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	(15,030)	25,504	4,444
Net decrease in time deposits	(21,068)	(31,451)	(55,249)
Net increase (decrease) in federal funds purchased and other interest-bearing liabilities	10,667	6,296	(3,376)
Repayments of long-term debt	(20,000)	—	—
Prepayment penalty on modification of FHLBank advances	(3,866)	—	—
Proceeds from sale of additional stock through rights offering	6,333	—	—
Net proceeds from the sale of stock through Employee Stock Purchase Plan	19	27	21
Net cash provided by (used in) financing activities	(42,945)	376	(54,160)
Increase (decrease) in cash and cash equivalents	(60,579)	1,178	(14,882)
Cash and cash equivalents, beginning of year	101,077	99,899	114,781
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 40,499	$ 101,077	$ 99,899

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands)

	2013	2012	2011
SUPPLEMENTAL CASH FLOWS INFORMATION			
Cash paid during the year for:			
Interest	$ 8,648	$ 6,254	$ 8,717
Income taxes, net of refunds	$ —	$ —	$ 1
Noncash investing and financing activities:			
Transfer of loans to foreclosed property, net of specific allowance	$ 4,371	$ 10,518	$ 17,354
Restricted stock issued	$ 50	$ 48	$ 33
Preferred dividends accrued but not paid	$ 1,087	$ 1,088	$ 1,088
Sale and financing of foreclosed assets	$ 3,038	$ 1,018	$ 268

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013, 2012 AND 2011

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

Nature of Operations

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

The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in Johnson County, Kansas. The Bank also originates residential mortgages locally and nationwide through its InternetMortgage.com website. The Bank is subject to competition from other financial institutions. The Bank is also subject to regulation by certain federal and state agencies and undergoes periodic examination by those regulatory authorities.

BVBC Capital Trust II and III are Delaware business trusts created in 2003 and 2005, respectively, to offer trust preferred securities and to purchase the Company's junior subordinated debentures. The Trusts have terms of 30 years, but may dissolve earlier as provided in their trust agreements.

Operating Segment

The Company provides community banking services through its subsidiary bank, including such products and services as loans; time deposits, checking and savings accounts; mortgage originations; trust services; and investment services. These activities are reported as a single operating segment.

Principles of Consolidation

The consolidated financial statements include the accounts of Blue Valley Ban Corp. and its 100% owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets and fair values of financial instruments. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

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

Management believes that the allowance for loan losses, valuation of foreclosed assets held for sale, and valuation of deferred tax assets are adequate. While management uses available information to recognize losses on loans, foreclosed assets held for sale and deferred tax assets, changes in economic conditions may necessitate revision of these estimates in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, valuation of foreclosed assets held for sale and deferred tax assets. Such agencies may require the Company to recognize additional losses based on their judgments of information available to them at the time of their examination.

Cash and Cash Equivalents

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

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012 at all FDIC-insured institutions. Upon expiration of this legislation on December 31, 2012, the FDIC insurance limit on noninterest-bearing transaction accounts at all FDIC-insured institutions was restored to the $250,000 FDIC insurance limit previously made effective July 21, 2011. The Company's interest-bearing cash accounts exceeded federally insured limits by approximately $220,000 at December 31, 2013.

Prior to June, 2012, the Bank was required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The Bank had no required reserve at December 31, 2012, and had a clearing balance requirement of $15,000,000 at December 31, 2011. The deposit balance held at the Federal Reserve Bank on December 31, 2013 was $13,600,000.

Investment in Securities

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

For debt securities with fair value below amortized cost and the Company does not intend to sell the debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of the debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The Company did not have any securities with other-than-temporary impairment at December 31, 2013.

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

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at fair value in the aggregate. Net unrealized gains and losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses, net of discounts collected or paid, commitment fees paid and considering a normal servicing rate are recognized in non-interest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balance adjusted for unearned income, charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans recorded at amortized cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, as well as premiums and discounts, are deferred and amortized over the respective term of the loan.

Generally, the accrual of interest on loans is discontinued at the time the loan is 90 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection. Past due status is based on contractual term of the loans. Loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans placed on non-accrual or charged off is reversed when loans are placed on non-accrual or charged off which reduces interest income. The interest on these loans is generally accounted for on a cash-basis or a cost recovery method, until conditions qualify the loan's return to accrual status. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses which have occurred as of the balance sheet date based on management's evaluation of risk in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a monthly basis by management and is based on management's periodic review of the collectibility of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company computes its allowance by assigning specific reserves to impaired loans, and then applies general reserve factors to the rest of the loan portfolio. The general reserve covers non-impaired loans and is based on historical charge off experience, expected loss given default derived from the Company's internal risk rating process and current and projected economic conditions and factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Furniture and equipment	3-10 years

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

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are reported as other income and foreclosed assets expense.

FHLBank Stock, Federal Reserve Bank Stock and Other Securities

FHLBank and Federal Reserve Bank stock are required investments for institutions that are members of the Federal Home Loan Bank and Federal Reserve systems. The required investment in the stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Derivatives

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

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (*ASC 815, Derivatives and Hedging*). Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other income. The Company estimates the fair value using a valuation model which considers differences between quoted prices for loans with similar characteristics in the secondary market and the committed rates.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under the derivatives and hedging accounting guidance (*ASC 815*), as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses best efforts forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan commitments are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other income. The Company estimates the fair value of its forward loan commitments using a methodology similar to that used for derivative loan commitments.

Core Deposit Intangible Assets

Intangible assets are being amortized on the straight-line basis over seven years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Fee Income

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

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

Transfers of Financial Assets

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

Transfers between Fair Value Hierarchy Levels

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

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The valuation allowance at December 31, 2013 was $11,934,000. Due to the Company's losses recorded over the previous four years, the Company assessed the deferred tax asset during 2011 and recognized a $12,600,000 valuation allowance on the deferred tax asset based on historical and current information available relating to uncertainty of the Company's ability to recognize the deferred tax asset in future near term periods. As the Company recognizes profits in the future, portions of this allowance may be recognizable in future years.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiaries. The Company is generally not subject to federal, state and local examination by tax authorities for years prior to 2010.

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

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and accumulated other comprehensive income (loss), net of applicable income taxes. Accumulated other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities. Net unrealized gain or (loss) on available-for-sale securities, net of income taxes, included in accumulated other comprehensive income was $(4,139,000) and $43,000, respectively, at December 31, 2013 and 2012.

Reclassification

Certain reclassifications have been made to the 2012 and 2011 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on net income (loss).

