CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

VERUS ACQUISITION GROUP, INC.
AND SUBSIDIARY

Year ended December 31, 2011 and the Period
from Inception March 2, 2010 to December 31, 2010

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Verus Acquisition Group, Inc.
Fort Collins, Colorado

We have audited the accompanying consolidated balance sheets of Verus Acquisition Group, Inc. and Subsidiary as of December 31, 2011 and 2010 and the related statements of income, stockholders' equity and cash flows for the year ended December 31, 2011 and for the period from inception, March 2, 2010, through December 31, 2010. These consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Verus Acquisition Group, Inc. and Subsidiary at December 31, 2011 and 2010, and the results of their operations and cash flows for the year ended December 31, 2011 and the period from inception, March 2, 2010, through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Fortner Bayens Levkulich & Garrison, P.C.

Denver, Colorado
March 21, 2012

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Certified Public Accountants • A Professional Corporation

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(dollars in thousands)	
ASSETS		
Cash and due from banks	$ 1,374	$ 4,389
Interest-bearing deposits with banks	18,121	19,671
Federal funds sold	746	994
Total cash and cash equivalents	20,241	25,054
Nonmarketable equity securities	1,280	1,239
Loans	221,905	213,257
Less allowance for loan losses	(955)	(95)
Total loans	220,950	213,162
Foreclosed real estate	2,487	3,014
Premises and equipment, net	645	880
Accrued interest receivable	888	904
Core deposit intangible	1,268	2,030
Goodwill	733	680
Other assets	3,013	2,067
	$ 251,505	$ 249,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 17,613	$ 16,507
Interest-bearing	189,122	195,844
Total deposits	206,735	212,351
Federal Home Loan Bank borrowings	4,211	7,842
Note payable	2,225	3,835
Accrued interest payable	112	161
Other liabilities	986	751
Total liabilities	214,269	224,940
Commitments (notes D and J)		
Stockholders' equity		
Preferred stock - 9,740 shares authorized, no par value per share, 9,740 shares issued and outstanding at December 31, 2011	9,740	-
Common stock - 5,000,000 shares authorized, no par value per share, 1,211,101 and 1,155,499 shares issued and outstanding	12,111	11,555
Retained earnings	1,560	98
Total equity attributable to common stock	23,411	11,653
Noncontrolling interest	13,825	12,437
Total stockholders' equity	37,236	24,090
	$ 251,505	$ 249,030

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31, 2011	Period from inception March 2, 2010, through December 31, 2010
	(dollars in thousands)	
Interest and dividend income:		
Interest and fees on loans	$ 14,212	$ 2,218
Interest on federal funds sold	2	1
Interest-bearing deposits with banks	48	17
Dividends	47	-
Total interest and dividend income	14,309	2,236
Interest expense:		
Deposits	2,780	598
Federal Home Loan Bank borrowings	183	46
Notes payable	171	42
Total interest expense	3,134	686
Net interest income	11,175	1,550
Provision for loan losses	1,097	95
Net interest income after provision for loan losses	10,078	1,455
Noninterest income:		
Service charges on deposit accounts	127	23
Fees from servicing government guaranteed loans	130	22
Gain on sale of government-guaranteed loans	252	-
Other	128	15
	637	60
Noninterest expenses:		
Salaries and employee benefits	1,938	341
Occupancy	586	140
Equipment rent, depreciation and maintenance	302	36
Foreclosed real estate	910	119
Core deposit amortization	762	136
Other expenses	1,949	561
	6,447	1,333
Income before income taxes	4,268	182
Income tax expense (benefit)	1,373	(35)
Net income before noncontrolling interests	2,895	217
Less net income attributable to noncontrolling interests	(1,388)	(119)
NET INCOME	$ 1,507	$ 98
Net income	$ 1,507	$ 98
Preferred stock dividends	45	-
Net income available to common shareholders	$ 1,462	$ 98

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Year ended December 31, 2011 and
period from inception, March 2, 2010 through December 31, 2010

