

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-15933

BLUE VALLEY BAN CORP

(Exact name of registrant as specified in its charter)

Kansas

(State or other jurisdiction of incorporation or organization)

48-1070996

(I.R.S. Employer Identification No.)

11935 Riley

Overland Park, Kansas

(Address of principal executive offices)

66225-6128

(Zip Code)

Registrant's telephone number, including area code: **(913) 338-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Guarantee with respect to the Trust Preferred Securities, \$8.00 par value, of BVBC Capital Trust I

American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by checkmark whether the registrant is an accelerated filer. Yes [] No []

As of February 28, 2003 the registrant had 2,225,736 shares of Common Stock (\$1.00 par value) outstanding, of which 1,203,053 shares were held by non-affiliates. The aggregate market value of the common shares of the registrant held by non-affiliates, computed based on the February 28, 2003 closing price of the stock, was approximately \$29.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Part III – Proxy Statement for the 2003 Annual Meeting of Stockholders

BLUE VALLEY BAN CORP

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Part I

Item 1: Business

The Company and Subsidiaries

Blue Valley Ban Corp. ("Blue Valley", the "Company") is a bank holding company organized in 1989. In 2001, Blue Valley elected to become a financial holding company and such status was granted. The Company's wholly-owned subsidiary, Bank of Blue Valley (the "Bank") was also organized in 1989 to provide banking services to closely-held businesses, their owners, professionals and individuals in Johnson County, Kansas, a high growth, demographically attractive area within the Kansas City, Missouri - Kansas Metropolitan Statistical Area (the "MSA"). The focus of Blue Valley has been to take advantage of the current and anticipated growth in our market area as well as to serve the needs of small and mid-sized commercial borrowers – customers that we believe currently are underserved as a result of banking consolidation in the industry generally and within our market specifically. In addition, Blue Valley originates residential mortgages nationwide through the Bank's InternetMortgage.com website.

We have experienced significant internal growth since our inception. In addition, in 1994, we acquired the deposits of a branch of a failed savings and loan institution to augment our internal growth and expand into an additional market which management believed was attractive. In 1994, we also completed the construction of our current headquarters in Overland Park, Kansas. We currently have five banking center locations in Johnson County, Kansas, including our main office in Overland Park, full-service offices in Olathe and Shawnee, Kansas, and supermarket banking facilities in Leawood and Shawnee, Kansas.

Our lending activities focus on commercial lending and residential mortgage origination services, and, to a lesser extent, consumer lending. We strive to identify, develop and maintain diversified lines of business which provide acceptable returns on a risk-adjusted basis. Our primary lines of business consist of commercial and industrial lending, commercial real estate lending, construction lending, indirect lending, leasing, and residential mortgage lending and origination services.

We also seek to develop lines of business which diversify our revenue sources, increase our non-interest income and offer additional value-added services to our customers. We develop these new lines of business while monitoring related risk factors. The growth experienced in 2002 in our residential mortgage origination services provides an example of the benefits that we have gained through diversification. This growth has largely been attained in a favorable low interest rate environment. Management recognizes that future increases in interest rates could have a detrimental impact on the revenues generated by this business; however, we manage this business to enable us to minimize this detrimental impact where possible. In addition to fees generated in conjunction with our lending activities, we derive non-interest income by providing mortgage origination services, deposit and cash management services, investment brokerage services and trust services.

In addition to the Bank, we have two wholly-owned subsidiaries, Blue Valley Building Corp., which owns the building and property that comprise our headquarters in Overland Park, Kansas and other properties intended for future use, and BVBC Capital Trust I, which was created to offer the Company's trust preferred securities and to purchase our junior subordinated debentures. The Bank has one wholly-owned subsidiary, Blue Valley Investment Corp., which owns and services a portion of a commercial lease portfolio that we purchased in 1999.

Our Market Area

We operate primarily as a community bank, serving the banking needs of small and medium-sized companies and individuals in the Kansas City MSA generally, and in suburban Johnson County, in particular. Our trade area generally consists of Johnson County, Kansas. We believe that coupling our strategy of providing exceptional customer service and local decision making with attractive market demographics has led to a rate of growth which exceeds the natural growth rate of the banking industry as well as the internal growth experienced locally by our peers.

The income levels and growth rate of Johnson County, Kansas compare favorably to national averages. Johnson County's population growth rate ranks in the top 2% of counties nationally, and its per capita income ranks in the top 1% of counties nationally. Johnson County is also a significant banking market in the State of Kansas and in the Kansas City MSA. According to available industry data, as of June 30, 2002, total deposits in Johnson County, including those of banks, thrifts and credit unions, were approximately \$9.4 billion, which represented 21.88% of total deposits in the state of Kansas and 34.28% of total deposits in the Kansas City MSA.

As our founders anticipated, the trade area surrounding our main banking facility in Overland Park has become one of the most highly developed retail areas in the Kansas City MSA. Our Olathe, Kansas branch is located approximately 10 miles west of our main office. We opened our Olathe branch in 1994 when we acquired the deposits of a branch of a failed savings and loan association. We made this acquisition because it was located in a contiguous market area and we believed that it represented a stable deposit base. In 2001, the operations of this branch were moved across the street into a more suitable location which the Bank acquired. The Shawnee, Kansas banking facilities are approximately 20 miles northwest of our headquarters location. We opened our Shawnee grocery branch for the convenience of our existing customers in Shawnee, and to expand our market presence in Shawnee. During the first quarter of 2001, construction of our freestanding banking facility in Shawnee, Kansas was completed and operations commenced. The Leawood, Kansas grocery branch is approximately 5 miles southeast of our headquarters location. We opened our Leawood grocery branch during October of 2002 to expand our market presence in Leawood. In 2002, we also acquired land for a 20,000 square foot branch and office building in Leawood, which we anticipate will open early in 2004.

Lending Activities

Overview. Our principal loan categories include commercial, commercial real estate, construction, leasing and residential mortgages. We also offer a variety of consumer loans. Our primary source of income is interest earned on our loan portfolio. As of December 31, 2002, our loans represented approximately 62.80% of our total assets. Our legal lending limit to any one borrower was \$12.5 million at December 31, 2002 and our largest single borrower as of that date had outstanding loans of \$9.0 million.

We have been successful in expanding our loan portfolio because of the commitment of our staff and the economic growth in our area of operation. Our staff has significant experience in lending and has been successful in offering our products to potential customers and existing customers. We believe that we have been successful in maintaining our customers because of our staff's attentiveness to the financial needs of our customers and the development of personal relationships with them. We strive to become a strategic business partner with our customers, not just a source of funds.

We conduct our lending activities pursuant to the loan policies adopted by our board of directors. These policies currently require the approval of our loan committee of all commercial credits in excess of \$600,000 and all real estate credits in excess of \$1.0 million. Credits up to \$600,000 on commercial loans and \$1.0 million on real estate loans can be approved by the Company's President. Our management information systems and loan review policies are designed to monitor lending sufficiently to ensure adherence to our loan policies. The following table shows the composition of our loan portfolio at December 31, 2002.

LOAN PORTFOLIO

	As of December 31, 2002	
	Amount	Percent
	(Dollars in thousands)	
Commercial.....	\$ 93,658	24.64 %
Commercial real estate.....	71,295	18.76
Construction.....	127,071	33.43
Leases.....	22,600	5.95
Residential real estate.....	21,581	5.68
Personal.....	26,750	7.04
Home equity.....	17,127	4.50
Total loans and leases.....	380,082	100.00 %
Less allowance for loan losses.....	6,914	
Loans receivable, net.....	\$ 373,168	

Commercial loans. As of December 31, 2002, approximately \$93.7 million, or 24.64%, of our loan portfolio represented commercial loans. The Bank has developed a strong reputation in the servicing of small business and commercial loans. We have expanded this portfolio through the addition of commercial lending staff, their business development efforts and our reputation. Commercial loans have historically been a significant portion of our loan portfolio and we expect to continue our emphasis on this loan category.

The Bank's commercial lending activities historically have been directed to small and medium-sized companies in the Kansas City MSA, focusing on Johnson County, Kansas, with annual sales generally between \$100,000 and \$20 million. The Bank's commercial customers are primarily firms engaged in manufacturing, service, retail, construction, distribution and sales with significant operations in our market areas. The Bank's commercial loans are primarily secured by real estate, accounts receivable, inventory and equipment, and the Bank generally seeks to obtain personal guarantees for its commercial loans. As of December 31, 2002, approximately 8.90% of our commercial loans had outstanding balances in excess of \$300,000, and these loans accounted for 61.13% of the total carrying value of our commercial loan portfolio. The Bank primarily underwrites its commercial loans on the basis of the borrowers' cash flow and ability to service the debt, as well as the value of any underlying collateral and the financial strength of any guarantors.

Approximately \$6.5 million, or 6.90%, of our commercial loans are Small Business Administration (SBA) loans, of which \$4.6 million is government guaranteed. The SBA guarantees the repayment of a portion of the principal on these loans, plus accrued interest on the guaranteed portion of the loan. Under the federal Small Business Act, the SBA may guarantee up to 85% of qualified loans of \$150,000 or less and up to 75% of qualified loans in excess of \$150,000, up to a maximum guarantee of \$1.0 million. We are an active SBA lender in our market area and have been approved to participate in the SBA Certified Lender Program.

Commercial lending is subject to risks specific to the business of each borrower. In order to address these risks, we seek to understand the business of each borrower, place appropriate value on any personal guarantee or collateral pledged to secure the loan, and structure the loan amortization to maintain the value of any collateral during the term of the loan.

Commercial real estate loans. The Bank also makes loans to provide permanent financing for retail and office buildings, multi-family buildings and churches. As of December 31, 2002, approximately \$71.3 million, or 18.76%, of our loan portfolio represented commercial real estate mortgage loans. Our commercial real estate mortgage loans are underwritten on the basis of the appraised value of the property, the cash flow of the underlying property, and the financial strength of any guarantors.

Risks inherent in commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and documentation. Commercial real estate lending involves more risk than residential lending because loan balances may be greater and repayment is dependent on the borrower's operations.

We attempt to mitigate these risks by carefully assessing property values, investigating the source of cash flow servicing the loan on the property and adhering to our loan documentation policy.

Construction loans. Our construction loans include loans to developers, home building contractors and other companies and consumers for the construction of single-family homes, land development, and commercial buildings, such as retail and office buildings and multi-family properties. As of December 31, 2002, approximately \$127.1 million, or 33.43%, of our loan portfolio represented real estate construction loans. The builder and developer loan portfolio has been a consistent and profitable component of our loan portfolio over our thirteen-year history. We attribute this success to our expertise, availability and prompt service. The Bank's experience and reputation in this area have enabled it to focus on relationships with a smaller number of larger builders, which has permitted it to increase the total value of its real estate construction portfolio. Construction loans are made to qualified builders to build houses to be sold following construction, pre-sold houses and model houses. These loans are generally underwritten based upon several factors, including the experience and current financial condition of the borrowing entity, amount of the loan to appraised value, and general conditions of the housing market. Construction loans are also made to individuals for whom houses are being constructed by builders with whom the Bank has an existing relationship. Those loans are made on the basis of the individual's financial condition, the loan to value ratio, the reputation of the builder, and whether the individual will be pre-qualified for permanent financing.

Risks related to construction lending include assessment of the market for the finished product, reasonableness of the construction budget, ability of the borrower to fund cost overruns, and the borrower's ability to liquidate and repay the loan at a point when the loan-to-value ratio is the greatest. We seek to manage these risks by, among other things, ensuring that the collateral value of the property throughout the construction process does not fall below acceptable levels, ensuring that funds disbursed are within parameters set by the original construction budget, and properly documenting each construction draw.

Lease financing. Our lease portfolio includes capital leases that we have originated and leases that we have acquired from brokers or third parties. As of December 31, 2002, our lease portfolio totaled \$22.6 million, or 5.95%, of our total loan portfolio, consisting of \$14.4 million principal amount of leases originated by us and \$8.2 million principal amount of leases that we purchased. We provide lease financing for a variety of equipment and machinery, including office equipment, heavy equipment, telephone systems, tractor trailers and computers. Lease terms are generally from three to five years. Management believes this area is attractive because of its ability to provide a source of both interest and fee income. Our leases are generally underwritten based upon several factors, including the overall credit worthiness, experience and current financial condition of the lessee, the amount of the financing to collateral value, and general conditions of the market.

Of our lease portfolio at December 31, 2002, \$244,000, or 1.08%, represented the remaining balances of leases that Blue Valley Investment acquired on February 1, 1999 for approximately \$12.0 million from National Refuelers Leasing ("NRL"), a tanker truck leasing company involved in bankruptcy proceedings. These leases represent leases of tanker trucks used to transport fuel. Many of these tanker trucks are used at airports and similar locations. Of the total number of leases acquired by Blue Valley Investment, approximately \$8.7 million in principal amount represented leases that satisfied the Bank's underwriting criteria for leases, and were purchased by the Bank from Blue Valley Investment. The remaining NRL assets held by Blue Valley Investment totaling \$3.3 million represented leases that had defaults or delinquencies at the time of purchase. However, as of December 31, 2002, the entire remaining portfolio of \$244,000 in leases was current.

The primary risks related to our lease portfolio are the value of the underlying collateral and specific risks related to the business of each borrower. To address these risks, we attempt to understand the business of each borrower, value the underlying collateral appropriately and structure the amortization to maximize the value of the collateral during the term of the lease.

Residential mortgage loans. Our residential mortgage loan portfolio consists primarily of first and second mortgage loans on residential properties. As of December 31, 2002, \$21.6 million, or 5.68%, of our loan portfolio represented residential mortgage loans. The terms of these loans typically include 2-5 year balloon payments based on a 15 to 30 year amortization, and accrue interest at a fixed or variable rate. By offering these products, we can offer credit to individuals who are self-employed or have significant income from partnerships or investments. These individuals are often unable to satisfy the underwriting criteria permitting the sale of their mortgages into the

secondary market. Due to interest rate risk considerations, we generally sell our fixed rate residential mortgage loans in the secondary market.

In addition, we also originate residential mortgage loans with the intention of selling these loans in the secondary market. During 2002, we originated approximately \$1.3 billion of residential mortgage loans, of which we sold approximately \$1.2 billion, or 94.07%, in the secondary market. We originate conventional first mortgage loans through our internet website as well as through referrals from real estate brokers, builders, developers, prior customers and media advertising. We have offered customers the ability to apply for mortgage loans and to pre-qualify for mortgage loans over the Internet since 1999. In 2001, we expanded our internet mortgage application capacity with the acquisition of the internet domain name InternetMortgage.com and created a separate Internet Mortgage division. The timing of this expansion allowed us to establish this division in a relatively low-rate environment, and reap the benefits of an eruption of mortgage originations and refinancing experienced since 2001. The origination of a mortgage loan from the date of initial application through closing normally takes 15 to 60 days. We acquire forward commitments from investors on mortgage loans that we intend to sell into the secondary market to reduce market risk on mortgage loans in the process of origination and those held for sale.

Our mortgage loan credit review process is consistent with the standards set by traditional secondary market sources. We review appraised value and debt service ratios, and we gather data during the underwriting process in accordance with various laws and regulations governing real estate lending. Loans originated by the Bank are sold with servicing released to increase current income and reduce the costs associated with retaining servicing rights. Commitments are obtained from the appropriate investor on a loan-by-loan basis on a 30, 45 or 60-day delivery commitment. Interest rates are committed to the borrower when a rate commitment is obtained from the investor. Loans are funded by the Bank and purchased by the investor within 30 days following closing pursuant to commitments obtained at the time of origination. We sell conventional conforming loans and all loans that are non-conforming as to credit quality to secondary market investors for cash on a non-recourse basis. Consequently, foreclosure losses on all sold loans are generally the responsibility of the investor and not that of the Bank.

As with other loans to individuals, the risks related to residential mortgage loans include primarily the value of the underlying property and the financial strength and employment stability of the borrower. We attempt to manage these risks by performing a pre-funding underwrite that consists of the verification of employment and utilizes a detailed checklist of loan qualification requirements, including the source and amount of down payments, bank accounts, existing debt and overall credit.

Consumer and other loans. As of December 31, 2002, our consumer and other loans totaled \$26.8 million, or 7.04%, of our total loan portfolio. A substantial part of this amount consisted of installment loans to individuals in our market area. Installment lending offered directly by the Bank in our market area includes automobile loans, recreational vehicle loans, home improvement loans, unsecured lines of credit and other loans to professionals, people employed in education, industry and government, as well as retired individuals and others. A significant portion of our consumer loan portfolio consists of indirect automobile loans offered through automobile dealerships located primarily in our trade area. As of December 31, 2002, approximately \$12.1 million, or 3.19%, of our loan portfolio represented indirect installment loans. Our loans made through this program generally represent loans to purchase new automobiles. There are currently 13 dealerships participating in this program.

Since 1999, we have offered customers the ability to apply for consumer loans, personal lines of credit and overdraft protection lines of credit over the Internet through our electronic banking services. To date, consumer loan applications received over the Internet have not represented a material amount of our consumer loan portfolio. Our consumer and other loans are underwritten based on the borrower's income, current debt, past credit history, collateral, and the reputation of the originating dealership with respect to indirect automobile loans.

Consumer loans are subject to the same risks as other loans to individuals, including the financial strength and employment stability of the borrower. In addition, some consumer loans are subject to the additional risk that the loan is not secured by collateral. For some of the loans that are secured, the underlying collateral may be rapidly depreciating and not provide an adequate source of repayment if we are required to repossess the collateral. We attempt to mitigate these risks by requiring a down payment and carefully verifying and documenting the borrower's credit quality, employment stability, monthly income, and with respect to indirect automobile loans, understanding and documenting the value of the collateral and the reputation of the originating dealership.

Investment Activities

The objectives of our investment policy are to:

- secure the safety of principal;
- provide adequate liquidity;
- provide securities for use in pledging for public funds or repurchase agreements; and
- maximize after-tax income consistent with servicing the Bank's customers' needs.

We invest primarily in direct obligations of the United States, obligations guaranteed as to principal and interest by the United States, obligations of agencies of the United States and bank-qualified obligations of state and local political subdivisions. In order to ensure the safety of principal, we typically do not invest in mortgage-backed securities and other higher-yielding instruments. We also may invest from time to time in corporate debt or other securities as permitted by our investment policy. In addition, we enter into federal funds transactions with our principal correspondent banks, and depending on our liquidity position, act as a net seller or purchaser of these funds. The sale of federal funds is effectively short-term loans from us to other banks, while conversely, the purchase of federal funds is effectively short-term loans from other banks to us.