Earnings (Loss) Per Share

Basic earnings (loss) per share represents income available to common stockholders divided by the weighted average number of shares outstanding during each period. Diluted earnings (loss) per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The computation of per share earnings is as follows:

	2013	2012	2011
(In thousands, except share and per share data)			
Net Income (loss)	$ 1,042	$ 267	$ (15,823)
Dividends and accretion on preferred stock	(1,104)	(1,106)	(1,106)
Net loss available to common shareholders	$ (62)	$ (839)	$ (16,929)
Average common shares outstanding	2,930,115	2,855,566	2,806,299
Average common share stock options outstanding and restricted stock (B)	21,262	11,997	21,589
Average diluted common shares (B)	2,951,377	2,867,563	2,827,888
Basic loss per share	($0.02)	($0.29)	($6.03)
Diluted loss per share (A)	($0.02)	($0.29)	($6.03)

(A) No shares of stock options, restricted stock or warrants were included in the computation of diluted earnings per share for any period there was a loss.

(B) Warrants to purchase 111,083 shares of common stock at an exercise price of $29.37 per share were outstanding at December 31, 2013, 2012 and 2011, but were not included in the computation of diluted earnings per share because the warrant's exercise price was greater than the average market price of the common shares, thus making the warrants anti-dilutive. Stock options to purchase 0, 0, and 10,575 shares of common stock were outstanding at December 31, 2013, 2012 and 2011 respectively, but were not included in the computation of diluted earnings per share because the option's exercise price was greater than the average market price of the common shares, thus making the options anti-dilutive.

Income available for common stockholders will be reduced by dividends declared in the period on preferred stock (whether or not they are paid) and the accretion on the warrants.

NOTE 2: AVAILABLE-FOR-SALE SECURITIES

The amortized cost and estimated fair value, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
U.S. Government sponsored agencies	$ 63,123	$ 68	$ (43)	$ 63,148
State and political subdivision securities	14,051	176	(153)	14,074
Equity and other securities	600	23	–	623
	$ 77,774	$ 267	$ (196)	$ 77,845

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2013, 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
(In thousands)		
Due in one year or less	$ –	$ –
Due after one year through five years	–	–
Due after five years through ten years	10,395	10,225
Due after ten years	84,183	77,853
Total	94,578	88,077
U.S. Government sponsored agency mortgage-backed securities	7,229	7,183
U.S. Small Business Administration loan pool certificates	5,148	4,810
Equity and other securities	600	587
	$ 107,555	$ 100,657

The amortized cost and estimated fair value of securities pledged as collateral to secure public deposits amounted to $5,875,000 and $5,346,000 at December 31, 2013 and $5,000,000 and $4,997,000 at December 31, 2012.

Gross gains of $134,000 and gross losses of $7,000 were realized in 2013 from sales of available-for-sale securities. No gross gains or losses were realized in 2012 and 2011, respectively, from sales of available-for-sale securities.

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

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2013 and 2012, was $96,923,000 and $33,985,000, which is approximately 96.3% and 43.7%, respectively, of the Company's available-for-sale investment portfolio. These declines in fair value resulted primarily from recent increases in market interest rates. Based on evaluation of available information and evidence, particularly recent volatility in market yields on debt securities, management believes the declines in fair value for these securities are temporary.

Unrealized losses and fair value, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	Total
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
U.S. Government sponsored agencies	$ 68,313	$ 4,798	$ –	$ –	$ 68,313	$ 4,798
State and political subdivision securities	14,379	1,464	2,904	278	17,283	1,742
U.S. Government sponsored agency mortgage-backed securities	5,930	81	–	–	5,930	81
U.S. Small Business Administration loan pool certificates	4,810	338	–	–	4,810	338
Equity and other securities	587	13	–	–	587	13
Total temporarily impaired securities	$ 94,019	$ 6,694	$ 2,904	$ 278	$ 96,923	$ 6,972

	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	Total
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
U.S. Government sponsored agencies	$ 27,832	$ 43	$ –	$ –	$ 27,832	$ 43
State and political subdivision securities	6,153	153	–	–	6,153	153
Total temporarily impaired securities	$ 33,985	$ 196	$ –	$ –	$ 33,985	$ 196

The unrealized losses on the Company's investments in obligations of U.S. government sponsored agencies, state and political securities, U.S. government sponsored agency mortgage-backed securities and U.S. Small Business Administration loan pool certificates were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2013 or 2012.

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

The Company enters into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term debt and are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are book-entry securities. During the period, securities held in safekeeping were pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2013, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual entity.

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

(In thousands)	2013	2012
Balance as of December 31	$32,335	$21,668
Carrying value of securities pledged to secure agreements to repurchase at December 31	$44,643	$37,059
Average balance during the year of securities sold under agreements to repurchase	$32,426	$18,663
Maximum amount outstanding at any month-end during the year	$40,944	$22,071

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, 2013 and 2012 were as follows:

	Amounts Reclassified From Accumulated Other Comprehensive Income (Loss) Year Ended		
(In thousands)	December 31, 2013	December 31, 2012	Affected line item in the Consolidated Statements of Operations
Realized gains on available-for-sale securities	$ 127	$ –	Realized gains on available-for-sale securities (Total reclassified amount before tax)
Income taxes	(51)	–	Benefit for income taxes
Total reclassifications out of accumulated other comprehensive income	$ 76	$ –	

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Classes of loans at December 31, 2013 and 2012 include the following:

(In thousands)	2013	2012
Commercial loans	$ 120,283	$ 115,520
Commercial real estate loans	145,045	143,198
Construction loans	44,806	46,515
Home equity loans	43,169	49,529
Residential real estate loans	44,771	43,584
Consumer loans	8,885	10,054
Lease financing	7,836	7,271
Total loans	414,795	415,671
Less: Allowance for loan losses	8,992	9,057
Net loans	$ 405,803	$ 406,614

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, 2013, 2012 and 2011:

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

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

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

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, 2013 and 2012:

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

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

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, 2013 and 2012. 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.

	2013			2012		
(In thousands)	Pass	Classified	Total	Pass	Classified	Total
Commercial	$ 113,254	$ 7,029	$ 120,283	$ 112,679	$ 2,841	$ 115,520
Commercial real estate	140,874	4,171	145,045	136,397	6,801	143,198
Construction	34,922	9,885	44,806	35,589	10,926	46,515
Home equity	42,887	282	43,169	49,299	230	49,529
Residential real estate	42,862	1,910	44,771	41,228	2,356	43,584
Lease financing	7,836	–	7,836	10,054	–	10,054
Consumer	8,885	–	8,885	7,271	–	7,271
Total	$ 391,519	$ 23,276	$ 414,795	$ 392,517	$ 23,154	$ 415,671

The following tables present the Company's loan portfolio aging analysis, including loans on non-accrual, as of December 31, 2013 and 2012:

