



May 15, 2013

Dear Shareholder:

The first quarter of 2013 was a marked improvement in the operating results and financial condition of the Company from the first quarter of 2012. Our earnings for the quarter ended March 31, 2013 were \$76,000, compared to net loss of \$316,000 for the quarter ended March 31, 2012. A copy of Managements' Discussion and Analysis of Operating Results as well as condensed financial statements of the Company for the period are enclosed with this letter.

The Company's improvement in its operating results has resulted from continued improvements in the Company's asset quality which precipitated a \$450,000 reduction in the provision for loan losses in the quarter ended March 31, 2013 compared to the prior year period. The Company also recorded an increase of 9.1% in non-interest income which was partially offset by an increase in non-interest expense of 2.1%.

The Company's subsidiary, Bank of Blue Valley (the "Bank"), improved its total risk based capital to \$72.6 million, resulting in an increase in the Bank's total risk based capital ratio to 14.02% as of March 31, 2013. The Bank maintains \$20.8 million of capital in excess of the regulatory requirement for a well-capitalized institution.

Our strong capital and liquidity has put us in a position to capitalize on future opportunities to originate new loans, add new deposits and expand our non-interest income. We continue to proactively manage and reduce our non-performing loans and we are working to continue these positive trends into the future.

The Bank's ratio of total reserves to total loans was 2.19% as of March 31, 2013, which exceeds and compares favorably with the Uniform Bank Performance Report peer group average of 1.75%. Additionally, the Bank's ratio of non-accrual loans plus loans greater than 90 days past due to total loans was 1.57% as of March 31, 2013, which was below and compares favorably with the Uniform Bank Performance Report peer group average of 1.97%

**Termination of Written Agreement**

As a result of the improved financial condition of the Company and the Bank, satisfactory risk management processes and senior management oversight, and full compliance with all actionable provisions of the Agreement, effective January 11, 2013, the Federal Reserve Bank of Kansas City ("FRB") terminated the written Agreement which the Board of Directors of the Company and the Bank had previously entered into with the FRB as of November 4, 2009.

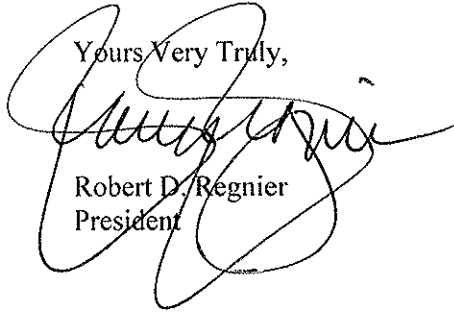
### **Capital Plan**

Further, as a result of the improvements noted above, there has been a great deal of interest in our Company, specifically in our Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("TARP Securities") issued by the Company under the Troubled Asset Relief Program (TARP). The US Treasury is in the process of closing out this program and is auctioning off its holdings in financial institutions across the country. We do not view this as a significant event for our Company.

Our plan has always been, and continues to be, to repay our TARP Securities no matter what institution or entity owns them. We have fully accrued for all past dividends and interest, and those amounts are already out of our earnings and capital numbers. The timing of our payment is up to our primary regulator who asked us to preserve our capital during the recent financial crisis. Given our continued positive progress and our capital plan, we intend to repay all amounts related to our TARP Securities in the future.

Thanks again for your continued support. Please give me a call if you should have any questions with regard to any of this information.

Yours Very Truly,

A large, stylized handwritten signature in black ink, which appears to read "R. Regnier". The signature is written over the printed name and title.

Robert D. Regnier  
President

### **Managements' Discussion and Analysis of Operating Results**

During the first quarter of 2013, net interest income declined 1.9% to \$4.2 million compared to \$4.3 million for the same period in the prior year. The decrease was principally due to a decline in the average rate earned on and the average balance of earning assets, primarily loans, from the same period in 2012. The Company was able to substantially mitigate the impact of these changes by reducing the rates on deposit accounts. The decline in loan balances was the result of loan payoffs and lower loan origination volume due to the current economic environment.

Credit quality and other factors used to determine the level of the Allowance for Loan Losses precipitated a recorded provision of \$0 for the quarter ended March 31, 2013 compared to a provision of \$450,000 for the same period in the prior year. The elimination of any recorded provision for the current year period was the result of the improvement in the Company's loan quality as well as the decline in the balance of total loans. Management continues to work on improving the credit quality of the loan portfolio. The Company's ratio of total reserves to non-accrual loans of 140% as of March 31, 2013 is in line with a recent Uniform Bank Performance Report peer group average.

Non-interest income increased \$146,000 to \$1.8 million, or 9.1%, for the quarter ended March 31, 2013, as compared to the same period in 2012. The increase was the result of a \$127,000 net gain realized on the sale of investment securities available for sale as well as a \$204,000 increase in other income, partially offset by a decline of \$151,000 in loans held for sale fee income during the quarter ended March 31, 2013 compared to the same period in 2012. The increase in other income was primarily attributable to an insurance reimbursement of \$131,000 for litigation expenses incurred in prior years as well as a \$42,000 increase in realized gains on foreclosed assets.

