FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

LOVELAND BANK OF COMMERCE

December 31, 2010 and 2009

FORTNER, BAYENS, LEVKULICH
& GARRISON, P.C.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Loveland Bank of Commerce
Denver, Colorado

We have audited the accompanying balance sheet of Loveland Bank of Commerce (the "Bank") as of December 31, 2010, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Loveland Bank of Commerce as of December 31, 2009, were audited by other auditors whose report, dated May 7, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loveland Bank of Commerce at December 31, 2010, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Fortner Bayens Levkulich & Garrison, P.C.

Denver, Colorado
May 12, 2011

1099 18th Street • Suite 2900 • Denver, CO 80202-1929
303/296-6033 • FAX 303/296-8553
Certified Public Accountants • A Professional Corporation

Loveland Bank of Commerce

BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Cash and due from banks	$ 528	$ 191
Interest-bearing deposits with banks	4,036	5,404
Cash and cash equivalents	4,564	5,595
Nonmarketable equity securities, at cost	101	64
Loans	38,025	33,582
Less allowance for loan losses	(544)	(560)
	37,481	33,022
Foreclosed assets	-	678
Premises and equipment	264	314
Accrued interest receivable	159	131
Other assets	330	228
	$ 42,899	$ 40,032
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 981	$ 1,115
Interest-bearing	35,203	31,562
	36,184	32,677
Short-term borrowings	-	1,052
Accrued interest payable	28	30
Other liabilities	58	29
Total liabilities	36,270	33,788
Commitments (notes C and G)		
Stockholders' equity		
Common stock - $5 par value, 1,100,000 shares authorized; 800,000 shares issued and outstanding, respectively	4,000	4,000
Capital surplus	4,000	4,000
Retained earnings (accumulated deficit)	(1,371)	(1,756)
	6,629	6,244
	$ 42,899	$ 40,032

The accompanying notes are an integral part of these financial statements.

Loveland Bank of Commerce

STATEMENTS OF OPERATIONS

	Years Ended December 31, 2010	2009
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	$ 2,234	$ 1,942
Interest bearing deposits with banks	38	28
Total interest and dividend income	2,272	1,970
Interest expense		
Deposits	719	868
Short-term borrowings	11	36
Total interest expense	730	904
Net interest income	1,542	1,066
Provision for loan losses	279	450
Net interest income after provision for loan losses	1,263	616
Noninterest income		
Service charges on deposit accounts	15	1
Fees froms servicing government-guaranteed loans	27	4
Gains on sales of government-guaranteed loans	52	169
Gain on sales of foreclosed real estate	48	-
Other income	6	4
Total noninterest income	148	178
Noninterest expenses		
Salaries and employee benefits	306	373
Occupancy	128	117
Equipment rent, depreciation and maintenance	76	62
Other expenses	645	596
Total noninterest expense	1,155	1,148
Income (loss) before income taxes	256	(354)
Income tax expense (benefit)	(129)	518
NET INCOME (LOSS)	$ 385	$ (872)

The accompanying notes are an integral part of these financial statements.

Loveland Bank of Commerce

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2010 and 2009

	Common Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Total
			(in thousands)	
Balance at December 31, 2008	$ 4,000	$ 4,000	$ (884)	$ 7,116
Net income (loss)	-	-	(872)	(872)
Balance at December 31, 2009	4,000	4,000	(1,756)	6,244
Net income	-	-	385	385
Balance at December 31, 2010	$ 4,000	$ 4,000	$ (1,371)	$ 6,629

The accompanying notes are an integral part of these financial statements.

Loveland Bank of Commerce

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2010	2009
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ 385	$ (872)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	66	62
Provision for loan losses	279	450
Writedowns of foreclosed real estate	90	-
Gains on sales of government-guaranteed loans	(52)	(169)
Realized (gain) loss on the sale of foreclosed real estate	(48)	-
Deferred income taxes	(129)	518
Net changes in:		
Accrued interest receivable and other assets	(2)	(225)
Accrued interest payable and other liabilities	27	(22)
Net cash provided (used) by operating activities	616	(258)
Cash flows from investing activities		
Purchase of Federal Home Loan Bank stock	(37)	(11)
Redemptions of Federal Home Loan Bank stock	-	87
Loan originations and principal collections, net	(4,805)	(7,796)
Expenditures for equipment	(15)	(5)
Proceeds from sale of foreclosed real estate	755	413
Net cash used by investing activities	(4,102)	(7,312)
Cash flows from financing activities		
Net change in deposits	3,507	9,624
Payments on Federal Home Loan Bank advances	(1,052)	(733)
Net cash provided by financing activities	2,455	8,891
Net change in cash and cash equivalents	(1,031)	1,322
Cash and cash equivalents at beginning of year	5,595	4,273
Cash and cash equivalents at end of year	$ 4,564	$ 5,595
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 732	$ 937
Income taxes	-	-

