UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-53181

SOLERA NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**02-0774841**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

319 S. Sheridan Blvd.

Lakewood, CO 80226

303-209-8600

(Address and telephone number of principal executive offices and principal place of business)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date: As of November 10, 2011, 2,553,671 shares of the registrant s common stock, $0.01 par value, were issued and outstanding.

Table of Contents

FORM 10-Q

SOLERA NATIONAL BANCORP, INC.

INDEX

Table of Contents

INTRODUCTORY NOTE. CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING

INFORMATION AND RISK FACTORS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 about Solera National Bancorp, Inc. (the Company) and our subsidiary, Solera National Bank (the Bank, collectively with the Company, sometimes referred to as we, us and our) that are subject to risks and uncertainties. Forward-looking statements include information concerning future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words anticipates, believes, estimates, expects, intends, plans, may increase, may fluctuate and similar expressions of future or c verbs such as will, should, would, and could are generally forward-looking in nature and not historical facts. Actual results may differ material from those projected, implied, anticipated or expected in the forward-looking statements. Readers of this Quarterly Report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report. The statements are representative only as of the date they are made, and Solera National Bancorp, Inc. undertakes no obligation to update any forward-looking statement.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the Company s beliefs, plans, objectives, goals, expectations, anticipations, estimates, financial condition, results of operations, future performance and business, including management s expectations and estimates with respect to revenues, expenses, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors, some of which are beyond the control of the Company. The following factors, among others, could cause the Company s results or financial performance to differ materially from its goals, plans, objectives, intentions, expectations and other forward-looking statements:

- the Company has a limited operating history upon which to base an estimate of its future financial performance;

- management of Solera National Bank may be unable to limit credit risk associated with Solera National Bank s loan portfolio, which would affect the Company s profitability;

- general economic conditions may be less favorable than expected, causing an adverse impact on our financial performance;

- the Company is subject to extensive regulatory oversight, which could restrain its growth and profitability;

- the Company could face potential regulatory actions if we fail to comply with our Consent Order;

- interest rate volatility could negatively impact our business;

- due to the nature of our business, we may experience operational losses which may not be covered by insurance;

- the Company may not be able to raise additional capital on terms favorable to it; and

- the Company faces competition from a variety of competitors.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors in Item 1A of the Company s 2010 Annual Report filed on Form 10-K with the SEC, which is available on the SEC s website at www.sec.gov. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this Quarterly Report on Form 10-Q to reflect events or circumstances after the date hereof. New factors emerge from time to time, and it is not possible for us to predict which factors, if any, will arise. In addition, the Company cannot assess the impact of each factor on the Company s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited)

Solera National Bancorp, Inc.

Balance Sheets as of September 30, 2011 and December 31, 2010

(unaudited)

($ in thousands, except share data)		September 30, 2011		December 31, 2010
ASSETS				
Cash and due from banks	$	283	$	936
Total cash and cash equivalents		283		936
Interest-bearing deposits with banks		357		266
Investment securities, available-for-sale		81,877		76,313
Gross loans		55,710		58,897
Net deferred (fees)/expenses		(58)		(75)
Allowance for loan and lease losses		(1,069)		(1,175)
Net loans		54,583		57,647
Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stocks		1,148		1,168
Other real estate owned		903		1,838
Premises and equipment, net		623		731
Accrued interest receivable		566		759
Other assets		312		489
Total assets	$	140,652	$	140,147
LIABILITIES AND STOCKHOLDERS EQUITY				
Deposits				
Noninterest-bearing demand	$	2,792	$	1,891
Interest-bearing demand		10,480		11,605
Savings and money market		61,505		57,132
Time deposits		37,793		40,327
Total deposits		112,570		110,955
Securities sold under agreements to repurchase		252		143
Federal funds purchased		135		200
Accrued interest payable		66		91
FHLB advances		8,500		10,000
Accounts payable and other liabilities		491		433
Total liabilities	$	122,014	$	121,822
COMMITMENTS AND CONTINGENCIES (see Note 9)				
STOCKHOLDERS EQUITY				