	Verus Acquisition Group, Inc. Shareholders					
	Preferred stock	Common stock	Retained earnings	Total	Non-controlling interests	Total equity
	(dollars in thousands)					
Balance at March 2, 2010	$ -	$ -	$ -	$ -	$ -	$ -
Sale of 1,155,499 shares of common stock	-	11,555	-	11,555	-	11,555
Purchase of Banks on October 28, 2010	-	-	-	-	12,318	12,318
Comprehensive income						
Net income	-	-	98	98	119	217
Balance at December 31, 2010	-	11,555	98	11,653	12,437	24,090
Issuance of 9,740 shares of preferred stock	9,740	-	-	9,740	-	9,740
Issuance of 55,602 shares of common stock	-	556		556		556
Comprehensive income						
Net income	-	-	1,507	1,507	1,388	2,895
Less dividends on preferred stock	-	-	(45)	(45)	-	(45)
Balance at December 31, 2011	$ 9,740	$ 12,111	$ 1,560	$ 23,411	$ 13,825	$ 37,236

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

Verus Acquisition Group, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2011	Period from inception March 2, 2010, through December 31, 2010
	(dollars in thousands)	
Cash flows from operating activities		
Net income before noncontrollings interests	$ 2,895	$ 217
Adjustments to reconcile net income to net cash flows from operating activities		
Net income attributable to noncontrolling interests	(1,388)	(119)
Depreciation and amortization	244	35
Core deposit amortization	762	136
Writedowns on leasehold improvments	108	-
Valuation allowance on foreclosed assets	763	119
Provision for loan losses	1,097	95
Federal Home Loan Bank stock dividends	(8)	-
Loss on sale of foreclosed real estate	147	-
Amortization on loan discount	(117)	(20)
Gain on sale of government guaranteed loans	(252)	-
Minority interest in subsidiary	1,388	119
Deferred income taxes	(862)	(21)
Net change in:		
Accrued interest receivable and other assets	(68)	56
Accrued interest payable and other liabilities	186	203
Net cash provided by operating activities	4,895	820
Cash flows from investing activities		
Net cash and cash equivalents received (paid) in acquisition of subsidiaries	-	18,507
Purchase of nonmarketable equity securities	(735)	(21)
Redemptions on nonmarketable equity securities	702	-
Loan originations and principal collections, net	(10,693)	(12,282)
Expenditures for premises and equipment	(117)	-
Capitalized improvements to foreclosed real estate	(155)	-
Proceeds from the sale of foreclosed real estate	1,949	-
Net cash provided by (used in) investing activities	(9,049)	6,204
Cash flows from financing activities		
Net change in deposits	(5,616)	6,280
Advances on Federal Home Loan Bank borrowings	4,211	3,000
Payments on Federal Home Loan Bank borrowings	(7,842)	(6,640)
Proceeds from sale of common stock	556	11,555
Proceeds from sale of preferred stock	9,740	-
Proceeds from note payable	-	4,000
Shares of subsidiary acquired from minority shareholders	(53)	
Payments on note payable	(1,610)	(165)
Cash dividends paid on preferred stock	(45)	-
Net cash provided by financing activities	(659)	18,030
Net change in cash and cash equivalents	(4,813)	25,054
Cash and cash equivalents at beginning of period	25,054	-
Cash and cash equivalents at end of period	$ 20,241	$ 25,054
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest expense	$ 3,183	$ 682
Income taxes	2,423	-

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies of Verus Acquisition Group, Inc. and Subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Principles of Consolidation

Verus Acquisition Group, Inc. (Verus) was incorporated on March 2, 2010 for the purpose of becoming a bank holding company. On October 29, 2010, Verus purchased the 51% interests in the following banks (the Banks) from subsidiaries of Capital Bancorp Limited, a national community bank development company: Fort Collins Commerce Bank (FCCB), Larimer Bank of Commerce (LRBC) and Loveland Bank of Commerce (LVBC). The entities are collectively referred to as "the Company.”

On February 14, 2011, LRBC and LVBC were merged into FCCB. Following the merger, the name of the Bank was changed to Verus Bank of Commerce.

A summary of the stock exchange follows:

Bank	Shares exchanged	Conversion ratio	Shares of Verus Bank received
Fort Collins Commerce Bank	850,000	2.373	2,017,018
Larimer Bank of Commerce	800,000	2.351	1,880,767
Loveland Bank of Commerce	800,000	1.377	1,101,568

Following the merger, the President of Loveland Bank of Commerce became the Chairman and CEO of Verus Bank of Commerce, and the President of Larimer Bank of Commerce became Vice Chairman and President of Verus Bank of Commerce.

The merger was accounted for as a combination of commonly controlled entities. As a result, for the periods prior to the merger, financial information of the Banks has been reported on a combined basis.