	December 31, 2013						
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 16	$ –	$ –	$ 16	$ 120,267	$ 120,283	$ –
Commercial real estate	–	–	–	–	145,045	145,045	–
Construction	–	–	660	660	44,146	44,806	–
Home equity	–	8	100	108	43,061	43,169	–
Residential real estate	267	475	119	861	43,910	44,771	–
Lease financing	–	–	–	–	7,836	7,836	–
Consumer	–	–	–	–	8,885	8,885	–
Total	$ 283	$ 483	$ 879	$ 1,645	$ 413,150	$ 414,795	$ –

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Commercial	$ 110	$ –	$ 365	$ 475	$ 115,045	$ 115,520	$ –
Commercial real estate	–	–	–	–	143,198	143,198	–
Construction	–	–	910	910	45,605	46,515	–
Home equity	–		–		49,529	49,529	–
Residential real estate	766	605	569	1,940	41,644	43,584	–
Lease financing	–	–	–	–	10,054	10,054	–
Consumer	–	–	–	–	7,271	7,271	–
Total	$ 876	$ 605	$ 1,844	$ 3,325	$ 412,346	$ 415,671	$ –

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, 2013, 2012 and 2011:

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

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

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

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

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

The following table presents the Company's non-accrual loans, also included in impaired loans, at December 31, 2013 and 2012:

(In thousands)	2013	2012
Commercial	$ 5,194	$ 1,131
Commercial real estate	–	1,537
Construction	660	910
Home equity	232	175
Residential real estate	1,020	1,084
Lease financing	–	–
Consumer	–	–
	$ 7,106	$ 4,837

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, 2013, the Company had $258,000 of commercial loans, $423,000 of commercial real estate loans, $3,010,000 of construction loans, and $154,000 of lease financing loans that were modified in troubled debt restructurings and classified as impaired.

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

During the year ended December 31, 2013, the Company modified no loans in troubled debt restructuring transactions. During the year ending December 31, 2012, the Company modified loans in troubled debt restructuring transactions and classified the loans as impaired. The modification of terms for the troubled debt restructuring transactions included renewals of existing loans to borrowers experiencing financial difficulties at below market rates, modification to interest-only terms or extension of the amortization period. None of the loans that were restructured subsequently defaulted within twelve months of the date of the restructure.

The following table presents loans restructured and classified as troubled debt restructurings by class during the years ended December 31, 2013, 2012 and 2011:

	December 31, 2013			December 31, 2012			December 31, 2011		
(In thousands)	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Commercial	–	$ –	$ –	1	$ 85	$ 85	6	$ 1,417	$ 1,408
Commercial real estate	–	–	–	–	–	–	5	3,498	3,498
Construction	–	–	–	–	–	–	3	3,724	3,724
Home equity	–	–	–	–	–	–	–	–	–
Residential real estate	–	–	–	1	371	371	–	–	–
Lease financing	–	–	–	–	–	–	–	–	–
Consumer	–	–	–	–	–	–	–	–	–
Total	–	$ –	$ –	2	$ 456	$ 456	14	$ 8,639	$ 8,630

As of December 31, 2013, the Company had no commitments outstanding to borrowers with loans identified as troubled debt restructurings.

NOTE 4: PREMISES AND EQUIPMENT

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

	2013	2012
(In thousands)		
Land	$ 5,154	$ 5,154
Buildings and improvements	16,493	15,984
Furniture and equipment	8,778	8,382
	30,425	29,520
Less accumulated depreciation	14,959	14,072
Total premises and equipment	$ 15,466	$ 15,448

NOTE 5: FORECLOSED ASSETS HELD FOR SALE

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

	2013	2012	2011
(In thousands)			
Balance, beginning of year	$ 3,184	$ 2,985	$ 481
Provision charged to expense	2,147	867	3,159
Charge offs, net of recoveries	(1,281)	(668)	(655)
Balance, end of year	$ 4,050	$ 3,184	$ 2,985

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

	2013	2012	2011
(In thousands)			
Net gains on sale of foreclosed assets	$ (1,069)	$ (337)	$ (555)
Provision for losses	2,147	867	3,159
Operating expenses, net of rental income	901	1,349	1,921
	$ 1,979	$ 1,879	$ 4,525

NOTE 6: CORE DEPOSIT INTANGIBLE ASSETS

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2013 and 2012 were:

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)				
Core Deposit Intangible	$ 1,000	$ (964)	$ 1,000	$ (821)

Amortization expense for the years ended December 31, 2013, 2012 and 2011 was $143,000, $143,000 and $143,000, respectively. Estimated amortization expense for the remainder of the amortization period is:

(In thousands)	
2014	36

NOTE 7: DERIVATIVE INSTRUMENTS

The Company has commitments outstanding to extend credit on residential mortgages that have not closed prior to the end of the period. As the Company enters into commitments to originate these loans, it also enters into commitments to sell the loans in the secondary market on a best-efforts basis. The Company acquires such commitments to reduce interest rate risk on mortgage loans in the process of origination and mortgage loans held for sale. These commitments to originate or sell loans on a best efforts basis are considered derivative instruments under ASC 815. These statements require the Company to recognize all derivative instruments in the balance sheet and to measure those instruments at fair value. As a result of measuring the fair value of the commitments to originate loans, the Company recorded no change in other assets or other liabilities for the year ended December 31, 2013. For the year ended December 31, 2012, the Company recorded a decrease in other assets of $8,000, a decrease in other liabilities of $1,000 and an decrease in other income of $7,000.

Additionally, the Company has commitments to sell loans that have closed prior to the end of the period on a best efforts basis. Due to the mark to market adjustment on commitments to sell loans held for sale the Company recorded a decrease in other assets of $144,000 and a decrease in other income of $144,000 for the year ended December 31, 2013. For the year ended December 31, 2012, the Company recorded an increase in other assets of $84,000 and an increase in other income of $84,000.

At December 31, 2013 and 2012, total mortgage loans in the process of origination amounted to $216,000 and $1,577,000, respectively. At December 31, 2013 and 2012, related forward commitments to sell mortgage loans amounted to approximately $1,438,000 and $7,621,000, respectively.

The balance of derivative instruments related to commitments to originate and sell loans at December 31, 2013 and 2012, is disclosed in Note 20, Disclosures about Fair Value of Assets and Liabilities.

NOTE 8: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of $100,000 or more were $64,761,000 on December 31, 2013 and $66,840,000 on December 31, 2012. The Company acquires brokered deposits in the normal course of business. At December 31, 2013 and 2012, brokered deposits of $28,060,000 and $27,236,000, respectively, were included in the Company's time deposit balance. Of the $28,060,000 in brokered deposits, $17,931,000 represented customer funds placed into the Certificate of Deposit Account Registry Service ("CDARS"). The Bank is a member of the CDARS service which effectively allows depositors to receive FDIC insurance on amounts greater than the FDIC insurance limit, which is currently $250,000. CDARS allows the Bank to break large deposits into smaller amounts and place them in a network of other CDARS institutions to ensure that full FDIC insurance coverage is gained on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are Bank customer relationships that management views as core funding.

