



October 31, 2016

Dear Stockholder:

For the quarter ended September 30, 2016, Blue Valley Ban Corp. recognized consolidated net income of \$562,000 compared to net income of \$84,000 in the comparable prior year quarter. For the nine months ended September 30, 2016, consolidated earnings improved to \$1.4 million, compared to net income of \$573,000 for the prior year-to-date period. Net income per common share for the quarter and year-to-date periods ended September 30, 2016 was \$0.10 and \$0.27, respectively, compared to net loss per common share of \$(0.02) and \$(0.16), respectively, for the prior year quarter and year-to-date periods ended September 30, 2015. 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.

The improvement in earnings per common share during the periods ended September 30, 2016, compared to the previous year, was the result of an increase to net interest income, reduction of non-interest expense, and the current year impact of our August, 2015 redemption of its \$21.75 million of Series A Fixed Rate Cumulative Preferred Stock, partially offset by a decline in non-interest income.

Net interest income increased by \$87,000, or 1.8%, during the quarter ended September 30, 2016, compared to the quarter ended September 30, 2015, due to an increase in the average balance of loans, partially offset by the recognition of interest income for settlement of collection litigation in the prior year quarter, as well as the reduction in the average rate paid on interest-bearing liabilities.

Non-interest income declined by \$417,000, or 20.5%, during the quarter ended September 30, 2016, compared to the same period in 2015, primarily due to \$668,000 of noninterest income recognized during the prior year quarter for settlement of collection litigation, and a reduction in loans held for sale fee income, partially offset by realized gains on the sale of investment securities of \$392,000 during the current year quarter.

Non-interest expense declined by \$1.02 million, or 15.2%, for the quarter ended September 30, 2016 compared to the same period in the prior year due to reductions in foreclosed asset expense, salaries and employee benefits expense, and in other operating expenses.

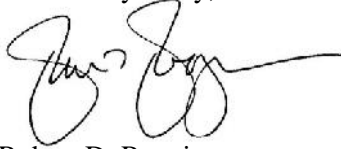
We recorded no provision for loan loss during either of the quarters ended September 30, 2016 and 2015, respectively. Management evaluates credit risk on an ongoing basis to determine an appropriate level for the allowance for loan losses. Improvement to the credit quality of the Company's loan portfolio was a key factor for the determination of the level for the allowance for loan losses for the quarter ended September 30, 2016. The ratio of the Company's allowance for loan losses to non-accrual loans improved to approximately 450%, which exceeded a recent peer ratio of 366%.

Bank of Blue Valley's total risk based capital ratio of 12.28% as of September 30, 2016 exceeded the regulatory requirement for a well-capitalized institution by approximately \$13.3 million.

The balance of total loans held for investment was \$459.3 million as of September 30, 2016, compared to \$448.7 million at December 31, 2015. Total deposits at the end of the quarter were \$531.4 million, compared to \$483.2 million at December 31, 2015.

We remain 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 'Bob 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 \$4.89 million in the third quarter of 2016 from \$4.80 million, compared to the same period in the prior year. The increase is primarily due to an increase in the average balance of loans, partially offset by the recognition of approximately \$170,000 of interest income for settlement of collection litigation in the prior year quarter, as well as the reduction in the average rate paid on interest-bearing liabilities, during the third quarter of 2016 compared to the prior year quarter. The decline in the average rate paid on interest-bearing liabilities during the quarter ended September 30, 2016, compared to the prior year quarter, was primarily a result of the maturity and redemption of higher-cost FHLBank term advances during the prior year quarter and maturity and repricing of time deposits.

We recorded no provision for loan loss during either of the quarters ended September 30, 2016 and 2015, respectively. Management evaluates credit risk on an ongoing basis to determine an appropriate level for the allowance for loan losses. Improvement to the credit quality of the Company's loan portfolio was a key factor for the determination of the level for the allowance for loan losses for the quarter ended September 30, 2016. The ratio of the Company's allowance for loan losses to non-accrual loans improved to approximately 450%, which exceeded a recent peer ratio of 366%. We continue to strive to improve the credit quality of the loan portfolio.

Non-interest income declined by \$417,000, or 20.5%, during the quarter ended September 30, 2016, compared to the same period in 2015, primarily due to \$668,000 of noninterest income recognized during the prior year quarter for settlement of collection litigation, and a reduction in loans held for sale fee income of \$210,000, partially offset by realized gains on the sale of investment securities of \$392,000 during the current year quarter. 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. Additionally, during the current year quarter, the Company took advantage of an opportunity to sell available-for-sale securities to maximize taxable income and realize deferred tax assets.

The Company's non-interest expense declined by \$1.02 million, or 15.2%, for the quarter ended September 30, 2016 compared to the same period in the prior year due to reductions of \$673,000 in foreclosed asset expense, \$149,000 in salaries and employee benefits expense, and \$148,000 in other operating expenses. The 2016 decline in salaries and employee benefits was primarily attributable, and the decline in other operating expenses was partially attributable, to the Company's strategic decision to discontinue originating and selling residential mortgage loans to the secondary mortgage market beginning in 2016.

