Solera National Bancorp, Inc.
Form 10-Q
May 13, 2011
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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 March 31, 2011

¨ 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 ¨

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 ¨ No ¨

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¨	Accelerated filer ¨
Non-accelerated filer¨	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 ¨ 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 May 10, 2011, 2,553,671 shares of the registrant s common stock, $0.01 par value, were issued and outstanding.

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SOLERA NATIONAL BANCORP, INC.

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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 significantly harm our business;

- 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.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (unaudited)

Solera National Bancorp, Inc.

Balance Sheets as of March 31, 2011 and December 31, 2010

(unaudited)

($ in thousands, except share data)		March 31, 2011		December 31, 2010
ASSETS				
Cash and cash equivalents	$	1,058	$	936
Interest-bearing deposits with banks		266		266
Investment securities, available-for-sale		76,682		76,313
Gross loans		58,199		58,897
Net deferred (fees)/expenses		(68)		(75)
Allowance for loan losses		(1,175)		(1,175)
Net loans		56,956		57,647
Federal Home Loan Bank (FHLB) and Federal Reserve Bank stocks		1,115		1,168
Other real estate owned		1,838		1,838
Premises and equipment, net		691		731
Accrued interest receivable		703		759
Prepaid Federal Deposit Insurance Corporation (FDIC) premiums		202		278
Other assets		246		211
Total assets	$	139,757	$	140,147
LIABILITIES AND STOCKHOLDERS EQUITY				
Deposits				
Noninterest-bearing demand	$	2,369	$	1,891
Interest-bearing demand		11,567		11,605
Savings and money market		64,416		57,132
Time deposits		36,100		40,327
Total deposits		114,452		110,955
Securities sold under agreements to repurchase		957		143
Federal funds purchased				200
Accrued interest payable		79		91
Accounts payable		329		260
FHLB advances		5,500		10,000
Other liabilities		162		173
Total liabilities	$	121,479	$	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		26,041		25,980
Accumulated deficit		(8,065)		(7,882)
Accumulated other comprehensive income		276		201
Total stockholders equity	$	18,278	$	18,325
Total liabilities and stockholders equity	$	139,757	$	140,147

See Notes to Consolidated Financial Statements.

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Solera National Bancorp, Inc.

Statements of Operations for the Three Months Ended March 31, 2011 and 2010

(unaudited)

($ in thousands, except share data)	**For the Three Months Ended March 31, 2011**	**2010**
Interest income:		
Interest and fees on loans	$ 824	$ 726
Interest on federal funds sold		1
Interest on investment securities	673	829
Dividends on FHLB and Federal Reserve Bank stocks	9	12
Other interest income	1	5
Total interest income	1,507	1,573
Interest expense:		
Deposits	369	518
FHLB advances	57	76
Federal funds purchased and securities sold under agreements to repurchase	2	2
Other borrowings	2	3
Total interest expense	430	599
Net interest income	1,077	974
Provision for loan losses		115
Net interest income after provision for loan losses	1,077	859
Noninterest income:		
Service charges and fees	18	17
(Loss) / gain on available-for-sale securities	(2)	263
Total noninterest income	16	280
Noninterest expense:		
Salaries and employee benefits	705	544
Occupancy	133	139
Professional fees	126	130
Other general and administrative	312	223
Total noninterest expense	1,276	1,036
Net (loss) / income before income taxes	(183)	103
Income taxes		
Net (loss) / income	$ (183)	$ 103
Basic (loss) / earnings per share	$ (0.07)	$ 0.04
Diluted (loss) / earnings per share	$ (0.07)	$ 0.04
Weighted-average common shares		
Basic	2,553,671	2,553,671
Diluted	2,553,671	2,553,671

See Notes to Consolidated Financial Statements.

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Solera National Bancorp, Inc.

Statements of Changes in Stockholders Equity for the Three Months Ended March 31, 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			46			46
Comprehensive income:						
Net income				103		103
Net change in unrealized gains on investment securities available-for-sale					435	435
Less: reclassification adjustment for net gains included in income					(263)	(263)
Total comprehensive income						275
Balance at March 31, 2010	**2,553,671**	**$ 26**	**$ 25,814**	**$ (7,913)**	**$ 1,128**	**$ 19,055**
Balance at December 31, 2010	**2,553,671**	**$ 26**	**$ 25,980**	**$ (7,882)**	**$ 201**	**$ 18,325**
Stock-based compensation			61			61
Comprehensive income:						
Net loss				(183)		(183)
Net change in unrealized gains on investment securities available-for-sale					73	73
Less: reclassification adjustment for net losses included in income					2	2
Total comprehensive loss						(108)
Balance at March 31, 2011	**2,553,671**	**$ 26**	**$ 26,041**	**$ (8,065)**	**$ 276**	**$ 18,278**

See Notes to Consolidated Financial Statements.

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Solera National Bancorp, Inc.

Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010

(unaudited)

($ in thousands)	**For the Three Months Ended March 31, 2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) / income	$ (183)	$ 103
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	60	42
Provision for loan losses		115
Net accretion of deferred loan fees/expenses	(12)	(5)
Net amortization of premiums on investment securities	149	87
Loss / (gain) on available-for-sale investment securities	2	(263)
Federal Home Loan Bank stock dividend	(1)	(4)
Recognition of stock-based compensation on stock options	61	46
Changes in operating assets and liabilities:		
Accrued interest receivable	56	139
Other assets	(56)	(108)
Prepaid FDIC premiums	76	52
Accrued interest payable	(12)	1
Accounts payable and other liabilities	70	(119)
Deferred loan fees/expenses, net	5	14
Net cash provided by operating activities	$ 215	$ 100
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities, available-for-sale	$ (14,844)	$ (17,420)
Proceeds from sales of investment securities, available-for-sale	11,350	14,250
Proceeds from maturities/calls/pay downs of investment securities, available-for-sale	3,048	5,656
Loan payments received / (originations funded), net	699	(5,827)
Redemption of Federal Reserve Bank stock	54	22
Purchase of premises and equipment		(4)
Purchase of interest-bearing deposits with banks		(498)
Maturity of interest-bearing deposits with banks		2,434
Net cash provided by / (used in) investing activities	$ 307	$ (1,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 3,497	$ 5,717
Net increase / (decrease) in federal funds purchased and securities sold under agreements to repurchase	614	(216)
Repayment of FHLB advances	(4,500)	(1,000)
Principal payments on capital lease	(11)	(11)
Net cash (used in) / provided by financing activities	$ (400)	$ 4,490
Net increase in cash and cash equivalents	$ 122	$ 3,203
CASH AND CASH EQUIVALENTS		
Beginning of period	936	2,516

End of period	$	1,058	$	5,719

(continued)

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Solera National Bancorp, Inc.

Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010, (continued)

(unaudited)

($ in thousands)	For the Three Months Ended March 31, 2011		2010	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest	$	442	$	598
Income taxes paid	$		$	
Non-cash investing transactions:				
Unrealized gain on investment securities, available-for-sale	$	75	$	172

See Notes to Consolidated Financial Statements.

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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 Solera National Bank (the Bank), 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 March 31, 2011, and the results of its operations for the three months ended March 31, 2011 and 2010. Cash flows are presented for the three months ended March 31, 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 (loss)/income 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 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 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 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 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 losses when management believes the loan balance is uncollectible.

The Company has established a formal process for determining an adequate allowance for loan losses. The allowance for loan losses calculation has two components. The first component represents the allowance for loan 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

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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 losses.

The second component of the allowance for loan 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 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 March 31, 2011, the Company had an allowance for loan losses of $1.2 million. Management believes that this allowance for loan losses is adequate to cover probable losses based on all currently available evidence. Future additions to the allowance for loan 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 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 in conformity with loan policies established by 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.

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. 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).