At December 31, 2013, the scheduled maturities of time deposits are as follows:

(In thousands)	
2014	65,399
2015	27,428
2016	11,436
2017	4,660
2018	4,175
Thereafter	970
	$ 114,068

NOTE 9: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2021. Minimum future rent receivable under noncancellable operating leases at December 31, 2013 was as follows:

(In thousands)	
2014	$ 596
2015	754
2016	775
2017	688
2018	600
Thereafter	1,652
	$ 5,065

The Company incurred no consolidated rental and operating lease expenses for space the Company leases from others in 2013 and 2012 and incurred consolidated rental and operating lease expenses for space the Company leases from others of $11,000 in 2011. The Company terminated the lease for space rented from others on September 30, 2011.

NOTE 10: SHORT TERM DEBT

The Company has a line of credit with the FHLBank of Topeka (FHLB) which is collateralized by various assets including mortgage-backed loans and available-for-sale securities. At December 31, 2013 and 2012, there was no outstanding balance on the line of credit. The variable interest rate was 0.19% on December 31, 2013 and 0.23% on December 31, 2012. At December 31, 2013 approximately $23,252,000 was available. Advances are made at the discretion of the FHLBank of Topeka.

The Company also has a line of credit with the Federal Reserve Bank of Kansas City which is collateralized by various assets, including commercial and commercial real estate loans. At December 31, 2013 and 2012, there was no outstanding balance on the line of credit. The line of credit has a variable interest rate of federal funds rate plus 75 basis points and at December 31, 2013 approximately $37,192,000 was available. Advances are made at the discretion of the Federal Reserve Bank of Kansas City.

NOTE 11: LONG TERM DEBT

Long-term debt at December 31, 2013 and 2012 consisted of the following components:

(In thousands)	2013	2012
FHLBank advances (A)	$ 62,500	$ 82,500
Less: Deferred prepayment penalty on modification of FHLB advances	(4,201)	(977)
Net FHLBank advances	58,299	81,523
Subordinated Debentures – BVBC Capital Trust II (B)	7,732	7,732
Subordinated Debentures – BVBC Capital Trust III (C)	11,856	11,856
Total long-term debt	$ 77,887	$ 101,111

(A) Due in 2014, 2015, 2016 and 2018; collateralized by various assets including mortgage-backed loans and available-for-sale securities totaling $132,642,000 at December 31, 2013. Advances, at interest rates from 0.32% to 1.84% are subject to restrictions or penalties in the event of prepayment. FHLB advance availability is determined quarterly and at December 31, 2013, approximately $23,252,000 was available. Advances are made at the discretion of the FHLBank Topeka.

In the fourth quarter of 2013 and third quarter of 2010, the Company repaid FHLBank advances totaling $40.0 million and $42.5 million, respectively, of FHLB advances by rolling the net present value of the repaid advances into the funding cost of $40.0 million and $42.5 million, respectively, of new advances. A modification fee of $3.9 million and $2.6 million, respectively was associated with the pay-off of the original FHLB advances which is amortized as an adjustment of interest expense over the remaining term of the new FHLB advances using the straight line method. The unamortized modification fee at December 31, 2013 was approximately $4.2 million. These transactions reduced the effective interest rate, as well as modified the maturity date on these borrowings.

(B) Due in 2033; interest only at three month LIBOR + 3.25% (3.49% at December 31, 2013 and 3.56% at December 31, 2012) due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. BVBC Capital Trust II issued and sold $7,500,000 in Capital Securities to third parties and $232,000 of Common Securities to the Company. As of 2008, the Company may prepay the subordinated debentures, in whole or in part, at their face value plus accrued interest.

(C) Due in 2035; interest only at three month LIBOR + 1.60% (1.85% at December 31, 2013 and 1.91% at December 31, 2012) due quarterly; fully and unconditionally guaranteed by the Company on a subordinated basis to the extent that the funds are held by the Trust. BVBC Capital Trust III issued and sold $11,500,000 in Preferred Securities to third parties and $356,000 in Common Securities to the Company. Subordinated to the trust preferred securities (B) due in 2033. As of 2010, the Company may prepay the subordinated debentures, in whole or in part, at their face value plus accrued interest.

NOTE 11: LONG TERM DEBT (Continued)

At the request of the Federal Reserve Bank of Kansas City, quarterly payments had been deferred on the Company's outstanding trust preferred securities. Under the governing documents of our Subordinated Debentures issued by BVBC Capital Trust II and III, the quarterly payments since April 24, 2009 for BVBC Capital Trust II and since March 31, 2009 for BVBC Capital Trust III had been deferred through December 30, 2013. The Company has the right to declare such a deferral for up to 20 consecutive quarterly periods and deferral may only be declared as long as the Company is not then in default under the provisions of the Amended and Restated Trust Agreement. During the deferral period, interest on the indebtedness continues to accrue and the unpaid interest is compounded. We received regulatory approval and utilized the proceeds from the December 23, 2013 initial close of our Offering to bring current all previously accrued and unpaid dividends and interest on our Subordinated Debentures issued by BVBC Capital Trust II and III prior to December 31, 2013. Subsequent to December 31, 2013, we received approval for the Bank to pay dividends to the Company to pay amounts needed to pay quarterly dividends due in March and April, 2014 for our Subordinated Debentures.

For both BVBC Capital Trust II and BVBC Capital Trust III, as long as a deferral period continues, the Company is prohibited from: (i) declaring or paying any dividend on any of its capital stock, which would include both its common stock and the outstanding Fixed Rate Cumulative Preferred Stock ("Preferred Shares"), or (ii) making any payment on any debt security that is ranked pari passu with the debt securities issued by the respective trusts. Because the Preferred Shares are subordinate to the trust preferred securities, the Company is restricted from paying dividends on these Preferred Shares until such time as all trust preferred dividends have been brought current. See Note 13, Regulatory Matters for additional information.