Deposit Services

The principal sources of funds for the Bank are core deposits from the local market areas surrounding the Bank's offices, including demand deposits, interest-bearing transaction accounts, money market accounts, savings deposits and time deposits of less than \$100,000. Transaction accounts include interest-bearing and non-interest-bearing accounts, which provide the Bank with a source of fee income and cross-marketing opportunities as well as a low-cost source of funds. In 2002 and 2001, the Bank realized a significant level of deposit growth from commercial checking accounts. While these accounts do not earn interest, many of them receive an earnings credit on their average balance to offset the cost of other services provided by the Bank. The Bank also offers two types of short-term investment accounts. The Bank's money market account is a daily access account that bears a higher rate than a personal interest-bearing checking account and allows for limited check-writing ability. A significant portion of our deposit growth during 2002 and 2001 has been attributable to our Money Management Account, or "short-term parking account." The Money Management Account provides a hybrid of the features available from a traditional money market account and a traditional time deposit. The account requires a minimum balance of \$10,000 and allows for daily deposits but limits withdrawals to the first day and the 15th day of each month. This account pays a rate of interest which is higher than a customer could receive on a traditional money market account but lower than the rates generally available on time deposits. We believe that the trade-off to depositors between higher interest rates but more limited access to withdrawals has proven to be an attractive product in our market areas and provides us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, as it provides us with the potential to cross-sell additional services to these account holders. Time and savings accounts also provide a relatively stable and low cost source of funding. In 1999, the Bank changed its policy to allow for acceptance of brokered deposits which can be utilized to support the growth of the Bank. As of December 31, 2002, the Bank had \$12.2 million in brokered deposits, and the Bank does not anticipate brokered deposits becoming a significant percentage of its deposit base; however, we continue to evaluate their potential role in the Bank's overall funding and liquidity strategies. In pricing deposit rates, management considers profitability, the matching of term lengths with assets, the attractiveness to customers and rates offered by our competitors.

Investment Brokerage Services

In 1999, the Bank began offering investment brokerage services through an unrelated broker-dealer. These services are currently offered at our Overland Park, Shawnee and Olathe locations. Three individuals responsible for providing these services are joint employees of the Bank and the registered broker-dealer, and an additional individual is employed by the broker-dealer under contract to the Bank. Investment brokerage services provide a

source of fee income for the Bank. In 2002, the amount of our fee income generated from investment brokerage services was \$208,000.

Trust Services

We began offering trust services in 1996. Until 1999, the Bank's trust services were offered exclusively through the employees of an unaffiliated trust company. The Bank hired a full-time officer in 1999 to develop the Bank's trust business. Trust services are marketed to both existing Bank customers and new customers. We believe that the ability to offer trust services as a part of our complement of financial services to new customers of the Bank presents a significant cross-marketing opportunity. The services currently offered by the Bank's trust department include the administration of self-directed individual retirement accounts, qualified retirement plans, custodial and directed trust accounts. As of December 31, 2002, the Bank's trust department administered 155 accounts, with assets under management of approximately \$44.2 million. Trust services provide the Bank with a source of fee income and additional deposits. In 2002, the amount of our fee income from trust services was \$203,000.

Competition

We encounter competition primarily in seeking deposits and in obtaining loan customers. The level of competition for deposits in our market area and nationally is high. Our principal competitors for deposits are other financial institutions within a few miles of our locations, including other banks, savings institutions and credit unions. Competition among these institutions is based primarily on interest rates offered, the quality of service provided, and the convenience of banking facilities. Additional competition for depositors' funds comes from U.S. government securities, private issuers of debt obligations and other providers of investment alternatives for depositors.

We compete in our lending, investment brokerage and trust activities with other financial institutions, such as banks and thrift institutions, credit unions, automobile financing companies, mortgage companies, securities firms, investment companies and other finance companies. Many of our competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks and state regulations governing state-chartered banks. As a result, these non-bank competitors have advantages over us in providing certain services. Many of the financial institutions with which we compete are larger and possess greater financial resources, name recognition and market presence.

Employees

As of December 31, 2002, the Bank had approximately 263 full-time employees. Blue Valley, Blue Valley Building Corp., BVBC Capital Trust I and Blue Valley Investment Corp. do not have any full-time employees. None of the employees of the Bank is subject to a collective bargaining agreement. We consider the Bank's relationship with its employees to be excellent.

Directors and Executive Officers

For each of our directors and our executive officers, we have set forth below their ages as of December 31, 2002, and their principal positions.

<u>Name</u>	<u>Age</u>	<u>Positions</u>
<i>Directors</i>		
Robert D. Regnier	54	President, Chief Executive Officer and Chairman of the Board of Directors of Blue Valley; President, Chief Executive Officer and Director of the Bank
Donald H. Alexander.....	64	Director of Blue Valley and the Bank
Wayne A. Henry, Jr.	50	Director of Blue Valley
C. Ted McCarter	66	Director of Blue Valley and Chairman of the Board of Directors of the Bank
Thomas A. McDonnell.....	57	Director of Blue Valley

Additional Directors of the Bank

Harvey S. Bodker.....	67	Director of the Bank
Suzanne E. Dotson.....	57	Director of the Bank
Charles H. Hunter.....	60	Director of the Bank

Executive Officers who are not Directors

Mark A. Fortino	36	Senior Vice President and Chief Financial Officer of the Bank; Treasurer of Blue Valley
Ralph J. Schramp	53	Senior Vice President – Commercial Lending and Business Development for the Bank
Sheila Stokes.....	41	Senior Vice President – Retail Division of the Bank
Edward A. Herman	58	Senior Vice President and Chief Lending Officer of the Bank
John Markert	57	Senior Vice President – Internet Mortgage Division of the Bank
Penny T. Hershman	58	Senior Vice President – Marketing & Signature Financial Services of the Bank

Committees of the Board of Directors

The Blue Valley board of directors has a standing Audit Committee, which reports to the full board of directors in discharging its responsibilities relating to our accounting, reporting and financial control practices. The Audit Committee has general responsibility for oversight of financial controls, as well as our accounting, regulatory and audit activities, and annually reviews the qualifications of our independent auditors. The current members of the Audit Committee are Messrs. Alexander, Bodker, Henry and Ms. Dotson.

The Blue Valley board of directors does not currently have a standing Nominating Committee or Compensation Committee. The full Blue Valley board of directors nominates persons to serve as directors of Blue Valley. The compensation of the executive officers and employees of the Bank is determined jointly by the full boards of directors of Blue Valley and the Bank.

Regulation and Supervision

Blue Valley and its subsidiaries are extensively regulated under both federal and state laws. Laws and regulations to which Blue Valley and the Bank are subject govern, among other things, the scope of business, investments, reserve levels, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. These laws and regulations are intended primarily to protect depositors, not stockholders. Any change in applicable laws or regulations may have a material effect on Blue Valley’s business and prospects, and legislative and policy changes may affect Blue

Valley's operations. Blue Valley cannot predict the nature or the extent of the effects on its business and earnings that fiscal or monetary policies, economic controls or new federal or state legislation may have in the future.

The following references to statutes and regulations affecting Blue Valley and the Bank are brief summaries only and do not purport to be complete and are qualified in their entirety by reference to the statutes and regulations.

Applicable Legislation

The enactment of legislation described below has significantly affected the banking industry generally and will have an on-going effect on Blue Valley and its subsidiaries.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act was signed into law on November 12, 1999. This major banking legislation expands the permissible activities of bank holding companies such as Blue Valley by permitting them to engage in activities, or affiliate with entities that engage in activities, that are "financial in nature." Activities that the Act expressly deems to be financial in nature include, among other things, securities and insurance underwriting and agency, investment management and merchant banking. The Federal Reserve and the Treasury Department, in cooperation with one another, determine what additional activities are "financial in nature." With certain exceptions, the Gramm-Leach-Bliley Act similarly expands the authorized activities of subsidiaries of national banks. The provisions of the Gramm-Leach-Bliley Act authorizing the expanded powers became effective March 11, 2000.

Bank holding companies that intend to engage in activities that are "financial in nature" must elect to become "financial holding companies." Financial holding company status is only available to a bank holding company if all of its affiliated depository institutions are "well capitalized" and "well managed," based on applicable banking regulations, and have a Community Reinvestment Act rating of at least "a satisfactory record of meeting community credit needs." Financial holding companies and banks may continue to engage in activities that are financial in nature only if they continue to satisfy the well capitalized and well managed requirements. Bank holding companies that do not elect to be financial holding companies or that do not qualify for financial holding company status may engage only in non-banking activities deemed "closely related to banking" prior to adoption of the Gramm-Leach-Bliley Act. In 2001, Blue Valley elected to become a financial holding company.

The Act also calls for "functional regulation" of financial services businesses in which functionally regulated subsidiaries of bank holding companies will continue to be regulated by the regulator that ordinarily has supervised their activities. As a result, state insurance regulators will continue to oversee the activities of insurance companies and agencies, and the Securities and Exchange Commission will continue to regulate the activities of broker-dealers and investment advisers, even where the companies or agencies are affiliated with a bank holding company. Federal Reserve authority to examine and adopt rules regarding functionally regulated subsidiaries is limited.

The Gramm-Leach-Bliley Act imposed an "affirmative and continuing" obligation on all financial service providers (not just banks and their affiliates) to safeguard consumer privacy and requires federal and state regulators, including the Federal Reserve and the FDIC, to establish standards to implement this privacy obligation. With certain exceptions, the Act prohibits banks from disclosing to non-affiliated parties any non-public personal information about customers unless the bank has provided the customer with certain information and the customer has had the opportunity to prohibit the bank from sharing the information with non-affiliates. The new privacy obligations became effective July 1, 2001.

The Gramm-Leach-Bliley Act has been and may continue to be the subject of extensive rule making by federal banking regulators and others.

Economic Growth and Regulatory Paperwork Reduction Act of 1996. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 became law on September 30, 1996. This Act streamlined the non-banking activities application process for well-capitalized and well-managed bank holding companies by permitting qualified bank holding companies to commence an approved non-banking activity without prior notice to the

Federal Reserve, although written notice is required within 10 days after commencing the activity. Also, the Act reduced the prior notice period to 12 days in the event of any non-banking acquisition or share purchase, assuming the size of the acquisition does not exceed 10% of risk-weighted assets of the acquiring bank holding company and the consideration does not exceed 15% of a bank holding company's Tier 1 capital.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 authorized bank holding companies to expand, by acquiring existing banks, into all states, even those which had theretofore restricted entry. The legislation also provides that a holding company may convert the banks it owns in different states to branches of a single bank, unless a state has elected to prohibit these interstate transactions. Statewide branching is permitted under Kansas law, however, out of state banks may establish branches in Kansas only through mergers with banks already located in Kansas.

Bank Holding Company Regulation

Blue Valley is a registered bank holding company subject to periodic examination by the Federal Reserve and required to file periodic reports of its operations and such additional information as the Federal Reserve may require.

Investments and Activities. A bank holding company must obtain approval from the Federal Reserve before:

- Acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after the acquisition, it would own or control more than 5% of the shares of the bank or bank holding company (unless it already owns or controls the majority of the shares);
- Acquiring all or substantially all of the assets of another bank or bank holding company; or
- Merging or consolidating with another bank holding company.

The Federal Reserve will not approve any acquisition, merger or consolidation that would have a substantially anticompetitive result unless the anticompetitive effects of the proposed transaction are clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The Federal Reserve also considers capital adequacy and other financial and managerial factors in reviewing acquisitions or mergers.

With certain exceptions, a bank holding company is also prohibited from:

- Acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company; and
- Engaging, directly or indirectly, in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries.

Bank holding companies may, however, engage in businesses found by the Federal Reserve to be "financial in nature," as describe above. As a financial holding company, Blue Valley is authorized to engage in the expanded activities permitted under the Gramm-Leach-Bliley Act as long as it continues to qualify for financial holding company status.

Finally, subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, and the Federal Reserve's implementing regulations, require Federal Reserve approval prior to any acquisition of "control" of a bank holding company, such as Blue Valley. In general, a person or company is presumed to have acquired control if it acquires 10% of the outstanding shares of a bank or bank holding company and is conclusively determined to have acquired control if it acquires 25% or more of the outstanding shares of a bank or bank holding company.

Source of Strength. The Federal Reserve expects Blue Valley to act as a source of financial strength and support for the Bank and to take measures to preserve and protect the Bank in situations where additional investments in the Bank may not otherwise be warranted. The Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. Blue Valley Building Corp. and BVBC Capital Trust I are Blue Valley's only direct subsidiaries that are not banks.

Capital Requirements. The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies and banks. If the capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The Federal Reserve's capital guidelines establish a risk-based requirement expressed as a percentage of total risk-weighted assets and a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8%, of which at least one-half must be Tier 1 capital (which consists principally of stockholders' equity). The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3%.

The risk-based and leverage standards presently used by the Federal Reserve are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual banking organizations. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions, which is Tier 1 capital less all intangible assets, well above the minimum levels.

Dividends. The Federal Reserve has issued a policy statement concerning the payment of cash dividends by bank holding companies. The policy statement provides that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weakened the bank holding company's financial health, such as by borrowing. Also, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Bank Regulations

The Bank operates under a Kansas state bank charter and is subject to regulation by the Kansas Banking Department and the Federal Reserve Bank. The Kansas Banking Department and the Federal Reserve Bank regulate or monitor all areas of the Bank's operations, including capital requirements, issuance of stock, declaration of dividends, interest rates, deposits, record keeping, establishment of branches, acquisitions, mergers, loans, investments, borrowing, security devices and procedures and employee responsibility and conduct. The Kansas Banking Department places limitations on activities of the Bank including the issuance of capital notes or debentures and the holding of real estate and personal property and requires the Bank to maintain a certain ratio of reserves against deposits. The Kansas Banking Department requires the Bank to file a report annually showing receipts and disbursements of the Bank, in addition to any periodic report requested.

Deposit Insurance. The FDIC, through its Bank Insurance Fund, insures the Bank's deposit accounts to a maximum of \$100,000 for each insured depositor. The FDIC, through its Savings Association Insurance Fund, insures certain deposit accounts acquired by the Bank in 1994 from a branch of a failed savings institution. These deposit accounts are insured to a maximum of \$100,000 for each insured depositor. The FDIC bases deposit insurance premiums on the perceived risk each bank presents to its deposit insurance fund. In addition, all Bank Insurance Fund-insured and Savings Association Insurance Fund-insured institutions currently pay an assessment based on insured deposits to service debt issued by the Financing Corporation, a federal agency established to finance the recapitalization of the former Federal Savings and Loan Insurance Corporation. The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to

continue operations or has violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital. Management is not aware of any activity or condition that could result in termination of the deposit insurance of the Bank.

Capital Requirements. The FDIC has established the following minimum capital standards for state-chartered, insured non-member banks, such as the Bank: (1) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3%; and (2) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital. These capital requirements are minimum requirements, and higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions.

The federal banking regulators also have broad power to take “prompt corrective action” to resolve the problems of undercapitalized institutions. The extent of the regulators’ powers depends upon whether the institution in question is “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Under the prompt corrective action rules, an institution is:

- “Well-capitalized” if the institution has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure;
- “Adequately capitalized” if the institution has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater;
- “Undercapitalized” if the institution has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4%, or a leverage ratio that is less than 4%;
- “Significantly undercapitalized” if the institution has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3%, or a leverage ratio that is less than 3%; and
- “Critically undercapitalized” if the institution has a ratio of tangible equity to total assets that is equal to or less than 2%.

The federal banking regulators must take prompt corrective action with respect to capital deficient institutions. Depending upon the capital category to which an institution is assigned, the regulators’ corrective powers include:

- Placing limits on asset growth and restrictions on activities, including the establishing of new branches;
- Requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired;
- Restricting transactions with affiliates;
- Restricting the interest rate the institution may pay on deposits;
- Requiring that senior executive officers or directors be dismissed;
- Requiring the institution to divest subsidiaries;
- Prohibiting the payment of principal or interest on subordinated debt; and

- Appointing a receiver for the institution.

Companies controlling an undercapitalized institution are also required to guarantee the subsidiary institution's compliance with the capital restoration plan subject to an aggregate limitation of the lesser of 5% of the institution's assets at the time it received notice that it was undercapitalized or the amount of the capital deficiency when the institution first failed to meet the plan. The Federal Deposit Insurance Act generally requires the appointment of a conservator or receiver within 90 days after an institution becomes critically undercapitalized.

As of December 31, 2002, the Bank had capital in excess of the requirements for a "well-capitalized" institution.

Insider Transactions. The Bank is subject to restrictions on extensions of credit to executive officers, directors, principal stockholders or any related interest of these persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as the terms available for third parties and must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to lending limits and restrictions on overdrafts to these persons.

Community Reinvestment Act Requirements. The Community Reinvestment Act (CRA) of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the federal banking regulators must evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. In its most recent CRA examination dated June 10, 2002, the Bank received a rating of "Satisfactory."

State Bank Activities. With limited exceptions, FDIC-insured state banks, like the Bank, may not make or retain equity investments of a rate or in an amount that are not permissible for national banks and also may not engage as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

Regulations Governing Extensions of Credit. The Bank is subject to restrictions on extensions of credit to Blue Valley and on investments in Blue Valley's securities and using those securities as collateral for loans. These regulations and restrictions may limit Blue Valley's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and for payment of dividends, interest and operating expenses. Further, the Bank Holding Company Act and Federal Reserve regulations prohibit a bank holding company and its subsidiaries from engaging in various tie-in arrangements in connection with extensions of credit, leases or sales of property or furnishing of services.

Reserve Requirements. The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts. Reserves of 3% must be maintained against net transaction accounts of \$41.3 million or less plus 10% must be maintained against that portion of net transaction accounts in excess of this amount (subject to adjustment by the Federal Reserve). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements.

Other Regulations

Interest and various other charges collected or contracted for by the Bank are subject to state usury laws and other federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions. The federal Truth in Lending Act governs disclosures of credit terms to consumer borrowers. The Home Mortgage Disclosure Act of 1975 requires financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves. The Equal Credit Opportunity Act prohibits discrimination on the basis of race, creed or other prohibited factors in extending credit. The Fair Credit Reporting Act of 1978 governs the use and provision of information to credit reporting agencies. The Fair Debt Collection Act governs the manner in which consumer debts may be collected by collection agencies. The various federal agencies charged with the responsibility of implementing these federal laws have adopted various rules and regulations. The deposit

operations of the Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act, and Regulation E issued by the Federal Reserve to implement that Act, which govern automatic deposits to and withdrawals from the use of ATMs and other electronic banking services.