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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. 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 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 are volatile and 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 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

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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 January 2010, the Financial Accounting Standards Board, (FASB) issued guidance requiring increased fair value disclosures. There are two components to the increased disclosure requirements set forth in the update: (1) a description of, as well as the disclosure of, the dollar amount of transfers in or out of level one or level two; and (2) in the reconciliation for fair value measurements using significant unobservable inputs (level three), a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, gross amounts shall be disclosed as opposed to a single net figure). The adoption of this standard added additional disclosures to our financial statement footnotes but did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In April 2010, the FASB issued accounting guidance for loan modifications when the loan is part of a pool of loans accounted for as a single asset. Diversity in practice developed surrounding how to account for loans that are part of a pool subsequent to a modification that would constitute a troubled debt restructuring. To eliminate the diversity in practice, the new guidance requires loans that are accounted for as part of a pool to continue to be accounted for as part of the pool subsequent to a modification, even if the modification constitutes a troubled debt restructuring. Upon adoption of the update an entity may make a one time election to terminate accounting for loans in a pool, and the election may be applied on a pool by pool basis. This accounting treatment for the modification of loans accounted for as part of pools is effective for all interim and annual reporting periods beginning on or after July 15, 2010. As the Company does not currently have any pools of loans accounted for as a single asset, the Company was unaffected by the adoption of this new standard.

In July 2010, the 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 their 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 will be 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 losses, nonaccrual and impaired loans and leases, credit quality indicators and past due statistics, 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 were deferred in December 2010 and will become 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 Losses.

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 should be applied retrospectively to the beginning of the annual period of adoption. 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 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

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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.

NOTE 3 INVESTMENTS

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

	March 31, 2011			
($ in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Securities available-for-sale:				
U.S. government agencies	$ 2,848	$ 30	$	$ 2,878
Corporate	11,982	190	(159)	12,013
State and municipal	19,997	292	(325)	19,964
Residential agency mortgage-backed securities (MBS)	41,579	499	(251)	41,827
Total securities available-for-sale	$ 76,406	$ 1,011	$ (735)	$ 76,682

	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 March 31, 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.

	March 31, 2011		December 31, 2010	
($ in thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Securities available-for-sale				
Due within one year	$	$	$	$
Due after one year through five years	6,920	7,064	4,329	4,439
Due after five years through ten years	28,189	28,096	30,862	30,672

Due after ten years		41,297		41,522		40,921		41,202
Total securities available-for-sale	$	76,406	$	76,682	$	76,112	$	76,313

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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 March 31, 2011 and December 31, 2010.

	March 31, 2011								
	Less than 12 months			12 months or more			Total		
($ in thousands)	Estimated Fair Value	Unrealized Losses	# of Securities	Estimated Fair Value	Unrealized Losses	# of Securities	Estimated Fair Value	Unrealized Losses	# of Securities
Description of securities:									
U.S. government agencies	$	$		$	$		$	$	
Corporate	7,238	(143)	12	484	(16)	1	7,722	(159)	13
State and municipal	10,290	(325)	17				10,290	(325)	17
Residential agency MBS	15,790	(251)	17				15,790	(251)	17
Total temporarily-impaired	$ 33,318	$ (719)	46	$ 484	$ (16)	1	$ 33,802	$ (735)	47

	December 31, 2010								
	Less than 12 months			12 months or more			Total		
($ in thousands)	Estimated Fair Value	Unrealized Losses	# of Securities	Estimated Fair Value	Unrealized Losses	# of Securities	Estimated Fair Value	Unrealized Losses	# of Securities
Description of securities:									
U.S. government agencies	$ 1,975	$ (25)	4	$	$		$ 1,975	$ (25)	4
Corporate	6,625	(190)	11				6,625	(190)	11
State and municipal	12,634	(472)	22				12,634	(472)	22
Residential agency MBS	16,723	(300)	17				16,723	(300)	17
Total temporarily-impaired	$ 37,957	$ (987)	54	$	$		$ 37,957	$ (987)	54

Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer, whether the Company has the intent to retain the security and 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. As of March 31 2011, the Company recognized other-than-temporary impairment of approximately $67,000 related to five securities that management had the intent to sell before recovery of value. No other securities were determined to be other than temporarily impaired. Only one security was in a continuous unrealized loss position for 12 months or longer as of March 31, 2011. Management believes this decline is related to interest rate changes and that the entire amortized cost basis of the security will be collected. Further, the Company has the intent to hold the securities in an unrealized loss position as of March 31, 2011 and does not anticipate that these securities will be required to be sold before recovery of value, which may be upon maturity. Accordingly, the securities detailed in the table above, are not other than temporarily impaired. Similarly, management s evaluation of the securities in an unrealized loss position at December 31, 2010, determined these securities were not other than temporarily impaired.

The Company recorded a net unrealized gain in the investment portfolio of $276,000 at March 31, 2011, a slight increase over the $201,000 net unrealized gain at December 31, 2010.

Sales of available-for-sale securities were as follows:

	Three Months Ended March 31,	
	2011	2010
Proceeds	$ 11,350	$ 14,250

Gross gains	$	146	$	281
Gross losses	$	(81)	$	(18)

Realized gains and losses on sales are computed on a specific identification basis based on amortized cost on the date of sale.

Securities with carrying values of $20.5 million at March 31, 2011 and $22.7 million at December 31, 2010, were pledged as collateral to secure public deposits, borrowings from the FHLB, repurchase agreements and for other purposes as required or permitted by law.

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NOTE 4 LOANS

The composition of the loan portfolio follows:

($ in thousands)		March 31, 2011	December 31, 2010
Real estate commercial		$ 38,724	$ 38,504
Commercial and industrial		8,377	8,732
Real estate residential		7,881	7,868
Construction and land development		1,853	1,894
Lease financing		1,264	1,359
Consumer		100	540
Gross loans		58,199	58,897
Less:	Deferred loan (fees) / expenses, net	(68)	(75)
	Allowance for loan losses	(1,175)	(1,175)
Loans, net		$ 56,956	$ 57,647

No loans were purchased during first quarter 2011. During first quarter 2010, the Company purchased loans totaling approximately $1.1 million from banks and other entities.

In the ordinary course of business, and only if consistent with permissible exceptions to Section 402 of the Sarbanes- Oxley Act of 2002, the Bank may make loans to directors, executive officers, principal stockholders (holders of more than five percent of the outstanding common shares) and the businesses with which they are associated. In the Company s opinion, all loans and loan commitments to such parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons.

There were approximately $2.1 million in loans receivable from related parties at March 31, 2011 and December 31, 2010.

The Company s loan portfolio generally consists of loans to borrowers within Colorado. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, the Company s loan portfolio consists primarily of real estate loans secured by real estate located in Colorado, making the value of the portfolio more susceptible to declines in real estate values and other changes in economic conditions in Colorado. No single borrower can be approved for a loan over the Bank s current legal lending limit of approximately $2.5 million. This regulatory requirement helps to ensure the Bank s exposure to one individual customer is limited.

NOTE 5 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010 is summarized as follows:

($ in thousands)	Three Months Ended March 31, 2011		2010	
Balance, beginning of period	$	1,175	$	830
Loans charged-off				
Recoveries on loans previously charged-off				
Provision for loan losses				115
Balance, end of period	$	1,175	$	945

The following table presents the ending balances in loans and allowance for loan losses, broken down by portfolio segment as of March 31, 2011 and December 31, 2010. Additionally, the table provides a rollfoward by portfolio segment of the allowance for loan losses for the current period only. Portfolio segment is defined, under current U.S. GAAP, as the level of aggregation used by the Company to calculate its allowance for loan losses. Our

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portfolio segments are based on how loans are categorized on the Consolidated Report of Condition and Income, which is primarily based on the collateral securing the loan. We have four main portfolio segments as follows: Commercial Real Estate Secured loans secured by nonfarm, nonresidential properties; Residential Real Estate Secured loans secured by 1-4 family residential properties or land; Commercial and Industrial loans to businesses not secured by real estate; and Consumer loans to individuals not secured by real estate. The table also identifies the recorded investment in loans and the related allowance that corresponds to individual versus collective impairment evaluation as derived from the Company s systematic methodology of estimating the allowance for loan losses (see additional discussion about our allowance methodology under Note 2 Basis of Presentation, Critical Accounting Policies, Provision and Allowance for Loan Losses).