Aggregate annual maturities of long-term debt at December 31, 2013 are as follows:

(In thousands)	
2014	$ 7,500
2015	15,000
2016	15,000
2017	-
2018	25,000
Thereafter	19,588
	82,088
Less: Deferred prepayment penalty on modification of FHLB advances	(4,201)
	$ 77,887

NOTE 12: INCOME TAXES

The provision for income taxes consists of the following:

	2013	2012	2011
(In thousands)			
Taxes currently (refundable) payable	$ –	$ –	$ –
Deferred income taxes	(300)	(150)	9,823
	$ (300)	$ (150)	$ 9,823

NOTE 12: INCOME TAXES (Continued)

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

(In thousands)	2013	2012	2011
Computed at the statutory rate (34%)	$ 252	$ 40	$ (2,040)
Increase (decrease) resulting from:			
Tax-exempt interest	(163)	(87)	(50)
State income taxes	(27)	77	(20)
Changes in the deferred tax asset valuation allowance	(502)	(164)	12,600
Other	140	16	(667)
Actual tax provision	$ (300)	$ (150)	$ 9,823

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2013 and 2012 consolidated balance sheets are as follows:

(In thousands)	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 3,327	$ 3,351
Net Operating Loss from Blue Valley Ban Corp. and subsidiary	8,475	9,153
Accumulated depreciation on available-for-sale securities	2,759	–
Deferred compensation	27	80
Offering costs	170	180
Non-accrual loan interest	116	46
Other real estate owned reserve	1,374	1,178
Other	856	639
	17,104	14,627
Deferred tax liabilities:		
Accumulated depreciation	(215)	(253)
FHLB stock basis	(555)	(557)
Accumulated appreciation on available-for-sale securities	–	(29)
Prepaid intangibles	(187)	(177)
Other	(8)	(54)
	(965)	(1,070)
Net deferred tax asset before valuation allowance	16,139	13,557
Valuation allowance:		
Beginning balance	(12,436)	(121,600)
(Increase) decrease during the period	502	164
Ending balance	(11,934)	(12,436)
Net deferred tax asset	$ 4,205	$ 1,121

The Company has unused Federal net operating loss carryforwards of $22,048,000, which expire starting in 2029. The Company has unused Kansas Privilege Tax net operating loss carryforwards of $32,639,000 which expire between 2019 and 2022.

NOTE 13: REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). As of December 31, 2013 and 2012, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2013, 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, 2013 that management believes have changed the Bank's position.

NOTE 13: REGULATORY MATTERS (Continued)

The Company and the Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In thousands)						
December 31, 2013:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 71,811	13.90%	$ 41,321	8.00%	N/A	
Bank Only	$ 73,451	14.24%	$ 41,267	8.00%	$ 51,583	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 61,777	11.96%	$ 20,661	4.00%	N/A	
Bank Only	$ 66,972	12.98%	$ 20,633	4.00%	$ 30,950	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 61,777	10.07%	$ 24,550	4.00%	N/A	
Bank Only	$ 66,972	10.80%	$ 24,793	4.00%	$ 30,991	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In thousands)						
December 31, 2012:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 65,441	12.01%	$ 43,588	8.00%	N/A	
Bank Only	$ 72,542	13.33%	$ 43,539	8.00%	$ 54,424	10.00%
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	$ 52,851	9.70%	$ 21,794	4.00%	N/A	
Bank Only	$ 65,702	12.07%	$ 21,769	4.00%	$ 32,654	6.00%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 52,851	8.10%	$ 26,084	4.00%	N/A	
Bank Only	$ 65,702	10.08%	$ 26,060	4.00%	$ 32,574	5.00%

The Company and Bank are subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval. At December 31, 2013, any dividend declaration would require regulatory approval.

NOTE 13: REGULATORY MATTERS (Continued)

Preferred Stock and Warrants

On December 5, 2008, the Company issued and sold to the United States Department of Treasury (the "Treasury") 21,750 shares of Fixed Rate Cumulative Perpetual Preferred Stock (the "Preferred Shares"), along with a ten year warrant to purchase 111,083 shares of the Company's common stock for $29.37 per share, for a total cash price of $21,750,000 (the "Transaction"). The Preferred Shares have a liquidation preference of $1,000 per share. The Transaction occurred pursuant to, and is governed by the U.S. Treasury's Capital Purchase Plan (the "CPP"), which was designed to attract broad participation by institutions, to stabilize the financial system, and to increase lending for the benefit of the U.S. economy. In connection with the transaction, the Company entered into a letter agreement with the Treasury which includes a Securities Purchase Agreement-Standard Terms (the "SPA"). In October, 2013, as part of its outlined strategy to wind down its remaining Troubled Asset Relief Program investments, the Treasury sold its 21,750 Preferred Shares investment in the Company in an auction to private investors. The Preferred Shares carry a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment. Dividends compound if they accrue and are not paid. During the time that the Preferred Shares are outstanding, a number of restrictions apply to the Company, including, among others:

- The Preferred Shares have a senior rank. The Company is not free to issue other preferred stock that is senior to the Preferred Shares.

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

- Failure to pay the Preferred Share dividend is not an event of default.

- The Company's preferred stock qualifies as Tier 1 capital in accordance with regulatory capital requirements.

The Warrant is exercisable immediately and expires in ten years, or December 5, 2018, from its origination date. The Warrant has anti-dilution protections and certain other protections for the holder, as well as potential registration rights upon written request from the Treasury. If requested by the Treasury, the Warrant (and the underlying common stock) may need to be listed on a national securities exchange. The Treasury has agreed not to exercise voting rights with respect to common shares it may acquire upon exercise of the Warrant. If the Preferred Shares are redeemed in whole, the Company has the right to purchase any common shares held by the Treasury at their fair market value at that time.

NOTE 13: REGULATORY MATTERS (Continued)

The Board of Directors of the Company and the Bank entered into a written agreement with the Federal Reserve Bank of Kansas City as of November 4, 2009. This agreement was a result of an examination that was completed by the regulators in May 2009, and related primarily to the Bank's asset quality. Under the terms of the agreement, the Company and the Bank agreed, among other things, to submit an enhanced written plan to strengthen credit risk management practices and improve the Bank's position on past due loans, classified loans, and other real estate owned; review and revise its allowance for loan and lease loss methodology and maintain an adequate allowance for loan loss; maintain sufficient capital at the Company and Bank level; and improve the Bank's earnings and overall condition. The Company and Bank also agreed not to increase or guarantee any debt, purchase or redeem any shares of stock or declare or pay any dividends without prior written approval from the Federal Reserve Bank. The Company and the Bank substantially complied with all terms of the written agreement.

As a result of a November 12, 2012 regulatory examination, which noted the improved financial condition of the Company and the Bank, satisfactory risk management processes, and senior management oversight, as well as full compliance with all actionable provisions of the Written Agreement, the Federal Reserve Bank of Kansas City terminated the November 4, 2009 Written Agreement and, effective January 11, 2013, replaced it with a Memorandum of Understanding ("MOU"). The MOU's purpose is to maintain the financial soundness of the Company and the Bank, and provides, among other things, the Company and the Bank will continue to work on improvement of asset quality, maintain an adequate allowance for loan losses, maintain adequate capital, improve earnings, and not declare or pay any dividends or increase or guarantee any debt without prior written approval from the Federal Reserve Bank and the Office of the State Banking Commissioner of Kansas ("OSBC").

