FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

VERUS BANK OF COMMERCE

December 31, 2011 and 2010

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Verus Bank of Commerce
Fort Collins, Colorado

We have audited the accompanying balance sheets of Verus Bank of Commerce (the “Bank”) as of December 31, 2011 and 2010, and the related statements of income, stockholders' equity and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Verus Bank of Commerce at December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended, 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 Bank of Commerce

BALANCE SHEETS

	December 31,	
	2011	2010
	(in thousands)	
ASSETS		
Cash and due from banks	$ 1,374	$ 3,809
Interest-bearing deposits with banks	17,709	19,671
Federal funds sold	746	994
Cash and cash equivalents	19,829	24,474
Nonmarketable equity securities	1,280	1,239
Loans	225,798	217,267
Less allowance for loan losses	(4,397)	(3,537)
	221,401	213,730
Foreclosed real estate	2,487	3,014
Premises and equipment	645	880
Accrued interest receivable	888	904
Other assets	2,963	2,560
	$ 249,493	$ 246,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 17,653	$ 16,751
Interest-bearing	189,122	195,844
	206,775	212,595
Federal Home Loan Bank borrowings	4,211	7,842
Accrued interest payable	88	140
Other liabilities	737	721
Total liabilities	211,811	221,298
Commitments (notes D and H)		
Stockholders' equity		
Preferred stock - $5 par value, 2,000,000 shares authorized; 1,753,000 shares issued and outstanding at December 31, 2011	8,766	-
Common stock - $2.50 par value, 7,000,000 shares authorized; 4,999,353 shares issued and outstanding	12,498	12,498
Capital surplus	12,001	12,002
Retained earnings	4,417	1,003
	37,682	25,503
	$ 249,493	$ 246,801

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

Verus Bank of Commerce

STATEMENTS OF INCOME

	Years Ended December 31,	
	2011	2010
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	$ 14,094	$ 12,665
Federal funds sold	2	3
Interest-bearing deposits with banks	47	114
Dividends	47	15
Total interest and dividend income	14,190	12,797
Interest expense		
Deposits	2,780	3,886
Long-term borrowings	183	412
Total interest expense	2,963	4,298
Net interest income	11,227	8,499
Provision for loan losses	1,097	2,092
Net interest income after provision for loan losses	10,130	6,407
Noninterest income		
Service charges on deposit accounts	127	66
Fees from servicing government-guaranteed loans	130	112
Other	380	1,134
Total noninterest income	637	1,312
Noninterest expense		
Salaries and employee benefits	1,938	1,701
Occupancy	586	513
Equipment rent, depreciation and maintenance	302	233
Foreclosed real estate	910	8
Other expenses	1,956	2,710
Total noninterest expense	5,692	5,165
Income before income taxes	5,075	2,554
Income tax expense	1,612	727
NET INCOME	$ 3,463	$ 1,827
Net income	$ 3,463	$ 1,827
Preferred stock dividends	49	-
Net income available to common shareholders	$ 3,414	$ 1,827

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

Verus Bank of Commerce

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2011 and 2010

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Total
		(in thousands)			
Balance at December 31, 2009	$ -	$ 12,498	$ 12,002	$ (824)	$ 23,676
Net income	-	-	-	1,827	1,827
Balance at December 31, 2010	-	12,498	12,002	1,003	25,503
Issuance of preferred stock	8,766	-	-	-	8,766
Redemption of fractional shares	-	-	(1)	-	(1)
Net income	-	-	-	3,463	3,463
Preferred stock dividend declared and paid	-	-	-	(49)	(49)
Balance at December 31, 2011	$ 8,766	$ 12,498	$ 12,001	$ 4,417	$ 37,682

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

Verus Bank of Commerce

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011	Years Ended December 31, 2010
	(in thousands)	
Cash flows from operating activities		
Net income	$ 3,463	$ 1,827
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	244	233
Writedown on leasehold improvements	108	-
Valuation allowance on foreclosed real estate	763	90
Provision for loan losses	1,097	2,092
Federal Home Loan Bank stock dividends	(8)	(15)
Loss (gain) on sale of foreclosed real estate	147	(82)
Gain on sale of government guaranteed loans	(252)	(655)
Deferred income taxes	(623)	(232)
Net changes in:		
Accrued interest receivable and other assets	236	330
Accrued interest payable and other liabilities	(36)	521
Net cash provided by operating activities	5,139	4,109
Cash flows from investing activities		
Purchases of nonmarketable equity securities	(735)	(57)
Redemptions of nonmarketable equity securities	702	319
Loan originations and principal collections, net	(10,693)	(25,796)
Capitalized improvements to foreclosed real estate	(155)	-
Expenditures for premises and equipment	(117)	(31)
Proceeds from sale of foreclosed real estate	1,949	1,567
Net cash used in investing activities	(9,049)	(23,998)
Cash flows from financing activities		
Net change in deposits	(5,820)	37,142
Proceeds from Federal Home Loan Bank borrowings	4,211	500
Payments on Federal Home Loan Bank borrowings	(7,842)	(16,752)
Issuance of preferred stock	8,766	-
Redemption of fractional shares	(1)	-
Cash dividends paid on preferred stock	(49)	-
Net cash provided by (used in) financing activities	(735)	20,890
Net change in cash and cash equivalents	(4,645)	1,001
Cash and cash equivalents at beginning of year	24,474	23,473
Cash and cash equivalents at end of year	$ 19,829	$ 24,474
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 3,015	$ 4,298
Income taxes	2,423	390

