



Blue Valley Ban Corp.

August 1, 2017

Dear Stockholder:

As a result of our sustained focus on strategic initiatives, we continued our progress toward improved operating results and financial condition of the Company through the second quarter of 2017. Our consolidated earnings for the quarter ended June 30, 2017 were \$1,123,000, compared to \$580,000 for the prior year quarter ended June 30, 2016. For the six months ended June 30, 2017, consolidated earnings were \$2,025,000, compared to \$870,000 for the prior year-to-date period. Earnings per common share for the quarter- and year-to-date periods ended June 30, 2017 were \$0.20 and \$0.37, respectively, compared to earnings per common share of \$0.11 and \$0.16, respectively, for the prior quarter- and year-to-date periods ended June 30, 2016. Increased net interest income from loan growth and improved earning asset mix, continued improvements to asset quality, deposit growth and operational efficiencies were key elements of our progress. 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.

Earning asset growth and improved earning asset mix, coupled with reductions to our cost of funding, resulted in an increase in net interest income during the quarter ended June 30, 2017 compared to the prior year period. For the quarter ended June 30, 2017, net interest income increased by \$812,000, or 16.9%, compared to the quarter ended June 30, 2016.

Non-interest income declined by \$758,000, or 39.8%, during the quarter ended June 30, 2017, compared to the prior year quarter, primarily due to prior year recognition of realized gains on available-for-sale securities of \$534,000, a decline in other income of \$174,000 and a \$95,000 decline in loans held for sale fee income.

Non-interest expense declined by \$266,000, or 5.1%, for the quarter ended June 30, 2017 compared to the same period in the prior year primarily due to a decline in foreclosed asset expense of \$289,000.

The average balance of our gross loans held for investment increased by approximately \$10.4 million or 2.1% during the quarter ending June 30, 2017 compared to the preceding quarter, and increased by approximately \$65.4 million or 14.8% compared to the quarter ending June 30, 2016. In today's persistently low interest rate environment, loan growth is critical to improving the Company's net interest income and operating performance.

Total deposits increased by \$2.2 million during the quarter ending June 30, 2017, compared to the preceding quarter, and have increased \$44.7 million, or 8.7%, compared to December 31, 2016, with increases in the balances of demand deposits, savings, NOW and money market deposits and time deposits.

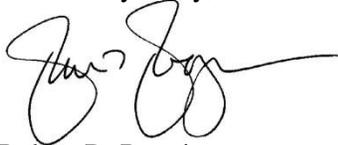
We maintained the Company's low level of non-performing loans during the quarter ending June 30, 2017 and recorded no provision to the allowance for loan losses compared to a provision of \$500,000 during the prior year quarter ended June 30, 2016. Management evaluates credit risk on an ongoing basis to determine an appropriate level for the allowance for loan losses. Net recoveries to the allowance for loan loss as well as continued incremental improvement to the credit quality of the Company's loan portfolio, net of the impact of loan growth during the period, were the key factors for the determination of the level for the allowance for loan losses for the quarter ended June 30, 2017. The Company's ratio of

total reserves to non-accrual loans improved to approximately 1,481% as of June 30, 2017, which exceeds the most recent Uniform Bank Performance Report peer group ratio.

At June 30, 2017, the Bank's ratio of non-accrual loans plus loans greater than 90 days past due to total loans for the Company's subsidiary, Bank of Blue Valley, was 0.08%, which compares favorably with the most recent Uniform Bank Performance Report peer group ratio of 0.80%.

We remain focused on our strategic goals for 2017 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 \$5.6 million in the second quarter of 2017, compared to \$4.8 million during the same period in the prior year. The increase is primarily due to an increase in the average balance of earning assets, particularly loans, as well as a shift in the composition of average earning assets to higher-yielding components and a shift in the composition of average interest-bearing liabilities to lower-rate funding sources, partially offset by a decline in the average rate earned on loans, compared to the quarter ended June 30, 2016. The quarterly average balance of our loan portfolio increased by approximately \$65.4 million during the second quarter of 2017, compared to the quarter ended June 30, 2016. The shift in the composition of average interest-bearing liabilities to lower-rate funding sources during the quarter ended June 30, 2017, 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 and increases to demand and savings deposits and securities sold under agreement to repurchase.

Credit quality and other factors used to determine the level of the allowance for loan losses precipitated no provision for loan loss for the quarter ended June 30, 2017 compared to a provision of \$500,000 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. Net recoveries to the allowance for loan loss as well as continued incremental improvement to the credit quality of the Company's loan portfolio, net of the impact of loan growth during the period, were the key factors for the determination of the level for the allowance for loan losses for the quarter ended June 30, 2017. The Company's ratio of total reserves to non-accrual loans improved to approximately 1,481% as of June 30, 2017, which exceeds the most recent Uniform Bank Performance Report peer group ratio. We continue to strive to improve the credit quality of the loan portfolio.

Non-interest income declined by \$758,000, or 39.8%, during the quarter ended June 30, 2017, compared to the prior year quarter, primarily due to a decline in the realized gains on available-for-sale securities of \$534,000, a decline in other income of \$174,000 as well as a \$95,000 decline in loans held for sale fee income. During the second quarter of the prior year the Company took advantage of an opportunity to sell municipal securities available-for-sale to maximize taxable income to realize deferred tax assets. The decrease in other income was the result of the Company's recapture of \$189,000 of interest and fee income in the second quarter of 2016 that had been written off in a loan restructure in a previous period. 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.

