Blue Valley Ban Corp.

February 16, 2017

Dear Stockholder:

Through the fourth quarter of 2016 we continued our progress toward improved operating results and financial condition of the Company. Our consolidated earnings for the quarter and year-to-date periods ended December 31, 2016 were $134,000 and $1.6 million, respectively, compared to $92,000 and $665,000, respectively, for the comparable periods ended December 31, 2015. Earnings (loss) per common share for the quarter and year-to-date periods ended December 31, 2016 improved to $0.02 and $0.29, respectively, compared to net earnings (loss) per share of $0.02 and $(0.14), respectively, for the prior year quarter and year-to-date periods ended December 31, 2015. Numerous factors, including but not limited to, the growth and improvement of the mix of our earning assets, more efficient deployment of our staffing, renegotiation of a significant third party service provider contract, as well as reductions to our cost of wholesale funding were key elements of our progress in 2016 and have provided a basis for improved returns. A copy of Managements' Discussion and Analysis of Operating Results, as well as condensed financial statements of the Company for the period, is enclosed with this letter.

While earnings per common share for the quarter ended December 31, 2016 were equivalent to the comparable period in the previous year, the improvement in earnings per common share during the year ended December 31, 2016, compared to the previous year, was primarily the result of an increase to net interest income and non-interest income, and the current year impact of our August, 2015 redemption of its $21.75 million of Series A Fixed Rate Cumulative Preferred Stock.

Earning asset growth, coupled with reductions to our cost of funding, resulted in increases in net interest income during the quarter and year-to-date periods ended December 31, 2016 compared to the prior year periods. Net interest income increased by $387,000, or 8.0%, during the quarter ended December 31, 2016, compared to the quarter ended December 31, 2015. Net interest income increased by $1.0 million, or 5.4%, during the year ended December 31, 2016, compared to the prior year.

The average balance of our gross loans held for investment increased by nearly $28.4 million or 6.4% during the quarter ending December 31, 2016 compared to the preceding quarter, and increased by nearly $21.5 million or 5.0% in the year ending December 31, 2016 compared to 2015. In today's low interest rate environment, loan growth is critical to improving the Company's net interest income and operating performance.

Non-interest income increased by $1.4 million, or 101.6%, during the quarter ended December 31, 2016, compared to the prior year quarter, primarily due to gains on the sale of securities available for sale of $953,000 and a $451,000 increase in other income, partially offset by a $145,000 decline in loans held for sale fee income. Non-interest income increased by $1.0 million, or 15.7%, during the year ended December 31, 2016, compared to the prior year, primarily due to gains on the sale of securities available for sale of $1.9 million, partially offset by a $784,000 decline in loans held for sale fee income.

Non-interest expense increased by $908,000, or 15.6%, for the quarter ended December 31, 2016 compared to the same period in the prior year due to increases in net occupancy expense of $107,000, foreclosed asset expense of $420,000 and other operating expense of approximately $392,000. For the year ended December 31, 2016, total non-interest expense was approximately equivalent to the prior year.

We recorded a provision for loan loss of $950,000 during the quarter ended December 31, 2016 compared to a provision for loan loss of $200,000 during the quarter ended December 31, 2015. For the year ended December 31, 2016, we recorded a provision for loan loss of $1.9 million compared to a provision of $1.5 million in the prior year. The increases in the provision during the quarter and year ended December 31, 2016 were primarily the result of loan growth, net of the impact of improvement to the credit quality of the Company's loan portfolio. Management evaluates credit risk on an ongoing basis to determine an appropriate level for the allowance for loan losses.

The Bank maintained its capital levels above regulatory requirements. The Bank's total risk-based capital of $73.2 million resulted in a total risk based capital ratio of 12.21% for the Bank as of December 31, 2016. The Bank has approximately $13.3 million of capital in excess of the regulatory requirement for a well-capitalized institution.

We are focused on our strategic goals for 2017 and we thank you for your continued support of our Company.

Yours Very Truly,

Robert D. Regnier
President

Managements' Discussion and Analysis of Quarterly Operating Results

Net interest income increased to $5.2 million in the fourth quarter of 2016 compared to $4.8 million in the same period in the prior year. The increase is due to an increase in the average balance of earning assets and reduction in the average rate paid on interest-bearing liabilities, partially offset by a decline in the average rate earned on our loan and investment portfolios. Our average balance of total loans held for investment increased by approximately $28.4 million, or 6.4% during the fourth quarter of 2016, compared to the same period in the prior year. The decline in the average rate paid on interest-bearing liabilities during the quarter ended December 31, 2016, compared to the prior year quarter, was primarily a result of the maturity and redemption of higher-cost FHLBank term advances during the current year and prior year quarter as well as maturity and repricing of time deposits.

Credit quality and other factors used to determine the level of the allowance for loan losses precipitated a $950,000 provision for loan loss for the quarter ended December 31, 2016 compared to a provision of $200,000 for the same period in the prior year. Management evaluates credit risk on an ongoing basis to determine an appropriate level for the allowance for loan losses. The impact of loan growth, partially offset by the impact of improvement to the credit quality of the Company's loan portfolio were key factors for the determination of the level for the allowance for loan losses for the quarter ended December 31, 2016. The ratio of the Company's allowance for loan losses to non-accrual loans improved to approximately 1,020%. We continue to strive to improve the credit quality of the loan portfolio.

Non-interest income increased by $1.4 million, or 101.6%, during the quarter ended December 31, 2016, compared to the prior year quarter, primarily due to gains on the sale of securities available for sale of $953,000 as well as a $451,000 increase in other income, partially offset by a $145,000 decline in loans held for sale fee income. The increase in other income resulted primarily from $527,000 of income collected on loans previously charged off. The decline in loans held for sale fee income resulted from the Company's strategic decision to discontinue originating and selling residential mortgage loans to the secondary mortgage market beginning in 2016.