Common stock, $0.01 par value; 5,000,000 shares authorized; 2,553,671 shares issued and outstanding	$	26	$	26
Additional paid-in capital		26,138		25,980
Accumulated deficit		(7,806)		(7,882)
Accumulated other comprehensive income		280		201
Total stockholders equity	$	18,638	$	18,325
Total liabilities and stockholders equity	$	140,652	$	140,147

See Notes to Consolidated Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Operations for the Three and Nine Months Ended September 30, 2011 and 2010

(unaudited)

($ in thousands, except share data)	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Interest income:				
Interest and fees on loans	$ 841	$ 901	$ 2,512	$ 2,503
Interest on investment securities	578	713	1,897	2,261
Dividends on FHLB and FRB stocks	8	10	25	32
Other interest income	2	1	5	9
Total interest income	1,429	1,625	4,439	4,805
Interest expense:				
Deposits	343	466	1,066	1,476
FHLB advances	51	58	157	202
Other borrowings	2	4	9	12
Total interest expense	396	528	1,232	1,690
Net interest income	1,033	1,097	3,207	3,115
Provision for loan and lease losses	10	780	130	1,075
Net interest income after provision for loan and lease losses	1,023	317	3,077	2,040
Noninterest income:				
Service charges and fees	16	19	52	55
Other income	3	16	5	16
(Loss) / gain on sale of other real estate owned	(25)	10	(25)	10
Gain on available-for-sale securities	333	332	556	863
Total noninterest income	327	377	588	944
Noninterest expense:				
Salaries and employee benefits	613	619	1,930	1,756
Occupancy	135	137	395	418
Professional fees	129	134	355	319
Other general and administrative	314	297	909	773
Total noninterest expense	1,191	1,187	3,589	3,266
Net income (loss) before income taxes	159	(493)	76	(282)
Income taxes				
Net income (loss)	$ 159	$ (493)	$ 76	$ (282)
Basic earnings (loss) per share	0.06	(0.19)	0.03	(0.11)
Diluted earnings (loss) per share	0.06	(0.19)	0.03	(0.11)
Weighted-average common shares				
Basic	2,553,671	2,553,671	2,553,671	2,553,671
Diluted	2,553,671	2,553,671	2,553,671	2,553,671

See Notes to Consolidated Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Changes in Stockholders Equity for the Nine Months Ended September 30, 2011 and 2010

(unaudited)

($ in thousands, except share data)	Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2009	**2,553,671**	**$ 26**	**$ 25,768**	**$ (8,016)**	**$ 956**	**$ 18,734**
Stock-based compensation			148			148
Comprehensive income:						
Net loss				(282)		(282)
Net change in unrealized gains on investment securities available-for-sale					2,409	2,409
Less: reclassification adjustment for net gains included in income					(863)	(863)
Total comprehensive income						1,264
Balance at September 30, 2010	**2,553,671**	**$ 26**	**$ 25,916**	**$ (8,298)**	**$ 2,502**	**$ 20,146**
Balance at December 31, 2010	**2,553,671**	**$ 26**	**$ 25,980**	**$ (7,882)**	**$ 201**	**$ 18,325**
Stock-based compensation			158			158
Comprehensive income:						
Net income				76		76
Net change in unrealized gains on investment securities available-for-sale					635	635
Less: reclassification adjustment for net gains included in income					(556)	(556)
Total comprehensive income						155
Balance at September 30, 2011	**2,553,671**	**$ 26**	**$ 26,138**	**$ (7,806)**	**$ 280**	**$ 18,638**

See Notes to Consolidated Financial Statements.

Table of Contents

Solera National Bancorp, Inc.

Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010

(unaudited)

($ in thousands)	**For the Nine Months Ended September 30, 2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss)	$ 76	$ (282)
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:		
Depreciation and amortization	111	137
Provision for loan and lease losses	130	1,075
Net accretion of deferred loan fees/expenses	(36)	(29)
Net amortization of premiums on investment securities	529	348
Loss / (gain) on sale of other real estate owned	25	(10)
Gain on available-for-sale investment securities	(556)	(863)
FHLB stock dividend	(2)	(10)
Recognition of stock-based compensation on stock options	158	148
Changes in operating assets and liabilities:		
Accrued interest receivable	193	65
Other assets	131	(53)
Prepaid Federal Deposit Insurance Corporation (FDIC) premiums	46	151
Accrued interest payable	(25)	17
Accounts payable and other liabilities	88	(4)
Deferred loan fees/expenses, net	19	
Deferred rent liability	4	10
Net cash provided by operating activities	$ 891	$ 700
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities, available-for-sale	$ (47,845)	$ (46,154)
Proceeds from sales of investment securities, available-for-sale	34,963	30,461
Proceeds from maturities/calls/pay downs of investment securities, available-for-sale	7,424	18,319
Net change in loans	2,048	(11,391)
Proceeds from sale of other real estate owned	1,813	823
Purchase of premises and equipment	(3)	(8)
Redemption / (purchase) of FRB stock	22	(24)
Purchase of interest-bearing deposits with banks	(252)	(1,006)
Maturity of interest-bearing deposits with banks	161	4,524
Net cash used in investing activities	$ (1,669)	$ (4,456)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 1,615	$ 3,960
Net increase in federal funds purchased and securities sold under agreements to repurchase	44	759
Repayment of FHLB advances	(1,500)	(2,750)
Principal payments on capital lease	(34)	(31)
Net cash provided by financing activities	$ 125	$ 1,938
Net decrease in cash and cash equivalents	$ (653)	$ (1,818)

CASH AND CASH EQUIVALENTS				
Beginning of period		936		2,516
End of period	$	283	$	698

(continued)

Table of Contents

Solera National Bancorp, Inc.

Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010, (continued)

(unaudited)

($ in thousands)	**For the Nine Months Ended September 30, 2011**		**2010**	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest	$	1,257	$	1,673
Income taxes paid	$		$	
Non-cash investing transactions:				
Unrealized gain on investment securities, available-for-sale	$	79	$	1,546
Loans transferred to OREO	$	903	$	813

See Notes to Consolidated Financial Statements.

Table of Contents

SOLERA NATIONAL BANCORP, INC.

UNAUDITED CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ORGANIZATION

Solera National Bancorp, Inc. (the Company), is a Delaware corporation that was incorporated in 2006 to organize and serve as the holding company for our subsidiary, Solera National Bank (the Bank and collectively with the Company, sometimes referred to as we , us , and our), a national bank that opened for business on September 10, 2007. Solera National Bank is a full-service community, commercial bank headquartered in Lakewood, Colorado primarily serving the six-county Denver metropolitan area.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of the Company as of September 30, 2011, and the results of its operations for the three and nine months ended September 30, 2011 and 2010. Cash flows are presented for the nine months ended September 30, 2011 and 2010. Certain reclassifications have been made to the consolidated financial statements and related notes of prior periods to conform to the current presentation. These reclassifications had no impact on stockholders equity or net income/(loss) for the periods. Additionally, certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission. The Company believes that the disclosures in the unaudited condensed consolidated financial statements are adequate to make the information presented not misleading. However, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K as of and for the year ended December 31, 2010.

The Company received approval as a bank in organization in the first quarter of 2007, conducted an initial closing of its common stock offering and commenced banking operations during the third quarter of 2007. The attainment of sustained profitable operations are dependent on future events, including the successful execution of the Company s business plan and achieving a level of revenue adequate to support the Company s cost structure.

Critical Accounting Policies

The following is a description of the Company s significant accounting policies used in the preparation of the accompanying consolidated financial statements.