Item 2: Properties

The Bank's principal office occupies 2.40 acres of ground on the corner of 119th and Riley streets in Overland Park, Kansas. The construction of the building was completed in 1994 and consists of 38,031 square feet. The building and land are subject to third-party mortgage indebtedness in the original principal amount of \$2.5 million. As of December 31, 2002, the outstanding principal amount of this indebtedness was \$1.5 million. This is the Company's only real property subject to indebtedness.

In 2001, the Bank's Olathe, Kansas location was moved to a more suitable property occupying 0.41 acres of ground on the corner of Santa Fe and Ridgeview Streets. The building consists of 2,580 square feet on the main floor, plus basement storage.

The Bank's Shawnee, Kansas office currently occupies 425 square feet in a grocery store located at Highway K-7 and 55th Street. The Bank's lease for this space bears a primary term through December 2004. The Bank's free-standing facility in Shawnee, Kansas is also located at Highway K-7 and 55th Street and was completed during the first quarter of 2001. The building consists of 4,000 square feet and occupies 0.85 acres of land.

In 2001, the Bank entered into two leases for approximately 7,345 square feet of commercial office space located at 120th and Blue Valley Parkway for its Internet Mortgage division and mortgage Secondary Marketing department. The terms of the leases expire in July 2003.

In January 2003, Blue Valley Building Corp. purchased a 55,000 square foot building located on the northwest corner of College Boulevard and Lowell in Overland Park, Kansas. This building occupies 3.10 acres of ground and will be leased to the Bank. The Bank intends to consolidate its mortgage operations and operate a small branch at this facility.

In 1998, the Bank purchased approximately 1.34 acres of undeveloped land on the corners of K68 and US 69 Highway in Louisburg, Kansas, just south of Johnson County for potential future development as a full-service branch.

Additionally, in 2001 the Bank purchased undeveloped land on the corner of 135th Street and Mission Road in Leawood, Kansas for the purposes of constructing a full-service branch and office building. The Bank intends to construct a two-story building with approximately 20,000 square feet of space at this location and anticipates this building will open early in 2004.

Item 3: Legal Proceedings

We are involved from time to time in routine litigation incidental to our business. We are not a party to any pending litigation that is likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Item 4: Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security-holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Market for Common Stock

We are a reporting company under the Securities Exchange Act as a result of a trust preferred securities offering we completed during July 2000. Shares of our common stock are traded on the Over-The-Counter Bulletin Board. As of February 28, 2003, there were approximately 136 record holders of our common stock. During 2002, the price of our common stock ranged between \$19.50 and \$26.95.

Dividends

During December 2002, our board of directors declared the Company's first cash dividend on our common stock. A \$0.10 per share dividend was paid on January 15, 2003, to shareholders of record on December 31, 2002.

Because our consolidated net income consists largely of the net income of the Bank, our ability to pay dividends on our common stock is subject to our receipt of dividends from the Bank. The ability of the Bank to pay dividends to us, and our ability to pay dividends to our stockholders, are regulated by federal banking laws. In addition, if we elect to defer interest payments on our outstanding junior subordinated debentures, we will be prohibited from paying dividends on our common stock during such deferral.

Our board of directors intends to declare future dividends subject to limitations imposed by regulatory capital guidelines in addition to consideration of the Company's profitability and liquidity.

Item 6: Selected Consolidated Financial Data

The following table presents our consolidated financial data as of and for the five years ended December 31, 2002, and should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is included elsewhere in this Form 10-K. The selected statements of condition and statements of income data, insofar as they relate to the five years in the five-year period ended December 31, 2002, have been derived from our audited consolidated financial statements.

	As of and for the Year Ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands, except share and per share data)				
Selected Statement of Income Data					
Interest income:					
Loans, including fees	\$ 26,857	\$ 27,921	\$ 26,733	\$ 20,422	\$ 14,608
Federal funds sold and interest -bearing deposits.....	297	679	777	431	396
Securities	3,405	4,541	3,607	2,755	2,814
Total interest income	<u>30,559</u>	<u>33,141</u>	<u>31,117</u>	<u>23,608</u>	<u>17,818</u>
Interest expense:					
Interest -bearing demand deposits	388	815	872	644	348
Savings and money market deposit accounts	2,711	4,846	5,726	3,156	1,637
Other time deposits	7,759	9,775	7,555	6,032	6,247
Funds borrowed	3,368	2,958	2,543	1,372	973
Total interest expense	<u>14,226</u>	<u>18,394</u>	<u>16,696</u>	<u>11,204</u>	<u>9,205</u>
Net interest income.....	16,333	14,747	14,421	12,404	8,613
Provision for loan losses	2,920	2,400	1,950	2,144	1,061
Net interest income after provision for loan losses	<u>13,413</u>	<u>12,347</u>	<u>12,471</u>	<u>10,260</u>	<u>7,552</u>
Non-interest income:					
Loans held for sale fee income	16,690	6,931	1,154	1,623	1,329
NSF charges & service fees.....	1,026	836	655	553	598
Other service charges.....	821	796	963	659	157
Realized gain on available-for-sale securities.....	193	500	-	3	112
Other income	281	203	284	186	450
Total non-interest income	<u>19,011</u>	<u>9,266</u>	<u>3,056</u>	<u>3,024</u>	<u>2,646</u>
Non-interest expense:					
Salaries and employee benefits	16,437	10,063	5,856	4,578	3,312
Occupancy	2,101	1,574	1,124	894	748
FDIC and other insurance.....	161	140	177	113	121
General & administrative	5,417	3,933	3,136	3,095	1,815
Total non-interest expense.....	<u>24,116</u>	<u>15,710</u>	<u>10,293</u>	<u>8,680</u>	<u>5,996</u>
Income before income taxes	8,308	5,903	5,234	4,604	4,202
Income tax provision.....	2,912	1,960	1,757	1,521	1,386
Net income	<u>\$ 5,396</u>	<u>\$ 3,943</u>	<u>\$ 3,477</u>	<u>\$ 3,083</u>	<u>\$ 2,816</u>
Per Share Data					
Basic earnings	\$ 2.48	\$ 1.82	\$ 1.62	\$ 1.45	\$ 1.36
Diluted earnings	2.40	1.77	1.59	1.42	1.35
Dividends.....	0.10	-	-	-	-
Book value basic (at end of period)	15.47	13.11	11.12	8.83	7.99
Weighted average common shares outstanding:					
Basic	2,178,803	2,165,030	2,141,523	2,131,372	2,065,400
Diluted.....	2,252,929	2,222,166	2,191,305	2,166,008	2,084,088

As of and for the
Year Ended December 31,

	2002	2001	2000	1999	1998
(Dollars in thousands, except share and per share data)					
Selected Financial Condition Data					
(at end of period):					
Total securities	\$ 61,364	\$ 77,676	\$ 78,503	\$ 48,646	\$ 53,427
Total mortgage loans held for sale.....	119,272	41,853	1,207	952	1,954
Total loans.....	380,082	334,075	287,669	250,410	161,444
Total assets	605,183	492,023	414,667	332,613	253,724
Total deposits	423,787	394,245	338,221	268,145	209,824
Funds borrowed	141,381	65,174	49,917	43,177	25,142
Total stockholders' equity.....	34,344	28,525	23,815	18,869	17,016
Trust assets under administration	44,245	41,571	35,268	19,436	13,099
Selected Financial Ratios and Other Data:					
<i>Performance Ratios:</i>					
Net interest margin (1)	3.35%	3.51%	4.35%	4.77%	4.30%
Non-interest income to average assets	3.55	2.02	0.84	1.06	1.20
Non-interest expense to average assets	4.51	3.43	2.84	3.04	2.72
Net overhead ratio (2)	0.95	1.41	2.00	1.98	1.52
Efficiency ratio (3)	68.23	65.42	58.89	56.26	53.26
Return on average assets (4)	1.01	0.86	0.96	1.08	1.28
Return on average equity (5)	17.34	15.26	16.84	17.43	18.98
<i>Asset Quality Ratios:</i>					
Non-performing loans to total loans	0.29%	0.92%	0.86%	0.21%	0.84%
Allowance for possible loan losses to:					
Total loans	1.82	1.58	1.54	1.52	1.45
Non-performing loans	618.29	171.96	179.47	710.80	171.88
Net charge-offs to average total loans	0.36	0.51	0.49	0.32	0.23
Non-performing assets to total assets	0.18	0.63	0.68	0.22	0.55
<i>Balance Sheet Ratios:</i>					
Loans to deposits	89.69%	84.74%	85.05%	93.39%	76.94%
Average interest-earning assets to average interest-bearing liabilities	115.64	114.50	113.30	116.11	116.57
<i>Capital Ratios:</i>					
Total equity to total assets	5.67%	5.80%	5.74%	5.67%	6.71%
Total capital to risk-weighted assets ratio	10.13	10.69	11.95	8.07	9.62
Tier 1 capital to risk-weighted assets ratio	8.82	8.87	9.51	6.82	8.37
Tier 1 capital to average assets ratio	7.74	7.17	7.47	5.80	6.13

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- (1) Net interest income, on a full tax-equivalent basis, divided by average interest-earning assets.
 - (2) Non-interest expense less non-interest income divided by average total assets.
 - (3) Non-interest expense divided by the sum of net interest income plus non-interest income.
 - (4) Net income divided by average total assets.
 - (5) Net income divided by average common equity.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following presents management's discussion and analysis of our financial condition and results of operations as of the dates and for the periods indicated. You should read this discussion in conjunction with our "Selected Consolidated Financial Data," our consolidated financial statements and the accompanying notes, and the other financial data contained elsewhere in this report.

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, can generally be identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. The Company is unable to predict the actual results of its future plans or strategies with certainty. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to, fluctuations in market rates of interest and loan and deposit pricing; a deterioration of general economic conditions or the demand for housing in the Company's market areas; a deterioration in the demand for mortgage financing; legislative or regulatory changes; adverse developments in the Company's loan or investment portfolio; any inability to obtain funding on favorable terms; the loss of key personnel; significant increases in competition; and the possible dilutive effect of potential acquisitions or expansions. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Critical Accounting Policies

Our critical accounting policies are largely proscribed by accounting principles generally accepted in the United States of America. Please refer to Note 1 of our consolidated financial statements where we present a listing and discussion of our most significant accounting policies. After a review of these policies, we determined that accounting for the allowance for loan losses, income taxes, and stock-based compensation are deemed critical accounting policies because of the valuation techniques used, and the sensitivity of these financial statement amounts to the methods, as well as the assumptions and estimates underlying these balances. Accounting for these critical areas requires the most subjective and complex judgments that could be subject to revision as new information becomes available.

As presented in Note 1 and Note 3 to the consolidated financial statements, the allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio as of December 31, 2002. This estimate is based on management's periodic review of the collectibility of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The income tax amounts in Note 7 to the consolidated financial statements reflect the current period income tax expense for all periods presented, as well as future tax liabilities and benefits associated with differences in timing of expenses and income recognition for book and tax accounting purposes. Our current tax liability and expense amounts are determined using estimates and these estimates are subject to review and possible revision by taxing authorities.

We discuss our accounting for stock-based compensation in greater detail in Note 1 to our consolidated financial statements. Included in Note 1 is the effect on our net income in the event we change our accounting of stock options to the guidance presented by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" from our current policy which follows Accounting Principles Board Opinion No. 25.

Overview

Net income for 2002 was \$5.4 million, a \$1.5 million, or 36.85% increase over the \$3.9 million earned in 2001. Diluted earnings per share increased 35.59% to \$2.40 at December 31, 2002 from \$1.77 at December 31, 2001. The Company's returns on average assets and average stockholders' equity at year-end 2002 were 1.01% and 17.34%, compared to 0.86% and 15.26%, respectively, for year-end 2001. The principal contributors to our increase in net income during 2002 were increases in net interest and non-interest income.

Net interest income for 2002 was \$16.3 million compared to \$14.7 million earned during 2001. The increase of \$1.6 million or 10.75% was primarily the result of an increase in earning assets.

Non-interest income increased 105.16% to \$19.0 million in 2002 from \$9.3 million in 2001. Non-interest income to average assets increased to 3.55% in 2002 from 2.02% in 2001. The expansion of the Company's internet mortgage capabilities coupled with continued declines in market interest rates resulted in a significant increase in the number of residential mortgage loan originations in 2002 compared to 2001. This resulted in significantly higher origination fees during 2002 than during 2001.

Total assets for the Company at December 31, 2002, were \$605.2 million, an increase of \$113.2 million, or 23.00%, from \$492.0 million at December 31, 2001. Deposits and stockholders' equity at December 31, 2002 were \$423.8 million and \$34.3 million, compared with \$394.2 million and \$28.5 million at December 31, 2001, increases of \$29.5 million, or 7.49%, and \$5.8 million, or 20.40%, respectively.

Loans at December 31, 2002 totaled \$380.1 million, an increase of \$46.0 million, or 13.77%, compared to December 31, 2001. The loan to deposit ratio at December 31, 2002 was 89.69% compared to 84.74% at December 31, 2001. The increase in the loan to deposit ratio was due to loan growth, which, on a relative basis, outpaced deposit growth by 6.28%. Our funding philosophy for loans not held for sale has been to primarily increase deposits from retail and commercial deposit sources and secondarily use other borrowing sources as necessary to fund loans within the limits of the Bank's capital base.

Our low level of non-performing assets reflects the Bank's conservative underwriting policies and aggressive management of impaired loans and has resulted in low levels of nonaccrual loans. Over the five years ended December 31, 2002, our non-performing loans to total loans ratio has averaged 0.71%. As of December 31, 2002, our ratio of non-performing loans to total loans was 0.29%, which was below the historical average. Our non-performing credit relationships are regularly reviewed and closely monitored and our philosophy has been to value non-performing loans at their estimated collectible value and to aggressively manage these situations. Generally, the Bank maintains its allowance for loan losses in excess of its non-performing loans. Over the five years ended December 31, 2002, our ratio of allowance for loan losses to non-performing loans has exceeded 170.00%. As of December 31, 2002, our ratio of allowance for loan losses to non-performing loans was 618.29%, compared to 171.96% at December 31, 2001.

The net charge-off ratio has averaged 0.38% for the five years ended December 31, 2002. Our net charge-off ratio for the year ended December 31, 2002 was 0.36%, which was slightly below our historical average. The Bank continues to aggressively manage defaults in the loan portfolio in a softer economic environment. Management intends to vigorously pursue collection of all charged-off leases and loans.

Net Interest Income

The primary component of our net income is our net interest income. Net interest income is determined by the spread between the fully tax equivalent (FTE) yields we earn on our interest-earning assets and the rates we pay on our interest-bearing liabilities, as well as the relative amounts of such assets and liabilities. FTE net interest margin is determined by dividing net interest income by average interest-earning assets.

Years ended December 31, 2002 and 2001. FTE net interest income for 2002 increased to \$16.7 million from \$15.1 million in 2001, a \$1.6 million, or 10.27%, increase.

FTE interest income for 2002 was \$30.9 million, a decrease of \$2.6 million, or 7.80%, from \$33.5 million in 2001, primarily as a result of continued decreases in market interest rates during 2002. The yield on average interest-earning assets fell to 6.21%, as compared to 7.79% in 2001, a decline of 158 basis points. Average interest earning assets increased \$67.4 million or 15.67% during 2002. Due to the decrease in yields, loan interest and fee income decreased slightly to \$26.9 million in 2002 from \$27.9 million in 2001, or 3.81%. Interest income on investment securities decreased by \$1.2 million, or 23.77% in 2002 compared to the prior year. The decline in market interest rates has caused many of the securities in our portfolio to be called. Some of the resultant return in principal has been reinvested; however, the overall impact on the portfolio has been a decline in the balance and yield in 2002 compared to the prior year.

Interest expense for 2002 was \$14.2 million, down \$4.2 million, or 22.66%, from \$18.4 million in 2001. The decrease results from a decline in the yields paid on our interest bearing liabilities, primarily interest-bearing deposits. The yield on our total average interest bearing liabilities and deposits decreased to 3.31% and 3.08%, respectively, in 2002 compared to 4.89% and 4.81% in 2001, respectively, decreases of 158 and 173 basis points, respectively. Total interest bearing liabilities increased \$54.6 million or 14.52% during 2002. This increase is attributable mainly to the increases in savings, money market and time deposits and FHLB borrowings.

Years ended December 31, 2001 and 2000. FTE net interest income for 2001 increased to \$15.1 million from \$14.8 million in 2000, a \$333,000 or 2.25% increase.

FTE interest income for 2001 was \$33.5 million, an increase of \$2.0 million, or 6.45%, from \$31.5 million in 2000, primarily as a result of a \$90.1 million, or 26.47%, growth in average interest-earning assets. As a result of sharp and continued decreases in market interest rates during 2001, the yield on average interest-earning assets fell to 7.79%, as compared to 9.25% in 2000, a decline of 146 basis points. In spite of the steep decrease in yields, loan interest and fee income increased slightly to \$27.9 million from \$26.7 million due to increases in volumes of loans outstanding, which was primarily funded through growth in core deposits. Interest income on investment securities increased by \$942,000 and the annualized tax-equivalent yield on our investment portfolio decreased 29 basis points in 2001 as compared to 2000.

Interest expense for 2001 was \$18.4 million, up \$1.7 million, or 10.17%, from \$16.7 million in 2000. We attribute the increase to a \$64.5 million, or 25.17%, increase in our average interest-bearing deposits as well as a \$10.96 million, or 25.01% increase in other interest-bearing liabilities. Interest expense on other interest-bearing liabilities increased to \$3.0 million in 2001, up \$415,000, or 16.32%, from \$2.5 million in 2000. This increase is attributable mainly to the increases in FHLB borrowings plus the full year's impact of our junior subordinated debentures in connection with our trust preferred securities offering. Overall, rates paid on average interest-bearing liabilities decreased to 4.89% in 2001 from 5.56% in 2000, a decrease of 67 basis points.

Average Balance Sheets. The following table sets forth for the periods and as of the dates indicated, information regarding our average balances of assets and liabilities as well as the dollar amounts of interest income from interest-earning assets and interest expense on interest-bearing liabilities and the resultant yields or costs. Ratio, yield and rate information are based on average daily balances where available; otherwise, average monthly balances have been used. Nonaccrual loans are included in the calculation of average balances for loans for the periods indicated.