Rollforward of Allowance for Loan Losses by Portfolio Segment

March 31, 2011

($ in thousands)	Commercial Real Estate Secured	Residential Real Estate Secured	Commercial and Industrial	Consumer	Total
Balance at December 31, 2010	$ 360	$ 478	$ 336	$ 1	$ 1,175
Charge-offs					
Recoveries					
Provision for loan losses	58	23	(81)		
Balance at March 31, 2011	$ 418	$ 501	$ 255	$ 1	$ 1,175

Ending Balances in Loans and Allowance for Loan Losses by Portfolio Segment

March 31, 2011

($ in thousands)	Commercial Real Estate Secured	Residential Real Estate Secured	Commercial and Industrial	Consumer	Total
Loans					
Individually evaluated for impairment	$ 879	$ 1,064	$ 750	$	$ 2,693
Collectively evaluated for impairment	32,676	13,972	8,758	100	55,506
Total	$ 33,555	$ 15,036	$ 9,508	$ 100	$ 58,199
Allowance for loan losses					
Individually evaluated for impairment	$	$ 88	$ 30	$	$ 118
Collectively evaluated for impairment	418	413	225	1	1,057
Total	$ 418	$ 501	$ 255	$ 1	$ 1,175

Ending Balances in Loans and Allowance for Loan Losses by Portfolio Segment

December 31, 2010

($ in thousands)	Commercial Real Estate Secured	Residential Real Estate Secured	Commercial and Industrial	Consumer	Total

Loans										
Individually evaluated for impairment	$	898	$	1,081	$	141	$		$	2,120
Collectively evaluated for impairment		32,227		14,554		9,950		46		56,777
Total	$	33,125	$	15,635	$	10,091	$	46	$	58,897
Allowance for loan losses										
Individually evaluated for impairment	$		$	87	$		$		$	87
Collectively evaluated for impairment		360		391		336		1		1,088
Total	$	360	$	478	$	336	$	1	$	1,175

Impaired Loans

The following tables provide detail of impaired loans broken out according to class as of March 31, 2011 and December 31, 2010. The class level represents a slightly more detailed level than the portfolio segment level. There was one impaired loan, totaling $1.0 million, as of March 31, 2010. The recorded investment represents the customer balance less any partial charge-offs and excludes any accrued interest receivable since the majority of the

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loans were on nonaccrual status and therefore did not have interest accruing. The unpaid principal balance represents the unpaid principal prior to any partial charge-off.

Impaired Loans by Class as of March 31, 2011

($ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance					
Real estate commercial	$ 1,210	$ 1,210	$	$ 1,219	$
Commercial and industrial	834	834		903	12
Real estate residential					
Construction and land development	381	590		383	
Consumer					
Total	$ 2,425	$ 2,634	$	$ 2,505	$ 12
Impaired loans with a related allowance					
Real estate commercial	$ 161	$ 532	$ 88	$ 161	$
Commercial and industrial	107	107	30	130	2
Real estate residential					
Construction and land development					
Consumer					
Total	$ 268	$ 639	$ 118	$ 291	$ 2
Total impaired loans					
Real estate commercial	$ 1,371	$ 1,742	$ 88	$ 1,380	$
Commercial and industrial	941	941	30	1,033	14
Real estate residential					
Construction and land development	381	590		383	
Consumer					
Total	$ 2,693	$ 3,273	$ 118	$ 2,796	$ 14

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($ in thousands)	Impaired Loans by Class as of December 31, 2010 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance					
Real estate commercial	$ 1,228	$ 1,229	$	$ 2,542	$
Commercial and industrial	338	338		350	15
Real estate residential					
Construction and land development	393	602		594	
Consumer					
Total	$ 1,959	$ 2,169	$	$ 3,486	$ 15
Impaired loans with a related allowance					
Real estate commercial	$ 161	$ 532	$ 87	$ 262	$
Commercial and industrial					
Real estate residential					
Construction and land development					
Consumer					
Total	$ 161	$ 532	$ 87	$ 262	$
Total impaired loans					
Real estate commercial	$ 1,389	$ 1,761	$ 87	$ 2,804	$
Commercial and industrial	338	338		350	15
Real estate residential					
Construction and land development	393	602		594	
Consumer					
Total	$ 2,120	$ 2,701	$ 87	$ 3,748	$ 15

The impaired loans without a valuation allowance did not have a related allowance because they 1) have been partially charged-off, bringing them to their net realizable value, 2) are well-secured, or 3) are troubled debt restructurings that are performing in accordance with their new contractual terms and are secured by sufficient collateral. Interest income was recognized on the troubled debt restructurings that were performing in accordance with their new contractual terms.

Troubled debt restructurings are included in impaired loans above. At March 31, 2011, there were five loans totaling $1.7 million with terms that were modified in a troubled debt restructuring (TDR). Of those, four TDRs had no specific allowance for loan losses because the loans are well collateralized or have been partially charged-off to their net realizable values. At December 31, 2010, there were four loans for $1.5 million with terms that were modified in a troubled debt restructuring, with no specific allowance for loan losses because the loans were well collateralized. The Company has not committed additional funds to the borrowers whose loans are classified as a troubled debt restructuring. There were no troubled debt restructurings at March 31, 2010.

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Age Analysis of Loans

The following tables summarize, by class, our past due and nonaccrual loans as of the dates indicated.

	Age Analysis of Loans by Class as of March 31, 2011						
($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Real estate commercial	$ 58	$	$	$ 1,372	$ 1,430	$ 37,294	$ 38,724
Commercial and industrial	250			654	904	8,737	9,641
Real estate residential						7,881	7,881
Construction and land development	177			380	557	1,296	1,853
Consumer	8				8	92	100
Total	$ 493	$	$	$ 2,406	$ 2,899	$ 55,300	$ 58,199

	Age Analysis of Loans by Class as of December 31, 2010						
($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total
Real estate commercial	$ 187	$	$	$ 1,390	$ 1,577	$ 36,927	$ 38,504
Commercial and industrial			44		44	10,047	10,091
Real estate residential						7,868	7,868
Construction and land development				393	393	1,501	1,894
Consumer						540	540
Total	$ 187	$	$ 44	$ 1,783	$ 2,014	$ 56,883	$ 58,897

Credit Quality Information

The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance and are the same for all classes of loans:

Special Mention:	Loans in this category have potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment at some future date.
Substandard:	Loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. These loans have well-defined weaknesses that jeopardize the liquidation of the debt and have the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
Doubtful:	Loans in this category have all the weaknesses inherent in those classified as substandard, above, with the added characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently

	existing facts, conditions and values, highly questionable and improbable.
Loss:	Loans in this category are deemed not collectible and are charged-off.

Loans not meeting any of the definitions above are considered to be pass rated loans.

As of March 31, 2011, and based on the most recent analysis performed during the month of March 2011, the recorded investment in each risk category of loans by class of loan is as follows:

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($ in thousands)	Credit Quality of Loans by Class as of March 31, 2011				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate commercial	$ 35,151	$ 1,013	$ 2,399	$ 161	$ 38,724
Commercial and industrial	6,637	1,965	932	107	9,641
Real estate residential	6,387	1,494			7,881
Construction and land development		177	1,676		1,853
Consumer	100				100
Total	$ 48,275	$ 4,649	$ 5,007	$ 268	$ 58,199

As of December 31, 2010, and based on the most recent analysis performed during the month of December 2010, the recorded investment in each risk category of loans by class of loan is as follows:

($ in thousands)	Credit Quality of Loans by Class as of December 31, 2010				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate commercial	$ 34,903	$ 1,017	$ 2,423	$ 161	$ 38,504
Commercial and industrial	7,048	1,974	1,069		10,091
Real estate residential	6,374	1,494			7,868
Construction and land development		179	1,715		1,894
Consumer	540				540
Total	$ 48,865	$ 4,664	$ 5,207	$ 161	$ 58,897

The following table summarizes information regarding impaired loans at the dates indicated:

($ in thousands)	March 31, 2011	March 31, 2010
Impaired loans with a valuation allowance:	$ 268	$ 1,000
Impaired loans without a valuation allowance:	2,425	
Total impaired loans	$ 2,693	$ 1,000
Valuation allowance related to impaired loans	$ 118	$ 185
Interest income recognized during impairment	$ 14	$

Troubled debt restructurings are included in impaired loans above.