At the request of the Federal Reserve Bank of Kansas City, the Company has deferred the payment of quarterly dividends on the Preferred Shares since May 15, 2009. The Preferred Shares carry a 5% per year cumulative preferred dividend rate, payable quarterly. The dividend rate increases to 9% beginning with the May 15, 2014 quarterly payment, which will cause the Company's quarterly dividend to increase from $271,875 to $493,375. Dividends compound if they accrue and are not paid. Failure by the Company to pay the preferred share dividend is not an event of default and the Company has accrued for all deferred dividends and compounded interest through December 31, 2013. As of December 31, 2013 and December 31, 2012, the Company had accrued $5.8 million and $4.5 million, respectively, for dividends and interest on the Preferred Shares.

NOTE 14: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2013 and 2012, 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 $17,066,000 and $13,632,000, respectively. Annual activity consisted of the following:

(In thousands)	2013	2012
Balance, beginning of year	$ 13,632	$ 12,967
New loans and advances	14,144	4,060
Repayments and reclassifications	(10,710)	(3,395)
Balance, end of year	$ 17,066	$ 13,632

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, when originated these loans did not involve more than the normal risk of collectability or present other unfavorable features.

Deposits from executive officers and directors held by the Company at December 31, 2013, and 2012 totaled $4,501,000 and $5,119,000, respectively.

NOTE 15: PROFIT SHARING AND 401(K) PLANS

The Company's profit sharing and 401(k) plans cover substantially all employees. Contributions to the profit sharing plan are determined annually by the Board of Directors, and participant interests are vested over a five-year period. The Company did not make a contribution to the profit sharing plan during 2013, 2012 and 2011. 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 2013, 2012 and 2011 were $281,000, $234,000 and $255,000, respectively.

NOTE 16: EQUITY INCENTIVE COMPENSATION

The Company has an Equity Incentive Plan (the "Plan") which allows the Company to issue equity incentive compensation awards to its employees and directors in the forms of stock options, restricted shares or deferred share units.

Under the fixed option provisions of the Plan, the Company may grant options for shares of common stock that vest two years from the date of grant to its employees. At December 31, 2013, the Company had 58,541 shares available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

NOTE 16: EQUITY INCENTIVE COMPENSATION (Continued)

During 2013, 2012 and 2011, the Company granted no stock options, but did grant 44,210, 55,155 and 40,666 shares of restricted common stock, respectively. Restricted stock granted to the President of the Company since 2009 vest immediately upon the later of 2 years from the date of grant or at such time when the United States Department of Treasury no longer holds any equity securities of the Company acquired through the TARP Capital Purchase Program. Restricted stock granted in 2013 to employees and granted in 2012 to employees other than the President vested immediately. 2011 and 2010 recipients of the restricted stock grant who are employees other than the President fully vest in the stock after three years from the date of the grant. Recipients of the restricted stock grant who are directors vested immediately in 2013, 2012 and 2011. The non-vested shares were 11,930, 30,730, and 40,529 as of December 31, 2013, 2012 and 2011, respectively. The cost basis of the restricted shares granted which is equal to the fair value of the Company's stock on the date of grant, will be amortized to compensation expense ratably over the applicable vesting period. Expenses associated with restricted stock grants were $295,000, $272,000, and $300,000 for 2013, 2012 and 2011, respectively. The amount of unrecognized compensation costs was $23,000, $97,000, and $127,000 as of December 31, 2013, 2012, and 2011, respectively. During 2013, 2012 and 2011, 0, 0 and 7,437 shares of restricted stock were forfeited, respectively.

A summary of the status of option shares under the plan at December 31, 2013, 2012 and 2011, and changes during the years then ended, is presented below:

	2013		2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	–	$ –	10,575	$ 25.00	24,375	$ 22.07
Exercised	–	–	–	–	–	–
Forfeited	–	–	10,575	25.00	13,800	19.82
Outstanding, end of year	0	$ –	0	$ 0.00	10,575	$ 25.00
Intrinsic value of shares exercised	$ –		$ –		$ –	
Options exercisable, end of year	0	$ 0.00	0	$ 0.00	10,575	$ 25.00

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

NOTE 17: EMPLOYEE STOCK PURCHASE PLAN

The 2004 Blue Valley Ban Corp. employee stock purchase plan ("ESPP") provides the right to subscribe to 100,000 shares of common stock to substantially all employees of the Company and subsidiaries, except those who are 5% or greater shareholders of the Company. The purchase price for shares under the plan is determined by the Company's Board of Directors (or a designated Committee thereof) and was set to 85% of the market price on either the grant date or the offering date, whichever is lower, for the plan year beginning in February 2004. Expense associated with the plan recognized in 2013, 2012 and 2011 was approximately $4,000, $3,000 and $4,000, respectively. Information about employee stock purchase plan activity as of December 31, 2013, 2012 and 2011 is set forth in the following table.

	Employee Stock Purchase Plan Activity	
Plan year ending January 31,	Shares purchased	Purchase Price
2013	4,748	$ 3.49
2012	6,508	$ 3.49
2011	2,628	$ 6.80

NOTE 18: OTHER INCOME/EXPENSE

Other income consists of the following:

(In thousands)	2013	2012	2011
Rental income	$ 719	$ 556	$ 378
Realized gain on foreclosed assets	1,292	521	578
Other income	1,432	458	28
Total	$ 3,443	$ 1,535	$ 984

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

Other operating expenses consist of the following:

(In thousands)	2013	2012	2011
FDIC assessments	$ 1,082	$ 1,324	$ 1,509
Professional fees	883	1,383	1,237
Data processing	824	1,104	1,110
ATM and network fees	741	745	758
Loan processing fees	175	194	283
Other expense	3,150	2,756	2,954
Total	$ 6,855	$ 7,506	$ 7,851

NOTE 19: FAIR VALUE OPTION

The Company elected to adopt *The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of FASB Statement No. 115,* which was subsequently incorporated into FASB Accounting Standards Codification in Topic 825, for mortgage loans held for sale originated after April 1, 2009. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. An entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date.

In accordance with Topic 825, the Company has elected to measure loans held for sale at fair value. Loans held for sale is made up entirely of mortgage loans held for immediate sale in the secondary market with servicing release. These loans are sold prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company's balance sheet for a short period of time (typically 30 to 60 days). It is management's opinion given the short-term nature of these loans, that fair value provides a reasonable measure of the economic value of these assets. In addition, carrying such loans at fair value eliminates some measure of volatility created by the timing of sales proceeds from outside investors, which typically occur in the month following origination.

The differences between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale were losses of $6,000 at December 31, 2013 and gains of $32,000 at December 31, 2012 and $34,000 at December 31, 2011. Losses from fair value changes included in loans held for sale fee income were $38,000 and $2,000 for the years ended December 31, 2013 and 2012, respectively, and income from fair value changes included in loans held for sale fee income was $178,000 for the year ended December 31, 2011. Interest income on loans held for sale is included in interest and fees on loans in the Company's consolidated statement of operations. See Note 20 for additional disclosures regarding fair value of mortgage loans held for sale.