AVERAGE BALANCES, YIELDS AND RATES

	Year Ended December 31,								
	2002			2001			2000		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in thousands)								
Assets									
Federal funds sold.....	\$ 18,171	\$ 297	1.63 %	\$ 15,269	\$ 679	4.45 %	\$ 12,412	\$ 777	6.26 %
Investment securities – taxable.....	51,273	2,741	5.34	59,010	3,812	6.46	42,539	2,894	6.80
Investment securities – non-taxable (1).....	14,526	1,007	6.93	15,782	1,105	7.00	14,984	1,081	7.21
Mortgage loans held for sale.....	63,866	3,937	6.17	29,505	1,752	5.94	2,072	165	7.96
Loans, net of unearned discount and fees	349,879	22,920	6.55	310,727	26,168	8.42	268,227	26,568	9.91
Total earning assets	497,715	30,902	6.21	430,293	33,516	7.79	340,234	31,485	9.25
Cash and due from banks – non-interest bearing.....	22,910			16,224			12,063		
Allowance for possible loan losses.....	(5,547)			(4,809)			(4,102)		
Premises and equipment, net.....	9,380			7,435			5,845		
Other assets.....	10,546			9,133			8,246		
Total assets.....	\$ 535,004			\$ 458,276			\$ 362,286		
Liabilities and Stockholders' Equity									
Deposits-interest bearing:									
Interest-bearing demand accounts.....	\$ 29,779	\$ 388	1.30 %	\$ 31,441	\$ 815	2.59 %	\$ 24,920	\$ 872	3.50 %
Savings and money market deposits	146,132	2,711	1.86	131,492	4,846	3.69	110,911	5,726	5.16
Time deposits.....	176,762	7,759	4.39	158,078	9,775	6.18	120,632	7,555	6.26
Total interest-bearing deposits.....	352,673	10,858	3.08	321,011	15,436	4.81	256,463	14,153	5.52
Short-term borrowings.....	21,722	266	1.22	21,862	667	3.05	26,680	1,395	5.23
Long-term debt	55,993	3,102	5.54	32,937	2,291	6.96	17,156	1,148	6.69
Total interest-bearing liabilities	430,388	14,226	3.31	375,810	18,394	4.89	300,299	16,696	5.56
Non-interest bearing deposits.....	69,550			53,324			38,543		
Other liabilities	3,952			3,295			2,791		
Stockholders' equity.....	31,114			25,847			20,653		
Total liabilities and stockholders' equity	\$ 535,004			\$ 458,276			\$ 362,286		
Net interest income/spread		\$ 16,676	2.90 %		\$ 15,122	2.88 %		\$ 14,789	3.69 %
Net interest margin			3.35 %			3.51 %			4.35 %

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%.

Analysis of Changes in Net Interest Income Due to Changes in Interest Rates and Volumes. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase or decrease related to changes in balances and changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to:

- changes in volume, reflecting changes in volume multiplied by the current period rate; and
- changes in rate, reflecting changes in rate multiplied by the prior period volume.

CHANGES IN INTEREST INCOME AND EXPENSE VOLUME AND RATE VARIANCES

	Year Ended December 31, 2002 Compared to 2001			2001 Compared to 2000		
	Change Due to Rate	Change Due to Volume	Total Change	Change Due to Volume	Change Due to Rate	Total Change
Federal funds sold	\$ (429)	\$ 47	\$ (382)	\$ (226)	\$ 128	\$ (98)
Investment securities – taxable	(660)	(412)	(1,072)	(144)	1,062	918
Investment securities – non-taxable (1)	114	(84)	30	(28)	49	21
Mortgage loans held for sale	68	2,118	2,186	(42)	1,629	1587
Loans, net of unearned discount	(5,814)	2,566	(3,248)	(3,824)	3,424	(400)
Total interest income	<u>(6,721)</u>	<u>4,235</u>	<u>(2,486)</u>	<u>(4,264)</u>	<u>6,292</u>	<u>2,028</u>
Interest-bearing demand accounts	(404)	(22)	(426)	(223)	166	(57)
Savings and money market deposits	(2,407)	272	(2,135)	(1,647)	767	(880)
Time deposits	(2,839)	823	(2,016)	(97)	2,317	2,220
Short-term borrowings	(399)	(2)	(401)	(581)	(147)	(728)
Long-term debt	(470)	1,281	811	46	1,097	1,143
Total interest expense	<u>(6,519)</u>	<u>2,352</u>	<u>(4,167)</u>	<u>(2,502)</u>	<u>4,200</u>	<u>1,698</u>
Net interest income	<u>\$ (202)</u>	<u>\$ 1,883</u>	<u>\$ 1,681</u>	<u>\$ (1,762)</u>	<u>\$ 2,092</u>	<u>\$ 330</u>

(1) Presented on a fully tax-equivalent basis assuming a tax rate of 34%.

Provision for Loan Losses

We make provisions for loan losses in amounts management deems necessary to maintain the allowance for loan losses at an appropriate level. During the year ended December 31, 2002, we provided \$2.9 million for loan losses, as compared to \$2.4 million for the year ended December 31, 2001, an increase of \$520,000, or 21.67%. During 2002, our allowance for loan losses increased as our provision exceeded our net charge-offs. The loan portfolio increased to \$380.1 million in 2002 from \$334.1 million in 2001, or 13.77%. The provision for loan losses increased to \$2.4 million in 2001 from \$2.0 million in 2000, or 23.08%, while the loan portfolio increased to \$334.1 million in 2001 from \$287.7 million in 2000, or 16.13%.

The adequacy of the allowance is analyzed monthly based on internal loan reviews and quality measurements of our loan portfolio. The Bank computes its allowance by assigning specific reserves to impaired loans, plus a general reserve based on loss factors applied to the rest of the loan portfolio. The specific reserve on impaired loans is computed as the amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan's effective interest rate, or based on the loan's observable market value or the fair value

of the collateral if the loan is collateral dependent. The general reserve loss factors are determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. The Bank has for many years used several different calculations to confirm the results of the allowance calculation, including an historical loss ratio calculation, a comparison to peer group ratios, as well as regulatory calculation formulas. To further assist in confirming the results of the above-described allowance computation, during 1999, the Bank refined its risk grading system by developing associated reserve factors for each risk grade.

The allowance for loan losses as a percentage of loans increased to 1.82% at December 31, 2002, as compared to 1.58% in 2001 and 1.54% in 2000. We increased the allowance for loan losses in 2002, 2001 and 2000 based upon an analysis of several factors, including the impairment analysis referred to above, changes in the loan mix and the weakening of one commercial credit. Total impaired loans increased to \$11.7 million with a related reserve of \$1.8 million at December 31, 2002 compared to \$8.4 million and \$1.5 million, respectively, at December 31, 2001. General reserve factors, which are applied to categories of unimpaired loans, resulted in an increase in the overall general reserve percentage to 1.38% at December 31, 2002 compared to 1.17% at December 31, 2001. The overall general reserve percentage at December 31, 2000 was 1.09%. The increase in the general reserve factor in 2002 is attributable to economic factors and changes in the loan portfolio mix.

Due to the factors discussed above and the growth in our commercial real estate and construction loan portfolios, the overall result was a higher allowance for loan losses at December 31, 2002 compared with December 31, 2001. The allowance for loan losses represents our best estimate of probable losses that have been incurred as of the respective balance sheet dates.

Non-interest Income

The following table describes the items of our non-interest income for the periods indicated:

NON-INTEREST INCOME

	Year Ended December 31		
	2002	2001	2000
	(In thousands)		
Loans held for sale fee income	\$ 16,690	\$ 6,931	\$ 1,148
NSF charges and service fees.....	1,026	836	655
Other service charges	821	796	963
Net realized gains on sales of investment securities	193	500	-
Other income	281	203	284
Total non-interest income	<u>\$ 19,011</u>	<u>\$ 9,266</u>	<u>\$ 3,056</u>

Non-interest income increased to \$19.0 million, or 105.17%, during 2002, from \$9.3 million during 2001. This increase is attributable to increases in loans held for sale fee income of \$9.8 million and NSF charges and services fees of \$190,000. We experienced significant growth in our loans held for sale income due to the expansion of our internet and retail mortgage capabilities concurrent with favorable conditions for residential mortgage origination and refinancing. Mortgage originations and refinancing continued to flourish due to the low interest rate environment which began in 2001 and persisted through 2002. Other service charge income, which includes trust services income, investment brokerage income, merchant bankcard processing and debit card processing income, remained relatively unchanged from 2001. In 2002, we took advantage of opportunities to mitigate the risk of long-term rate volatility in our available-for-sale investment portfolio by selling some of our longer-term bonds. Due to the yield environment when we sold the securities, we generated \$193,000 of net gains on the sales in 2002. Future growth of our non-interest income is dependent upon continued low mortgage interest rates and growth in our customer base.

Non-interest income increased to \$9.3 million, or 203.21%, during 2001, from \$3.1 million during 2000. This increase is attributable to increases in loans held for sale fee income of \$5.8 million, NSF charges and services

fees of \$181,000 and net realized gains on sales of investment securities of \$500,000. We experienced significant growth in our loans held for sale income due to the expansion of our internet and retail mortgage capabilities concurrent with the mortgage origination and refinancing boom. Mortgage originations and refinancing flourished due to the steep decline in market interest rates during 2001. Other service charge income declined in 2001 primarily due to a \$278,000 decrease in commercial mortgage and lease referral income and a \$60,000 decrease in investment brokerage income, offset by increases of \$43,000 in trust services income and \$62,000 in bank services fee income. In 2001, we took advantage of opportunities to mitigate the risk of long-term rate volatility in our available-for-sale investment portfolio by selling some of our longer-term bonds. Due to the yield environment when we sold the securities, we generated \$500,000 of net gains on the sales.

Non-interest Expense

The following table describes the items of our non-interest expense for the periods indicated.

NON-INTEREST EXPENSE

	Year Ended December 31		
	2002	2001	2000
	(In thousands)		
Salaries and employee benefits	\$ 16,437	\$ 10,063	\$ 5,856
Occupancy.....	2,101	1,574	1,124
FDIC and other insurance expense.....	161	140	177
General and administrative.....	5,417	3,933	3,136
Total non-interest expenses.....	<u>\$ 24,116</u>	<u>\$ 15,710</u>	<u>\$ 10,293</u>

Non-interest expense increased to \$24.1 million, or 53.51%, during 2002, as compared to \$15.7 million in the prior year. This increase is primarily attributable to increases in salaries and employee benefits and occupancy expenses, consistent with the Company's growth. Our salaries and employee benefits expense increased to \$16.4 million in 2002, or 63.34%, from \$10.1 million in 2001, as we hired additional staff to facilitate our growth. We had 262 full-time equivalent employees at December 31, 2002 compared to 217 at December 31, 2001. Many areas of the Company added employees to manage growth. Occupancy expenses increased to \$2.1 million, or 33.48% in 2002, from \$1.6 million in 2001, primarily due to increases of \$174,000, \$154,000, \$71,000 and \$64,000 in depreciation, rent, telephone expenses, and repairs and maintenance, respectively, as the Company expanded its infrastructure to facilitate growth. General and administrative expenses increased \$1.5 million to \$5.4 million in 2002, compared to \$3.9 million in 2001, principally due to increased marketing, postage/courier, and loan processing fees associated with the increased volume in the Company's mortgage origination departments. Future increases in non-interest expense are dependent upon continued growth of the Company, especially our mortgage origination business.

Non-interest expense increased to \$15.7 million, or 52.63%, during 2001, as compared to \$10.3 million in 2000. This increase is primarily attributable to increases in salaries and employee benefits and occupancy expenses. Our salaries and employee benefits expense increased to \$10.1 million in 2001, or 71.84%, from \$5.9 million in 2000, as we hired additional staff to facilitate our growth. We had 217 full-time equivalent employees at December 31, 2001 compared to 129 at December 31, 2000. Many areas of the Company added employees to manage growth. The addition of the Internet Mortgage division represented a significant opportunity for the Company and necessitated the addition of 61 full-time equivalent employees. Occupancy expenses increased to \$1.6 million, or 40.04% in 2001, from \$1.1 million in 2000, primarily due to increases of \$143,000, \$90,000 and \$52,000 in depreciation, repairs and maintenance and rent expense, respectively, as the Company expanded its infrastructure to facilitate growth. General and administrative expenses increased \$797,000 to \$3.9 million in 2001, compared to \$3.1 million in 2000, principally due to increased marketing, postage/courier, and loan processing fees associated with the increased volume in the Company's mortgage origination departments.

Income Taxes

Our income tax expense during 2002 was \$2.9 million, compared to \$2.0 million during 2001, and \$1.8 million during 2000. These increases reflect our higher earnings for the current and previous fiscal years. Our consolidated income tax rate varies from the statutory rate principally due to the effects of state income taxes and interest income earned on our municipal securities portfolio which is generally tax-exempt for federal income tax purposes.

Financial Condition

Lending Activities. Our loan portfolio is our main source of income, and since our inception, has been a principal component of our revenue growth. Our loan portfolio reflects an emphasis on construction, commercial and commercial real estate, residential real estate, personal lending and leasing. We emphasize commercial lending to professionals, businesses and their owners. Commercial loans and loans secured by commercial real estate accounted for 43.40% of our total loans at December 31, 2002, 44.62% of our total loans at December 31, 2001, and 41.30% of our total loans at year end 2000. These loans increased at a 21.85% compound annual rate during the three-year period ended December 31, 2002.

Loans were \$380.1 million at December 31, 2002, an increase of \$46.0 million, or 13.77%, compared to December 31, 2001. Loans at December 31, 2001 were \$334.1 million, an increase of \$46.4 million, or 16.13%, compared to December 31, 2000. Increases in deposits, securities sold under agreement to repurchase and Federal Home Loan Bank borrowings facilitated our loan growth during 2002. During 2001, deposit growth facilitated the Company's loan growth. The loan to deposit ratio increased to 89.69%, compared to 84.74% at December 31, 2001, which had declined slightly from 85.05% at December 31, 2000.

We experienced significant increases in our commercial, commercial real estate, home equity and construction loan categories, and decreases in residential real estate, personal loan and lease categories in 2002. The growth of our commercial, commercial real estate and construction loan portfolios is a result of the economic growth and development of our market area, coupled with the efforts and experience of our construction and development lenders. The Company targets personal lending lines of business in an effort to more broadly diversify our risk across multiple lines of business. Historically, a significant portion of the growth in our personal lending lines was attributable to growth in our indirect automobile loan portfolio. However, in 2002, our indirect loan portfolio continued the decline which started in 2001, declining by approximately \$3.4 million, as we encountered significant competitive factors from national finance companies offering below market rate financing incentives. We have also encountered a considerable number of early pay-offs within the indirect automobile loan portfolio due to customer refinancing.

The following table sets forth the composition of our loan portfolio by loan type as of the dates indicated. The amounts in the following table are shown net of discounts and other deductions.

	As of December 31.									
	2002		2001		2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial.....	\$ 93,658	24.64 %	\$ 85,311	25.54 %	\$ 76,556	26.61 %	\$ 64,552	25.78 %	\$ 52,310	32.41 %
Commercial real estate..	71,295	18.76	63,756	19.08	42,267	14.69	26,617	10.63	15,457	9.57
Construction.....	127,071	33.43	93,656	28.03	59,733	20.76	41,007	16.38	25,624	15.87
Leases.....	22,600	5.95	24,221	7.25	25,302	8.81	30,416	12.14	13,765	8.53
Residential real estate..	21,581	5.68	24,460	7.32	37,290	12.96	33,251	13.28	28,367	17.57
Personal.....	26,750	7.04	29,895	8.96	35,864	12.47	44,747	17.87	19,751	12.23
Home equity.....	17,127	4.50	12,776	3.82	10,657	3.70	9,820	3.92	6,170	3.82
Total loans and leases.....	380,082	100.00 %	334,075	100.00 %	287,669	100.00 %	250,410	100.00 %	161,444	100.00 %
Less allowance for loan losses.....	6,914		5,267		4,440		3,817		2,341	
Loans receivable, net....	\$ 373,168		\$ 328,808		\$ 283,229		\$ 246,593		\$ 159,103	

Collateral and Concentration. At December 31, 2002, 2001 and 2000, substantially all of our loans were collateralized with real estate, inventory, accounts receivable and/or other assets or were guaranteed by the Small Business Administration. Loans to individuals and businesses in the construction industry totaled \$127.1 million, or 33.43%, of total loans, as of December 31, 2002. The Bank does not have any other concentrations of loans to individuals or businesses involved in a single industry totaling 5% of total loans. The Bank's lending limit under federal law to any one borrower was \$12.5 million at December 31, 2002. The Bank's largest single borrower, net of participations, at December 31, 2002 had outstanding loans of \$9.0 million.

The following table presents the aggregate maturities of loans in each major category of our loan portfolio as of December 31, 2002, excluding the allowance for loan and valuation losses. Additionally, the table presents the dollar amount of all loans due more than one year after December 31, 2002 which have predetermined interest rates (fixed) or adjustable interest rates (variable). Actual maturities may differ from the contractual maturities shown below as a result of renewals and prepayments or the timing of loan sales.

**MATURITIES AND SENSITIVITIES OF LOANS TO
CHANGES IN INTEREST RATES**

	As of December 31, 2002					
	Less than one year	One to five years	Over five years	Total	More than One Year	
					Fixed	Variable
	(In thousands)					
Commercial Real Estate.....	\$ 5,300	\$ 56,756	\$ 9,239	\$ 71,295	\$ 23,451	\$ 42,544
Commercial.....	45,431	41,933	6,294	93,658	10,044	38,183
Construction	87,605	38,908	1,080	127,593	2,982	37,006

Non-performing Assets

Non-performing assets consist primarily of loans past due 90 days or more, nonaccrual loans and foreclosed real estate. The following table sets forth our non-performing assets as of the dates indicated:

NON-PERFORMING ASSETS

	As of December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands)				
Real estate loans:					
Past due 90 days or more.....	\$ 54	\$ -	\$ 206	\$ -	\$ -
Nonaccrual.....	582	824	499	-	-
Installment loans:					
Past due 90 days or more.....	-	33	-	-	7
Nonaccrual.....	-	13	37	87	38
Credit cards and related plans:					
Past due 90 days or more.....	23	-	-	-	-
Nonaccrual.....	-	-	-	-	-
Commercial and all other loans:					
Past due 90 days or more.....	-	76	24	50	319
Nonaccrual.....	233	752	1,326	375	650
Lease financing receivables:					
Past due 90 days or more.....	3	-	-	-	121
Nonaccrual.....	223	1,365	382	25	227
Debt securities and other assets (excluding other real estate owned and other repossessed assets):					
Past due 90 days or more.....	-	-	-	-	-
Nonaccrual.....	-	-	-	-	-
Total non-performing loans	<u>1,118</u>	<u>3,063</u>	<u>2,474</u>	<u>537</u>	<u>1,362</u>
Foreclosed assets held for sale	614	49	334	186	46
Total non-performing assets	<u>\$ 1,732</u>	<u>\$ 3,112</u>	<u>\$ 2,808</u>	<u>\$ 723</u>	<u>\$ 1,408</u>
Total non-performing loans to total loans.....	0.29 %	0.92 %	0.86 %	0.21 %	0.84 %
Total non-performing loans to total assets	0.18	0.62	0.60	0.16	0.54
Allowance for loan losses to non-performing loans.....	618.29	171.96	179.47	710.80	171.88
Non-performing assets to loans and foreclosed assets held for sale	0.46	0.93	0.97	0.29	0.87

Impaired Loans. A loan is considered impaired when it is probable that we will not receive all amounts due according to the contractual terms of the loan. This includes loans that are delinquent 90 days or more, nonaccrual loans, and certain other loans identified by management. Accrual of interest is discontinued, and interest accrued and unpaid is removed, at the time the loans are delinquent 90 days or when management believes that full collection of principal and interest under the original loan contract is unlikely to occur. Interest is recognized for nonaccrual loans only upon receipt, and only after all principal amounts are current according to the terms of the contract.