The accompanying consolidated financial statements include the consolidated totals of the accounts of Verus and its subsidiary. The consolidated financial statements include the operations of the Bank for the period ending December 31, 2011, and from the date of acquisition, October 29, 2010, through December 31, 2010. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and corporate customers, principally in Larimer County, Colorado and the surrounding area. The Company is subject to competition from other financial institutions for loans and deposit accounts. The Company is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated 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 real estate.

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 Company's allowance for loan losses. Such agencies may require the Company 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 Company's activities are with customers located in the Larimer County, Colorado area. Note B discusses the types of lending that the Company 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 federal funds sold.

Nonmarketable Equity Securities

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

Loans

The Company primarily grants construction, land and land development and real estate loans to customers primarily in the Larimer County, Colorado area. The ability of the Company'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 and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment on the related loan yield using the effective yield method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. 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.

The accrual of interest on all loans is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part on a loan-by-loan basis after they become significantly past due and based upon management's review of the collectability of all or a portion of the loan unless the loan is in the process of restructuring. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Purchased Loans

With the application of purchase accounting due to the previously described merger, the Company was deemed to have acquired all of its loans at fair value on October 29, 2010, without the carryover of the Banks' previously accrued allowance for loan losses. Losses on these loans that are incurred subsequent to the date of acquisition are recognized by a provision for loan losses.

Loan discounts on unimpaired loans are accreted into income over the anticipated life of the portfolio. For impaired loans, the difference between the contractual balance and the estimated fair value has been treated as a non-accretable discount and, if applicable, will be recognized as interest income after the carrying amount of these loans has been recovered.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components as follows:

> The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system. Included in impaired loans are all nonaccrual loans and all accruing troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.
>
> The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; and portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged-off.

On a monthly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's real estate, commercial and consumer portfolios include the strength of the real estate market and the strength of economy in the Company's lending area.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated monthly by management. The ratings on the Company's internal credit scale are broadly grouped into the categories "non-classified" and "classified." Non-classified loans are those loans with minimal identified credit risk, as well as loans with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Classified loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and classified loans for which it is probable that the Company will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

In 2011 the Company adopted new accounting guidance that requires significantly more financial statement disclosure about the credit quality of the Company's loan portfolio than had previously been disclosed. The guidance does not change recognition or measurement principles, but represents a meaningful change in practice due to the level of detail at which credit quality information is presented in the financial statements. Comparative information for 2010 is not required with respect to the new disclosures. The new disclosures are included in Note B to these financial statements.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Company 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.

In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Company determines the extent of credit risk on its off-balance sheet financial instruments and whether there are probable incurred credit losses on those instruments for which a loss provision is necessary. The Company has determined that there is minimal credit risk on its off-balance sheet financial instruments, and accordingly has not recorded a loss provision or allowance for those instruments.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. 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

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less cost to sell at the date of acquisition, 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.

Intangible Assets

Core Deposit Intangible

The core deposit intangible resulted from Verus' acquisition of the Banks, and represents the excess of the fair value of deposits acquired over their book value at the time of acquisition. The core deposit intangible is amortized to expense over a ten year period using an accelerated method. In addition, the core deposit intangible is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Goodwill

Goodwill resulting from Verus' acquisition of the Banks represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Income Taxes

Verus and its subsidiary each file separate federal and state returns. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008.

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. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Management periodically assesses the deferred tax asset, and a valuation allowance is recorded if the full amount is not expected to be realized.

The Company has 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. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that a portion of the deferred tax asset may not be realized within one year.

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 Company, 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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the consolidated financial statements (Non-recognized subsequent events). The effects of subsequent events are only recognized if material, or disclosed if the financial statements would otherwise be misleading.

The Company has evaluated subsequent events for recognition and disclosure through March 21, 2012, which is the date the financial statements were available to be issued.