Total assets, loans held for investment and deposits at September 30, 2016 were \$693.4 million, \$459.3 million and \$531.4 million, respectively, compared to \$638.2 million, \$448.7 million and \$483.2 million at December 31, 2015, respectively. As of September 30, 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.
September 30, 2016 and December 31, 2015
(In thousands, except share data)

ASSETS	September 30, 2016	December 31, 2015
	<i>(Unaudited)</i>	
Cash and due from banks	\$ 26,545	\$ 22,178
Interest-bearing deposits in other financial institutions	<u>49,700</u>	<u>23,655</u>
Cash and cash equivalents	76,245	45,833
Available-for-sale securities	109,102	91,560
Mortgage loans held for sale, fair value	–	2,258
Loans, net of allowance for loan losses of \$4,687 and \$4,731 in 2016 and 2015, respectively	454,593	443,962
Premises and equipment, net	11,531	11,739
Bank-owned real estate held for sale, net	5,896	5,892
Foreclosed assets held for sale, net	10,305	9,644
Interest receivable	1,565	1,727
Deferred income taxes	11,437	12,902
Prepaid expenses and other assets	7,896	7,923
FHLBank stock, Federal Reserve Bank stock, and other securities	<u>4,879</u>	<u>4,805</u>
Total assets	\$ <u>693,449</u>	\$ <u>638,245</u>

Blue Valley Ban Corp.
September 30, 2016 and December 31, 2015
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2016	December 31, 2015
	(Unaudited)	
LIABILITIES		
Deposits		
Demand	\$ 170,751	\$ 129,180
Savings, NOW and money market	282,355	251,765
Time	<u>78,309</u>	<u>102,297</u>
Total deposits	531,415	483,242
Other interest-bearing liabilities	39,636	35,746
Long-term debt	72,677	72,786
Interest payable and other liabilities	<u>2,355</u>	<u>1,745</u>
Total liabilities	<u>646,083</u>	<u>593,519</u>
STOCKHOLDERS' EQUITY		
Capital stock		
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 – 471,979 shares; 2015 – 471,979 shares	472	472
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2016 – 5,388,882 shares; 2015 – 5,371,353 shares	5,389	5,371
Additional paid-in capital	30,777	30,657
Retained earnings	9,708	8,276
Accumulated other comprehensive income (loss), net of income tax (credit) of \$680 in 2016 and \$(33) in 2015	<u>1,020</u>	<u>(50)</u>
Total stockholders' equity	<u>47,366</u>	<u>44,726</u>
Total liabilities and stockholders' equity	\$ <u>693,449</u>	\$ <u>638,245</u>

Blue Valley Ban Corp.
Condensed Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2016 and 2015
(In thousands, except share data)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
INTEREST INCOME				
Interest and fees on loans	\$ 5,229	\$ 5,263	\$ 15,530	\$ 15,193
Federal funds sold and other short-term investments	50	18	150	59
Available-for-sale securities	487	481	1,396	1,441
Dividends on FHLBank and Federal Reserve Stock	21	28	123	150
Total interest income	<u>5,787</u>	<u>5,790</u>	<u>17,199</u>	<u>16,843</u>
INTEREST EXPENSE				
Interest-bearing demand deposits	51	62	166	184
Savings and money market deposit accounts	102	88	293	248
Other time deposits	140	212	479	638
Federal funds purchased and other interest-bearing liabilities	7	6	19	17
Long-term debt, net	<u>596</u>	<u>618</u>	<u>1,771</u>	<u>1,915</u>
Total interest expense	<u>896</u>	<u>986</u>	<u>2,728</u>	<u>3,002</u>
NET INTEREST INCOME	4,891	4,804	14,471	13,841
PROVISION FOR LOAN LOSSES	<u>—</u>	<u>—</u>	<u>975</u>	<u>1,250</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>4,891</u>	<u>4,804</u>	<u>13,496</u>	<u>12,591</u>
NON-INTEREST INCOME				
Loans held for sale fee income	—	210	95	734
Service fees	933	898	2,692	2,773
Realized gains (losses) on available-for-sale securities	392	—	926	(5)
Other income	<u>292</u>	<u>926</u>	<u>1,121</u>	<u>1,660</u>
Total non-interest income	<u>1,617</u>	<u>2,034</u>	<u>4,834</u>	<u>5,162</u>
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,570	2,719	7,847	8,307
Net occupancy expense	738	792	2,037	2,123
Foreclosed assets expense	914	1,587	1,957	1,878
Other operating expense	<u>1,490</u>	<u>1,638</u>	<u>4,305</u>	<u>4,626</u>
Total non-interest expense	<u>5,712</u>	<u>6,736</u>	<u>16,146</u>	<u>16,934</u>
INCOME BEFORE INCOME TAXES	796	102	2,184	819
PROVISION FOR INCOME TAXES	<u>234</u>	<u>18</u>	<u>752</u>	<u>246</u>
NET INCOME	<u>562</u>	<u>84</u>	<u>1,432</u>	<u>573</u>
DIVIDENDS AND ACCRETION ON PREFERRED STOCK	<u>—</u>	<u>196</u>	<u>—</u>	<u>1,333</u>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 562</u>	<u>\$ (112)</u>	<u>\$ 1,432</u>	<u>\$ (760)</u>
BASIC EARNINGS (LOSS) PER SHARE	<u>\$0.10</u>	<u>\$(0.02)</u>	<u>\$0.27</u>	<u>\$(0.16)</u>
DILUTED EARNINGS (LOSS) PER SHARE	<u>\$0.10</u>	<u>\$(0.02)</u>	<u>\$0.27</u>	<u>\$(0.16)</u>