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Nature of Operations

The Bank is a full-service commercial bank located in Loveland, Colorado. The Bank commenced operations in 2007. Until October 28, 2010, the Bank was 51%-owned by Capital Bancorp Colorado Limited II (CBCL), a bank-development company, and controlled subsidiary of Capital Bancorp Limited, a national community bank development company. On October 28, 2010, this 51% interest in the Bank was purchased from CBCL by Verus Acquisition Group, Inc. (Verus), a Bank holding company located in Fort Collins, Colorado. Verus also purchased 51% interests from CBCL in the following two Colorado banks: Fort Collins Commerce Bank and Loveland Bank of Commerce. The Bank provides a full range of banking services to individuals, businesses and other customers located in its community. A variety of deposit products are offered, including checking, savings, money market, individual retirement accounts and certificates of deposit. The principal market for the Bank's financial services is the community in which it is located and the areas immediately surrounding that community. The Bank is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of foreclosed assets. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize loan losses, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located in the Loveland, Colorado area. Note B discusses the types of lending that the Bank engages in.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and overnight deposits.

Nonmarketable Equity Securities

Nonmarketable equity securities, consisting of Federal Home Loan Bank stock, are recorded at cost.

Loans

The Bank grants real estate, commercial, and consumer loans to customers primarily in the Loveland area. The ability of the Bank's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light 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 any 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 allowance consists of general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market value) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as 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 the delay, the reasons 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 for commercial loans 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.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

Premises and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives or lease periods, principally on the straight-line method.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

On January 1, 2009, the Bank adopted guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over a transferred financial asset or a portion of a financial asset. The amendments also define characteristics that loan participations must have to qualify for sale treatment. Generally, a loan participation will qualify for sale treatment as a "participating interest" if the incoming cash flows on the base loan are allocated to all participants on a pro-rata basis. Loan participations which do not qualify as a "participating interest" will not be allowed sale treatment, and generally will be accounted for as a secured borrowing such that the gross loan balance is reported as an asset and the participated portion is reported as a liability. This guidance was effective for transfers occurring on or after January 1, 2010, and did not have a significant impact on the Bank's financial statements.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through May 12, 2011, which is the date the financial statements were available to be issued.

Newly Issued Not Yet Effective Standards

In July 2010, accounting standards were amended to require significantly more information about the credit quality of the Bank's loan portfolio. Although the new guidance addresses only disclosure and does not seek to change recognition or measurement principles, the new disclosures represent a meaningful change in practice. The new disclosures will be effective for annual reporting periods ending after December 15, 2011.

Reclassification of Prior Year Presentations

Certain amounts in the prior year's presentations have been reclassified to conform to the current year's presentation.

NOTE B - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans follows:

	December 31,	
	2010	2009
	(in thousands)	
Real estate		
Construction, land and land development	$ 5,393	$ 7,472
Commercial	26,388	21,929
Residential	2,920	2,219
	34,701	31,620
Commercial	3,213	1,857
Consumer	111	105
	$ 38,025	$ 33,582

An analysis of the allowance for loan losses follows:

	Years ended December 31,	
	2010	2009
	(in thousands)	
Balance at beginning of year	$560	$652
Provision for loan losses	279	450
Recoveries	-	719
Loans charged-off	(295)	(1,261)
Balance at end of year	$544	$560

Information relative to impaired and delinquent loans is as follows:

	December 31, 2010	2009
	(in thousands)	
Impaired loans without a specific valuation allowance	$ 531	$ 156
Impaired loans with a specific valuation allowance	-	-
Total impaired loans	$ 531	$ 156
Specific valuation allowance related to impaired loans	$ -	$ -
Non-accrual loans	$ 531	$ 156
Accruing loans past due 90 days and greater	$ -	$ -
Average investment in impaired loans	$ 270	$ 1,200

Interest income recognized on impaired loans was $9,000 and $0 for the years-ended December 31, 2010 and 2009, respectively. No additional funds are committed to be advanced in connection with impaired loans.