Non-interest expense increased by $908,000, or 15.6%, for the quarter ended December 31, 2016 compared to the same period in the prior year due to increases in net occupancy expense of $107,000, foreclosed asset expense of $420,000 and other operating expense of approximately $392,000. The increase in other operating expense was primarily due to the write-off of unamortized modification fee on the FHLBank advances paid off prior to their maturity, partially offset by reductions to FDIC assessment and data processing expenses.

Total assets, loans held for investment and deposits at December 31, 2016 were $674.4 million, $493.7 million and $512.5 million, respectively, compared to $638.2 million, $448.7 million and $483.2 million at December 31, 2015, respectively. As of December 31, 2016, the Company's subsidiary, Bank of Blue Valley, maintained capital levels in excess of regulatory requirements for a well-capitalized institution.

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Blue Valley Ban Corp.

Condensed Consolidated Balance Sheets

December 31, 2016 and December 31, 2015

(*In thousands, except share data*)

ASSETS

	December 31, 2016	December 31, 2015
	(Unaudited)	
Cash and due from banks	$ 17,766	$ 22,178
Interest-bearing deposits in other financial institutions	8,272	23,655
Cash and cash equivalents	26,038	45,833
Available-for-sale securities	107,760	91,560
Mortgage loans held for sale, fair value	–	2,258
Loans, net of allowance for loan losses of $6,164 and $4,731 in 2016 and 2015, respectively	487,518	443,962
Premises and equipment, net	12,046	11,739
Bank-owned real estate held for sale, net	5,915	5,892
Foreclosed assets held for sale, net	5,883	9,644
Interest receivable	1,785	1,727
Deferred income taxes	14,304	12,902
Prepaid expenses and other assets	7,939	7,923
FHLBank stock, Federal Reserve Bank stock, and other securities	5,244	4,805
Total assets	$ 674,432	$ 638,245

Blue Valley Ban Corp.

Condensed Consolidated Balance Sheets

December 31, 2016 and December 31, 2015

(*In thousands, except share data*)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2016	December 31, 2015
	(Unaudited)	
LIABILITIES		
Deposits		
Demand	$ 150,274	$ 129,180
Savings, NOW and money market	280,628	251,765
Time	81,575	102,297
Total deposits	512,477	483,242
Other interest-bearing liabilities	63,142	35,746
Long term debt	53,333	72,786
Interest payable and other liabilities	2,045	1,745
Total liabilities	630,997	593,519
STOCKHOLDERS' EQUITY		
Capital stock		
Series A Preferred stock, $1 par value, $1,000 liquidation preference; authorized 15,000,000 shares; issued and outstanding 2016 and 2015 – 0 shares	–	–
Series B Preferred stock, $1 par value, convertible to common stock; pari passu with common stock upon liquidation; authorized 1,000,000 shares; issued and outstanding 2016 and 2015 – 471,979 shares	472	472
Common stock, par value $1 per share; authorized 15,000,000 shares; issued and outstanding 2016 – 5,644,553 shares; 2015 – 5,371,353 shares	5,644	5,371
Additional paid-in capital	30,858	30,657
Retained earnings	9,842	8,276
Accumulated other comprehensive loss, net of income tax (credit) of $(2,254) in 2016 and $(33) in 2015	(3,381)	(50)
Total stockholders' equity	43,435	44,726
Total liabilities and stockholders' equity	$ 674,432	$ 638,245

Blue Valley Ban Corp.

Condensed Consolidated Statements of Operations

Three and Twelve Months Ended December 31, 2016 and 2015

(*In thousands, except share data*)

	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, 2015
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	
INTEREST INCOME				
Interest and fees on loans	$ 5,419	$ 5,225	$ 20,949	$ 20,418
Federal funds sold and other short-term investments	35	30	185	89
Available-for-sale securities	542	439	1,938	1,880
Dividends on FHLBank and Federal Reserve Stock	79	81	202	231
Total interest income	6,075	5,775	23,274	22,618
INTEREST EXPENSE				
Interest-bearing demand deposits	73	62	239	246
Savings and money market deposit accounts	108	93	401	341
Time deposits	130	230	609	868
Federal funds purchased and other interest-bearing liabilities	14	8	33	25
Long-term debt, net	536	555	2,307	2,470
Total interest expense	861	948	3,589	3,950
NET INTEREST INCOME	5,214	4,827	19,685	18,668
PROVISION FOR LOAN LOSSES	950	200	1,925	1,450
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,264	4,627	17,760	17,218
NON-INTEREST INCOME				
Loans held for sale fee income	–	145	95	879
Service fees	883	865	3,575	3,638
Realized gains (losses) on available-for-sale securities	953	(73)	1,879	(78)
Other income	843	392	1,964	2,052
Total non-interest income	2,679	1,329	7,513	6,491
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,887	2,898	10,734	11,205
Net occupancy expense	683	576	2,720	2,699
Foreclosed assets expense	1,064	644	3,021	2,522
Other operating expense	2,108	1,716	6,413	6,342
Total non-interest expense	6,742	5,834	22,888	22,768
INCOME (LOSS) BEFORE INCOME TAXES	201	122	2,385	941
PROVISION (BENEFIT) FOR INCOME TAXES	67	30	819	276
NET INCOME (LOSS)	134	92	1,566	665
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	–	–	–	1,333
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 134	$ 92	$ 1,566	$ (668)
BASIC EARNINGS (LOSS) PER SHARE	$0.02	$0.02	$0.29	$(0.14)
DILUTED EARNINGS (LOSS) PER SHARE	$0.02	$0.02	$0.29	$(0.14)