NOTE 20: DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the Company's condensed consolidated balance sheet and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012:

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2013:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 68,313	$ –	$ 68,313	$ –
State and political subdivision securities	19,764	–	19,764	–
U.S. Government sponsored agency mortgage-backed securities	7,183	–	7,183	–
U.S. Small Business Administration loan pool certificates	4,810	–	4,810	–
Equity and other securities	587	587	–	–
Mortgage loans held for sale	1,438	–	1,438	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	40	–	–	40
Total assets	$ 102,135	$ 587	$ 101,508	$ 40
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	–	–	–	–
Total liabilities	$ –	$ –	$ –	$ –
December 31, 2012:				
Assets:				
Available-for-sale securities:				
U.S. Government sponsored agencies	$ 63,148	$ –	$ 63,148	$ –
State and political subdivision securities	14,074	–	14,074	–
Equity and other securities	623	623	–	–
Mortgage loans held for sale	7,621	–	7,621	–
Commitments to originate loans	–	–	–	–
Forward sales commitments	184	–	–	184
Total assets	$ 85,650	$ 623	$ 84,843	$ 184
Liabilities:				
Commitments to originate loans	$ –	$ –	$ –	$ –
Forward sales commitments	1	–	–	1
Total liabilities	$ 1	$ –	$ –	$ 1

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

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

Available-for-Sale Securities

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

Mortgage Loans Held for Sale

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

Commitments to Originate Loans and Forward Sales Commitments

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

Level 3 Reconciliation

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

	Commitments to Originate Loans	Forward Sales Commitments
(In thousands)		
Balance as of December 31, 2012	$ –	$ 184
Total realized and unrealized gains (losses):		
Included in net income (loss)	–	(144)
Balance as of December 31, 2013	$ –	$ 40
Balance as of December 31, 2011	$ 7	$ 100
Total realized and unrealized gains (losses):		
Included in net income (loss)	(7)	84
Balance as of December 31, 2012	$ –	$ 184

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

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

Nonrecurring Measurements

The following table presents the fair value measurements at December 31, 2013 and 2012 of assets and liabilities measured at fair value on a non-recurring basis during the respective year:

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2013:				
Impaired loans, net of reserves	$ 4,685	$ –	$ –	$ 4,685
Foreclosed assets held for sale, net	13,983	–	–	13,983
	$ 18,668	$ –	$ –	$ 18,668
December 31, 2012:				
Impaired loans, net of reserves	$ 5,480	$ –	$ –	$ 5,480
Foreclosed assets held for sale, net	17,894	–	–	17,894
	$ 23,374	$ –	$ –	$ 23,374

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

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to the contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are recorded at the lower of carrying amount or fair value less cost to sell.

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

Unobservable (Level 3) Inputs

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

	Fair Value at 12/31/13	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Commitments to Originate Loans	$ –	Market comparable prices	Quoted prices for similar loans Estimated Customer Fallout Rate	NA
Forward Sales Commitments	$ 40	Market comparable prices	Quoted prices for similar loans	3.50%-4.50% (4.02%)
Collateral-dependent impaired loans	$ 4,685	Market comparable properties	Quoted prices for similar loans	9.00%-100.00% (38.00%)
Foreclosed assets held for Sale, net	$ 19,277	Market comparable properties	Comparability adjustments (%)	Not available

Sensitivity of Significant Unobservable Inputs

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

Commitments to Originate Loans

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

Forward Sales Commitments

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

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

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments not previously disclosed at December 31, 2013 and 2012.

	2013		2012	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	$ 40,499	$ 40,499	$ 101,077	$ 101,077
Loans, net of allowance for loan losses (Level 3)	405,803	408,445	406,614	408,041
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities (Level 3)	7,250	7,250	7,540	7,540
Interest receivable (Level 3)	1,736	1,736	1,529	1,529
Financial liabilities:				
Deposits (Level 3)	448,368	450,027	484,466	487,059
Securities sold under agreement to repurchase and other interest-bearing liabilities (Level 3)	32,335	32,335	21,668	21,668
Long-term debt (Level 3)	77,887	78,240	101,111	95,216
Interest payable (Level 3)	989	989	4,166	4,166
Unrecognized financial instruments (net of amortization):				
Commitments to extend credit (Level 3)	–	–	–	–
Letters of credit (Level 3)	–	–	–	–
Lines of credit (Level 3)	–	–	–	–

The following methods and assumptions were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

For these short-term instruments, the carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Federal Home Loan Bank Stock, Federal Reserve Bank Stock and other securities

The carrying amounts for these securities approximate their fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these deposits approximates fair value. The fair value of fixed maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

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

Securities Sold Under Agreement to Repurchase and Other Interest-Bearing Liabilities

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Long-Term Debt

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

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

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

NOTE 21: COMMITMENTS, CREDIT RISKS AND CURRENT ECONOMIC CONDITIONS

The Company extends credit for commercial real estate mortgages, residential mortgages, working capital financing and consumer loans to businesses and residents principally in southern Johnson County. The Bank also purchases indirect leases from various leasing companies throughout Kansas and Missouri.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2013 and 2012, the Company had outstanding commitments to originate loans aggregating approximately $6,388,335 and $28,268,000, respectively. The commitments extend over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Total mortgage loans in the process of origination amounted to $216,000 and $1,577,000 at December 31, 2013 and 2012, respectively. Mortgage loans in the process of origination represent commitments to originate loans at both fixed and variable rates. Mortgage loans held for sale amounted to $1,438,000 and $7,621,000 at December 31, 2013 and 2012, respectively.

Forward commitments to sell mortgage loans are obligations to sell loans at a specified price on or before a specified future date. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Company is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Related forward commitments to sell mortgage loans amounted to approximately $1,438,000 and $7,621,000 at December 31, 2013 and 2012, respectively.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $955,000 and $889,000 at December 31, 2013 and 2012, respectively, with terms ranging from one year to three years with the majority expiring in one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At December 31, 2013, the Company had unused lines of credit to borrowers aggregating approximately $165,238,000 for commercial, commercial real estate and construction lines and $31,866,000 for open-end consumer lines of credit. At December 31, 2012, the Company had unused lines of credit to borrowers aggregating approximately $146,913,000 for commercial, commercial real estate and construction lines and $33,570,000 for open-end consumer lines of credit.

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

The Bank is subject to possible future repurchase and indemnification demands for future losses realized by investors for alleged breaches of representations and warranties on mortgage loans previously sold to investors. The financial services industry has been materially and adversely impacted by a prolonged period of negative economic conditions, including but not limited to high levels of unemployment, declines in asset values, as well as delinquencies and defaults on loans. These defaults on loans include possible "strategic defaults" which are characterized by borrowers that appear to have the financial means to meet the debt service requirements of their loans, however, elect not to do so because the value of the assets securing their debts may have declined below the amount of the debt or in consideration of statutory restrictions which impede a lender's ability to exercise prudent collection efforts or foreclose in an efficient manner. For three years ending December 31, 2013, the Company has repurchased 1 loan from an investor totaling $458,000 for which no losses have been recognized. Additionally, during the three years ending December 31, 2013, the Company has recognized indemnification losses totaling approximately $171,000 for loans previously sold to investors. The financial statements have been prepared using values and information currently available to the Company; however, there can be no assurance that the impact of these conditions will cease or reverse to mitigate possible risk of future potential losses by the Bank.