Provision and allowance for loan and lease losses: Implicit in the Company s lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loans being made and the creditworthiness of the borrowers over the terms of the loans. The allowance for loan and lease losses represents the Company s recognition of the risks of extending credit and its evaluation of the loan portfolio. The evaluation of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan and lease losses is maintained at a level considered adequate to provide for probable loan losses based on management s assessment of various factors affecting the loan portfolio, including a review of problem loans, business conditions, historical loss experience, evaluation of the quality of the underlying collateral, and holding and disposal costs. In addition, because the Bank has limited history on which to base future loan losses, a comparison of peer group allowance ratios to gross loans is made with the intention of maintaining similar levels until the Bank has sufficient historical data to see trends in our own loss history. The allowance for loan and lease losses is increased by provisions charged to expense and reduced by loans charged-off, net of recoveries. Loan losses are charged against the allowance for loan and lease losses when management believes the loan balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan and lease losses. The allowance for loan and lease losses calculation has two components. The first component represents the allowance for loan and lease losses for impaired loans; that is loans where the Company believes collection of the contractual principal and interest payments is not probable. To determine this component of the calculation, impaired loans are individually evaluated by either discounting the expected future cash flows or determining the fair value of the collateral, if repayment is expected solely from collateral. The fair value of the collateral is determined using internal analyses as well as third-party information, such as appraisals. That value, less estimated costs to sell, is compared to the recorded investment in the loan and any shortfall is charged-off. Unsecured loans and loans that are not collateral-dependent are evaluated by calculating the discounted cash flow of the payments expected over the life of the loan using the loan s effective interest rate and giving consideration to currently existing factors that would impact the amount or timing of the cash flows. The shortfall between the recorded investment in the loan and the discounted cash flows, or the fair value of the collateral less estimated costs to sell, represents the first component of the allowance for loan and lease losses.

The second component of the allowance for loan and lease losses represents contingent losses the estimated probable losses inherent within the portfolio due to uncertainties. Factors considered by management to estimate inherent losses include, but are not limited to, 1) historical and current trends in downgraded loans; 2) the level of the allowance in relation to total loans; 3) the level of the allowance in relation to the Bank s peer group; 4) the levels and trends in non-performing and past due loans; and 5) management s assessment of economic conditions and certain qualitative factors as defined by bank regulatory guidance, including but not limited to, changes in the size, composition and concentrations of the loan portfolio, changes in the legal and regulatory environment, and changes in lending management. The qualitative factors also consider the risk elements within each segment of the loan portfolio. The primary risk comes from the difference between the expected and actual cash flows of the borrower and is influenced by the type of collateral securing the loans. For real estate secured loans, conditions in the real estate markets as well as the general economy influence real estate values and may impact the Company s ability to recover its investment due to declines in the fair value of the underlying collateral. The risks in non real estate secured loans include general economic conditions as well as interest rate changes. We aggregate our loans into portfolio segments including: Commercial Real Estate Secured; Residential Real Estate Secured; Commercial and Industrial; and Consumer. We then evaluate the above factors by segment and assign probable loss ranges to each segment. The aggregate of these segments represents the contingent losses in the portfolio.

The recorded allowance for loan and lease losses is the aggregate of the impaired loans component and the contingent loss component. Our methodology for estimating the allowance has not changed during the current or prior reporting period and is consistent across all portfolio segments and classes of loans.

At September 30, 2011, the Company had an allowance for loan and lease losses of $1.1 million. Management believes that this allowance for loan and lease losses is adequate to cover probable losses based on all currently available evidence. Future additions to the allowance for loan and lease losses may be required based on management s continuing evaluation of the inherent risks in the portfolio. Additional provisions for loan losses may need to be recorded if the economy declines, asset quality deteriorates, or the loss experience changes.

Loans receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs, the allowance for loan and lease losses, and net of any deferred fees or costs on originated loans.