NOTE 6 DEPOSITS

Deposits are summarized as follows:

	March 31, 2011	December 31, 2010

($ in thousands)		Amount	% of Total		Amount	% of Total
Noninterest-bearing demand	$	2,369	2%	$	1,891	2%
Interest-bearing demand		11,567	10		11,605	10
Money market accounts		11,925	10		10,902	10
Savings accounts		52,491	46		46,230	42
Time deposits		36,100	32		40,327	36
Total deposits	$	114,452	100%	$	110,955	100%

In the ordinary course of business, certain officers, directors, stockholders, and employees of the Bank have deposits with the Bank. In the Bank s opinion, all deposit relationships with such parties are made on substantially the same

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terms including interest rates and maturities, as those prevailing at the time for comparable transactions with other persons. The balance of related party deposits at March 31, 2011 and December 31, 2010 was approximately $4.1 million and $4.5 million, respectively.

NOTE 7 STOCK-BASED COMPENSATION

Under the terms of the Company s Stock Incentive Plan, (the Plan), employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also officers or employees, may only be granted nonqualified stock options. The Board reserved 510,734 shares of common stock for issuance under the Plan. The Plan provides for options to purchase shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over four years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Company recognized stock-based compensation cost of approximately $61,000 and $46,000 during the three months ended March 31, 2011 and 2010, respectively.

The Company accounts for its stock-based compensation under the provisions of ASC 718-20 *Stock Compensation Awards Classified as Equity*. The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The Company granted 41,000 options during the first quarter 2011 as incentive compensation to employees. Similarly, the Company granted 17,750 options during the first quarter 2010 as incentive compensation to existing and newly hired employees.

During the three months ended March 31, 2011, 14,020 options were forfeited and no vested options expired unexercised. During the first quarter 2010, 4,406 options were forfeited and 2,813 vested options expired unexercised. No options were exercised during the three months ended March 31, 2011 or 2010. The Company recognized expense for approximately 31,000 options, representing a pro-rata amount of the options earned during the first quarter 2011 that are expected to vest. As of March 31, 2011, there was approximately $183,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.5 years.

The following is a summary of the Company s outstanding stock options at March 31, 2011:

	Options	**Weighted-Average Grant Date Fair Value**	**Weighted-Average Exercise Price**
Outstanding at December 31, 2010	367,790	$ 2.43	$ 8.31
Granted	41,000	0.64	3.00
Exercised			
Forfeited	(14,020)	2.29	8.90
Expired			
Outstanding at March 31, 2011	394,770	$ 2.33	$ 8.89

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NOTE 8 NONINTEREST EXPENSE

The following table details the items comprising other general and administrative expenses:

($ in thousands) Other general and administrative expenses:	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase/ (Decrease)
Data processing	$ 78	$ 68	$ 10
FDIC assessment	79	42	37
Regulatory and reporting fees	34	26	8
Directors fees	24		24
Loan and collection expenses	20	4	16
Marketing and promotions	16	16	
Telephone/communication	12	11	1
Travel and entertainment	10	9	1
Printing, stationery and supplies	7	8	(1)
Dues and memberships	6	11	(5)
Franchise taxes	4	7	(3)
Insurance	6	6	
ATM and debit card fees	4	6	(2)
Postage and shipping	4	5	(1)
Training and education	4	2	2
Miscellaneous	4	2	2
Total	$ 312	$ 223	$ 89

NOTE 9 COMMITMENTS AND CONTINGENCIES

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company s exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At March 31, 2011 and December 31, 2010, $6.9 million and $8.2 million, respectively, were outstanding whose contract amounts represent credit risk.

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 are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained 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.

NOTE 10   FAIR VALUE

The Company carries its available-for-sale securities at fair value. Fair value measurement is obtained from independent pricing services which utilize observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds   terms and conditions, among other things. As of March 31, 2011 and December 31, 2010, all of the Company   s available-for-sale securities were valued using Level 2 inputs.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans or the present value of expected cash flows and is classified as Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals

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performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management s historical knowledge, changes in market conditions from the time of valuation, and/or management s expertise and knowledge of the client and client s business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third party appraisals, less costs to sell. The appraisals may be discounted based on management s historical knowledge, changes in market conditions from the time of valuation, and/or management s expertise and knowledge of the client and client s business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly.

Assets and Liabilities Measured on a Recurring Basis

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

($ in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets at March 31, 2011				
Investment securities, available-for-sale:				
U.S. government agencies	$	$ 2,878	$	$ 2,878
Corporate		12,013		12,013
State and municipal		19,964		19,964
Residential agency MBS		41,827		41,827
Total	$	$ 76,682	$	$ 76,682
Assets at December 31, 2010				
Investment securities, available-for-sale:				
U.S. government agencies	$	$ 5,852	$	$ 5,852
Corporate		11,473		11,473
State and municipal		22,825		22,825
Residential agency MBS		36,163		36,163
Total	$	$ 76,313	$	$ 76,313

There were no transfers in or out of the levels during the periods presented.

Assets and Liabilities Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

($ in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets at March 31, 2011				
Impaired loans *(Financial)*	$	$	$ 2,602	$ 2,602
Other real estate owned *(Non-financial)*	$	$	$ 1,976	$ 1,976
Assets at December 31, 2010				
Impaired loans *(Financial)*	$	$	$ 2,060	$ 2,060
Other real estate owned *(Non-financial)*	$	$	$ 1,976	$ 1,976

Impaired loans, which are measured for impairment using either the fair value of collateral or present value of expected cash flows, had carrying amounts at March 31, 2011 totaling $2.7 million after partial charge-offs of

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$580,000, which were recorded in 2010. In addition, these loans have a specific valuation allowance of $118,000 at March 31, 2011 and $27,000 of estimated selling costs which reduced the carrying value. Of the $2.7 million of impaired loans at March 31, 2011, $649,000 were carried at fair value adjusted for the aforementioned charge-offs, estimated selling costs and specific valuation allowance. The remaining $2.1 million were carried at cost at March 31, 2011, as the fair value of collateral or expected cash flows on these loans exceeded the book value.

Impaired loans at December 31, 2010 had carrying amounts totaling $2.1 million after partial charge-offs of $580,000. In addition, these loans had a specific valuation allowance of $87,000 at December 31, 2010 and $27,000 of estimated selling costs which reduced the carrying value. Of the $2.1 million of impaired loans at December 31, 2010, $554,000 were carried at fair value adjusted for the aforementioned charge-offs, estimated selling costs and specific valuation allowance. The remaining $1.6 million were carried at cost at December 31, 2010, as the fair value of collateral or expected cash flows on these loans exceeded the book value.

Other real estate owned, consisting of one property, had a carrying amount of $1.8 million at March 31, 2011 and December 31, 2010 based on the current appraisal less reasonable costs to sell. The property was sold subsequent to March 31, 2011 at no loss or gain to the Company.

Fair Value of Financial Instruments

Disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value is required. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. Because no market value exists for a significant portion of the 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, involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value information is not required to be disclosed for certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

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

Cash and cash equivalents: The carrying amounts of cash and due from banks approximate their fair values.

Interest-bearing deposits with banks: The carrying amount of interest-bearing deposits with banks approximates fair values due to the relatively stable level of short-term interest rates.

Investment securities: Fair value measurement is obtained from independent pricing services which utilize observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds terms and conditions, among other things.