The Company's non-interest expense declined by \$266,000, or 5.1%, for the quarter ended June 30, 2017, compared to the same period in the prior year, primarily due to a decline in foreclosed asset expense of \$289,000. Foreclosed asset expense declined as a result of remediation of foreclosed assets in the prior year and current year.

Total assets, loans held for investment and deposits at June 30, 2017 were \$693.4 million, \$525.4 million and \$557.2 million, respectively, compared to \$674.4 million, \$493.7 million and \$512.5 million, respectively at December 31, 2016, respectively. As of June 30, 2017, 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
June 30, 2017 and December 31, 2016
(In thousands, except share data)

ASSETS	<u>June 30, 2017</u> <i>(Unaudited)</i>	<u>December 31, 2016</u>
Cash and due from banks	\$ 19,049	\$ 17,766
Interest-bearing deposits in other financial institutions	<u>1,003</u>	<u>8,272</u>
Cash and cash equivalents	20,052	26,038
Available-for-sale securities	105,132	107,760
Loans, net of allowance for loan losses of \$6,358 and \$6,164 in 2017 and 2016, respectively	519,052	487,518
Premises and equipment, net	12,700	12,046
Bank-owned real estate held for sale, net	5,915	5,915
Foreclosed assets held for sale, net	4,853	5,883
Interest receivable	1,815	1,785
Deferred income taxes	11,952	14,304
Prepaid expenses and other assets	7,565	7,939
FHLBank stock, Federal Reserve Bank stock, and other securities	<u>4,412</u>	<u>5,244</u>
Total assets	<u>\$ 693,448</u>	<u>\$ 674,432</u>

Blue Valley Ban Corp.
Condensed Consolidated Balance Sheets
June 30, 2017 and December 31, 2016
(In thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2017	December 31, 2016
	<i>(Unaudited)</i>	
LIABILITIES		
Deposits		
Demand	\$ 150,936	\$ 150,274
Savings, NOW and money market	283,312	280,628
Time	122,959	81,575
Total deposits	557,207	512,477
Other interest-bearing liabilities	43,096	63,142
Long-term debt	43,087	53,333
Interest payable and other liabilities	2,331	2,045
Total liabilities	645,721	630,997
 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 2017 – 471,979 shares; 2016 – 471,979 shares	472	472
Common stock, par value \$1 per share; authorized 15,000,000 shares; issued and outstanding 2017 – 5,651,256 shares; 2016 – 5,644,553 shares	5,655	5,644
Additional paid-in capital	31,317	30,858
Retained earnings	11,867	9,842
Accumulated other comprehensive loss, net of income tax credit of \$(1,722) in 2017 and \$(2,254) in 2016	(1,584)	(3,381)
Total stockholders' equity	47,727	43,435
Total liabilities and stockholders' equity	\$ 693,448	\$ 674,432

Blue Valley Ban Corp.
Condensed Consolidated Statements of Operations
Three and Six Months Ended June 30, 2017 and 2016
(In thousands, except share data)

	Three Months Ended		Six Months Ended	
	June 30, 2017 <i>(Unaudited)</i>	June 30, 2016 <i>(Unaudited)</i>	June 30, 2017 <i>(Unaudited)</i>	June 30, 2016 <i>(Unaudited)</i>
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	\$ 5,868	\$ 5,144	\$ 11,445	\$ 10,301
Federal funds sold and other short-term investments	18	55	33	100
Available-for-sale securities	520	428	1,060	909
Dividends on FHLBank and Federal Reserve Bank stock	67	81	81	102
Total interest and dividend income	<u>6,473</u>	<u>5,708</u>	<u>12,619</u>	<u>11,412</u>
INTEREST EXPENSE				
Interest-bearing demand deposits	52	56	111	115
Savings and money market deposit accounts	125	96	241	191
Other time deposits	234	152	437	339
Federal funds purchased and other interest- bearing liabilities	18	6	35	12
Long-term debt, net	428	594	866	1,175
Total interest expense	<u>857</u>	<u>904</u>	<u>1,690</u>	<u>1,832</u>
NET INTEREST INCOME	5,616	4,804	10,929	9,580
PROVISION FOR LOAN LOSSES	<u>-</u>	<u>500</u>	<u>-</u>	<u>975</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>5,616</u>	<u>4,304</u>	<u>10,929</u>	<u>8,605</u>
NON-INTEREST INCOME				
Service fees	840	890	1,707	1,759
Realized gains on available-for-sale securities	-	534	-	534
Other income	307	481	591	924
Total non-interest income	<u>1,147</u>	<u>1,905</u>	<u>2,298</u>	<u>3,217</u>
NON-INTEREST EXPENSE				
Salaries and employee benefits	2,634	2,598	5,363	5,277
Net occupancy expense	641	654	1,289	1,299
Foreclosed assets expense	323	612	531	1,043
Other operating expense	1,396	1,396	2,844	2,815
Total non-interest expense	<u>4,994</u>	<u>5,260</u>	<u>10,027</u>	<u>10,434</u>
INCOME BEFORE INCOME TAXES	1,769	949	3,200	1,388
PROVISION FOR INCOME TAXES	<u>646</u>	<u>369</u>	<u>1,175</u>	<u>518</u>
NET INCOME	<u>1,123</u>	<u>580</u>	<u>2,025</u>	<u>870</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.20</u>	<u>\$ 0.11</u>	<u>\$ 0.37</u>	<u>\$ 0.16</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.20</u>	<u>\$ 0.11</u>	<u>\$ 0.37</u>	<u>\$ 0.16</u>