Impaired loans totaled \$11.7 million at December 31, 2002, \$8.4 million at December 31, 2001, and \$5.8 million at December 31, 2000, with related allowances for loan losses of \$1.8 million, \$1.5 million, and \$1.4 million, respectively. The increase in impaired loans at December 31, 2002 is primarily the result of the weakening of one commercial credit.

Total interest income of \$699,000, \$923,000 and \$882,000 was recognized on average impaired loans of \$9.6 million, \$6.6 million and \$6.2 million for 2002, 2001 and 2000, respectively. Included in this total is cash basis interest income of \$46,000, \$202,000 and \$72,000 recognized on nonaccrual impaired loans during 2002, 2001 and 2000, respectively.

Allowance For Loan Losses. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off, net of recoveries. The allowance is management's best estimate of probable losses which have been incurred as of the balance sheet date based on management's evaluation of risk in the portfolio, local economic conditions and historical loss experience. Management assesses the adequacy of the allowance for loan losses based upon a number of factors including, among others:

- analytical reviews of loan loss experience in relationship to outstanding loans and commitments;
- unfunded loan commitments;
- problem and non-performing loans and other loans presenting credit concerns;
- trends in loan growth, portfolio composition and quality;
- appraisals of the value of collateral; and
- management's judgment with respect to current economic conditions and their impact on the existing loan portfolio.

The adequacy of the allowance is analyzed monthly based on internal loan reviews and quality measurements of our loan portfolio. The Bank computes its allowance by assigning specific reserves to impaired loans, and then applies a general reserve based on a loss factor applied to the rest of the loan portfolio. The loss factor is determined based on such items as management's evaluation of risk in the portfolio, local economic conditions, and historical loss experience. Specific allowances are accrued on specific loans evaluated for impairment for which the basis of each loan, including accrued interest, exceeds the discounted amount of expected future collections of interest and principal or, alternatively, the fair value of the loan collateral.

The following table sets forth information regarding changes in our allowance for loan and valuation losses for the periods indicated.

**SUMMARY OF LOAN LOSS EXPERIENCE
AND RELATED INFORMATION**

	As of and for the Year Ended December 31,				
	2002	2001	2000	1999	1998
	(Dollars in thousands)				
Balance at beginning of period.....	\$ 5,267	\$ 4,440	\$ 3,817	\$ 2,341	\$ 1,618
<i>Loans charged-off:</i>					
Commercial real estate.....	323	-	-	-	-
Residential real estate.....	-	5	-	-	-
Commercial	323	1,015	343	567	310
Personal	66	80	153	47	49
Home equity	-	-	-	-	-
Construction	-	-	-	-	-
Leases	870	836	1,034	158	27
Total loans charged-off.....	<u>1,582</u>	<u>1,936</u>	<u>1,530</u>	<u>772</u>	<u>386</u>
<i>Recoveries:</i>					
Commercial real estate.....	1	-	-	-	-
Residential real estate.....	-	5	-	-	-
Commercial	123	119	104	90	38
Personal	23	41	46	2	6
Home equity	-	-	-	-	-
Construction	-	-	-	-	-
Leases	162	198	53	12	4
Total recoveries	<u>309</u>	<u>363</u>	<u>203</u>	<u>104</u>	<u>48</u>
Net loans charged-off	<u>1,273</u>	<u>1,573</u>	<u>1,327</u>	<u>668</u>	<u>338</u>
Provision for loan losses.....	<u>2,920</u>	<u>2,400</u>	<u>1,950</u>	<u>2,144</u>	<u>1,061</u>
Balance at end of period.....	<u>\$ 6,914</u>	<u>\$ 5,267</u>	<u>\$ 4,440</u>	<u>\$ 3,817</u>	<u>\$ 2,341</u>
<i>Loans outstanding:</i>					
Average	\$ 349,879	\$ 310,727	\$ 268,227	\$ 206,310	\$ 148,221
End of period.....	380,082	334,075	287,669	250,410	161,444
<i>Ratio of allowance for loan losses to</i>					
<i>loans outstanding:</i>					
Average	1.98 %	1.70 %	1.66 %	1.85 %	1.58 %
End of period.....	1.82	1.58	1.54	1.52	1.45
<i>Ratio of net charge-offs to:</i>					
Average loans	0.36	0.51	0.49	0.32	0.23
End of period loans	0.33	0.47	0.46	0.27	0.21

The following table shows our allocation of the allowance for loan losses by specific category at the end of each of the periods shown. Management attempts to allocate specific portions of the allowance for loan losses based on specifically identifiable problem loans. However, the allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	As of December 31,									
	2002		2001		2000		1999		1998	
	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance	Amount	% of Total Allowance
	(Dollars in thousands)									
Commercial real estate	\$ 1,101	15.92 %	\$ 888	16.86 %	\$ 485	10.92 %	\$ 268	7.02 %	\$ 155	6.62 %
Residential real estate.....	293	4.24	400	7.59	399	8.99	364	9.53	340	14.52
Commercial	2,691	38.93	1,181	22.42	1,687	38.00	1,206	31.60	1,013	43.27
Personal	295	4.27	210	3.99	547	12.32	843	22.09	215	9.19
Home equity	88	1.27	78	1.48	124	2.79	123	3.22	69	2.95
Construction	1,632	23.61	1,070	20.32	672	15.14	454	11.89	302	12.90
Leases	813	11.76	1,440	27.34	526	11.84	559	14.65	247	10.55
Total.....	<u>\$ 6,914</u>	<u>100.00 %</u>	<u>\$ 5,267</u>	<u>100.00 %</u>	<u>\$ 4,440</u>	<u>100.00 %</u>	<u>\$ 3,817</u>	<u>100.00 %</u>	<u>\$ 2,341</u>	<u>100.00 %</u>

Investment securities. The primary objectives of our investment portfolio are to secure the adequacy of principal, to provide adequate liquidity and to provide securities for use in pledging for public funds or repurchase agreements. Income is a secondary consideration. As a result, we generally do not invest in mortgage-backed securities and other higher yielding investments.

Substantial declines in market rates prompted the issuers of many of the securities in our portfolio to call those securities during 2002. As a result, the investment portfolio decreased by \$16.3 million, or 21.01%, during 2002 as compared to 2001 year-end. Additionally, we took advantage of opportunities in 2002 to mitigate the risk of long-term rate volatility in our available-for-sale investment portfolio by selling some of our longer-term bonds. Due to the yield environment when we sold the securities, we generated \$193,000 of net gains on the sales. As of December 31, 2002, all of the securities in our investment portfolio were classified as available for sale in order to provide us with an additional source of liquidity when necessary, and as pledging requirements will permit.

The following table presents the composition of our investment portfolio by major category at the dates indicated.

INVESTMENT SECURITIES PORTFOLIO COMPOSITION

	At December 31,		
	2002	2001	2000
	(In thousands)		
U.S. government and agency securities.....	\$ 47,579	\$ 62,050	\$ 61,001
State and municipal obligations.....	13,785	15,626	15,502
Total.....	<u>\$ 61,364</u>	<u>\$ 77,676</u>	<u>\$ 76,503</u>
Available for sale (fair value)	\$ 61,364	\$ 77,676	\$ 76,503
Held to maturity (amortized cost).....	-	-	2,000
Total.....	<u>\$ 61,364</u>	<u>\$ 77,676</u>	<u>\$ 78,503</u>

The following table sets forth the maturities, carrying value or fair value (in the case of investment securities available for sale), and average yields for our investment portfolio at December 31, 2002. Yields are presented on a tax equivalent basis. Expected maturities will differ from contractual maturities due to unscheduled repayments.

Under our investment policy, not more than 10% of the Bank's capital may be invested in the tax-exempt general obligation bonds of any single issuer.

MATURITY OF INVESTMENT SECURITIES PORTFOLIO

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities		
	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Fair Value	Average Yield
	(Dollars in thousands)										
Available for Sale											
U.S. government and agency securities.....	\$ 1,023	6.90 %	\$ 45,551	3.65 %	\$ 1,005	5.78 %	\$ -	- %	\$ 47,579	\$ 47,579	3.76 %
State and municipal obligations.....	911	4.87	7,234	4.75	5,320	4.79	320	4.72	13,785	13,785	4.77
Mortgage-backed securities.....	-	-	-	-	-	-	-	-	-	-	-
Other securities.....	-	-	-	-	-	-	-	-	-	-	-
Total available for sale..	<u>\$ 1,934</u>	<u>5.94 %</u>	<u>\$ 52,785</u>	<u>3.80 %</u>	<u>\$ 6,325</u>	<u>4.95 %</u>	<u>\$ 320</u>	<u>4.72 %</u>	<u>\$ 61,364</u>	<u>\$ 61,364</u>	<u>3.99 %</u>
Total investment securities.....	<u>\$ 1,934</u>	<u>5.94 %</u>	<u>\$ 52,785</u>	<u>3.80 %</u>	<u>\$ 6,325</u>	<u>4.95 %</u>	<u>\$ 320</u>	<u>4.72 %</u>	<u>\$ 61,364</u>	<u>\$ 61,364</u>	<u>3.99 %</u>

Deposits. Deposits grew by \$29.5 million, or 7.49%, for the year ended December 31, 2002, compared to 2001 year-end. Approximately \$11.1 million of our deposit growth during fiscal year 2001 was attributable to growth in business checking accounts and reflects the continued efforts of our business development officers. These

commercial deposit accounts do not earn interest; however, many of them receive an earnings credit on the balance to offset the cost of other services provided by the Bank. Another source of deposit growth in 2002 was in time deposit balances, which increased by over \$7.0 million. We have traditionally offered market-competitive rates on our time deposit products and believe they provide us with a more attractive source of funds than other alternatives such as Federal Home Loan Bank borrowings, due to our ability to cross-sell additional services to these account holders. Our strategy to grow our deposits includes opening additional branches in markets management deems underserved, offering new products, and obtaining brokered deposits as allowed by our board of directors.

The following table sets forth the balances for each major category of our deposit accounts and the weighted-average interest rates paid for interest-bearing deposits for the periods indicated:

Deposits

	Year Ended December 31,								
	2002			2001			2000		
	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate	Balance	Percent of Deposits	Weighted Average Rate
	(Dollars in thousands)								
Demand	\$ 86,591	20.43 %	— %	\$ 74,229	18.83 %	— %	\$ 44,354	13.11 %	— %
Savings	6,037	1.42	1.39	5,050	1.28	2.54	3,327	0.98	2.96
Interest-bearing demand	30,747	7.26	1.30	28,397	7.20	2.59	32,427	9.59	3.50
Money Market	33,932	8.01	1.30	30,427	7.72	2.67	27,923	8.26	3.46
Money Management	96,837	22.85	2.05	93,462	23.71	4.04	90,787	26.84	5.99
Time Deposits	169,643	40.03	4.39	162,680	41.26	4.81	139,403	41.22	6.26
Total deposits	\$ 423,787	100.00 %		\$ 394,245	100.00 %		\$ 338,221	100.00 %	

The following table sets forth the amount of our time deposits that are greater than \$100,000 by time remaining until maturity as of December 31, 2002:

AMOUNTS AND MATURITIES OF TIME DEPOSITS OF \$100,000 OR MORE

	As of December 31, 2002	
	Amount	Weighted Average Rate Paid
	(Dollars in thousands)	
Three months or less	\$ 10,415	3.22 %
Over three months through six months	7,719	3.17
Over six months through twelve months	13,719	3.62
Over twelve months	33,847	4.41
Total	\$ 65,700	3.91 %

Liquidity and Capital Resources

Liquidity. Liquidity is measured by a financial institution's ability to raise funds through deposits, borrowed funds, capital, or the sale of marketable assets, such as residential mortgage loans or a portfolio of SBA loans. Other sources of liquidity, including cash flow from the repayment of loans, are also considered in determining whether liquidity is satisfactory. Liquidity is also achieved through growth of core deposits and liquid assets, and accessibility to the money and capital markets. The funds are used to meet deposit withdrawals, maintain reserve requirements, fund loans and operate the organization. Core deposits, defined as demand deposits, interest-bearing transaction accounts, savings deposits and time deposits less than \$100,000 (excluding brokered deposits), were 57.80% of our total assets at December 31, 2002, and 66.76% and 69.16% of total assets at December 31, 2001 and 2000, respectively. The decrease in this ratio as of December 31, 2002 was primarily the result of an increase in

mortgage loans held for sale as a percentage of total assets at year-end 2002. Generally, the Company's funding strategy is to utilize Federal Home Loan Bank borrowings to fund originations of mortgage loans held for sale and fund balances generated by other lines of business with deposits. In addition, the Company uses other forms of short-term borrowings for cash management and liquidity management purposes on a limited basis. These forms of borrowings include federal funds purchased and revolving lines of credit. The Company's Asset-Liability Management Committee utilizes a variety of liquidity monitoring tools, including an asset/liability modeling service, to analyze and manage the Company's liquidity.

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks governed and regulated by the Federal Housing Finance Board. The Federal Home Loan Banks provide a central credit facility for member institutions. The Bank, as a member of the FHLB of Topeka, is required to acquire and hold shares of capital stock in the FHLB of Topeka in an amount at least equal to 1.00% of the aggregate principal amount of its unpaid residential mortgage loans or 5.00% of our total outstanding FHLB advances. The Bank is currently in compliance with this requirement, with a \$4.4 million investment in stock of the FHLB of Topeka as of December 31, 2002. During 2002 and 2001, the Bank took advantage of some special advances from the FHLB to supplement its funding base. The Bank had \$52.5 million and \$32.5 million in outstanding long-term advances from the FHLB of Topeka at December 31, 2002 and 2001, respectively. In addition, the Bank had \$35.0 million in outstanding short-term advances at December 31, 2002.

Management established internal guidelines to measure liquid assets as well as relevant ratios concerning asset levels and purchased funds. These indicators are reported to the board of directors monthly, and at December 31, 2002, the Bank was within the established guidelines.

The following table sets forth a summary of our short-term borrowings during and as of the end of each period indicated.

SHORT-TERM BORROWINGS

	Amount outstanding at period end	Average amount outstanding during the period (1)	Maximum Outstanding At any Month end	Weighted average interest rate during the period	Weighted Average interest rate at period end
(Dollars in thousands)					
At or for the year ended December 31, 2002:					
Federal Home Loan Bank borrowings.....	\$ 35,000	\$ 2,236	\$ 35,000	1.95 %	1.28 %
Bank Stock Loan	-	-	-	-	-
Federal Funds purchased.....	10,000	1,043	10,000	1.93	1.81
Note Payable - other.....	-	-	-	-	-
Repurchase agreements.....	23,688	16,962	23,688	1.08	0.67
Total.....	<u>\$ 68,688</u>	<u>\$ 20,241</u>		<u>1.22</u>	<u>0.80</u>
At or for the year ended December 31, 2001:					
Federal Home Loan Bank borrowings.....	\$ -	\$ 2,985	\$ 5,000	6.37 %	-
Bank Stock Loan	-	-	-	-	-
Federal Funds purchased.....	-	-	-	-	-
Note Payable - other.....	-	231	1,000	6.00	-
Repurchase agreements.....	17,173	17,246	20,862	2.37	1.07
Total.....	<u>\$ 17,173</u>	<u>\$ 20,462</u>		<u>2.43</u>	<u>1.07</u>
At or for the year ended December 31, 2000:					
Federal Home Loan Bank borrowings.....	\$ 5,000	\$ 7,408	\$ 10,000	7.01 %	7.17 %
Bank Stock Loan	-	3,999	7,262	8.17	-
Federal Funds purchased.....	-	590	4,000	7.72	-
Repurchase agreements.....	15,299	13,245	16,650	3.09	3.34
Total.....	<u>\$ 20,299</u>	<u>\$ 25,242</u>		<u>5.15</u>	<u>6.05</u>

(1) Calculations are based on daily averages where available and monthly averages otherwise.

Capital Resources. At December 31, 2002, our total stockholders' equity was \$34.3 million, and our equity to asset ratio was 5.67%. At December 31, 2001, our total stockholders' equity was \$28.5 million and our equity to asset ratio was 5.80%.

The Federal Reserve Board's risk-based guidelines establish a risk-adjusted ratio, relating capital to different categories of assets and off-balance sheet exposures, such as loan commitments and standby letters of credit. These guidelines place a strong emphasis on tangible stockholder's equity as the core element of the capital base, with appropriate recognition of other components of capital. At December 31, 2002, our Tier 1 capital ratio was 8.82%, while our total risk-based capital ratio was 10.13%, both of which exceed the capital minimums established in the risk-based capital requirements.

Our risk-based capital ratios at December 31, 2002, 2001 and 2000 are presented below.

RISK-BASED CAPITAL

	2002	December 31, 2001	2000
	(Dollars in thousands)		
Tier 1 capital			
Stockholders' equity.....	\$ 34,344	\$ 28,525	\$ 23,815
Intangible assets.....	(1,281)	(1,433)	(1,295)
Unrealized (appreciation) depreciation on available-for-sale securities	(785)	(831)	(461)
Guaranteed preferred beneficial interest in Company's subordinated debt (1)	<u>11,187</u>	<u>9,231</u>	<u>7,785</u>
Total Tier 1 capital	<u>43,465</u>	<u>35,492</u>	<u>29,844</u>
Tier 2 capital			
Qualifying allowance for loan losses	6,171	5,002	3,929
Guaranteed preferred beneficial interest in Company's subordinated debt (1)	<u>313</u>	<u>2,269</u>	<u>3,715</u>
Total Tier 2 capital.....	<u>6,484</u>	<u>7,271</u>	<u>7,644</u>
Total risk-based capital.....	<u>\$ 49,949</u>	<u>\$ 42,763</u>	<u>\$ 37,488</u>
Risk weighted assets	<u>\$ 492,922</u>	<u>\$ 399,923</u>	<u>\$ 313,841</u>
Ratios at end of period			
Total capital to risk-weighted assets ratio	10.13 %	10.69 %	11.95 %
Tier 1 capital to average assets ratio (leverage ratio)	7.74 %	7.17 %	7.47 %
Tier 1 capital to risk-weighted assets ratio.....	8.82 %	8.87 %	9.51 %
Minimum guidelines			
Total capital to risk-weighted assets ratio	8.00 %	8.00 %	8.00 %
Tier 1 capital to average assets ratio (leverage ratio)	4.00 %	4.00 %	4.00 %
Tier 1 capital to risk-weighted assets ratio.....	4.00 %	4.00 %	4.00 %

- (1) Federal Reserve guidelines for calculation of Tier 1 capital limits the amount of cumulative trust preferred securities which can be included in Tier 1 capital to 25% of total Tier 1 capital (Tier 1 capital before reduction of intangibles). At December 31, 2002, approximately \$11.2 million of the trust preferred securities have been included as Tier 1 capital. The balance of the trust preferred securities have been included as Tier 2 capital.