Loans, net: The fair value of fixed rate loans is estimated by discounting the future cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are estimated to be equivalent to carrying values. Variable rate loans that are currently priced at their contractual floor or ceiling, and thus similar to fixed rate loans, are reviewed to determine the interest rate that would be currently offered on similar credits. If the current floor/ceiling rate is equivalent to current market rates, fair value is estimated to be equivalent to carrying value. If the current market rates differ from the loan s current rate, the contractual cash flows are discounted using the current market rate to derive the loan s estimated fair value. Both the estimated fair value and the carrying value have been reduced by specific and general reserves for loan losses.

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Investment in FHLB and Federal Reserve Bank stocks: It is not practical to determine the fair value of bank stocks due to the restrictions placed on the transferability of FHLB stock and Federal Reserve Bank stock.

Accrued interest receivable: The carrying value of interest receivable approximates fair value due to the short period of time between accrual and receipt of payment.

Deposits: The fair value of noninterest-bearing demand deposits, interest-bearing demand deposits and savings and money market accounts is determined to be the amount payable on demand at the reporting date. The fair value of fixed rate time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities. Carrying value is assumed to approximate fair value for all variable rate time deposits.

Securities sold under agreements to repurchase: The carrying amount of securities sold under agreements to repurchase approximates fair value due to the short-term nature of these agreements, which generally mature within one to four days from the transaction date.

Federal funds purchased: The carrying amount of federal funds purchased approximates fair value due to their short-term nature.

Federal Home Loan Bank advances: Fair value of the Federal Home Loan Bank advances is estimated using a discounted cash flow model based on current market rates for similar types of borrowing arrangements including similar remaining maturities.

Accrued interest payable: The carrying value of interest payable approximates fair value due to the short period of time between accrual and payment.

Loan commitments: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The difference between the carrying value of commitments to fund loans or standby letters of credit and their fair values are not significant and, therefore, are not included in the following table.

The carrying amounts and estimated fair values of financial instruments are summarized as follows:

	March 31, 2011		**December 31, 2010**	
($ in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial Assets:				

Cash and cash equivalents	$	1,058	$	1,058	$	936	$	936
Interest-bearing deposits with banks		266		266		266		266
Investment securities		76,682		76,682		76,313		76,313
Loans, net		56,956		56,910		57,647		57,604
FHLB and FRB stocks		1,115		NA		1,168		NA
Accrued interest receivable		703		703		759		759
Financial Liabilities:								
Deposits, demand, savings and money market	$	78,352	$	78,352	$	70,628	$	70,628
Time deposits		36,100		36,567		40,327		40,777
Securities sold under agreements to repurchase		957		957		143		143
Federal funds purchased						200		200
FHLB advances		5,500		5,702		10,000		10,243
Accrued interest payable		79		79		91		91

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NOTE 11 SUBSEQUENT EVENTS

On May 4, 2011, the Bank sold its OREO property for net sales proceeds of $1.8 million, resulting in no net gain or loss. As of the date of issuance of this Report on Form 10-Q, the Company has determined that no other subsequent event disclosure is necessary.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents the Company s consolidated financial condition as of March 31, 2011 and results of operations for the three months ended March 31, 2011 and 2010. The discussion should be read in conjunction with the financial statements and the notes related thereto which appear elsewhere in this Quarterly Report on Form 10-Q.

Executive Overview

We are a Delaware corporation that was incorporated to organize and serve as the holding company for Solera National Bank, a national bank that opened for business on September 10, 2007. Solera National Bank is a full-service commercial bank headquartered in Lakewood, Colorado primarily serving the six-county Denver metropolitan area. Our main banking office is located at 319 S. Sheridan Blvd., Lakewood, Colorado 80226. Our telephone number is (303) 209-8600.

Earnings are derived primarily from net interest income, which is interest income less interest expense, and noninterest income earned from gains on sales of investment securities and banking service fees, offset by noninterest expense and provision for loan losses. As the majority of assets are interest-earning and liabilities are interest-bearing, changes in interest rates impact net interest margin. We manage interest-earning assets and interest-bearing liabilities to reduce the impact of interest rate changes on operating results.

We offer a broad range of commercial and consumer banking services to small and medium-sized businesses, licensed professionals and individuals who are particularly responsive to the personalized service that Solera National Bank provides to its customers. We believe that local ownership and control allows the Bank to serve customers efficiently and effectively. Solera National Bank competes on the basis of providing a unique and personalized banking experience combined with a broad range of services, customized and tailored to fit the individual needs of its clients. While the Bank seeks to serve the entire market, it focuses on serving the local Hispanic and other minority populations which it believes are currently underserved. Since opening the bank in September of 2007, management has successfully executed its strategy of delivering prudent and controlled growth to efficiently leverage the Company s capital and expense base with the goal of achieving sustained profitability.

Since we operate in Colorado, our operating results are significantly influenced by economic conditions in Colorado, particularly the health of the real estate market. Additionally, we are subject to competition from other financial institutions and are impacted by fiscal and regulatory policies of the federal government as well as regulatory oversight by the Office of the Comptroller of the Currency, (the OCC).

Comparative Results of Operations for the Three Months Ended March 31, 2011 and 2010

The following discussion focuses on the Company s financial condition and results of operations for the three months ended March 31, 2011 compared to the financial condition and results of operations for the three months ended March 31, 2010.

Net loss for the quarter ended March 31, 2011 was $183,000, or ($0.07) per share, compared with net income of $103,000, or $0.04 per share, for the first quarter of 2010. The $286,000 unfavorable variance in the first quarter 2011 compared to the first quarter 2010 was primarily the result of the following: 1) a $265,000 unfavorable variance in gain/loss on available-for-sale securities, 2) a $161,000 unfavorable variance in salaries and employee benefits, 3) an $89,000 increase in other general and administrative expenses, partially offset by, 4) a $115,000 favorable variance in provision for loan losses and 5) a $103,000 favorable variance in net interest income.

As of March 31, 2011, the Company had total assets of $139.8 million, a decrease of $390,000, or 0.2%, from December 31, 2010. Net loans decreased 1%, from $57.6 million at December 31, 2010 to $57.0 million at March 31, 2011. However, the Company s total deposits grew $3.5 million, or 3%, from $111.0 million at December 31, 2010 to $114.5 million as of March 31, 2011.

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The following table presents, for the periods indicated, average assets, liabilities and stockholders equity, as well as the components of net interest income and the resultant annualized yields / costs expressed in percentages.

Table 1

($ in thousands)	Three Months Ended March 31, 2011 Average Balance	Interest	Yield / Cost	Three Months Ended March 31, 2010 Average Balance	Interest	Yield / Cost
Assets:						
Interest-earning assets:						
Gross loans, net of unearned fees	$ 58,181	$ 824	5.74%	$ 51,450	$ 726	5.72%
Investment securities**	73,940	673	3.69	73,306	829	4.59
FHLB and FRB stocks	1,158	9	3.13	1,124	12	4.25
Federal funds sold	610		0.22	1,966	1	0.21
Interest-bearing deposits with banks	399	1	0.58	2,462	5	0.82
Total interest-earning assets	134,288	$ 1,507	4.55%	130,308	$ 1,573	4.90%
Noninterest-earning assets	3,151			3,226		
Total assets	$ 137,439			$ 133,534		
Liabilities and Stockholders Equity:						
Interest-bearing liabilities:						
Money market and savings deposits	$ 60,290	$ 179	1.20%	$ 56,143	$ 262	1.89%
Interest-bearing checking accounts	11,425	33	1.19	6,110	27	1.80
Time deposits	37,937	157	1.68	40,548	229	2.29
Federal funds purchased and securities sold under agreements to repurchase	600	2	1.13	371	2	1.78
Federal Home Loan Bank advances	6,431	57	3.62	8,583	76	3.61
Other borrowings	71	2	9.55	114	3	9.48
Total interest-bearing liabilities	116,754	$ 430	1.49%	111,869	$ 599	2.17%
Noninterest-bearing checking accounts	2,304			2,316		
Noninterest-bearing liabilities	339			168		
Stockholders equity	18,042			19,181		
Total liabilities and stockholders equity	$ 137,439			$ 133,534		
Net interest income		$ 1,077			$ 974	
Net interest spread		3.06%			2.73%	
Net interest margin		3.25%			3.03%	

**Yields on investment securities have not been adjusted to a tax-equivalent basis.

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities. The information details the changes attributable to a change in volume (i.e. change in average balance multiplied by the prior-period average rate) and changes attributable to a change in rate (i.e. change in average rate multiplied by the prior-period average balance). There is a component that is attributable to both a change in volume and a change in rate. This component has been allocated proportionately to the rate and volume columns.