Non-interest expense increased \$120,000, or 2.1%, for the quarter ended March 31, 2013 compared to the same period in the prior year. The increase in non-interest expense was attributed to increases in compensation expenses of \$56,000, or 2.2%, net occupancy expense of \$25,000 or 3.9% and foreclosed assets expense of \$435,000 or 71.5% compared to the prior year period, partially offset by a decrease of \$397,000 or 21.0% in other operating expense. The increase in foreclosed assets expense was primarily due to the Company recording a higher provision for foreclosed assets held for sale for the first quarter of 2013 of \$692,000, compared to a provision for foreclosed assets held for sale of \$128,000 for the first quarter of 2012, an increase of \$564,000, or 440.7%. This was partially offset by a \$117,000 reduction in other foreclosed asset expenses, including losses realized on the sale of foreclosed assets held for sale during the first quarter of 2013 compared to the same period in 2012. The decline in other operating expenses during the quarter ended March 31, 2013 compared to the same period in 2012 was due to lower professional fees and deposit assessment by the Federal Deposit Insurance Corporation (FDIC). The FDIC deposit assessment is lower as a result of a decrease in assessment base and a reduction in the Bank's assessment rate.

Total assets, loans and deposits at March 31, 2013 were \$645.5 million, \$415.5 million and \$464.6 million, respectively, compared to \$671.9 million, \$437.9 million and \$507.4 million one year earlier, respectively, decreases of 3.9%, 5.1% and 8.4% for assets, loans and deposits, respectively. As of March 31, 2013, the Company's subsidiary, Bank of Blue Valley, maintained capital levels in excess of regulatory requirements for a well-capitalized institution.



**Blue Valley Ban Corp.**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2013 and December 31, 2012**  
*(In thousands, except share data)*

|                                                                                                   | <u>March 31, 2013</u> | <u>December 31, 2012</u> |
|---------------------------------------------------------------------------------------------------|-----------------------|--------------------------|
|                                                                                                   | <i>(Unaudited)</i>    |                          |
| <b>ASSETS</b>                                                                                     |                       |                          |
| Cash and due from banks                                                                           | \$ 23,203             | \$ 33,353                |
| Interest-bearing deposits in other financial institutions                                         | <u>75,232</u>         | <u>67,724</u>            |
| Cash and cash equivalents                                                                         | 98,435                | 101,077                  |
| Available-for-sale securities                                                                     | 75,446                | 77,845                   |
| Mortgage loans held for sale, fair value                                                          | 3,902                 | 7,621                    |
| Loans, net of allowance for loan losses of \$9,165<br>and \$10,841 in 2013 and 2012, respectively | 406,369               | 406,614                  |
| Premises and equipment, net                                                                       | 15,598                | 15,448                   |
| Foreclosed assets held for sale, net                                                              | 28,901                | 31,936                   |
| Interest receivable                                                                               | 1,731                 | 1,529                    |
| Deferred income taxes                                                                             | 1,325                 | 1,121                    |
| Prepaid expenses and other assets                                                                 | 6,105                 | 6,095                    |
| Federal Home Loan Bank stock, Federal Reserve Bank stock,<br>and other securities                 | 7,572                 | 7,540                    |
| Core deposit intangible asset, at amortized cost                                                  | <u>143</u>            | <u>179</u>               |
| Total assets                                                                                      | \$ <u>645,527</u>     | \$ <u>657,005</u>        |

**Blue Valley Ban Corp.**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2013 and December 31, 2012**  
*(In thousands, except share data)*

|                                                                                                                                                                       | <u>March 31, 2013</u> | <u>December 31, 2012</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------|
|                                                                                                                                                                       | <i>(Unaudited)</i>    |                          |
| <b>LIABILITIES</b>                                                                                                                                                    |                       |                          |
| Deposits                                                                                                                                                              |                       |                          |
| Demand                                                                                                                                                                | \$ 104,502            | \$ 113,698               |
| Savings, NOW and money market                                                                                                                                         | 236,704               | 235,632                  |
| Time                                                                                                                                                                  | <u>123,429</u>        | <u>135,136</u>           |
| Total deposits                                                                                                                                                        | 464,635               | 484,466                  |
| Other interest-bearing liabilities                                                                                                                                    | 29,905                | 21,668                   |
| Long-term debt                                                                                                                                                        | 101,280               | 101,111                  |
| Interest payable and other liabilities                                                                                                                                | <u>10,359</u>         | <u>9,945</u>             |
| Total liabilities                                                                                                                                                     | <u>606,179</u>        | <u>617,190</u>           |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                           |                       |                          |
| Capital stock                                                                                                                                                         |                       |                          |
| Preferred stock, \$1 par value, \$1,000 liquidation preference;<br>authorized 15,000,000 shares; issued and outstanding<br>2012 – 21,750 shares; 2011 – 21,750 shares | 22                    | 22                       |
| Common stock, par value \$1 per share;<br>authorized 15,000,000 shares; issued and outstanding<br>2012 – 2,883,936 shares; 2011 – 2,879,158 shares                    | 2,939                 | 2,934                    |
| Additional paid-in capital                                                                                                                                            | 38,776                | 38,746                   |
| Retained earnings (Accumulated deficit)                                                                                                                               | (2,126)               | (1,930)                  |
| Accumulated other comprehensive income, net of income tax of<br>\$36 in 2012 and \$89 in 2011                                                                         | <u>(263)</u>          | <u>43</u>                |
| Total stockholders' equity                                                                                                                                            | <u>39,348</u>         | <u>39,815</u>            |
| Total liabilities and stockholders' equity                                                                                                                            | <u>\$ 645,527</u>     | <u>\$ 657,005</u>        |