Inflation

The consolidated financial statements and related data presented in this report have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as prices of goods and services. We disclose the estimated fair value of our financial instruments in accordance with Statement of Financial Accounting Standards No. 107. See Note 16 to the consolidated financial statements included in this report.

Future Accounting Requirements

The Financial Accounting Standards Board recently issued its Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This new Interpretation requires a guarantor to recognize a liability for the fair value of the obligation undertaken in issuing a guarantee at its inception and prescribes disclosures regarding guarantees. The Interpretation applies only to guarantees issued or modified after December 31, 2002. Guarantees issued by the Bank are principally in the form of letters of credit as discussed in Note 17 to the consolidated financial statements. We do not anticipate that initial adoption of the Interpretation will have a material impact on the Company's financial statements. The Company's application of the Interpretation to guarantees issued or modified after December 31, 2002, will, if material, result in recognition of a liability for such guarantees, as well as recognition of fee revenue from them over the period of time the guarantees are outstanding.

Item 7A: Qualitative and Quantitative Disclosure About Market Risk

As a continuing part of our financial strategy, we attempt to manage the impact of fluctuations in market interest rates on our net interest income. This effort entails providing a reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield. Our funds management policy is established by our Bank Board of Directors and monitored by our Asset/Liability Management Committee. Our funds management policy sets standards within which we are expected to operate. These standards include guidelines for exposure to interest rate fluctuations, liquidity, loan limits as a percentage of funding sources, exposure to correspondent banks and brokers, and reliance on non-core deposits. Our funds management policy also establishes the reporting requirements to our Bank Board of Directors. Our investment policy complements our funds management policy by establishing criteria by which we may purchase securities. These criteria include approved types of securities, brokerage sources, terms of investment, quality standards, and diversification.

We use an asset/liability modeling service to analyze the Company's current sensitivity to instantaneous and permanent changes in interest rates. The system simulates the Company's asset and liability base and projects future net interest income results under several interest rate assumptions. This allows management to view how changes in interest rates will affect the spread between the yield received on assets and the cost of deposits and borrowed funds.

The asset/liability modeling service is also used to analyze the net economic value of equity at risk under instantaneous shifts in interest rates. The "net economic value of equity at risk" is defined as the market value of assets less the market value of liabilities plus/minus the market value of any off-balance sheet positions. By effectively looking at the present value of all future cash flows on or off the balance sheet, the net economic value of equity modeling takes a longer-term view of interest rate risk.

We strive to maintain a position that changes in interest rates will not affect net interest income or the economic value of equity by more than 5%, per 50 basis points. The following table sets forth the estimated

percentage change in our net interest income over the next twelve-month period and our economic value of equity at risk at December 31, 2002 based on the indicated instantaneous and permanent changes in interest rates.

<u>Changes in Interest Rates</u>	<u>Net Interest Income (next 12 months)</u>	<u>Net Economic Value of Equity at Risk</u>
300 basis point rise	22.10%	10.81%
200 basis point rise	14.09%	6.93%
100 basis point rise	6.34%	4.50%
Base Rate Scenario	-	-
25 basis point decline	(5.23%)	(1.87%)
50 basis point decline	(8.87%)	(4.42%)
100 basis point decline	(14.90%)	(7.63%)

The above table indicates that, at December 31, 2002, in the event of a sudden and sustained increase in prevailing market rates, our net interest income would be expected to increase as our assets would be expected to reprice quicker than our liabilities, while a decrease in rates would indicate just the opposite. Generally, in the decreasing rate scenarios, not only would adjustable rate assets (loans) reprice to lower rates faster than our liabilities, but our liabilities - long-term Federal Home Loan Bank of Topeka (FHLB) advances and existing time deposits - would not decrease in rate as much as market rates. In addition, fixed rate loans might experience an increase in prepayments, further decreasing yields on earning assets and causing net interest income to decrease. Another consideration with a rising interest rate scenario is the impact on mortgage loan refinancing, which would likely decline, leading to lower loans held for sale fee income, though the impact is difficult to quantify or project.

The above table also indicates that, at December 31, 2002, in the event of a sudden decrease in prevailing market rates, the economic value of our equity would decrease. Given our current asset/liability position, a 25, 50 or 100 basis point decline in interest rates will result in a lower economic value of our equity as the change in estimated loss on liabilities exceeds the change in estimated gain on assets in these interest rate scenarios. Currently, under a falling rate environment, the Company's estimated market value of loans could increase as a result of fixed rate loans, net of possible prepayments. The estimated market value of investment securities could also rise as our portfolio contains higher yielding securities. However, the estimated market value increase in fixed rate loans and investment securities is offset by time deposits unable to reprice to lower rates immediately and fixed-rate callable advances from FHLB. The likelihood of advances being called in a decreasing rate environment is diminished resulting in the advances existing until final maturity, which has the effect of lowering the economic value of equity.

The following table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2002, based on the information and assumptions set forth below.

INTEREST-RATE SENSITIVITY ANALYSIS

	Expected Maturity Date								
	Fiscal Year Ending December 31,								
	0-90 Days	91-365 Days	2003	2004	2005	2006	2007	Thereafter	Total
Interest-Earning Assets:									
Fixed Rate Loans.....	\$ 7,326	\$ 13,123	\$ 20,449	\$ 15,948	\$ 22,235	\$ 17,091	\$ 14,573	\$ 2,013	\$ 92,309
Average Interest Rate.....	7.23 %	7.95 %	7.69 %	9.59 %	8.65 %	8.47 %	8.17 %	27.97 %	8.91 %
Variable Rate Loans.....	393,492	6,562	400,054	-	-	-	-	-	400,054
Average Interest Rate.....	4.94 %	6.67 %	4.96 %	-	-	-	-	-	4.96 %
Fixed Rate Investments.....	276	1,658	1,934	14,143	26,264	9,486	2,892	6,645	61,364
Average Interest Rate.....	4.55 %	6.04 %	5.94 %	2.45 %	3.88 %	4.98 %	5.83 %	4.94 %	3.99 %
Variable Rate Investments.....	-	-	-	-	-	-	-	-	-
Average Interest Rate.....	-	-	-	-	-	-	-	-	-
Federal Funds Sold.....	141	-	141	-	-	-	-	-	141
Average Interest Rate.....	1.15 %	-	1.15 %	-	-	-	-	-	1.15 %
Total interest-earning assets..	<u>\$ 401,235</u>	<u>\$ 21,343</u>	<u>\$ 422,578</u>	<u>\$ 30,091</u>	<u>\$ 48,499</u>	<u>\$ 26,577</u>	<u>\$ 17,465</u>	<u>\$ 8,658</u>	<u>\$ 553,868</u>
Interest-Bearing Liabilities:									
Interest-bearing demand.....	\$ 30,746	\$ -	\$ 30,746	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,746
Average Interest Rate.....	0.63 %	-	0.63 %	-	-	-	-	-	0.63 %
Savings and money market.....	137,211	-	137,211	-	-	-	-	-	137,211
Average Interest Rate.....	1.17 %	-	1.17 %	-	-	-	-	-	1.17 %
Time deposits.....	32,011	52,398	84,409	29,465	10,091	15,346	26,598	3,732	169,641
Average Interest Rate.....	3.51 %	3.73 %	3.65 %	3.93 %	5.18 %	4.97 %	4.93 %	5.07 %	4.14 %
Funds borrowed.....	71,873	4,227	76,100	188	203	219	20,236	44,434	141,380
Average Interest Rate.....	1.14 %	3.07 %	1.25 %	7.50 %	7.50 %	7.50 %	1.62 %	6.24 %	2.90 %
Total interest-bearing liabilities.....	<u>\$ 271,841</u>	<u>\$ 56,625</u>	<u>\$ 328,466</u>	<u>\$ 29,653</u>	<u>\$ 10,294</u>	<u>\$ 15,565</u>	<u>\$ 46,834</u>	<u>\$ 48,166</u>	<u>\$ 478,978</u>
Cumulative:									
Rate sensitive assets (RSA).....	\$ 401,235	\$ 422,578	\$ 422,578	\$ 452,669	\$ 501,168	\$ 527,745	\$ 545,210	\$ 553,868	\$ 553,868
Rate sensitive liabilities (RSL)	271,841	328,466	328,466	358,119	368,413	383,978	430,812	478,978	478,978
GAP (GAP = RSA – RSL)	129,394	94,112	94,112	94,550	132,755	143,767	114,398	74,890	74,890
RSA/RSL.....	147.60 %	128.65 %	128.65 %	126.40 %	136.03 %	137.44 %	126.55 %	115.64 %	
RSA/Total assets.....	66.30	69.83	69.83	74.80	82.81	87.20	90.09	91.52	
RSL/Total assets.....	44.92	54.28	54.28	59.18	60.88	63.45	71.19	79.15	
GAP/Total assets.....	21.38	15.55	15.55	15.62	21.94	23.76	18.90	12.37	
GAP/RSA.....	32.25	22.27	22.27	20.89	26.49	27.24	20.98	13.52	

Certain assumptions are contained in the above table which affect the presentation. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities lag behind changes in market interest rates.

Disclosures about fair values of financial instruments, which reflect changes in market prices and rates, can be found in note 16 to the consolidated financial statements included in this report.

Item 8: Consolidated Financial Statements of Blue Valley Ban Corp

See index to Blue Valley Ban Corp financial statements on page F-1.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No items are reportable.

Part III

Item 10: Directors and Executive Officers of the Registrant

Information regarding the Company's directors is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders and is hereby incorporated by reference.

Information regarding the Bank's directors and executive officers is included in Part I of this Form 10-K under the caption "Bank Directors and Executive Officers."

Item 11: Executive Compensation

This information is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management

This information is included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders and is hereby incorporated by reference.

Item 13: Certain Relationships and Related Transactions

The Bank periodically makes loans to our executive officers and directors, the members of their immediate families and companies that they are affiliated with. As of December 31, 2002, the Bank had aggregate loans outstanding to such persons of approximately \$8.1 million, which represented 23.53% of our stockholders' equity of \$34.3 million on that date. These loans:

- were made in the ordinary course of business;
- were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons; and
- did not involve more than the normal risk of collectibility or present other unfavorable features.

Item 14: Controls and Procedures

Management, including the Company's Chief Executive Officer and Treasurer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures within the ninety-day period prior to the date of filing this annual report. Based upon the evaluation, management concluded that the Company's disclosure controls and procedures are effective to ensure that all material information requiring disclosure in this annual report was made known to them in a timely manner.

The Company made no significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date management completed its evaluation.

Part IV

Item 15: Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1 and 2. Financial Statements and any Financial Statement Schedules

The financial statements and financial statement schedules listed in the accompanying index to consolidated financial statements and financial statement schedules are filed as part of this Form 10-K.

(b) Reports on Form 8-K

Registrant did not file any reports on Form 8-K during the fourth quarter of fiscal year 2002.

(c) Exhibits

The following exhibits were previously filed with the Commission on July 18, 2000 as an Exhibit to Blue Valley's Registration Statement on Form S-1, Amendment No. 5, File No. 333-34328. The same is incorporated herein by reference.

- 3.1 Amended and Restated Articles of Incorporation of Blue Valley Ban Corp.
- 3.2 Bylaws, as amended, of Blue Valley Ban Corp.
- 4.1 1998 Equity Incentive Plan.
- 4.2 1994 Stock Option Plan.
- 4.3 Form of Indenture of Blue Valley Ban Corp.
- 4.4 Form of Junior Subordinated Debentures, due September 30, 2030.
- 4.5 Certificate of Trust of BVBC Capital Trust I.
- 4.6 Form of Amended and Restated Trust Agreement of BVBC Capital Trust I.
- 4.7 Form of Cumulative Preferred Security Certificate for BVBC Capital Trust I.
- 4.8 Form of Trust preferred securities Guarantee Agreement of Blue Valley Ban Corp relating to the Cumulative Trust preferred securities.
- 4.9 Form of Agreement as to Expenses and Liabilities.
- 10.1 Amended and Restated Promissory Note of Blue Valley Ban Corp, dated December 30, 1999.
- 10.2 Promissory Note of Blue Valley Building dated July 15, 1994.
- 10.3 Mortgage, Assignment of Leases and Rents and Security Agreement between Blue Valley Building and Businessmen's Assurance Company of America, dated July 15, 1994.
- 10.4 Assignment of Leases and Rents between Blue Valley Building and Businessmen's Assurance Company of America dated July 15, 1994.
- 10.5 Lease Agreement between Bank of Blue Valley and CMI, Inc., dated January 18, 1999.

The following exhibits are filed as part of this annual report.

- 11.1 Statement regarding computation of per share earnings. Please see p. F-12.
- 21.1 Subsidiaries of Blue Valley Ban Corp.
- 23.3 Consent of BKD, LLP.
- 99.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- 99.2 Certification of the Treasurer pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 26, 2003

By: /s/ Robert D. Regnier

Robert D. Regnier, President,
Chief Executive Officer and Director

Date: March 26, 2003

By: /s/ Mark A. Fortino

Mark A. Fortino, Treasurer and
Principal Finance and Accounting Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES -OXLEY ACT OF 2002

I, Robert D. Regnier, certify that:

1. I have reviewed this annual report on Form 10-K of Blue Valley Ban Corp (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures as of the date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditor any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significant affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 26, 2003

/s/ Robert D. Regnier
Robert D. Regnier,
President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES -OXLEY ACT OF 2002

I, Mark A. Fortino, certify that:

1. I have reviewed this annual report on Form 10-K of Blue Valley Ban Corp (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures as of the date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditor any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significant affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 26, 2003

/s/ Mark A. Fortino
Mark A. Fortino,
Treasurer
(Chief Financial Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 26, 2003	By: <u>/s/ Robert D. Regnier</u> Robert D. Regnier, President, Chief Executive Officer and Director
Date: March 26, 2003	By: <u>/s/ Donald H. Alexander</u> Donald H. Alexander, Director
Date: March 26, 2003	By: <u>/s/ Wayne A. Henry, Jr.</u> Wayne A. Henry, Jr., Director
Date: March 26, 2003	By: <u>/s/ C. Ted McCarter</u> C. Ted McCarter, Director
Date: March 26, 2003	By: <u>/s/ Thomas A. McDonnell</u> Thomas A. McDonnell, Director

BLUE VALLEY BAN CORP
DECEMBER 31, 2002, 2001 AND 2000

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Independent Accountants' Report

Board of Directors and Stockholders
Blue Valley Ban Corp
Overland Park, Kansas

We have audited the accompanying consolidated balance sheets of BLUE VALLEY BAN CORP (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BLUE VALLEY BAN CORP as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Kansas City, Missouri
February 14, 2003

BLUE VALLEY BAN CORP
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001
(dollars in thousands, except share data)

ASSETS

	<u>2002</u>	<u>2001</u>
Cash and due from banks	\$ 27,755	\$ 20,159
Federal funds sold	<u>—</u>	<u>5,000</u>
Cash and cash equivalents	27,755	25,159
Available-for-sale securities	61,364	77,676
Mortgage loans held for sale	119,272	41,853
Loans	380,082	334,075
Less allowance for loan losses	<u>6,914</u>	<u>5,267</u>
Net loans	373,168	328,808
Premises and equipment	10,277	8,079
Foreclosed assets held for sale, net	614	49
Interest receivable	2,014	2,513
Deferred income taxes	1,688	904
Prepaid expenses and other assets	2,541	2,072
Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	5,209	3,477
Core deposit intangible asset, at amortized cost	<u>1,281</u>	<u>1,433</u>
Total Assets	<u>\$ 605,183</u>	<u>\$ 492,023</u>

BLUE VALLEY BAN CORP
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001
(dollars in thousands, except share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2002</u>	<u>2001</u>
LIABILITIES		
Demand deposits	\$ 86,591	\$ 74,229
Savings, NOW and money market deposits	167,553	157,336
Time deposits	<u>169,643</u>	<u>162,680</u>
Total Deposits	423,787	394,245
Federal funds purchased and securities sold under agreements to repurchase	33,688	17,173
Short-term debt	35,000	—
Long-term debt	58,051	36,118
Guaranteed preferred beneficial interest in Company's subordinated debt	11,500	11,500
Balance due under U.S. Treasury note option	3,142	383
Accrued interest and other liabilities	<u>5,671</u>	<u>4,079</u>
Total Liabilities	<u>570,839</u>	<u>463,498</u>
STOCKHOLDERS' EQUITY		
Capital stock		
Common stock, par value \$1 per share;		
Authorized 15,000,000 shares; issued and outstanding		
2002 – 2,222,711 shares; 2001 – 2,175,176 shares	2,223	2,175
Additional paid-in capital	6,284	5,641
Retained earnings	25,052	19,878
Accumulated other comprehensive income		
Unrealized appreciation on available-for-sale securities, net of income taxes of \$523 in 2002 and \$553 in 2001	<u>785</u>	<u>831</u>
Total Stockholders' Equity	<u>34,344</u>	<u>28,525</u>
Total Liabilities and Stockholders' Equity	<u>\$ 605,183</u>	<u>\$ 492,023</u>