Table 2

	Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010		
($ in thousands)	**Net Change**	**Rate**	**Volume**
Interest income:			
Gross loans, net of unearned fees	$ 98	$ 2	$ 96
Investment securities	(156)	(163)	7
FHLB and FRB stocks	(3)	(3)	
Federal funds sold	(1)		(1)
Interest-bearing deposits with banks	(4)	(1)	(3)
Total interest income	$ (66)	$ (165)	$ 99
Interest expense:			
Money market and savings deposits	$ (83)	$ (104)	$ 21
Interest-bearing checking accounts	6	(4)	10
Time deposits	(72)	(58)	(14)
Federal funds purchased and securities sold under agreements to repurchase		(3)	3
Federal Home Loan Bank advances	(19)		(19)
Other borrowings	(1)		(1)
Total interest expense	$ (169)	$ (169)	$
Net interest income	$ 103	$ 4	$ 99

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest and fee income, principally from loan and investment security portfolios, and interest expense, principally on customer deposits and borrowings. Net interest income is our principal source of earnings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

For the three months ended March 31, 2011, the Company s net interest income increased $103,000 to $1.1 million from $974,000 for the three months ended March 31, 2010. This increase was partially due to favorable volume increases in our highest-yielding asset, loans, in conjunction with decreases in the rates paid on deposits, as reflected in Table 2 above. This combination of changes also produced a favorable increase in the Company s annualized net interest spread, (the yield earned on interest-earning assets less the cost of interest-bearing liabilities) which increased 33 basis points from 2.73% at March 31, 2010 to 3.06% at March 31, 2011.

The 90 basis point decrease in the Bank s investment portfolio in the first quarter of 2011 compared to the first quarter of 2010 is primarily due to the sale of longer-maturity, higher-yielding investments which, along with principal payments received on mortgage-backed securities, were reinvested in shorter-term, lower-yielding bonds to help shorten the duration of the investment portfolio.

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The impact of the 35 basis point decrease in the Company s yield on interest-earning assets was more than offset by decreases in the cost of interest-bearing liabilities, resulting in a 22 basis point increase in net interest margin year-over-year. As reflected in Table 1, the cost of money market and savings deposits decreased 69 basis points and the cost of both interest-bearing checking and time deposits decreased 61 basis points quarter-over-quarter, as the Company re-priced many of its deposit products from higher promotional rates to lower, yet still competitive, rates that followed general market declines. This was accomplished while still retaining customers.

The Company s balance sheet is marginally liability sensitive, meaning that interest-earning liabilities generally reprice quicker than interest-bearing assets. Therefore, the Company could experience compression in its net interest margin during periods of rising interest rates.

Provision for Loan Losses

We determine a provision for loan losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date. For additional information concerning this determination, see the section of this discussion and analysis captioned *Allowance for Loan Losses.*

During the first quarter of 2011, we did not recognize any provision for loan losses reflecting stabilizing asset quality and minimal change in the size of the Bank s loan portfolio. See additional discussion below under *Financial Condition, Loan Portfolio*.

Noninterest Income

Noninterest income for the quarter ended March 31, 2011 was $16,000, a decrease of $264,000 from $280,000 for the first quarter 2010. The Company sold securities for net gains of $65,000 during the first quarter 2011 offset by $67,000 of other-than-temporary impairment recognized on five securities which the Company did not have the intent to hold until recovery of value. This compared to net gains on the sale of investment securities of $263,000 during the first quarter 2010.

Service charges on deposits remained relatively unchanged from first quarter 2010 increasing only $1,000 during first quarter 2011.

Noninterest Expense

Our total noninterest expense for the quarter ended March 31, 2011 was $1.3 million, an increase of $240,000 from the quarter ended March 31, 2010. The variance was due to an increase in salaries and employee benefits of $161,000, or 30%, comprised of the following: 1) severance paid in conjunction with the departure of the Bank s executive vice president and chief lending officer, 2) company match on 401K contributions, which began in January 2011, 3) lower salary expense deferral related to deferred expenses on loan originations which directly correlates to fewer loans closed during the first quarter 2011 compared to the first quarter 2010, and 4) increased stock option expense primarily related to new options granted in August 2010.

Occupancy expense and professional fees remained constant quarter-over-quarter decreasing only $6,000 and $4,000, respectively, during the first quarter 2011.

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Other general and administrative expenses increased $89,000, or 40%, quarter-over-quarter, as detailed in the following table:

($ in thousands) Other general and administrative expenses:	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase/ (Decrease)
Data processing	$ 78	$ 68	$ 10
FDIC assessment	79	42	37
Regulatory and reporting fees	34	26	8
Directors fees	24		24
Loan and collection expenses	20	4	16
Marketing and promotions	16	16	
Telephone/communication	12	11	1
Travel and entertainment	10	9	1
Printing, stationery and supplies	7	8	(1)
Dues and memberships	6	11	(5)
Franchise taxes	4	7	(3)
Insurance	6	6	
ATM and debit card fees	4	6	(2)
Postage and shipping	4	5	(1)
Training and education	4	2	2
Miscellaneous	4	2	2
Total	$ 312	$ 223	$ 89

The most significant changes include an increase of $37,000 in Federal Deposit Insurance Corporation (FDIC) fees due to higher assessment rates and slightly higher average deposit volumes; an increase of $24,000 in directors fees as the Company began compensating directors for their attendance at meetings in July 2010; an increase of $16,000 in loan and collection expenses related to collection of problem loans and expenses incurred on the Bank s OREO property; a $10,000 increase in data processing due to overall increases in customer and account activity; and a $8,000 increase in regulatory and reporting fees due to higher assessment rates on fees due to the OCC (our primary regulator).

Income Taxes

No federal or state tax expense has been recorded for the three months ended March 31, 2011 and 2010, based upon significant operating loss carry-forwards that can be used to offset approximately $3.4 million of taxable income. Since it is uncertain that the Company will achieve sustained profitability, the deferred tax benefit accumulated to date has a full valuation allowance so that the net deferred tax benefit at March 31, 2011 and December 31, 2010 is $0.

Financial Condition

At March 31, 2011, the Company had total assets of $139.8 million, a $390,000 decrease from $140.1 million in total assets at December 31, 2010. As of both March 31, 2011 and December 31, 2010, stockholders equity was $18.3 million.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stocks

At March 31, 2011, the Bank had a total of $1.1 million invested in FHLB and Federal Reserve Bank stocks carried at cost consisting of $471,000 in Federal Reserve Bank stock and $644,000 in FHLB stock. These investments allow Solera National Bank to conduct business with these entities. As of March 31, 2011, the Federal Reserve Bank stock is yielding an average rate of 6.0% and the FHLB stock is yielding an average rate of 0.8%.

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Investment Securities

Our investment portfolio serves as a source of interest income, a source of liquidity and a management tool for managing interest rate sensitivity. We manage our investment portfolio according to a written investment policy established by our Board of Directors.