The current economic environment continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's and Bank's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's and Bank's regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company's and Bank's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

NOTE 22: LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 23: SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table presents the unaudited results of operations for the past two years by quarter. See discussion on earnings per share in "Note 1: Nature of Operations and Summary of Significant Accounting Policies" in the Company's Consolidated Financial Statements.

	2013				2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share data)							
Interest income	$ 5,824	$ 5,651	$ 5,680	$ 5,702	$ 6,002	$ 6,097	$ 6,060	$ 6,224
Interest expense	990	1,444	1,505	1,532	1,636	1,737	1,849	1,970
Net interest income	4,834	4,207	4,175	4,170	4,366	4,360	4,211	4,254
Provision for loan losses	2,650	(1,200)	(500)	-	-	650	100	450
Net interest income after provision for loan losses	2,184	5,407	4,675	4,170	4,366	3,710	4,111	3,804
Non-interest income	3,293	1,685	1,738	1,756	1,981	2,165	1,678	1,610
Non-interest expense	5,933	6,289	6,093	5,850	6,188	5,524	5,866	5,730
Income (loss) before income taxes	(457)	803	320	76	159	351	(77)	(316)
Provision (benefit) for income taxes	(300)	-	-	-	(147)	(1)	(1)	(1)
Net income (loss)	(157)	803	320	76	306	352	(76)	(315)
Dividends on preferred shares	288	272	272	272	290	272	272	272
Net income (loss) available to common shareholders	$ 445	$ 531	$ 48	$ (196)	$ 16	$ 80	$ (348)	$ (587)
Net Income (loss) per Share Data								
Basic	$ (0.15)	$ 0.18	$ 0.02	$ (0.07)	$ 0.01	$ 0.03	$ (0.12)	$ (0.21)
Diluted	$ (0.15)	$ 0.18	$ 0.02	$ (0.07)	$ 0.01	$ 0.03	$ (0.12)	$ (0.21)
Balance Sheet								
Total assets	$609,086	$632,806	$636,776	$645,527	$657,005	$662,917	$656,457	$671,946
Total loans, net	405,803	399,521	399,410	406,369	406,614	421,243	419,928	427,094
Stockholders' equity	42,229	36,244	37,594	39,348	39,815	39,573	39,440	39,833

The above unaudited financial information reflects all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented.

NOTE 24: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

Condensed Balance Sheets
December 31, 2013 and 2012

(In thousands)	2013	2012
ASSETS		
Cash and cash equivalents	$ 4,133	$ 646
Investments in subsidiaries:		
Bank of Blue Valley	62,877	65,924
BVBC Capital Trust II	232	232
BVBC Capital Trust III	356	356
Other assets	86	18
Total Assets	$ 67,684	$ 67,176
LIABILITIES		
Subordinated debentures	$ 19,588	$ 19,588
Other liabilities	5,868	7,773
Total Liabilities	25,456	27,361
STOCKHOLDERS' EQUITY		
Preferred Stock	22	22
Common stock	4,327	2,934
Additional paid-in capital	44,010	38,746
Retained earnings (Accumulated deficit)	(1,992)	(1,930)
Accumulated other comprehensive income (loss), net of income tax (credit) of $(2,759) in 2013 and $29 in 2012	(4,139)	43
Total Stockholders' Equity	42,228	39,815
Total Liabilities and Stockholders' Equity	$ 67,684	$ 67,176

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

Condensed Statements of Operations
Years Ended December 31, 2013, 2012 and 2011

(In thousands)	2013	2012	2011
Income			
Dividends from subsidiaries	$ –	$ –	$ –
Other income	1,045	20	19
	1,045	20	19
Expenses	1,138	1,486	1,291
Loss before income taxes and equity in undistributed net loss of subsidiaries	(93)	(1,466)	(1,272)
Income tax benefit	-	(494)	(1,142)
Valuation allowance on deferred tax asset		494	2,169
Loss before equity in undistributed net loss of subsidiaries	(93)	(1,466)	(2,299)
Equity in undistributed net income (loss) of subsidiaries	1,135	1,733	(13,524)
Net income (loss)	$ 1,042	$ 267	$ (15,823)

Condensed Statements of Comprehensive Income (Loss)
Years Ended December 31, 2013, 2012 and 2011

(In thousands)	2013	2012	2011
Net income (loss)	$ 1,042	$ 267	$ (15,823)
Other comprehensive income (loss)			
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of $(2,710) in 2013, $(60) in 2012 and $69 in 2011	(4,106)	(91)	104
Less: reclassification adjustment for realized gains included in net income (loss), net of income taxes of $51 in 2013	(76)	–	–
Comprehensive income (loss)	$ (3,140)	$ 176	$ (15,719)

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

Condensed Statements of Cash Flows
Years Ended December 31, 2013, 2012 and 2011

	2013	2012	2011
(In thousands)			
OPERATING ACTIVITIES			
Net Income (loss)	$ 1,042	$ 267	$ (15,823)
Items not requiring (providing) cash:			
Deferred income taxes	–	–	1,197
Equity in undistributed net loss (income) of subsidiaries	(1,135)	(1,733)	13,524
Restricted stock earned	288	245	77
Changes in:			
Other assets	(68)	37	(38)
Other liabilities	(2,992)	1060	943
Net cash used in operating activities	(2,865)	(124)	(120)
INVESTING ACTIVITIES			
Capital contributed to subsidiary	–	–	–
Net cash used in investing activities	–	–	–
FINANCING ACTIVITIES			
Proceeds from sale of additional stock through rights offering	6,333	–	–
Proceeds from sale of common stock through Employee Stock Purchase Plan (ESPP)	19	27	21
Net cash provided by financing activities	6,352	27	21
INCREASE IN CASH AND CASH EQUIVALENTS	3,487	(97)	(99)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	646	743	842
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,133	$ 646	$ 743

Blue Valley Ban Corp.

Stockholder Information 2013

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ANNUAL MEETING OF STOCKHOLDERS
The annual meeting will be held on May 21, 2014 at 5:30 p.m. at the Leawood Banking Center, 13401 Mission Road, Leawood, KS 66209.

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 or contact Mark A. Fortino, Chief Financial Officer, at our corporate office.

STOCK QUOTATION SYMBOL
Shares of Blue Valley Ban Corp. common stock are currently quoted on the OTCQB under the symbol BVBC.

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