NOTE B - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans follows:

	December 31, 2011	December 31, 2010
	(in thousands)	
Construction, land and land development		
Residential 1-4 family	$ 3,123	$ 4,100
Other	12,948	22,929
	16,071	27,029
Real estate		
Residential 1-4 family	27,619	28,424
Multifamily	9,413	8,351
Commercial	138,798	122,031
Farmland	7,380	7,815
	183,210	166,621
Commercial and industrial	26,164	23,236
Consumer and other	353	381
	225,798	217,267
Less loan discount	(3,893)	(4,010)
	$ 221,905	$ 213,257

As a result of the previously described acquisition, and the application of purchase accounting on October 29, 2010, the Company was deemed to have acquired all loans on that date at fair value. For loans deemed to be impaired, it was probable that all contractually required payments would not be collected. However, the expected cash flows on these loans are uncertain and management has elected to treat the purchase discounts on these loans as non-accretable and to recognize those discounts in interest income on the cash basis after the initial purchase cost of the loans have been recovered. In 2011, the Company changed is estimate of the accretable loan discount (decreasing it by $250,000) to more accurately reflect the yield on the purchased loan portfolio and to more accurately reflect the non-accretable purchase discount. The following schedule summarizes information relative to these loans:

	Contractual Balance	Non-accretable Purchase Discount (in thousands)	Carrying Amount
Balance at December 31, 2011	$ 681	$ (372)	$ 309

Activity in the accretable portion of the loan discount follow:

	(in thousands)
Balance December 31, 2010	$ 3,638
Less amount accreted to income	(117)
Balance December 31, 2011	$ 3,521

Transactions in the allowance for loan losses are as follows:

	Year ended December 31, 2011 (In thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2010	$ 22	$ 50	$ 17	$ 6	$ 95
Provision for loan losses	138	977	(15)	(3)	1,097
Charge-offs	-	(460)	(40)	(3)	(503)
Recoveries	-	40	225	1	266
Net (charge-offs) recoveries	-	(420)	185	(2)	(237)
Balance at December 31, 2011	$ 160	$ 607	$ 187	$ 1	$ 955

	December 31, 2010
	(in thousands)
Balance at beginning of year	$ -
Provision for loan losses	95
Charge-offs	-
Recoveries	-
Balance at end of year	$ 95

Components of the allowance for losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2011 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Impaired loans - evaluated individually	$ 50	$ 250	$ 50	$ -	$ 350
Impaired loans - evaluated collectively	37	277	34	-	348
Total impaired loans	87	527	84	-	698
Unimpaired loans - evaluated collectively	73	80	103	1	257
	$ 160	$ 607	$ 187	$ 1	$ 955
Recorded Investment In:					
Impaired loans - evaluated individually	$ 103	$ 1,128	$ 302	$ -	$ 1,533
Impaired loans - evaluated collectively	120	415	-	-	535
Total impaired loans	223	1,543	302	-	2,068
Unimpaired loans - evaluated collectively	15,505	178,777	25,208	347	219,837
	$ 15,728	$ 180,320	$ 25,510	$ 347	$ 221,905
Portion of the recorded investment in impaired loans that is attributable to loans acquired with deteriorated credit quality	$ 103	$ 162	$ 44	$ -	$ 309

Information relative to impaired loans is as follows:

	As of and for the year ended December 31, 2011 (In thousands)						
	Recorded Investment In Impaired Loans With No Valuation Allowance	Recorded Investment In Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance On Impaired Loans	Contractual Principal Of Impaired Loans	Commitments To Extend Credit On Impaired Loans	Average Impaired Loans
Construction, land and land development							
Residential 1-4 family	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other	120	103	223	87	198	-	198
	120	103	223	87	198	-	198
Real estate							
Residential 1-4 family	-	1,128	1,128	439	574	-	375
Multifamily	-	-	-	-	-	-	-
Commercial	415	-	415	88	598	-	423
Farmland	-	-	-	-	-	-	-
	415	1,128	1,543	527	1,172	-	798
Commercial and industrial	-	302	302	84	552	-	552
Commercial and other	-	-	-	-	-	-	-
	$ 535	$ 1,533	$ 2,068	$ 698	$ 1,922	$ -	$ 1,548

	December 31, 2010
	(In thousands)
Impaired loans without a valuation allowance	$ 4,874
Impaired loans with a valuation allowance	-
Total impaired loans	$ 4,874
Valuation allowance related to impaired loans	$ -
Nonaccrual loans	$ 3,236
Accruing loans past due 90 days and greater	$ -

	Period ended December 31, 2010
	(In thousands)
Average impaired loans during the period	$ 4,800

Interest income recognized on impaired loans was immaterial for 2011 and 2010, respectively.

The Company had no troubled debt restructurings for the year-ended December 31, 2011.