At March 31, 2011, Solera National Bank s securities consisted of available-for-sale securities of $76.7 million. The following tables set forth the estimated market values and approximate weighted average yields of the debt securities in the investment portfolio by contractual maturity at March 31, 2011 and December 31, 2010:

	At March 31, 2011							
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years	
($ in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale								
U.S. government agencies	$	%	$ 1,037	1.81%	$ 855	3.66%	$ 986	2.64%
Corporate			4,132	4.03	7,881	4.50		
State and municipal			1,895	3.96	17,566	4.34	503	5.23
Residential agency MBS					1,794	2.73	40,033	3.32
Total	$	%	$ 7,064	3.69%	$ 28,096	4.26%	$ 41,522	3.33%

	At December 31, 2010							
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years	
($ in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available-for-sale								
U.S. government agencies	$	%	$	%	$ 868	3.52%	$ 4,984	2.48%
Corporate			3,620	4.12	7,853	4.67		
State and municipal			819	1.87	21,498	4.48	508	5.23
Residential agency MBS					453	4.61	35,710	3.44
Total	$	%	$ 4,439	3.71%	$ 30,672	4.50%	$ 41,202	3.35%

Loan Portfolio

The following table presents the composition of our loan portfolio by category as of the dates indicated:

	March 31, 2011	December 31, 2010
($ in thousands)	Amount	Amount

			% of Total		% of Total
Real estate commercial		$ 38,724	67%	$ 38,504	65%
Commercial and industrial		8,377	14	8,732	15
Real estate residential		7,881	14	7,868	13
Construction and land development		1,853	3	1,894	3
Lease financing		1,264	2	1,359	2
Consumer		100		540	1
Gross loans		58,199	100%	58,897	100%
Less:	Deferred loan (fees) / expenses, net	(68)		(75)	
	Allowance for loan losses	(1,175)		(1,175)	
Loans, net		$ 56,956		$ 57,647	

As of March 31, 2011, net loans were $57.0 million, a $691,000, or 1%, decrease from $57.6 million at December 31, 2010. Net loans were 41% of total assets at both March 31, 2011 and December 31, 2010. Given the tepid economic recovery underway, loan demand remained weak throughout the first quarter 2011.

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Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. The Company s loan portfolio generally consists of loans to borrowers within Colorado. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, the Company s loan portfolio consists primarily of real estate loans secured by real estate located in Colorado, making the value of the portfolio more susceptible to declines in real estate values and other changes in economic conditions in Colorado. No single borrower can be approved for a loan over the Bank s current legal lending limit of approximately $2.5 million. This regulatory requirement helps to ensure the Bank s exposure to one individual customer is limited.

Management may renew loans at maturity when requested by a customer whose financial strength appears to support such a renewal or when such a renewal appears to be in the best interest of Solera National Bank. Solera National Bank requires payment of accrued interest in such instances and may adjust the rate of interest, require a principal reduction, or modify other terms of the loan at the time of renewal.

The following tables set forth information at March 31, 2011 and December 31, 2010, regarding the dollar amount of loans maturing in the Bank s portfolio based on the contractual terms to maturity. The tables do not give effect to potential prepayments or contractual principal payments.

		March 31, 2011			
($ in thousands)	**<1 Year**	**1 - 5 Years**	**5 - 15 Years**	**Over 15 Years**	**Total Loans**
Real estate commercial	$ 3,949	$ 11,297	$ 23,478	$	$ 38,724
Commercial and industrial	3,736	2,935	1,706		8,377
Real estate residential		341		7,540	7,881
Construction and land development	1,853				1,853
Lease financing		1,264			1,264
Consumer	62	27		11	100
Gross Loans Receivable	$ 9,600	$ 15,864	$ 25,184	$ 7,551	$ 58,199

		December 31, 2010			
($ in thousands)	**<1 Year**	**1 - 5 Years**	**5 - 15 Years**	**Over 15 Years**	**Total Loans**
Real estate commercial	$ 4,098	$ 10,676	$ 23,730	$	$ 38,504
Commercial and industrial	3,843	3,124	1,765		8,732
Real estate residential		343		7,525	7,868
Construction and land development	1,894				1,894
Lease financing		1,359			1,359
Consumer	365	29		146	540
Gross Loans Receivable	$ 10,200	$ 15,531	$ 25,495	$ 7,671	$ 58,897

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Nonperforming Loans, Leases and Assets

Nonperforming assets consist of loans and leases on nonaccrual status, loans 90 days or more past due and still accruing interest, loans that have been restructured resulting in a reduction or deferral of interest or principal, other real estate owned (OREO), and other repossessed assets. As of March 31, 2011, there were $4.5 million in nonperforming assets. However, nonperforming assets were significantly reduced on May 4, 2011, when the Bank sold its OREO property for no net gain or loss.

The following table summarizes information regarding nonperforming assets:

($ in thousands)		March 31, 2011		December 31, 2010
Nonaccrual loans and leases	$	2,406	$	1,783
Other impaired loans		287		337
Total nonperforming loans		2,693		2,120
Other real estate owned		1,838		1,838
Total nonperforming assets	$	4,531	$	3,958
Nonperforming loans	$	2,693	$	2,120
Allocated allowance for loan losses to nonperforming loans		(118)		(87)
Net investment in nonperforming loans	$	2,575	$	2,033
Accruing loans past due 90 days or more				44
Loans past due 30-89 days	$	493	$	187
Loans charged-off, year-to-date	$		$	765
Recoveries, year-to-date				
Net charge-offs, year-to-date	$		$	765
Allowance for loan losses	$	1,175	$	1,175
Allowance for loan losses to loans, net of deferred fees/expenses		2.02%		2.00%
Allowance for loan losses to nonaccrual loans		48.83%		65.90%
Allowance for loan losses to nonperforming loans		43.63%		55.42%
Nonaccrual loans to loans, net of deferred fees/expenses		4.63%		3.03%
Loans 30-89 days past due to loans, net of deferred fees/expenses		0.84%		0.31%
Nonperforming assets to total assets		3.24%		2.82%

Federal regulations require that each insured financial institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. The Bank has established three classifications for potential problem assets: substandard, doubtful and loss. Loans classified as substandard are those loans wit well-defined weaknesses, such that future capacity to repay the loan has been negatively impacted. Loans classified as doubtful are those loans that have characteristics similar to substandard loans, but the weaknesses have moved to the point where complete collection of the obligation from all sources is unlikely and a portion of the principal may be charged-off. Although loans classified as substandard do not duplicate loans classified as doubtful, both substandard and doubtful loans may include some loans that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans classified as loss are those loans that are in the process of being charged-off. At March 31, 2011, Solera National Bank had substandard loans totaling $5.0 million, a doubtful loan totaling $268,000, and no loans classified as loss. Of the $5.0 million in substandard loans, only $928,000 was 30 days or more past due. As of December 31, 2010, the Bank had $5.2 million classified as substandard, one loan for $161,000 classified as doubtful and no loans classified as loss.

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Allowance for Loan Losses

Implicit in Solera National Bank s lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loan being made and the creditworthiness of the borrower over the term of the loan. To reflect the currently perceived risk of loss associated with the loan portfolio, additions are made to the allowance for loan losses in the form of direct charges against income to ensure that the allowance is available to absorb possible loan losses. The Bank s allowance for estimated loan losses is based on a number of quantitative and qualitative factors. Factors used to assess the adequacy of the allowance for loan losses are established based upon management s assessment of the credit risk in the portfolio, historical loan loss, changes in the size, composition and concentrations of the loan portfolio, general economic conditions, and changes in the legal and regulatory environment, among others. In addition, because the Bank has a 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 of reserves.

Provisions for loan losses may be provided both on a specific and general basis. Specific and general valuation allowances are increased by provisions charged to expense and decreased by charge-offs of loans, net of recoveries. Specific allowances are provided for impaired loans for which the expected loss is measurable. General valuation allowances are provided based on a formula that incorporates the factors discussed above. The Bank periodically reviews the assumptions and formula by which additions are made to the specific and general valuation allowances for losses in an effort to refine such allowances in light of the current status of the aforementioned factors.

The amount of the allowance equals the cumulative total of the provisions made from time to time, reduced by loan charge-offs and increased by recoveries of loans previously charged-off. The allowance was $1.2 million, or 2.02% of outstanding principal as of March 31, 2011. We did not recognize any provision for loan losses during the first quarter of 2011 reflecting stabilizing asset quality and minimal change in the size of the Bank s loan portfolio. This is compared to $115,000 of provision expense during the first quarter of 2010, which primarily reflected growth in the loan portfolio.