Credit and loan decisions are made by management and the Board of Directors Credit Committee in conformity with loan policies established by the Board of Directors (the Board of Directors). The Company s practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower s failure to meet repayment terms, the borrower s deteriorated financial condition, the depreciation of the underlying collateral, the loan s classification as a loss by regulatory examiners, or other reasons.

Impaired loans. The Company considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan s effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral. Troubled debt restructurings (TDRs) are included in impaired loans. A TDR is a formal restructuring of a loan where the Company, for economic or legal reasons related to the borrower s financial

Table of Contents

difficulty, grants a concession to the borrower. The concession granted may be, but is not limited to, one or more of the following: a below-market interest rate, forgiveness or delay in the due date of principal and/or accrued interest, extension in the amortization schedule to reduce the monthly payment amount. TDRs are evaluated in accordance with Accounting Standards Codification (ASC) Topic 310-40, *Troubled Debt Restructurings by Creditors*. The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans (see *Interest and fees on loans*, below). TDRs are typically returned to accrual status when there has been a sustained period of performance with the modified terms (generally six months) and the Company expects to collect all amounts due under the modified terms.

Interest and fees on loans: Interest income is recognized daily in accordance with the terms of the note based on the outstanding principal balance. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Generally, the accrual of interest on loans is discontinued when principal or interest is 90 days past due based on contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan s principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent by 31 days or more.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan using the effective interest method and without anticipating prepayments.

Share-based compensation: The Company grants stock options as incentive compensation to employees and directors. The cost of employee/director services received in exchange for an award of equity instruments is based on the grant-date fair value of the award, which is determined using a Black-Scholes-Merton model. This cost, net of estimated forfeitures, is expensed to salaries and employee benefits over the period in which the recipient is required to provide services in exchange for the award, generally the vesting period.

Estimation of fair value: The estimation of fair value is significant to a number of the Company s assets, including available-for-sale investment securities. These are all recorded at either fair value or at the lower of cost or fair value. Furthermore, accounting principles generally accepted in the United States require disclosure of the fair value of financial instruments as a part of the notes to the consolidated financial statements. Fair values may be volatile. They may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates and the shape of the yield curve. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the most advantageous market for the asset or liability in an orderly transaction between market participants. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Impairment of investment securities: Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. Securities are evaluated for

Table of Contents

impairment utilizing criteria such as the magnitude and duration of the decline, current market conditions, payment history, the credit worthiness of the obligor, the intent of the Company to retain the security or whether it is more likely than not that the Company will be required to sell the security before recovery of the value, as well as other qualitative factors. If a decline in value below amortized cost is determined to be other-than-temporary, which does not necessarily indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not favorable, the security is reviewed in more detail in order to determine the portion of the impairment that relates to credit (resulting in a charge to earnings) versus the portion of the impairment that is noncredit related (resulting in a charge to accumulated other comprehensive income). If it is more likely than not that sale of the security will be required prior to recovery of its amortized cost, the entire impairment is recognized in earnings equal to the difference between the amortized cost basis and the fair value. A credit loss is determined by comparing the amortized cost basis to the present value of cash flows expected to be collected, computed using the original yield as the discount rate.

Recently Issued Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) updated disclosure requirements with respect to the credit quality of loans and leases and the allowance for credit losses. According to the guidance there are two levels of detail at which credit information will be presented the portfolio segment level and the class level. The portfolio segment level is the aggregated level used by the company in developing its systematic method for calculating the allowance for credit losses. The class level represents a more detailed level of categorization than the portfolio segment level. Companies are required to provide new or amended disclosures as a result of this update geared towards providing more detail about the company s allowance for loan and lease losses, nonaccrual and impaired loans and leases, credit quality indicators, past due statistics, and details about loans modified in a troubled debt restructuring, among other things. The increased disclosure requirements became effective for periods ending on or after December 15, 2010, with the exception of the additional disclosures surrounding troubled debt restructurings, which became effective for periods beginning on or after June 15, 2011. The provisions of this update expanded our disclosures with respect to the allowance for loan and lease losses and troubled debt restructurings but did not have a material impact on the Company s financial position, results of operations or cash flows.