The carrying amounts of loans by performance status and credit quality indicator are as follows:

	December 31, 2011 (in thousands)							
	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
Construction, land and land development								
Residential 1-4 family	$ 3,075	$ -	$ -	$ -	$ 3,075	$ 3,075	$ -	$ -
Other	12,537	-	-	116	12,653	10,520	1,910	223
	15,612	-	-	116	15,728	13,595	1,910	223
Real estate								
Residential 1-4 family	25,976	-	-	1,209	27,185	25,856	201	1,128
Multifamily	9,264	-	-	-	9,264	9,264	-	-
Commercial	136,116	51	-	442	136,609	135,820	374	415
Farmland	7,262	-	-	-	7,262	7,262	-	-
	178,618	51	-	1,651	180,320	178,202	575	1,543
Commercial and industrial	25,451	7	-	52	25,510	25,038	170	302
Commercial and other	347	-	-	-	347	347	-	-
	$ 220,028	$ 58	$ -	$ 1,819	$ 221,905	$ 217,182	$ 2,655	$ 2,068

NOTE C – FORECLOSED REAL ESTATE

A summary of the activity in foreclosed real estate held for sale is as follows:

	Period Ended December 31, 2011	2010
	(in thousands)	
Balance at beginning of year and acquisition date	$ 3,014	$ 3,133
Transfers from loans	2,177	-
Capitalized expenses	155	-
Valuation allowances recorded	(763)	(119)
Disposition	(2,096)	-
Balance at end of year	$ 2,487	$ 3,014

Net expense from foreclosed real estate included in noninterest expenses is as follows:

	Period Ended December 31, 2011	2010
	(in thousands)	
Net loss (gain) on disposition	$ 147	$ -
Valuation allowances recorded	763	119
Balance at end of year	$ 910	$ 119

NOTE D - PREMISES AND EQUIPMENT

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

	December 31,	
	2011	2010
	(in thousands)	
Leasehold improvements	$ 785	$ 951
Furniture, fixtures and equipment	1,186	1,070
	1,971	2,021
Accumulated depreciation	(1,326)	(1,141)
	$ 645	$ 880

The Company rents office space under an operating lease. The lease is for five years with renewal options. Rent expense in 2011 and 2010 was $318,000 and $252,000, respectively.

Future lease payments under the lease are as follows:

Years ending December 31,	(in thousands)
2012	$ 227
2013	224
2014	144
2015	11
2016	-
Thereafter	-
	$ 606

During 2011, the Company elected to close a leased facility in Fort Collins, Colorado. As a result of the closure, the Company has recorded an expense for the remaining net book value of the leasehold improvements associated with this property totaling $108,000.

NOTE E – CORE DEPOSIT INTANGIBLE

The core deposit intangible asset consists of the:

	December 31, 2011	December 31, 2010
	(in thousands)	
Core deposit intangible	$ 2,166	$ 2,166
Less accumulated amortization	(898)	(136)
	$ 1,268	$ 2,030

Future annual amortization of the core deposit intangible is as follows:

Years ending December 31,	(in thousands)
2012	$ 479
2013	301
2014	189
2015	119
2016	75
Thereafter	105
	$ 1,268

NOTE F - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2011 and 2010 was $13,743,000 and $5,700,000, respectively.

At December 31, 2011, the scheduled maturities of certificates of deposit are as follows:

Years ending December 31,	(in thousands)
2012	$ 49,019
2013	23,591
2014	13,958
2015	13,028
2016	7,322
Thereafter	5,543
	$ 112,461

NOTE G – FEDERAL HOME LOAN BANK BORROWINGS

At December 31, 2011 and 2010, long-term debt (debt with original maturities of more than one year) of $4,211,000 and of $7,842,000, respectively, consisted of a Federal Home Loan Bank fixed-rate advances with rates ranging from 1.10%-1.68% and 1.92%-3.66%, with an average interest rate of 1.17% at December 31, 2011. At December 31, 2011 and 2010, loans totaling $57,906,000 and $93,924,000 were pledged to secure all Federal Home Loan Bank borrowings. At December 31, 2011 and 2010, the Company had additional borrowing capacity at the Federal Home Loan Bank of approximately $66,837,000 and $42,656,000 respectively.