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Nature of Operations

The Bank provides a full range of banking and mortgage services to individual and corporate customers, principally in Larimer County, Colorado and the surrounding area. The Bank commenced operations in 2005. Until October 28, 2010, the Fort Collins Commerce Bank was 51%-owned by Capital Bancorp Colorado Limited (CBCL), a bank-development company, and controlled subsidiary of Capital Bancorp Limited, a national community bank development company. On October 28, 2011, this 51% interest 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: Larimer Bank of Commerce and Loveland Bank of Commerce.

On February 14, 2011, Larimer Bank of Commerce and Loveland Bank of Commerce were merged into Fort Collins Commerce Bank. Following the merger, the name of the Bank was changed to Verus Bank of Commerce (the Bank).

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 Bank provides 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 the valuation of foreclosed real estate.

In connection with the determination of the allowance for loan losses and the valuation of foreclosed real estate, 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 losses on loans, 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 and valuation of foreclosed real estate. 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 Larimer County, 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 federal funds sold.

Nonmarketable Equity Securities

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

Loans

The Bank primarily grants construction, land and land development and real estate loans to customers primarily in the Larimer County, Colorado 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 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 Bank'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.

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 Bank 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 Bank's major loan segments. Significant overall risk factors for both the Bank's real estate, commercial and consumer portfolios include the strength of the real estate market and the strength of economy in the Bank's lending area.

The quality of the Bank'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 Bank'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 Bank will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Bank'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 Bank's allowance. 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.

In 2011 the Bank adopted new accounting guidance that requires significantly more financial statement disclosure about the credit quality of the Bank'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 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.

In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Bank 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 Bank 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. 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 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.

The Bank 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 a year. The Bank is no longer subject to examination by taxing authorities for years before 2008.

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 their 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 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.

With respect to the December 31, 2011 financial statements, Management has considered subsequent events through March 21, 2012.

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

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	$ 647	$ 1,923	$ 961	$ 6	$ 3,537
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	$ 785	$ 2,480	$ 1,131	$ 1	$ 4,397

	Year ended December 31, 2010
	(in thousands)
Balance at beginning of year	$ 3,335
Provision for loan losses	2,092
Charge-offs	(1,897)
Recoveries	7
Balance at end of year	$ 3,537

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	$ 145	$ 250	$ 300	$ -	$ 695
Impaired loans - evaluated collectively	37	284	54	-	375
Total impaired loans	182	534	354	-	1,070
Unimpaired loans - evaluated collectively	603	1,946	777	1	3,327
	$ 785	$ 2,480	$ 1,131	$ 1	$ 4,397
Recorded Investment In:					
Impaired loans - evaluated individually	$ 198	$ 1,128	$ 552	$ -	$ 1,878
Impaired loans - evaluated collectively	120	442	-	-	562
Total impaired loans	318	1,570	552	-	2,440
Unimpaired loans - evaluated collectively	15,753	181,640	25,612	353	223,358
	$ 16,071	$ 183,210	$ 26,164	$ 353	$ 225,798

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	198	318	182	198	-	198
	120	198	318	182	198	-	198
Real estate							
Residential 1-4 family	-	1,128	1,128	439	574	-	375
Multifamily	-	-	-	-	-	-	-
Commercial	442	-	442	95	625	-	423
Farmland	-	-	-	-	-	-	-
	442	1,128	1,570	534	1,199	-	798
Commercial and industrial	-	552	552	354	552	-	552
Commercial and other	-	-	-	-	-	-	-
	$ 562	$ 1,878	$ 2,440	$ 1,070	$ 1,949	$ -	$ 1,548

	December 31, 2010
	(In thousands)
Impaired loans without a valuation allowance	$ 4,352
Impaired loans with a valuation allowance	522
Total impaired loans	$ 4,874
Valuation allowance related to impaired loans	$ 122
Nonaccrual loans	$ 3,236
Accruing loans past due 90 days and greater	$ -

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

Interest income recognized on impaired loans was immaterial for the years-ended December 31, 2011 and 2010, respectively.

The Bank had no troubled debt restructurings for the years ended December 31, 2011 and 2010.