NOTE C - BANK PREMISES AND EQUIPMENT

At December 31, bank premises and equipment, less accumulated depreciation and amortization consisted of the following:

	2010	2009
	(in thousands)	
Leasehold improvements	$ 188	$ 188
Furniture, fixtures and equipment	278	262
	466	450
Accumulated depreciation	(202)	(136)
	$ 264	$ 314

The Bank rents office space under an operating lease. The lease is for five years with renewal options. Rent expense in 2010 and 2009 was $95,000 and $84,000, respectively.

Future lease payments under the lease are as follows:

Year ending December 31	(in thousands)
2011	$ 88
2012	90
2013	91
2014	8
2015	-
	$ 277

NOTE D - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2010 and 2009 was $8,286,000 and $6,800,000, respectively.

At December 31, 2010, the scheduled maturities of certificates of deposit are as follows:

Year ending December 31	(in thousands)
2011	$ 16,667
2012	2,967
2013	2,641
2014	1,164
2012	2,104
	$ 25,543

NOTE E – SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2009 consist of Federal Home Loan Bank borrowings which represent advances secured by loans. There were no short-term borrowings outstanding at December 31, 2010. At December 31, 2010 and 2009, loans totaling $10,375,000 and $5,700,000, respectively, were pledged to secure these available credit facilities. At December 31, 2010 and 2009, the Bank had additional borrowing capacity at the Federal Home Loan Bank of $5,399,000 and $1,800,000, respectively.

NOTE F – INCOME TAXES

Following is an analysis of income taxes included in the statements of income:

	Years Ended December 31, 2010	2009
	(in thousands)	
Current tax expense		
Federal	$ -	$ -
State	-	-
	-	-
Deferred tax expense (benefit)		
Federal	(113)	(142)
State	(16)	(16)
	(129)	(158)
Establishment of a valuation allowance	-	676
Total income tax expense (benefit)	$ (129)	$ 518

Listed below are the components of the net deferred income taxes, which are included in other assets:

	December 31, 2010	2009
	(in thousands)	
Deferred tax asset		
Allowance for loan losses	$201	$ 217
Net operating loss carryforwards	246	266
Organizational costs	122	139
Other, net	(17)	55
	552	676
Less valuation allowance	(423)	(676)
Net deferred tax asset	$129	$ -

At December 31, 2010, the Bank had federal net operating loss carryforwards totaling $663,000, which are available to offset future taxable income. These loss carryforwards to expire in 2027 through 2029. Because of tax regulations related to ownership changes, utilization of these loss carryforwards is limited to approximately $202,000 annually.

NOTE G - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

Those instruments involve, to a varying degree, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and stand-by letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2010	2009
	(in thousands)	
Commitments to extend credit	$2,145	$2,600
Stand-by letters of credit	-	-

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 payment of a fee.

Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Stand-by letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE H- EMPLOYEE BENEFIT AND COMPENSATION PLANS

401(k) Plan

The Bank maintains a 401(k) retirement plan whereby substantially all employees who meet certain age and length of service requirements may participate in the plan. For 2010 and 2009, there was no expense attributable to the Plan.

Employment Agreement

The Bank has an employment agreement with its President. The agreement establishes a salary that is increased annually based on performance factors relating to Bank earnings, asset growth and asset quality. The President is also entitled to participate in annual bonuses based on Bank earnings and asset quality.

Upon completion of a Stock Appreciation Rights/Option Plan, such Plan will become part of this agreement.

Stock Option Plan

The Bank has a stock option plan which presently is inactive. Previously granted options had all expired prior to 2010. The Bank is considering adoption of a new plan.

NOTE I – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may make loans to executive officers, directors and principal shareholders of the Bank, including their immediate families and companies in which they are principal owners. At December 31, 2010 and 2009, total loans to these persons approximated $2,324,000 and $2,385,000, respectively. Deposits from related parties held by the Bank at December 31, 2010 and 2009 amounted to $2,268,000 and $2,300,000, respectively.