At December 31, 2011, scheduled maturities of borrowings were as follows:

Years ending December 31,	(in thousands)
2012	$ -
2013	-
2014	3,711
2015	-
2016	500
Thereafter	-
	$ 4,211

NOTE H – NOTE PAYABLE

On October 28, 2010, the Company entered into a loan agreement with an unaffiliated bank (the Lender) to borrow up to $5 million under a line of credit. Interest is computed at .5% above the New York prime rate as published in the Wall Street Journal. The interest rate on the note has a floor of 6% and a ceiling of 9%. Interest on the note is due quarterly. The note is collateralized by all of the common stock of the Banks that are owned by Verus. The note is guaranteed by certain key officers and directors of the Company. Also, the Company was required to purchase life insurance policies on these individuals. The Company deposited $600,000 (an amount equal to estimated interest on the note for two years) with the Lender in an "interest reserve account." Amounts in this account may be applied to accrued interest by the Lender at its discretion.

The loan agreement on the note contains covenants and restrictions relative to the use of dividend payments, maintaining adequate capital levels, the allowance for loan losses, levels of classified assets in relation to equity, earnings and other factors. At December 31, 2012, the loan is subject to a term out provision. The loan was subsequently paid in full.

NOTE I – INCOME TAXES

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

	2011	2010
	(in thousands)	
Current tax expense (benefit)		
Federal	$ 1,960	$ (13)
State	275	(1)
	2,235	(14)
Deferred tax expense (benefit)		
Federal	(755)	(19)
State	(107)	(2)
	(862)	(21)
	$ 1,373	$ (35)

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

	December 31,	
	2011	2010
	(in thousands)	
Deferred tax assets		
Basis of loans	$ 1,796	$ 1,521
Net operating loss carryforwards	207	246
Organizational costs	288	316
Other	196	118
Total deferred tax assets	2,487	2,201
Deferred tax liabilities		
Core deposit intangible	(470)	(752)
Other	(13)	(17)
Total deferred tax liabilities	(483)	(769)
Net deferred tax asset before valuation allowance	2,004	1,432
Less valuation allowance	(132)	(423)
Net deferred tax asset	$ 1,872	$ 1,009

As described in Note A, Verus and the Bank each file separate income tax returns. Verus has net operating loss carryforwards totaling $221,000, the majority of which expire in 2031. The Bank has net operating loss carry forwards totaling $338,000 which expire by 2029. Of this amount, $202,000 may be utilized in 2012 to offset taxable income while the remaining $136,000 may be utilized in years following 2012. The valuation allowance relates to loss carryforwards.

NOTE J - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company 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 Company has in particular classes of financial instruments.

The Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2011 and 2010, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2011	2010
	(in thousands)	
Commitments to extend credit	$ 16,467	$ 22,927
Stand-by letters of credit	276	288

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 Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company 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 Company 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 K- EMPLOYEE BENEFIT AND COMPENSATION PLANS

401(k) Plan

The Company 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 the period ended December 31, 2011 and 2010, expense attributable to the Plan amounted to $41,000 and $9,000, respectively.

Employment Agreement

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

Stock Appreciation Stock Rights

The Bank is in the process of finalizing a stock appreciation rights plan.

NOTE L – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company may make loans to executive officers, directors and principal shareholders of the Company, including their immediate families and companies in which they are principal owners. At December 31, 2011 and 2010, loans to these persons approximated $7,166,000 and $6,257,000, respectively. Deposits from related parties held by the Company at December 31, 2011 and 2010 amounted to $4,396,000 and $11,288,000, respectively.

NOTE M – STOCKHOLDERS' EQUITY AND DIVIDENDS

Preferred Stock

In 2011 the Company issued 9,740 shares of perpetual, non-cumulative preferred stock ($1,000 per share liquidation preference) to the United States Department of Treasury as part of the Treasury's Small Business Lending Fund (SBLF) program. Total proceeds from the transaction were $9,740,000.

The SBLF is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks. The SBLF is structured to encourage small business lending through a tiered dividend structure where the dividend rate on the preferred stock is based on the growth of the Company's small business lending. The initial dividend rate payable on SBLF capital is, at most, 5%, and the rate falls to 1% if a bank's small business lending increases by 10% or more. Banks that increase their lending by less than 10% pay dividend rates between 2% and 4%. If a bank's lending does not increase in the first two years after issuance, however, the dividend rate increases to 7%. Four and one-half years after issuance, the dividend rate for all banks increases to 9%. Dividends on the SBLF preferred stock are payable quarterly in arrears each January 1, April 1, July 1 and October 1. The Company's dividend rate in 2011 was 1%.