**Blue Valley Ban Corp.**  
**Condensed Consolidated Statements of Operations**  
**Three Months Ended March 31, 2013 and 2012**  
*(In thousands, except share data)*

|                                                                    | <u>March 31, 2013</u><br><i>(Unaudited)</i> | <u>March 31, 2012</u><br><i>(Unaudited)</i> |
|--------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>INTEREST AND DIVIDEND INCOME</b>                                |                                             |                                             |
| Interest and fees on loans                                         | \$ 5,282                                    | \$ 5,884                                    |
| Federal funds sold and other short-term investments                | 40                                          | 43                                          |
| Available-for-sale securities                                      | 348                                         | 268                                         |
| Dividends on Federal Home Loan Bank and Federal Reserve Bank stock | 32                                          | 29                                          |
| Total interest and dividend income                                 | <u>5,702</u>                                | <u>6,224</u>                                |
| <b>INTEREST EXPENSE</b>                                            |                                             |                                             |
| Interest-bearing demand deposits                                   | 80                                          | 265                                         |
| Savings and money market deposit accounts                          | 69                                          | 84                                          |
| Other time deposits                                                | 470                                         | 700                                         |
| Federal funds purchased and other interest-bearing liabilities     | 6                                           | 9                                           |
| Long-term debt, net                                                | 907                                         | 912                                         |
| Total interest expense                                             | <u>1,532</u>                                | <u>1,970</u>                                |
| <b>NET INTEREST INCOME</b>                                         | 4,170                                       | 4,254                                       |
| <b>PROVISION FOR LOAN LOSSES</b>                                   | <u>-</u>                                    | <u>450</u>                                  |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>         | <u>4,170</u>                                | <u>3,804</u>                                |
| <b>NON-INTEREST INCOME</b>                                         |                                             |                                             |
| Loans held for sale fee income                                     | 392                                         | 543                                         |
| NSF charges and service fees                                       | 243                                         | 256                                         |
| Other service charges                                              | 597                                         | 618                                         |
| Realized gains on available-for-sale securities                    | 127                                         | -                                           |
| Other income                                                       | 397                                         | 193                                         |
| Total non-interest income                                          | <u>1,756</u>                                | <u>1,610</u>                                |
| <b>NON-INTEREST EXPENSE</b>                                        |                                             |                                             |
| Salaries and employee benefits                                     | 2,638                                       | 2,581                                       |
| Net occupancy expense                                              | 672                                         | 647                                         |
| Foreclosed assets expense                                          | 1,044                                       | 609                                         |
| Other operating expense                                            | 1,496                                       | 1,893                                       |
| Total non-interest expense                                         | <u>5,850</u>                                | <u>5,730</u>                                |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>                           | 76                                          | (316)                                       |
| <b>PROVISION (BENEFIT) FOR INCOME TAXES</b>                        |                                             |                                             |
| Benefit for income taxes                                           | (21)                                        | (104)                                       |
| Valuation allowance for deferred tax asset                         | 21                                          | 103                                         |
| Total provision (benefit) for income taxes                         | <u>-</u>                                    | <u>(1)</u>                                  |
| <b>NET INCOME (LOSS)</b>                                           | <u>76</u>                                   | <u>(315)</u>                                |
| <b>DIVIDENDS AND ACCRETION ON PREFERRED STOCK</b>                  | <u>(272)</u>                                | <u>(272)</u>                                |
| <b>NET LOSS AVAILABLE TO COMMON STOCKHOLDERS</b>                   | \$ <u>(196)</u>                             | \$ <u>(587)</u>                             |
| <b>BASIC LOSS PER SHARE</b>                                        | \$ <u>(0.07)</u>                            | \$ <u>(0.21)</u>                            |
| <b>DILUTED LOSS PER SHARE</b>                                      | \$ <u>(0.07)</u>                            | \$ <u>(0.21)</u>                            |