The Bank has entered into loan participations with its affiliated banks (see note A). As of December 31, 2010, balances of loan participations were as follows:

Affiliated Bank	Participations purchased	Participations sold
	(in thousands)	
Fort Collins Commerce Bank	$ 5,499	$ 1,902
Larimer Bank of Commerce	10,396	2,099

NOTE J- DIVIDENDS

Federal banking regulations place certain restrictions on dividends paid by the Bank to Verus. Approval by the banking regulators is required if the total of all dividends declared by the Bank exceeds the total of its net profits for the year combined with its retained net profits of the preceding two years.

In addition, dividends paid by the Bank to Verus would be prohibited if the effect thereof would cause the Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE K - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their 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. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require 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, 2010 and 2009, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from bank regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized an institution 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 Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2010						
Total capital (to risk weighted assets)	$ 7,100	18.9%	$ 3,006	8.0%	$ 3,758	10.0%
Tier 1 capital (to risk weighted assets)	6,629	17.6	1,503	4.0	2,255	6.0
Tier 1 capital (to average assets)	6,629	16.3	1,625	4.0	2,031	5.0
As of December 31, 2009						
Total capital (to risk weighted assets)	$ 6,679	19.3%	$ 2,774	8.0%	$ 3,467	10.0%
Tier 1 capital (to risk weighted assets)	6,244	18.0	1,387	4.0	2,080	6.0
Tier 1 capital (to average assets)	6,244	15.5	1,614	4.0	2,017	5.0

NOTE L – FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

Securities Available for Sale – Securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements for debt securities consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (level 2).

Collateral-Dependent Impaired Loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants (Level 3).

Foreclosed Real Estate - Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value:

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements			
	Carrying Value	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
December 31, 2010				
Impaired loans	$ 531	$ -	$ -	$ 531
Foreclosed real estate	$ -	$ -	$ -	$ -
December 31, 2009				
Impaired loans	$ 156	$ -	$ -	$ 156
Foreclosed real estate	$ 678	$ -	$ -	$ 678

At December 31, 2010 collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of $531,000 and $156,000, respectively. There was no valuation allowance on these loans. Charge-offs incurred in 2010 on impaired loans at December 31, 2010 were $168,000.

At December 31, 2009 foreclosed real estate with a cost basis of $678,000 is carried at its estimated fair value of $678,000.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Bank's financial instruments. The Bank operates as a going concern and except for its investment portfolio, no active market exists for its financial instruments. Much of the information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. The subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different. Cash and cash equivalents, accrued interest receivable and payable and short-term borrowings are considered short-term instruments. For these instruments, their carrying amount approximates fair value.

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Nonmarketable Equity Securities

The carrying amount of nonmarketable equity securities approximates fair value based on the redemption provision of the securities.

Loans

The fair value of fixed rate 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. For variable rate loans, the carrying amount is a reasonable estimate of fair value. For loans where collection of principal is in doubt, an allowance for losses has been estimated. Loans with similar characteristics were aggregated for purposes of the calculations.

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.

Short-term Borrowings

The fair values of the Bank's borrowed funds approximate carrying values.

Off-balance Sheet Instruments

Off-balance sheet commitments are not addressed for fair value disclosure considerations. Because of the difficulty in assessing and valuing the likelihood of advancing the proceeds of letters of credit and unadvanced commitments, management believes it is not feasible or practicable to fairly and accurately disclose a fair value of off-balance sheet commitments.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair value and related carrying amounts of the Bank's financial instruments are as follows:

	December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets				
Cash and cash equivalents	$ 4,564	$ 4,564	$ 5,595	$ 5,595
Nonmarketable equity securities	101	101	64	64
Loans, less allowance for loan losses	37,481	37,553	33,022	33,259
Accrued interest receivable	159	159	131	131
Financial liabilities				
Deposits	36,184	36,197	32,677	32,752
Short-term borrowings	-	-	1,052	1,052
Accrued interest payable	28	28	30	30

NOTE M – SUBSEQUENT EVENT

On February 14, 2011, the Bank was merged into Fort Collins Commerce Bank, an affiliated bank discussed in Note A. Following the merger, the name of the bank became Verus Bank of Commerce (Verus Bank). Shareholders of the Bank received 1.377 shares of Verus Bank common stock in exchange for each share of Bank stock.