Dividends

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

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

NOTE N - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Banks are 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks 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 Banks 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, 2011 and 2010, that the Banks met all capital adequacy requirements to which they are subject.

As of December 31, 2011 and 2010, the most recent notification from bank regulators categorized the Banks 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 Banks' category. The Bank's actual capital amounts and ratios are also presented in the following table.

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2011						
Total capital (to risk weighted assets)	$ 40,527	17.9%	$ 18,086	8.0%	$ 22,608	10.0%
Tier 1 capital (to risk weighted assets)	37,682	16.7	9,043	4.0	13,565	6.0
Tier 1 capital (to average assets)	37,682	15.2	9,933	4.0	12,416	5.0

	Actual		Minimum capital requirement		Minimum to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2010						
Total capital (to risk weighted assets)						
Fort Collins Commerce Bank	$ 11,187	12.7%	$ 7,040	8.0%	$ 8,801	10.0%
Larimer Bank of Commerce	9,817	12.0	6,519	8.0	8,149	10.0
Loveland Bank of Commerce	7,100	18.9	3,006	8.0	3,758	10.0
Tier 1 capital (to risk weighted assets)						
Fort Collins Commerce Bank	$ 10,081	11.5%	$ 3,520	4.0%	$ 5,280	6.0%
Larimer Bank of Commerce	8,793	10.8	3,259	4.0	4,889	6.0
Loveland Bank of Commerce	6,629	17.6	1,503	4.0	2,255	6.0
Tier 1 capital (to average assets)						
Fort Collins Commerce Bank	$ 10,081	9.5%	$ 4,266	4.0%	$ 5,333	5.0%
Larimer Bank of Commerce	8,793	8.9	3,964	4.0	4,955	5.0
Loveland Bank of Commerce	6,629	16.3	1,625	4.0	2,031	5.0

NOTE O – 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 Company used the following methods and significant assumptions to estimate fair value:

Impaired Loans - The Company 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 impaired loans are obtained from independent appraisers 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:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Impaired loans	$ -	$ -	$ 1,183	$ 1,183
Foreclosed real estate	$ -	$ -	$ 2,487	$ 2,487

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Impaired loans	$ -	$ -	$ 4,874	$ 4,874
Foreclosed real estate	$ -	$ -	$ 3,014	$ 3,014

At December 31, 2011 impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of $1,533,000 were written down to their fair value of $1,183,000, resulting in an additional provision for loan losses of $350,000 and, which was included in earnings for the year. At December 31, 2010, impaired loans of $4,874,000 are carried at their estimated fair value.

At December 31, 2011 and 2010, foreclosed real estate with a cost basis of $3,250,000 and $3,133,000, respectively, is carried at its estimated fair value of $2,487,000 and $3,014,000, respectively. The valuation allowance of $763,000 and $119,000, respectively, has been recorded through expense.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. The Company 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

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.

Federal Home Loan Bank Borrowings

The fair values of the Company's borrowed funds are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Note Payable

The carrying amount is the estimate of fair value because the interest rate on the note is variable.

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 Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company'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 Company's financial instruments as of December 31, 2011 and 2010 are as follows:

	December 31,			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and cash equivalents	$ 20,241	$ 20,241	$ 25,054	$ 25,054
Nonmarketable equity securities	1,280	1,280	1,239	1,239
Loans, less allowance for loan losses	220,950	221,761	213,162	213,203
Accrued interest receivable	888	888	904	904
Financial Liabilities				
Deposits	$206,735	$205,522	$212,351	$213,021
Federal Home Loan Bank borrowings	4,211	4,306	7,842	8,037
Note payable	2,225	2,225	3,835	3,835
Accrued interest payable	112	112	161	161

NOTE P – SUBSEQUENT EVENT

In February 2012, the Board of Directors of the Bank approved a Stock Purchase Plan for employees and directors of the Bank. The plan allows for any individual that has been employed by the Bank on a full-time basis for at least six months prior to an offering commencement date, or is a director of the Bank on an offering commencement date, to purchase up to $50,000 worth of common stock in the Bank. The offerings are to be made semi-annually.

In January 2012, the Bank declared a cash dividend of approximately $3,649,000, which were paid in February 2012. The Company used its share of the dividends, $1,870,000, as part of the funds to repay its note payable of $2,225,000.