In April 2011, the FASB issued an accounting standard update to amend previous guidance with respect to troubled debt restructurings in an effort to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. Specifically, the update provides additional guidance for determining whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and are applied retrospectively to the beginning of 2011. The provisions of this update did not have a material impact on the Company s financial position, results of operations or cash flows.

In April 2011, the FASB issued an accounting standard update to amend previous guidance with respect to effective control for repurchase agreements. The amendments in this update remove from the assessment of effective control the criterion relating to the transferor s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The FASB concluded that this criterion is not a determining factor of effective control. Consequently, the amendments in this update also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. Eliminating the transferor s ability criterion and related implementation guidance from an entity s assessment of effective control should improve the accounting for repurchase agreements and other similar transactions. If the transferor is deemed to have maintained effective control over the financial assets transferred, the transaction is accounted for as a secured borrowing. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The provisions of this update are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In May 2011, the FASB issued an accounting standard update to achieve common fair value measurement and disclosure in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments explain how to measure fair value. They do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendments might affect

Table of Contents

practice for some entities that were using the in-use valuation premise to measure the fair value of financial assets. The amendments require additional disclosure about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy specifically requiring quantitative information. The guidance in this update is effective for the first interim or annual period beginning on or after December 15, 2011. Early adoption is not permitted and the provisions are to be applied prospectively. The provisions of this update are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In June 2011, the FASB issued an accounting standard update which eliminates the option to present the components of other comprehensive income in the statement of changes in stockholders equity. Instead, this update requires the components of other comprehensive income to be presented in either a single continuous statement or two separate but consecutive statements of total comprehensive income, the components of net income and the components of other comprehensive income. Additionally, the update requires that reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. The guidance in this update is effective for fiscal and interim periods beginning after December 15, 2011. However, early adoption is permitted and the guidance must be applied retrospectively when adopted. The provisions of this update are expected to change the Company s presentation of other comprehensive income but are not expected to have any impact on the Company s financial position, results of operations or cash flows.

NOTE 3 INVESTMENTS

The amortized costs and estimated fair values of investment securities as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011			
($ in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities available-for-sale:				
U.S. government agencies	$	$	$	$
Corporate	11,832	132	(361)	11,603
State and municipal	7,366	461		7,827
Residential agency mortgage-backed securities (MBS)	62,399	579	(531)	62,447
Total securities available-for-sale	$ 81,597	$ 1,172	$ (892)	$ 81,877

	December 31, 2010			
($ in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities available-for-sale:				
U.S. government agencies	$ 5,841	$ 36	$ (25)	$ 5,852
Corporate	11,486	177	(190)	11,473
State and municipal	22,936	361	(472)	22,825
Residential agency MBS	35,849	614	(300)	36,163
Total securities available-for-sale	$ 76,112	$ 1,188	$ (987)	$ 76,313

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2011 and December 31, 2010 are shown below. Agency mortgage-backed securities are classified in accordance with their contractual lives. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepay penalties. Additionally, accelerated principal payments are routinely received on agency mortgage-backed securities making it common for them to mature prior to the contractual maturity date.

Table of Contents

($ in thousands)	September 30, 2011 Amortized Cost	September 30, 2011 Estimated Fair Value	December 31, 2010 Amortized Cost	December 31, 2010 Estimated Fair Value
Securities available-for-sale:				
Due within one year	$	$	$	$
Due after one year through five years	8,300	8,386	4,329	4,439
Due after five years through ten years	14,602	14,823	30,862	30,672
Due after ten years	58,695	58,668	40,921	41,202
Total securities available-for-sale	$ 81,597	$ 81,877	$ 76,112	$ 76,313

The following tables show the estimated fair value and gross unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous loss position as of September 30, 2011 and December 31, 2010.