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	$ 3,123	$ -	$ -	$ -	$ 3,123	$ 3,123	$ -	$ -
Other	12,737	-	-	211	12,948	10,720	1,910	318
	15,860	-	-	211	16,071	13,843	1,910	318
Real estate								
Residential 1-4 family	26,383	-	-	1,236	27,619	26,290	201	1,128
Multifamily	9,413	-	-	-	9,413	9,413	-	-
Commercial	138,305	51	-	442	138,798	137,982	374	442
Farmland	7,380	-	-	-	7,380	7,380	-	-
	181,481	51	-	1,678	183,210	181,065	575	1,570
Commercial and industrial	25,855	7	-	302	26,164	25,442	170	552
Commercial and other	353	-	-	-	353	353	-	-
	$ 223,549	$ 58	$ -	$ 2,191	$ 225,798	$ 220,703	$ 2,655	$ 2,440

NOTE C – FORECLOSED REAL ESTATE

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

	Year Ended December 31, 2011	2010
	(in thousands)	
Balance at beginning of year	$ 3,014	$ 1,428
Transfers from loans	2,177	3,161
Capitalized expenses	155	-
Valuation allowances recorded	(763)	(90)
Dispositions	(2,096)	(1,485)
Balance at end of year	$ 2,487	$ 3,014

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

	Year Ended December 31, 2011	2010
	(in thousands)	
Net loss (gain) on disposition	$ 147	$ (82)
Valuation allowances recorded	763	90
Balance at end of year	$ 910	$ 8

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

NOTE E - 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 F – 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 Bank 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 G – INCOME TAXES

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

	2011	2010
	(in thousands)	
Current tax expense		
Federal	$ 1,960	$ 729
State	275	107
	2,235	836
Deferred tax expense (benefit)		
Federal	(546)	(95)
State	(77)	(14)
	(623)	(109)
	$ 1,612	$ 727

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		
Allowance for loan losses	$ 1,629	$ 1,310
Net operating loss carryforwards	125	246
Organizational costs	288	316
Other, net	182	101
Total deferred tax assets	2,224	1,973
Less valuation allowance	(50)	(423)
Net deferred tax asset	$ 2,174	$ 1,550

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 H - 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, 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 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 I- 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 2011 and 2010, expense attributable to the Plan amounted to approximately $41,000 and $9,000, respectively.

Employment Agreement

The Bank has an employment agreement with its CEO and President. The agreement establishes a salary that is increased annually based on performance factors relating to Bank earnings, asset growth and asset quality. The CEO and President are 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 Appreciation Stock Rights

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

NOTE J – 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, 2011 and 2010, total loans to these persons approximated $7,166,000 and $6,257,000, respectively. Deposits from related parties held by the Bank at December 31, 2011 and 2010 amounted to $4,396,000 and $11,288,000, respectively.

NOTE K – STOCKHOLDERS' EQUITY AND DIVIDENDS

Preferred Stock

In 2011 the Bank issued 8,766 shares of perpetual, non-cumulative preferred stock ($1,000 per share liquidation preference) to the Bank's majority shareholder, Verus. The transactions was in conjunction with Verus's issuance of preferred stock shares to the United States Department of Treasury as part of the Treasury's Small Business Lending Fund (SBLF) program.

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, for Verus, on the preferred stock is based on the growth of the Bank'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. Verus' 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 its net profits for the year combined with its 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 Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE L - 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 following table) 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 Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2011, 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 as of December 31, 2011 and 2010 are also presented in the table. Capital amounts and ratios as of December 31, 2010 are presented at the previous individual Bank entity level prior to the merger discussed in Note A.

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 M – 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:

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 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:

	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	$ -	$ -	$ 400	$ 400
Foreclosed real estate	$ -	$ -	$ 3,014	$ 3,014

At December 31, 2011 and 2010, impaired loans, which are measured for impairment using the fair value of the collateral, with a carrying value of $1,878,000 and $522,000, respectively, were written down to their fair value of $1,183,000 and $400,000, resulting in an additional provision for loan losses of $695,000 and $122,000, respectively, which was included in earnings for the year.

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 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

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

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,			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial Assets				
Cash and cash equivalents	$ 19,829	$ 19,829	$ 24,474	$ 24,474
Nonmarketable equity securities	1,280	1,280	1,239	1,239
Loans, less allowance for loan losses	221,401	222,212	213,730	213,771
Accrued interest receivable	888	888	904	904
Financial Liabilities				
Deposits	$206,775	$205,562	$212,595	$213,265
Federal Home Loan Bank borrowings	4,211	4,306	7,842	8,037
Accrued interest payable	88	88	140	140

NOTE N – SUBSEQUENT EVENTS

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. Funds received by the Bank may be used for working capital, and general purposes, including, redeeming the stock of certain minority shareholders of the Bank.

In January 2012, the Bank declared a cash dividend of approximately $3,649,000. The dividends were paid in February 2012.