



Blue Valley Ban Corp.

February 26, 2016

Dear Stockholder:

Through the fourth quarter of 2015 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 ending December 31, 2015 were \$92,000 and \$665,000, respectively, compared to \$432,000 and \$12.8 million, respectively, for the comparable periods ending December 31, 2014. Our prior year-to-date earnings were impacted by our recovery of our \$11.8 million deferred tax asset (“DTA”) valuation allowance during the third quarter of 2014. The recovery of the DTA valuation allowance was predicated by an assessment of our future ability to realize our deferred tax asset. Earnings (loss) per common share for the quarter and year-to-date periods ending December 31, 2015 were \$0.02 and \$(0.14), respectively, compared to net earnings (loss) per share of \$(0.01) and \$2.40, respectively, for the prior year quarter and year-to-date periods ending December 31, 2014. Excluding the impact of the recovery of the DTA valuation allowance, our consolidated earnings for the year ended December 31, 2014 were approximately \$1.0 million, and earnings per share for the year ended December 31, 2014 were increased by approximately \$2.56 as a result of the recovery of the DTA valuation allowance. Improved asset quality and net interest income, as well as loan growth, were key elements of our progress in 2015. These factors, coupled with our investment in marketing resources and technology, establish a strong foundation for future growth and success. A copy of Management’s Discussion and Analysis of Operating Results, as well as condensed financial statements of the Company for the period, is enclosed with this letter.

During the year and quarter ending December 31, 2015, we reduced our balance of foreclosed assets held for sale by approximately \$7.1 million and \$5.6 million, respectively. Coupled with reductions to the recorded balance of non-accrual loans during 2015, we reduced our balance of total non-performing assets by nearly 40% in 2015. The substantial reduction to our foreclosed assets held for sale precipitated an increase to our foreclosed asset expense, however, was a necessary consequence to eliminating the legacy costs resulting from the previous recession and to enhance the Company’s position for the future. Additionally, as of December 31, 2015, the ratio of non-accrual loans plus accruing loans greater than 90 days past due to total loans for the Bank of Blue Valley (the “Bank”), was reduced to 0.88%, which was comparable with the most recent Uniform Bank Performance Report peer group ratio of 0.87%.

The average balance of our gross loans held for investment increased by nearly \$6 million or 1.4% during the quarter ending December 31, 2015 compared to the preceding quarter, and increased by nearly \$17 million or 4.1% in the year ending December 31, 2015 compared to 2014. In today’s low interest rate environment, loan growth is critical to improving the Company’s net interest income and operating performance.

Net interest income increased by approximately 6.3% and 2.7% during the quarter and year ending December 31, 2015, respectively, compared to the prior year comparable periods, primarily due to the increase in the average balance of loans held for investment.

We recorded provisions to the allowance for loan losses of \$200,000 and \$1.45 million during the quarter and year ending December 31, 2015 compared to \$0 and \$400,000 during the prior year comparable periods to maintain a prudently conservative financial position for the Company. The 2015 provision for

loan losses was precipitated by loan growth as well as recognition of degrading credit quality of two loans which we had previously adversely classified.

The Bank maintained its capital levels above regulatory requirements. The Bank's total risk-based capital of \$70.9 million resulted in a total risk based capital ratio of 12.63% for the Bank as of December 31, 2015. The Bank has approximately \$14.8 million of capital in excess of the regulatory requirement for a well-capitalized institution.

We are focused on our strategic goals for 2016 and we thank you for your continued support of our Company.

Yours Very Truly,

A handwritten signature in black ink, appearing to read 'Rob Regnier', with a long horizontal flourish extending to the right.

Robert D. Regnier
President

Managements' Discussion and Analysis of Quarterly Operating Results

Net interest income increased to \$4.8 million in the fourth quarter of 2015 from \$4.5 million compared to the same period in the prior year. The increase is due to an increase in the average balance of loans held for investment and reduction in the average rate paid on time deposits and long-term debt, 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 \$29.8 million, or 7.2% during the fourth quarter of 2015, compared to the same period in the prior year.

Credit quality and other factors used to determine the level of the Allowance for Loan Losses precipitated a \$200,000 provision for loan loss for the quarter ended December 31, 2015 compared to no provision for the same period in the prior year. Management continues to strive to improve the credit quality of the loan portfolio. The Company's ratio of total reserves to non-accrual loans was 120% as of December 31, 2015.

Non-interest income declined \$129,000, or 8.8%, to \$1.3 million for the quarter ended December 31, 2015, compared to the same period in 2014 due to \$73,000 of realized loss on the sale of available-securities and a decrease in other income. During the fourth quarter of 2015, we took advantage of an opportunity to greatly reduce interest rate risk in the Bank's investment portfolio by selling all of the Bank's US Agency securities with call and rate step-up provisions, and replacing them with shorter-maturity, non-callable US Agency securities. The decrease in other income was primarily the result of non-recurring realized gains on the sale of foreclosed assets during the fourth quarter of 2014.

Non-interest expense increased \$495,000, or 9.3%, for the quarter ended December 31, 2015 compared to the same period in the prior year. The increase in non-interest expense was principally attributed to an increase in foreclosed assets expense of \$405,000 due to an increase in provision for foreclosed assets to \$480,000 during the quarter ended December 31, 2015 compared to \$20,000 in the prior year period.