The following table sets forth the allowance for loan losses activity for the first quarter 2011 and 2010:

($ in thousands)		**2011**		**2010**
Balance at beginning of year	$	1,175	$	830
Provision charged to expense				115
Loans charged-off:				
Real estate commercial				
Commercial and industrial				
Real estate residential				
Construction and land development				
Lease financing				
Consumer				
Total loans charged-off				
Recoveries on loans previously charged-off				
Balance at end of year	$	1,175	$	945
Net charge-offs to average gross loans		%		%

Credit and loan decisions are made by management and the Board of Directors in conformity with loan policies established by the Board of Directors. Solera National Bank 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 deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan s classification as a loss by regulatory examiners, or other reasons. During the three months ended March 31, 2011 and 2010, the Bank did not record any loan charge-offs.

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Off-Balance-Sheet Arrangements

In the ordinary course of business, the Company enters into various off-balance-sheet commitments and other arrangements to extend credit that are not reflected in the consolidated balance sheets of the Company. The business purpose of these off-balance-sheet commitments is the routine extension of credit. The total amounts of off-balance-sheet financial instruments with credit risk were $6.9 million and $8.3 million as of March 31, 2011 and December 31, 2010, respectively.

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. Commitments also include revolving lines of credit arrangements and unused commitments for commercial and real estate secured loans. Since many of the commitments are expected to expire without being drawn upon, the commitments do not necessarily represent future cash requirements.

The Company faces the risk of deteriorating credit quality of borrowers to whom a commitment to extend credit has been made; however, no significant credit losses are expected from these commitments and arrangements.

Borrowings

As of March 31, 2011, the Bank had $5.5 million in fixed-rate borrowings from the Federal Home Loan Bank of Topeka (FHLB) with varying maturity dates between April 2011 and June 2013 and a weighted-average fixed interest rate of 4.19%.

The Bank has also established unsecured Federal Funds lines-of-credit totaling $9.4 million with various correspondent banks. Additionally, the Bank has access to a $3.0 million secured Federal Funds line with a correspondent bank and access to the Federal Discount window. As of March 31, 2011, the Company had no balances outstanding on these lines.

Loan Commitments

At March 31, 2011, the Company had $6.9 million in outstanding loan origination commitments. Management believes Solera National Bank has sufficient funds available to meet current origination and other lending commitments.

Capital Resources and Capital Adequacy Requirements

The risk-based capital regulations established and administered by the banking regulatory agencies are applicable to Solera National Bank. Risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Under the regulations, assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items. Under the prompt corrective action regulations, to be adequately capitalized a bank must maintain minimum ratios of total capital to risk-weighted assets of 8.0%, Tier 1 capital to risk-weighted assets of 4.0%, and Tier 1 capital to total average assets of 4.0%. Failure to meet these capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Solera National Bank s financial statements.

In December 2010, the OCC established minimum capital ratios on the Bank which require Tier 1 capital to average assets of 9.0% and total risk-based capital to risk-weighted assets of 12.0%. As of March 31, 2011, the Bank s ratios are substantially over these revised thresholds. A well-capitalized institution must maintain a minimum ratio of total capital to risk-weighted assets of at least 10.0%, a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, and a minimum ratio of Tier 1 capital to total average assets of at least 5.0% and must not be subject to any written order, agreement, or directive requiring it to meet or maintain a specific capital level.

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The following table summarizes the ratios of the Bank and the regulatory minimum capital requirements at March 31, 2011:

	Risk-based				Leverage	
($ in thousands)		Tier 1		Total capital		Tier 1
Actual regulatory capital	$	15,469	$	16,577	$	15,469
Well-capitalized requirement		5,314		8,856		6,850
Excess regulatory capital	$	10,155	$	7,721	$	8,619
Capital ratios		17.5%		18.7%		11.3%
Minimum capital requirement		4.0%		8.0%		4.0%
Individual minimum capital requirement(1)		NA		12.0%		9.0%
Well-capitalized requirement		6.0%		10.0%		5.0%

(1) In December 2010, the OCC established these minimum capital ratios for the Bank.

Liquidity

The primary source of liquidity for the Company will be dividends paid by Solera National Bank. Solera National Bank is currently restricted from paying dividends until we have received prior written determination of no supervisory objection from the Assistant Deputy Comptroller of the Western Division of the OCC.

Solera National Bank s liquidity is monitored by its staff, the Asset Liability Committee and the Board of Directors, who review historical funding requirements, the current liquidity position, sources and stability of funding, marketability of assets, options for attracting additional funds, and anticipated future funding needs, including the level of unfunded commitments.

Solera National Bank s primary sources of funds are retail and commercial deposits, loan and securities repayments, other short-term borrowings, and other funds provided by operations. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan prepayments are more influenced by interest rates, general economic conditions, and competition. Solera National Bank will maintain investments in liquid assets based upon management s assessment of (1) the need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets, and (4) objectives of the asset/liability management program.

Additionally, the Company is a member of the Certificate of Deposit Account Registry Service (CDARS®) program. Through CDARS®, the Bank s customers can increase their FDIC insurance by up to $50 million through reciprocal certificate of deposit accounts. This is accomplished by the Bank entering into reciprocal depository relationships with other member banks. The individual customer s large deposit is broken into amounts below the $250,000 FDIC-insured amount and placed with other banks that are members of the network. The reciprocal member bank issues certificates of deposits in amounts that ensure the entire deposit is eligible for FDIC insurance. These sources provide secondary liquidity to the Company to service its depositors needs. As of March 31, 2011 and December 31, 2010, the Bank had $5.4 million and $5.2 million, respectively, in CDARS® deposits.

As loan demand increases, greater pressure will be exerted on Solera National Bank s liquidity. However, it is management s intention to maintain a conservative loan to deposit ratio in the range of 80 - 90% over time. Given this goal, Solera National Bank will not aggressively pursue lending opportunities if sufficient funding sources (e.g., deposits, Federal Funds, etc.) are not available, nor will Solera National Bank seek to attract transient volatile, non-local deposits with above market interest rates. As of March 31, 2011, the loan to deposit ratio was 51% a decrease from 53% at December 31, 2010.

The Bank is a member of the FHLB of Topeka, which gives the Bank access to a secured line of credit with approximately $55.9 million of available funding as of March 31, 2011, subject to the availability of sufficient collateral to pledge against such borrowings. Additionally, the Bank has approved, unsecured federal funds purchase lines totaling $9.4 million with three correspondent banks. Each of these lines expires during 2011, however, it is anticipated that the Bank will be approved for new lines once the existing lines expire. The Bank also has the ability to borrow at the Federal Reserve Discount Window on a secured basis.

The Company had cash and cash equivalents of $1.1 million, or 0.8% of total assets, at March 31, 2011. Additionally, the Company had $76.7 million in available-for-sale investment securities, or 55% of total assets, at

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March 31, 2011. Management feels Solera National Bank should have adequate liquidity to meet anticipated future funding needs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management is responsible for maintaining effective disclosure controls and procedures. As of the end of the period covered by this Quarterly Report on Form 10-Q, management evaluated the effectiveness and operation of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, both the Company s Principal Executive Officer and Principal Accounting and Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported to management within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in internal controls over financial reporting during the Company s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. [Removed and Reserved]

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS

10.1	Separation agreement by and between Solera National Bancorp, Inc., Solera National Bank and Mark Martinez dated April 12, 2011 (incorporated by reference to Exhibit 10.1 to the Company s 8-K/A filed on April 15, 2011).
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.*
31.2	Certification of the Principal Accounting and Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.*
32.1	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act and 18 U.S.C. §1350.*

* Filed herewith.

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SOLERA NATIONAL BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLERA NATIONAL BANCORP, INC.
(Registrant)

Date: May 13, 2011

/s/ Douglas Crichfield
Douglas Crichfield
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Robert J. Fenton
Robert J. Fenton
Executive Vice President, Chief Financial Officer
(Principal Accounting and Financial Officer)

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EXHIBIT INDEX

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