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(dollars in thousands, except per share data)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
INTEREST INCOME			
Interest and fees on loans	\$ 26,857	\$ 27,921	\$ 26,733
Federal funds sold	297	679	777
Available-for-sale securities	3,405	4,422	3,566
Held-to-maturity securities	<u>—</u>	<u>119</u>	<u>41</u>
Total Interest Income	<u>30,559</u>	<u>33,141</u>	<u>31,117</u>
INTEREST EXPENSE			
Interest-bearing demand deposits	388	815	872
Savings and money market deposit accounts	2,711	4,846	5,726
Other time deposits	7,759	9,775	7,555
Federal funds purchased and securities sold under repurchase agreements	182	409	417
Long-term debt and advances	<u>3,186</u>	<u>2,549</u>	<u>2,126</u>
Total Interest Expense	<u>14,226</u>	<u>18,394</u>	<u>16,696</u>
NET INTEREST INCOME	16,333	14,747	14,421
PROVISION FOR LOAN LOSSES	<u>2,920</u>	<u>2,400</u>	<u>1,950</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>13,413</u>	<u>12,347</u>	<u>12,471</u>
NONINTEREST INCOME			
Loans held for sale fee income	16,690	6,931	1,148
Service fees	1,847	1,632	1,624
Realized gains on sales of securities	193	500	—
Other income	<u>281</u>	<u>203</u>	<u>284</u>
Total Noninterest Income	<u>19,011</u>	<u>9,266</u>	<u>3,056</u>
NONINTEREST EXPENSE			
Salaries and employee benefits	16,437	10,063	5,856
Net occupancy expense	2,101	1,574	1,124
Other operating expense	<u>5,578</u>	<u>4,073</u>	<u>3,313</u>
Total Noninterest Expense	<u>24,116</u>	<u>15,710</u>	<u>10,293</u>
INCOME BEFORE INCOME TAXES	8,308	5,903	5,234
PROVISION FOR INCOME TAXES	<u>2,912</u>	<u>1,960</u>	<u>1,757</u>
NET INCOME	<u>\$ 5,396</u>	<u>\$ 3,943</u>	<u>\$ 3,477</u>
BASIC EARNINGS PER SHARE	<u>\$ 2.48</u>	<u>\$ 1.82</u>	<u>\$ 1.62</u>
DILUTED EARNINGS PER SHARE	<u>\$ 2.40</u>	<u>\$ 1.77</u>	<u>\$ 1.59</u>
DIVIDENDS PER SHARE	<u>\$ 0.10</u>	<u>\$ —</u>	<u>\$ —</u>

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(dollars in thousands, except share data)

	Comprehensive Income	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, DECEMBER 31, 1999		\$ 2,138	\$ 5,230	\$12,458	\$ (957)	\$ 18,869
Issuance of 4,000 shares of common stock		4	47			51
Net income	\$ 3,477			3,477		3,477
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$945	<u>1,418</u>				<u>1,418</u>	<u>1,418</u>
	<u>\$ 4,895</u>					
BALANCE, DECEMBER 31, 2000		<u>\$ 2,142</u>	<u>\$ 5,277</u>	<u>\$15,935</u>	<u>\$ 461</u>	<u>\$ 23,815</u>
Issuance of 33,456 shares of common stock		33	364			397
Net income	3,943			3,943		3,943
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$246	<u>370</u>				<u>370</u>	<u>370</u>
	<u>\$ 4,313</u>					
BALANCE, DECEMBER 31, 2001		<u>\$ 2,175</u>	<u>\$ 5,641</u>	<u>\$19,878</u>	<u>\$ 831</u>	<u>\$28,525</u>
Issuance of 47,535 shares of common stock		48	643			691
Dividends on common stock (\$0.10 per share)				(222)		(222)
Net income	5,396			5,396		5,396
Change in unrealized appreciation on available-for-sale securities, net of income taxes of \$(30)	<u>(46)</u>				<u>(46)</u>	<u>(46)</u>
	<u>\$ 5,350</u>					
BALANCE, DECEMBER 31, 2002		<u>\$ 2,223</u>	<u>\$ 6,284</u>	<u>\$25,052</u>	<u>\$ 785</u>	<u>\$34,344</u>

	December 31, 2002	December 31, 2001	December 31, 2000
Reclassification Disclosure			
Unrealized appreciation on available-for-sale securities, net of income taxes of \$47, \$446 and \$945 for the periods ended December 31, 2002, 2001 and 2000, respectively	\$ 70	\$ 670	\$ 1,418
Less: reclassification adjustments for appreciation included in net income, net of income taxes of \$77, \$200 and \$0 for the periods ended December 31, 2002, 2001 and 2000, respectively	<u>(116)</u>	<u>(300)</u>	<u>—</u>
Change in unrealized appreciation on available-for-sale securities, net of income taxes (credit) of \$(30), \$246, and \$945 for the periods ended December 31, 2002, 2001 and 2000, respectively	<u>\$ (46)</u>	<u>\$ 370</u>	<u>\$ 1,418</u>

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(dollars in thousands)

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 5,396	\$ 3,943	\$ 3,477
Adjustments to reconcile net income to net cash flow from operating activities:			
Depreciation and amortization	1,114	848	653
Amortization of premiums and discounts on securities	42	24	74
Provision for loan losses	2,920	2,400	1,950
Deferred income taxes	(754)	(212)	(43)
Net gain on sales of available-for-sale securities	(193)	(500)	-
Net loss on sale of foreclosed assets	121	-	-
Net (gain) loss on sale of premises and equipment	35	(5)	-
Originations of loans held for sale	(1,305,219)	(641,332)	(81,956)
Proceeds from the sale of loans held for sale	1,227,800	600,686	81,701
Changes in:			
Accrued interest receivable	500	546	(1,019)
Prepaid expenses and other assets	(617)	(87)	(291)
Accrued interest payable and other liabilities	1,370	1,365	292
Net cash provided by (used in) operating activities	(67,485)	(32,324)	4,838
CASH FLOWS FROM INVESTING ACTIVITIES			
Net originations of loans	(58,127)	(53,295)	(41,375)
Proceeds from sales of loan participations	9,135	4,946	1,617
Purchase of premises and equipment	(3,060)	(1,445)	(1,514)
Proceeds from sale of premises and equipment	12	11	-
Proceeds from the sale of foreclosed assets	1,026	655	1,024
Purchases of held-to-maturity securities	-	-	(2,000)
Proceeds from maturities of held-to-maturity securities	-	2,000	-
Proceeds from sales of available-for-sale securities	13,183	16,400	-
Proceeds from maturities of available-for-sale securities	65,198	33,875	3,355
Purchases of available-for-sale securities	(61,994)	(50,357)	(28,923)
Purchases of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	(2,625)	(1,926)	(516)
Proceeds from the sale of Federal Home Loan Bank stock, Federal Reserve Bank stock, and other securities	893	-	-
Net cash acquired in branch acquisition	-	1,604	-
Net cash used in investing activities	(36,359)	(47,532)	(68,332)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits, money market, NOW and savings accounts	22,579	31,279	35,470
Net increase in time deposits	6,963	22,162	34,606
Repayments of long-term debt	(162)	(150)	(140)
Proceeds from long-term debt	22,095	19,500	5,000
Net proceeds from guaranteed preferred beneficial interest in Company's subordinated debt			10,587
Net proceeds (payments) on short-term debt	35,000	(5,000)	(12,450)
Proceeds from sale of common stock	691	397	51
Net increase in other borrowings	16,515	1,874	4,039
Net increase (decrease) in balance due under U.S. Treasury note option	2,759	(967)	(1,209)
Net cash provided by financing activities	106,440	69,095	75,954
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,596	(10,761)	12,460
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	25,159	35,920	23,460
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 27,755	\$ 25,159	\$ 35,920
SUPPLEMENTAL CASH FLOWS INFORMATION			
Loans transferred to foreclosed assets held for sale	\$ 1,712	\$ 370	\$ 1,172
Interest paid	\$ 14,638	\$ 18,443	\$ 16,077
Income taxes paid (net of refunds)	\$ 2,535	\$ 2,693	\$ 1,900

See Notes to Consolidated Financial Statements

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a holding company for Bank of Blue Valley (the Bank), Blue Valley Building Corporation and BVBC Capital Trust I through 100% ownership of each.

The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Johnson County, Kansas. The Bank also originates mortgages nationwide through its Internet Mortgage division. The Bank is subject to competition from other financial institutions. The Bank also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

The Blue Valley Building Corporation is primarily engaged in leasing real property at its facility in Overland Park, Kansas and owning other properties intended for future use.

BVBC Capital Trust I is a Delaware business trust that was created in 2000 to offer trust preferred securities and to purchase the Company's prior subordinated debentures. The Trust has a term of 35 years, but may dissolve earlier as provided in its trust agreement.

Operating Segment

The Company provides community banking services through its subsidiary bank, including such products and services as loans; time deposits, checking and savings accounts; trust services; and investment services. These activities are reported as a single operating segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Management believes that the allowances for loan losses and the valuation of foreclosed assets held for sale are adequate. While management uses available information to recognize losses on loans and foreclosed assets held for sale, changes in economic conditions may necessitate revision of these estimates in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for loan losses and valuation of foreclosed assets held for sale. Such agencies may require the

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company to recognize additional losses based on their judgments of information available to them at the time of their examination.

Principles of Consolidation

The consolidated financial statements include the accounts of Blue Valley Ban Corp and its 100% owned subsidiaries, Bank of Blue Valley, Blue Valley Building Corporation and BVBC Capital Trust I. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2002 and 2001, cash equivalents consisted of federal funds sold.

Investment in Debt Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell, but which may be sold in the future, are carried at fair value. Realized gains and losses, based on amortized cost of the specific security, are included in other income. Unrealized gains and losses are recorded, net of related income tax effects, in stockholders' equity. Premiums and discounts are amortized and accreted, respectively, to interest income using a method which approximates the level-yield method over the period to maturity.

Interest on investments in debt securities is included in income when earned.

Other Investments

The Company, as a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems, is required to maintain an investment in capital stock of both the FHLB and FRB. No ready market exists for either stock, and the stocks have no quoted market value. Such stock is recorded at cost.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to earnings at the time the decline in value occurs. Forward commitments to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Amounts paid to investors to obtain forward commitments, if any, are deferred until such time as the related loans are sold. The fair values of the forward commitments are not recognized in the financial statements if their terms match those of the underlying mortgage. Gains and losses resulting from sales of mortgage loans are recognized when the respective loans are sold to investors. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid, commitment fees paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-offs are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Allowance for Loan Losses

The allowance is management's estimate of probable losses which have occurred as of the balance sheet date based on management's evaluation of risk in the loan portfolio. The allowance for loan losses is increased by provisions charged to expense and reduced by loans charged off when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance is evaluated on a monthly basis by management based on management's periodic review of the collectibility of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The Bank computes its allowance by assigning specific reserves to impaired loans, and then applies general reserve factors to the rest of the loan portfolio. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management when determining impairment include payment status, collateral value and probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets Held for Sale

Assets acquired by foreclosure or in settlement of debt and held for sale are valued at their estimated fair value as of the date of foreclosure, and a related valuation allowance is provided for estimated costs to sell the assets. Management evaluates the value of foreclosed assets held for sale periodically and increases the valuation allowance for any subsequent declines in fair value. Increases in the valuation allowance and gains/losses on sales of foreclosed assets are included in non-interest expenses, net.

Core Deposit Intangible Assets

Unamortized core deposit intangible assets aggregated \$1,281,000 and \$1,433,000 (originally \$2,576,000) at December 31, 2002 and 2001, respectively, and have been amortized over a 15-year period using the straight-line method. Amortization expense related to core deposit intangible assets was \$152,000 for each of the years 2002, 2001 and 2000.

Fee Income

Loan origination fees, net of direct origination costs, are recognized as income using the level-yield method over the term of the loans.

Reclassification

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 financial statement presentation. These reclassifications had no effect on net income.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effect of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Basic earnings per share is computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share is computed using the weighted average common shares and all potential dilutive common shares outstanding during the year.

The computation of per share earnings is as follows:

	2002	2001	2000
	(in thousands, except share and per share data)		
Net income	\$ 5,396	\$ 3,943	\$ 3,477
Average common shares outstanding	2,178,803	2,165,030	2,141,523
Average common share stock options outstanding	74,126	57,136	49,782
Average diluted common shares	2,252,929	2,222,166	2,191,305
Basic earnings per share	\$ 2.48	\$ 1.82	\$ 1.62
Diluted earnings per share	\$ 2.40	\$ 1.77	\$ 1.59

Accounting for Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for the plan and no compensation cost has been recognized. Had compensation cost for the Company's plan been determined based on the fair value at the grant dates using the minimum value method under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

		2002	2001	2000
		(in thousands, except per share data)		
Net income	As reported	\$ 5,396	\$ 3,943	\$ 3,477
	Pro forma	\$ 5,344	\$ 3,864	\$ 3,401
Basic earnings per share	As reported	\$ 2.48	\$ 1.82	\$ 1.62
	Pro forma	\$ 2.45	\$ 1.78	\$ 1.59
Diluted earnings per share	As reported	\$ 2.40	\$ 1.77	\$ 1.59
	Pro forma	\$ 2.37	\$ 1.74	\$ 1.55

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of options granted is estimated on the date of the grant using the minimum value method with the following weighted-average assumptions:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(dollars in thousands, except share data)		
Dividend per Share	\$0.10	\$ -	\$ -
Risk-Free Interest Rate	1.75%	4.00%	6.00%
Expected Life of Options	2 years	2 years	2 years
Weighted-average fair value of options granted during the year	<u>\$ 49</u>	<u>\$ 108</u>	<u>\$130</u>

The expected life of options outstanding is based on the historical experience of the Company.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 2: INVESTMENT IN DEBT SECURITIES

The amortized cost and approximate fair value of available -for-sale securities are as follows:

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(dollars in thousands)			
U.S. Treasury	\$ –	\$ –	\$ –	\$ –
U.S. Government agencies	46,998	581	–	47,579
State and political subdivisions	13,057	728	–	13,785
	<u>\$60,055</u>	<u>\$ 1,309</u>	<u>\$ –</u>	<u>\$ 61,364</u>
	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(dollars in thousands)			
U.S. Treasury	\$ 2,000	\$ 36	\$ –	\$ 2,036
U.S. Government agencies	59,024	1,119	(129)	60,014
State and political subdivisions	15,268	368	(10)	15,626
	<u>\$76,292</u>	<u>\$ 1,523</u>	<u>\$ (139)</u>	<u>\$ 77,676</u>

Maturities of available -for-sale debt instruments at December 31, 2002:

	Amortized Cost	Approximate Fair Value
	(dollars in thousands)	
In one year or less	\$ 1,897	\$ 1,934
After one through five years	51,877	52,785
After five through ten years	5,982	6,325
After ten years	299	320
	<u>\$ 60,055</u>	<u>\$ 61,364</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 2: INVESTMENT IN DEBT SECURITIES (Continued)

The book value and approximate fair value of securities pledged as collateral to secure public deposits amounted to \$45,570,000 at December 31, 2002 and \$35,298,000 at December 31, 2001.

The Company enters into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying the agreements are book-entry securities. During the period, securities held in safekeeping were pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. At December 31, 2002, or at any month end during the period, no material amount of agreements to repurchase securities sold was outstanding with any individual dealer. Securities sold under agreements to repurchase averaged \$16,962,000 and \$17,246,000 during 2002 and 2001, and the maximum amounts outstanding at any month-end were \$23,688,000 and \$20,862,000, respectively. The book value and approximate fair value of securities pledged to secure agreements to repurchase amounted to \$28,357,000 and \$27,413,000 at December 31, 2002 and 2001, respectively.

Gross gains of \$193,000 and \$514,000 were realized in 2002 and 2001, respectively, and gross losses of \$0 and \$14,000 were realized in 2002 and 2001, respectively, resulting from sales of available-for-sale securities.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at December 31, 2002 and 2001 include the following:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Commercial	\$ 93,658	\$ 85,311
Commercial real estate	71,295	63,756
Construction	127,071	93,656
Leases	22,600	24,221
Residential real estate	21,581	24,460
Personal	26,750	29,895
Home equity	<u>17,127</u>	<u>12,776</u>
Total loans	380,082	334,075
Less: Allowance for loan losses	<u>6,914</u>	<u>5,267</u>
Net loans	<u>\$ 373,168</u>	<u>\$ 328,808</u>

Activity in the allowance for loan losses was as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(dollars in thousands)		
Balance, beginning of year	\$ 5,267	\$ 4,440	\$ 3,817
Provision charged to expense	2,920	2,400	1,950
Losses charged off, net of recoveries of \$309,000 \$363,000 and \$203,000 for 2002, 2001 and 2000, respectively	<u>(1,273)</u>	<u>(1,573)</u>	<u>(1,327)</u>
Balance, end of year	<u>\$ 6,914</u>	<u>\$ 5,267</u>	<u>\$ 4,440</u>

Impaired loans totaled \$11,679,000 and \$8,431,000 at December 31, 2002 and 2001, respectively, with related allowances for loan losses of \$1,830,000 and \$1,470,000, respectively.

Total interest income of \$699,000 and \$923,000 was recognized on average impaired loans of \$9,585,000 and \$6,630,000 for 2002 and 2001, respectively. Included in this total is cash-basis interest income of \$46,000 and \$202,000 recognized on impaired loans on nonaccrual during 2002 and 2001, respectively.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 4: PREMISES AND EQUIPMENT

Major classifications of these assets are as follows:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Land	\$ 1,777	\$ 1,577
Building and improvements	5,624	5,370
Furniture and equipment	4,200	3,368
Land improvements, net	<u>1,876</u>	<u>230</u>
	13,477	10,545
Less accumulated depreciation	<u>3,200</u>	<u>2,466</u>
Total premises and equipment	<u>\$10,277</u>	<u>\$ 8,079</u>

NOTE 5: INTEREST-BEARING DEPOSITS

Interest-bearing time deposits in denominations of \$100,000 or more were \$65,700,000 on December 31, 2002 and \$56,248,000 on December 31, 2001.