Total assets, loans held for investment and deposits at December 31, 2015 were \$638.2 million, \$448.7 million and \$483.2 million, respectively, compared to \$638.4 million, \$422.8 million and \$468.8 million at December 31, 2014, respectively. As of December 31, 2015, 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, 2015 and December 31, 2014
(In thousands, except share data)

ASSETS	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 22,178	\$ 26,575
Interest-bearing deposits in other financial institutions	<u>23,655</u>	<u>42,442</u>
Cash and cash equivalents	45,833	69,017
Available-for-sale securities	91,560	91,372
Mortgage loans held for sale, fair value	2,258	588
Loans, net of allowance for loan losses of \$4,731 and \$6,386 in 2015 and 2014, respectively	443,962	416,407
Premises and equipment, net	11,739	16,226
Bank-owned real estate held for sale, net	5,892	-
Foreclosed assets held for sale, net	9,644	16,758
Interest receivable	1,727	1,603
Deferred income taxes	12,902	13,445
Prepaid expenses and other assets	7,923	7,539
FHLBank stock, Federal Reserve Bank stock, and other securities	<u>4,805</u>	<u>5,490</u>
Total assets	<u>\$ 638,245</u>	<u>\$ 638,445</u>

Blue Valley Ban Corp.
Condensed Consolidated Balance Sheets
December 31, 2015 and December 31, 2014
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
	<i>(Unaudited)</i>	
LIABILITIES		
Deposits		
Demand	\$ 129,180	\$ 120,974
Savings, NOW and money market	251,765	248,166
Time	102,297	99,619
Total deposits	483,242	468,759
Short term debt	35,746	30,780
Long term debt	72,786	71,528
Interest payable and other liabilities	1,745	8,918
Total liabilities	593,519	579,985
 STOCKHOLDERS' EQUITY		
Capital stock		
Series A Preferred stock, \$1 par value, \$1,000 liquidation preference; authorized 15,000,000 shares; issued and outstanding 2015 – 0 shares; 2014 – 21,750 shares	–	22
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 2015 – 471,979 shares; 2014 – 0 shares	472	–
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2015 – 5,371,353 shares; 2014 – 4,649,001 shares	5,371	4,649
Additional paid-in capital	30,657	45,328
Retained earnings	8,276	9,030
Accumulated other comprehensive income, net of income tax credit of \$33 in 2015 and \$380 in 2014	(50)	(569)
Total stockholders' equity	44,726	58,460
Total liabilities and stockholders' equity	\$ 638,245	\$ 638,445

Blue Valley Ban Corp.
Condensed Consolidated Statements of Operations
Three and Twelve Months Ended December 31, 2015 and 2014
(In thousands, except share data)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2015	2014	2015	2014
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
INTEREST INCOME				
Interest and fees on loans	\$ 5,225	\$ 4,985	\$ 20,418	\$ 20,283
Federal funds sold and other short-term investments	30	33	89	97
Available-for-sale securities	439	518	1,880	2,062
Dividends on FHLBank and Federal Reserve Stock	81	90	231	242
Total interest income	<u>5,775</u>	<u>5,626</u>	<u>22,618</u>	<u>22,684</u>
INTEREST EXPENSE				
Interest-bearing demand deposits	62	65	246	269
Savings and money market deposit accounts	93	80	341	305
Other time deposits	230	283	868	1,247
Federal funds purchased and other interest-bearing liabilities	8	6	25	25
Long-term debt, net	555	650	2,470	2,668
Total interest expense	<u>948</u>	<u>1,084</u>	<u>3,950</u>	<u>4,514</u>
NET INTEREST INCOME	4,827	4,542	18,668	18,170
PROVISION FOR LOAN LOSSES	<u>200</u>	<u>—</u>	<u>1,450</u>	<u>400</u>
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	<u>4,627</u>	<u>4,542</u>	<u>17,218</u>	<u>17,770</u>
NON-INTEREST INCOME				
Loans held for sale fee income	145	123	879	628
Service fees	865	837	3,638	3,378
Realized gains (losses) on available-for-sale securities	(73)	20	(78)	36
Other income	392	478	2,052	1,599
Total non-interest income	<u>1,329</u>	<u>1,458</u>	<u>6,491</u>	<u>5,641</u>
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,898	2,840	11,205	10,826
Net occupancy expense	576	646	2,699	2,716
Foreclosed assets expense	644	239	2,522	2,426
Other operating expense	1,716	1,614	6,342	6,238
Total non-interest expense	<u>5,834</u>	<u>5,339</u>	<u>22,768</u>	<u>22,206</u>
INCOME (LOSS) BEFORE INCOME TAXES	122	661	941	1,205
PROVISION (BENEFIT) FOR INCOME TAXES	<u>30</u>	<u>229</u>	<u>276</u>	<u>(11,557)</u>
NET INCOME (LOSS)	<u>92</u>	<u>432</u>	<u>665</u>	<u>12,762</u>
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	<u>—</u>	<u>490</u>	<u>1,333</u>	<u>1,740</u>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 92</u>	<u>\$ (58)</u>	<u>\$ (668)</u>	<u>\$ 11,022</u>
BASIC EARNINGS (LOSS) PER SHARE	<u>\$0.02</u>	<u>\$(0.01)</u>	<u>\$(0.14)</u>	<u>\$2.40</u>
DILUTED EARNINGS (LOSS) PER SHARE	<u>\$0.02</u>	<u>\$(0.01)</u>	<u>\$(0.14)</u>	<u>\$2.40</u>