At December 31, 2002, the scheduled maturities of time deposits are as follows:

	(dollars in thousands)
2003	\$ 84,410
2004	29,364
2005	10,090
2006	15,345
2007 and thereafter	<u>30,434</u>
	<u>\$ 169,643</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 6: OPERATING LEASES

Blue Valley Building Corp. leases office space to others under noncancellable operating leases expiring in various years through 2004. Minimum future rentals receivable under noncancellable operating leases at December 31, 2002 are as follows:

	(dollars in thousands)
2003	\$ 138
2004	<u>143</u>
Future minimum lease receivable	<u>\$ 281</u>

The Company leases space from others under noncancellable operating leases expiring in various years through 2004. Consolidated rental and operating lease expenses were \$236,000 in 2002, \$82,000 in 2001 and \$30,000 in 2000. Minimum rental commitments payable under noncancellable operating leases at December 31, 2002 are as follows:

	(dollars in thousands)
2003	\$ 91
2004	<u>32</u>
Future minimum lease payable	<u>\$ 123</u>

NOTE 7: INCOME TAXES

The provision for income taxes consists of the following:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
		(dollars in thousands)	
Taxes currently payable	\$3,666	\$ 2,172	\$ 1,800
Deferred income taxes	<u>(754)</u>	<u>(212)</u>	<u>(43)</u>
	<u>\$ 2,912</u>	<u>\$ 1,960</u>	<u>\$ 1,757</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 7: INCOME TAXES (Continued)

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(dollars in thousands)		
Computed at the statutory rate (34%)	\$ 2,825	\$ 2,007	\$ 1,780
Increase (decrease) resulting from:			
Tax-exempt interest	(235)	(248)	(242)
Stock options	(25)	(59)	(2)
State income taxes	293	194	128
Other	54	66	93
Actual tax provision	<u>\$ 2,912</u>	<u>\$ 1,960</u>	<u>\$ 1,757</u>

The tax effects of temporary differences related to deferred taxes shown on the December 31, 2001 and 2000 consolidated balance sheets are as follows:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 2,028	\$ 1,528
Accrued compensated absences	58	47
Mark to market – Mortgage loans held for sale	390	–
	<u>2,476</u>	<u>1,575</u>
Deferred tax liabilities:		
Accumulated depreciation	(184)	(52)
Accumulated appreciation on available -for- sale securities	(523)	(553)
Other	(81)	(66)
	<u>(788)</u>	<u>(671)</u>
Net deferred tax asset	<u>\$ 1,688</u>	<u>\$ 904</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 8: SHORT-TERM DEBT

Short-term debt at December 31, 2002 and 2001 consisted of the following components:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Federal Home Loan Bank advance (A)	\$35,000	\$ —
Total short-term debt	<u>\$35,000</u>	<u>\$ —</u>

(A) Payable on demand; collateralized by various assets including mortgage-backed loans and securities. The variable interest rate was 1.28% on December 31, 2002.

NOTE 9: LONG TERM DEBT

Long-term debt at December 31, 2002 and 2001 consisted of the following components:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Note payable – other (A)	\$ 1,456	\$ 1,618
Note payable – bank (B)	4,095	2,000
Federal Home Loan Bank advances (C)	<u>52,500</u>	<u>32,500</u>
Total long-term debt	<u>\$ 58,051</u>	<u>\$ 36,118</u>

(A) Due in August 2009; payable in monthly installments of \$23,175 including interest at 7.5%; collateralized by land, building and assignment of future rents.

(B) Borrowing under \$10 million revolving line of credit; interest only at the fed funds rate + 1.68% due quarterly until 2003, when the outstanding principal balance is due; collateralized by common stock of the Company's subsidiary bank.

(C) Due in 2007, 2008, 2010 and 2011; collateralized by various assets including mortgage-backed loans and securities, and U.S. Treasury and Agency securities. The interest rates on the advances range from 1.55% to 5.682%.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 9: LONG TERM DEBT (Continued)

Aggregate annual maturities of long-term debt at December 31, 2002 are as follows:

	(dollars in thousands)
2003	\$ 4,270
2004	188
2005	203
2006	219
2007	20,236
Thereafter	<u>32,935</u>
	<u>\$ 58,051</u>

NOTE 10: TRUST PREFERRED SECURITIES

On July 21, 2000, BVBC Capital Trust I (the "Trust"), a Delaware business trust formed by the Company, completed the sale of \$11,500,000 of 10.375% trust preferred securities. The Trust is a 100% owned finance subsidiary of the Company. The Trust also issued \$355,672 of common securities to the Company and used the total proceeds of \$11,855,672 from the offering to purchase \$11,855,672 in principal amount of 10.375% junior subordinated debentures of the Company due September 30, 2030. Payments to the Company on the common securities are subordinated to the trust preferred securities in the event of a default on the junior subordinated debentures. The Company paid all underwriting discounts and other operating expenses related to the offering and received net proceeds of \$10,578,000. The junior subordinated debentures are the sole assets of the Trust and are eliminated, along with the related income statement effects, in the Company's consolidated financial statements. Redemption of the trust preferred securities is mandatory upon the maturity of the junior subordinated debentures or earlier as provided in the indenture. The Company has the right to redeem the junior subordinated debentures, in whole or in part, on or after September 30, 2005, at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The Company has fully and unconditionally guaranteed the Trust's obligations under the trust preferred securities on a subordinated basis to the extent that the funds are held by the Trust. The trust preferred securities meet the criteria to be considered regulatory capital.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 11: REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2002, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company and the Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2002:						
Total Capital (to Risk Weighted Assets)						
Consolidated	<u>\$ 49,949</u>	<u>10.13%</u>	<u>\$ 39,434</u>	<u>8.00%</u>	N/A	
Bank Only	<u>\$ 49,128</u>	<u>10.12%</u>	<u>\$ 38,840</u>	<u>8.00%</u>	<u>\$ 48,550</u>	<u>10.00%</u>
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	<u>\$ 43,465</u>	<u>8.82%</u>	<u>\$ 19,717</u>	<u>4.00%</u>	N/A	
Bank Only	<u>\$ 43,049</u>	<u>8.87%</u>	<u>\$ 19,420</u>	<u>4.00%</u>	<u>\$ 29,130</u>	<u>6.00%</u>
Tier 1 Capital (to Average Assets)						
Consolidated	<u>\$ 43,465</u>	<u>7.74%</u>	<u>\$ 22,471</u>	<u>4.00%</u>	N/A	
Bank Only	<u>\$ 43,049</u>	<u>7.79%</u>	<u>\$ 22,113</u>	<u>4.00%</u>	<u>\$ 27,642</u>	<u>5.00%</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 11: REGULATORY MATTERS (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2001:						
Total Capital (to Risk Weighted Assets)						
Consolidated	<u>\$ 42,763</u>	<u>10.69%</u>	<u>\$ 31,994</u>	<u>8.00%</u>	N/A	
Bank Only	<u>\$ 41,609</u>	<u>10.54%</u>	<u>\$ 31,586</u>	<u>8.00%</u>	<u>\$ 39,483</u>	<u>10.00%</u>
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	<u>\$ 35,492</u>	<u>8.87%</u>	<u>\$ 15,997</u>	<u>4.00%</u>	N/A	
Bank Only	<u>\$ 36,669</u>	<u>9.29%</u>	<u>\$ 15,793</u>	<u>4.00%</u>	<u>\$ 23,690</u>	<u>6.00%</u>
Tier 1 Capital (to Average Assets)						
Consolidated	<u>\$ 35,492</u>	<u>7.17%</u>	<u>\$ 19,812</u>	<u>4.00%</u>	N/A	
Bank Only	<u>\$ 36,669</u>	<u>7.48%</u>	<u>\$ 19,612</u>	<u>4.00%</u>	<u>\$ 24,515</u>	<u>5.00%</u>

The Bank is subject to certain restrictions on the amounts of dividends that it may declare without prior regulatory approval. At December 31, 2002, approximately \$10,288,000 of retained earnings were available for dividend declaration without prior regulatory approval.

NOTE 12: TRANSACTIONS WITH RELATED PARTIES

At December 31, 2002 and 2001, the Company had loans outstanding to executive officers, directors and to companies in which the Bank's executive officers or directors were principal owners, in the amounts of \$8,083,000 and \$10,133,000, respectively. Related party transactions for 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
	(dollars in thousands)	
Balance, beginning of year	\$ 10,133	\$ 2,128
New loans	4,351	8,301
Repayments and reclassifications	<u>(6,401)</u>	<u>(296)</u>
Balance, end of year	<u>\$ 8,083</u>	<u>\$ 10,133</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than the normal risk of collectibility or present other unfavorable features.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 13: PROFIT SHARING PLAN

The Company's profit sharing plan covers substantially all employees. Contributions to the plan are determined annually by the Board of Directors, and participant interests are vested over a period from two to six years of service. Employer contributions charged to expense for 2002, 2001 and 2000 were \$527,000, \$292,000 and \$271,000, respectively.

NOTE 14: STOCK OPTIONS

The Company has a fixed option plan under which the Company may grant options that vest two years from the date of grant to its employees for shares of common stock. At December 31, 2002, the Company had 55,434 options available to be granted (options granted prior to 1998 were subject to an earlier plan with similar terms). The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant, and maximum terms are 10 years.

A summary of the status of the plan at December 31, 2002, 2001 and 2000, and changes during the years then ended, is presented below:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	235,760	\$ 14.77	224,716	\$ 12.86	157,216	\$ 11.21
Granted	51,600	25.00	73,500	19.50	71,500	16.50
Exercised	(45,035)	14.25	(32,456)	11.70	(4,000)	12.81
Forfeited	<u>(6,750)</u>	17.94	<u>(30,000)</u>	15.37	<u> </u>	
Outstanding, end of year	<u>235,575</u>	\$ 17.02	<u>235,760</u>	\$ 14.77	<u>224,716</u>	\$ 12.86
Options exercisable, end of year	<u>172,525</u>	\$ 15.26	<u>171,760</u>	\$ 13.44	<u>150,216</u>	\$ 11.57

The weighted-average remaining contractual life at December 31, 2002 was 7.80 years. Exercise prices ranged from \$3.75 to \$25.00.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 15: OTHER INCOME/EXPENSE

Other operating expenses consist of the following:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
		(dollars in thousands)	
Advertising	\$ 920	\$ 732	\$ 514
Data processing	530	441	397
Professional fees	628	379	289
Other expense	<u>3,500</u>	<u>2,521</u>	<u>2,113</u>
Total	<u>\$ 5,578</u>	<u>\$ 4,073</u>	<u>\$ 3,313</u>

Other income consists of the following:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
		(dollars in thousands)	
Rental income	\$ 142	\$ 140	\$ 170
Other income	<u>139</u>	<u>63</u>	<u>114</u>
Total	<u>\$ 281</u>	<u>\$ 203</u>	<u>\$ 284</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 16: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents

For these short-term instruments, the carrying amount approximates fair value.

Available-for-Sale Securities

Fair values for available-for-sale securities, which also are the amounts recognized in the consolidated balance sheets, equal quoted market prices if available. If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities.

Mortgage Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

The fair value of demand deposits, savings accounts, NOW accounts and certain money market deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Balance Due Under U.S. Treasury Note Option

The fair value of the balance due under U.S. Treasury note option is the amount payable at the reporting date (i.e., their carrying amount).

Securities Sold Under Agreement to Repurchase and Other Liabilities

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

**NOTE 16: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS
(continued)**

Notes Payable and Long-Term Debt

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit, Letters of Credit and Lines of Credit

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

**NOTE 16: DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS
(Continued)**

	2002		2001		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Financial assets:		(dollars in thousands)			
Cash and cash equivalents	\$ 27,755	\$ 27,755	\$ 25,159	\$ 25,159	
Available-for-sale securities	61,364	61,364	77,676	77,676	
Mortgage loans held for sale	119,272	119,269	41,853	41,862	
Interest receivable	2,014	2,014	2,513	2,513	
Loans, net of allowance for loan losses	373,168	377,958	328,808	335,539	
Financial liabilities:					
Deposits	423,787	426,827	394,245	394,740	
Balance due under U.S. Treasury note option	3,142	3,142	383	383	
Securities sold under agreements to repurchase	33,688	33,688	17,173	17,173	
Short-term debt	35,000	35,000	-	-	
Long-term debt	58,051	60,957	36,118	36,094	
Guaranteed preferred beneficial interest in Company's subordinated debt	11,500	13,402	11,500	12,734	
Interest payable	911	911	1,484	1,484	
Unrecognized financial instruments (net of amortization):					
Commitments to extend credit	-	-	-	-	
Letters of credit	-	-	-	-	
Lines of credit	-	-	-	-	
Forward commitments	-	-	-	-	

NOTE 17: COMMITMENTS AND CREDIT RISKS

The Company extends credit for commercial real estate mortgages, residential mortgages, working capital financing and consumer loans to businesses and residents principally in southern Johnson County. The Bank also purchases indirect leases from various leasing companies throughout Kansas and Missouri.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 17: COMMITMENTS AND CREDIT RISKS (Continued)

At December 31, 2002 and 2001, the Company had outstanding commitments to originate loans aggregating approximately \$24,836,000 and \$46,467,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$1,211,000 and \$1,110,000 at December 31, 2002 and 2001, respectively, with the remainder at floating market rates.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days and which are intended for sale to investors in the secondary market. Forward commitments to sell mortgage loans are obligations to deliver loans at a specified price on or before a specified future date. The Bank acquires such commitments to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale.

Total mortgage loans in the process of origination amounted to \$126,471,000 and \$84,280,000 and mortgage loans held for sale amounted to \$119,272,000 and \$41,853,000 at December 31, 2002 and 2001, respectively. Related forward commitments to sell mortgage loans amounted to approximately \$245,743,000 and \$126,133,000 at December 31, 2002 and 2001, respectively. Mortgage loans in the process of origination represent commitments to originate loans at fixed rates.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company had total outstanding letters of credit amounting to \$10,943,000 and \$3,232,000 at December 31, 2002 and 2001, respectively.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments.

At December 31, 2002 and 2001, unused lines of credit borrowings aggregated approximately \$113,709,000 and \$112,428,000, respectively.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 17: COMMITMENTS AND CREDIT RISKS (Continued)

Additionally, the Company periodically has excess funds, which are loaned to other banks as federal funds sold. At December 31, 2002 and 2001, federal funds sold totaling \$0 and \$5,000,000, respectively, were loaned to various banks, as approved by the Board of Directors, with the largest balance at any one bank being \$5,000,000 at December 31, 2001.

NOTE 18: SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table presents the unaudited results of operations for the past two years by quarter. See discussion on earnings per share in "Note 1: Nature of Operations and Summary of Significant Accounting Policies" in the Company's Consolidated Financial Statements.

	2002				2001			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Dollars in thousands, except per share data)							
Operations								
Net interest income after provision for loan losses	\$ 3,295	\$ 3,552	\$ 3,322	\$ 3,244	\$ 3,063	\$ 3,184	\$ 3,051	\$ 3,144
Noninterest income	6,196	5,312	3,931	3,572	4,197	2,586	1,585	898
Noninterest expense	7,323	6,316	5,437	5,040	4,829	4,184	3,517	3,180
Income before income taxes	2,168	2,548	1,816	1,776	2,431	1,586	1,119	767
Income taxes	769	892	635	616	805	544	356	255
Net income	\$ 1,399	\$ 1,656	\$ 1,181	\$ 1,160	\$ 1,626	\$ 1,042	\$ 763	\$ 512
Net Income per Share Data								
Basic	\$ 0.64	\$ 0.76	\$ 0.54	\$ 0.53	\$ 0.75	\$ 0.48	\$ 0.35	\$ 0.24
Diluted	\$ 0.61	\$ 0.74	\$ 0.53	\$ 0.52	\$ 0.72	\$ 0.47	\$ 0.35	\$ 0.23
Balance Sheet								
Total assets	\$ 605,183	\$ 559,105	\$ 534,767	\$ 529,923	\$ 492,023	\$ 479,062	\$ 451,065	\$ 440,779
Total loans, net	373,168	351,943	341,386	331,035	328,808	315,480	309,906	294,306
Shareholders' equity	34,344	32,663	30,891	29,342	28,525	27,340	25,791	24,874

The above unaudited financial information reflects all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented.

NOTE 19: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 20: NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board recently issued its Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This new Interpretation requires a guarantor to recognize a liability for the fair value of the obligation undertaken in issuing a guarantee at its inception and prescribes disclosures regarding guarantees. The Interpretation applies only to guarantees issued or modified after December 31, 2002. Guarantees issued by the Bank are principally in the form of letters of credit as discussed in Note 17 to the consolidated financial statements. We do not anticipate that initial adoption of the Interpretation will have a material impact on the Company's financial statements. The Company's application of the Interpretation to guarantees issued or modified after December 31, 2002, will, if material, result in recognition of a liability for such guarantees, as well as recognition of fee revenue from them over the period of time the guarantees are outstanding.

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 21: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)

**Condensed Balance Sheets
December 31, 2002 and 2001**

	2002	2001
(In thousands)		
ASSETS		
Cash and cash equivalents	\$ 330	\$ 301
Investments in subsidiaries:		
Bank of Blue Valley	45,114	38,933
Blue Valley Building Corp.	4,075	1,978
BVBC Capital Trust I	356	356
Loans	—	—
Other assets	1,844	1,444
Total Assets	<u>\$ 51,719</u>	<u>\$ 43,012</u>
LIABILITIES		
Long-term debt	\$ 4,095	\$ 2,000
Guaranteed preferred beneficial interest in		
Company's subordinated debt	11,856	11,856
Other liabilities	1,424	631
Total Liabilities	<u>17,375</u>	<u>14,487</u>
STOCKHOLDERS' EQUITY		
Common stock	2,223	2,175
Additional paid-in capital	6,284	5,641
Undivided profits	25,052	19,878
Unrealized appreciation on available-for-sale securities, net of income taxes of \$523 and \$553 at 2002 and 2001, respectively	785	831
Total Stockholders' Equity	<u>34,344</u>	<u>28,525</u>
Total Liabilities and Stockholders' Equity	<u>\$ 51,719</u>	<u>\$ 43,012</u>

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 21: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)
(Continued)

Condensed Statements of Income
Years Ended December 31, 2002, 2001 and 2000

	2002	2001	2000
		(In thousands)	
Income			
Dividends from subsidiaries	\$ 137	\$ 37	\$ 616
Other income	3	29	30
	140	66	646
 Expenses	 1,588	 1,375	 918
 Income (loss) before income taxes and equity in undistributed net income of subsidiaries	 (1,448)	 (1,309)	 (272)
Credit for income taxes	(539)	(446)	(297)
 Income (loss) before equity in undistributed net income of subsidiaries	 (909)	 (863)	 25
Equity in undistributed net income of subsidiaries	6,305	4,806	3,452
 Net income	 \$ 5,396	 \$ 3,943	 \$ 3,477

BLUE VALLEY BAN CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001 AND 2000

NOTE 21: CONDENSED FINANCIAL INFORMATION (PARENT COMPANY ONLY)
(Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2002, 2001 and 2000

	2002	2001	2000
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 5,396	\$ 3,943	\$ 3,477
Items not requiring (providing) cash:			
Deferred income taxes	539	181	(297)
Equity in undistributed income of subsidiaries	(6,305)	(4,806)	(3,452)
Changes in:			
Other assets	(940)	(80)	(1)
Other liabilities	571	(50)	240
Net cash used in operating activities	(739)	(812)	(33)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital contributed to subsidiary	(2,018)	(2,875)	(2,000)
Net collections of loans	—	300	—
Net cash used in investing activities	(2,018)	(2,575)	(2,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term debt	—	—	(7,450)
Proceeds from long-term debt	2,095	2,000	—
Net proceeds from guaranteed preferred beneficial interest in Company's subordinated debt	—	—	10,587
Proceeds from sale of common stock	691	397	51
Net cash provided by financing activities	2,786	2,397	3,188
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29	(990)	1,155
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	301	1,291	136
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 330	\$ 301	\$ 1,291