May 17, 2012

Dear Fellow Shareholder:

The grand opening of our Middletown, New Jersey branch, held on Saturday, May 5, 2012, was a great success. We had an overwhelming response from the public, family, friends and shareholders who joined us in a day of celebration. As of May 15, 2012, the Middletown branch had generated $67.6mm of deposits while the Bank's total deposits have grown to **$96.8 million**. This compares very favorably to our year end December 31, 2011 total deposit base of $29.4mm.

We are pleased to report continued progress in growing Colonial American Bank during the first quarter ended March 31, 2012, and since the April 15, 2011 recapitalization. Among the highlights:

- Deposits increased **$13.0 million**, or **44.1%**, during the 1st quarter and have grown $24.1 million, or 133%, since the recapitalization. Deposits, as stated above, have grown an additional **$54.5 million**, to **$96.8 million**, from March 31st to May 15th, and are the best indicator of the Bank's future success because deposits fund the Bank's asset growth with low cost, stable liabilities.
- Loans increased **$12.6 million**, or **38.8%,** during the 1st quarter and have grown $29.1 million, or 181%, since the recapitalization. Loan growth was boosted by purchases of residential loans as well as internal loan originations. As of May 15, 2012, loan balances totaled $50.7 million.
- Assets increased **$15.9 million**, or **36.1%**, during the 1st quarter, and have grown $40.5 million, or 208%, since the recapitalization. As of May 15, 2012, assets totaled $110.5 million.
- The Bank's capital ratios remain among the highest of any financial institution in the country, positioning us well in the market for future growth opportunities.

The Bank's still-small asset base ($60 million as of March 31st) and narrow interest margins were the major contributors to the quarter's $666,000 loss. An additional contributor was $138,000 in provisions for loan losses, mostly attributable to reserves required for the Bank's growth in the loan portfolio. During the quarter ended March 31st, the Bank recognized a gain of $138,000 on the sale of mortgage-backed security which minimized the loss incurred during the first quarter. Please be assured that your Bank's management team and the board of directors are focused on getting the bank to profitability as soon as possible, currently projected for mid-2013. Key factors on achieving this are deposit and loan growth; expense control and initiatives to create new fee income opportunities.

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www.colonialamericanbank.com

We have a number of new strategic initiatives underway to help the Bank further grow and become profitable including:

- Management has recently submitted applications to the appropriate regulatory agencies in order to obtain approval to open our third full-service branch to be located in the Borough of Shrewsbury, New Jersey. Upon timely receipt of regulatory approvals, Management anticipates an opening date of October 1, 2012.
- The Bank was recently approved by the FDIC to commence a residential mortgage lending unit. We have been recruiting residential mortgage officers, establishing relationships with various wholesale lenders and ensuring the appropriate internal controls, compliance and processes are in place. We expect to commence lending activities in the very near future.
- We will be applying to become an approved lender with the Small Business Administration, which will provide us the ability to further diversify our loan offerings by providing needed credit to small and start up businesses.

Your "friendly, local banker" is back to serve you. Please visit us today at your local branch office in Horsham, PA or Middletown, NJ. Busy running your business? We are happy to visit you at your location, at your convenience. We greatly appreciate your continued confidence as a shareholder and the opportunity to be your personal bankers. We invite you to stop by either of our branch locations or call us at (215) 657-4343 in Horsham, PA or (732) 275-6900 in Middletown, NJ.

As always, similar letters such as this can be found on our new, fully functional, website at www.ColonialAmericanBank.com under the *Investor Relations* tab. Please do not hesitate to contact us if you have any questions, feedback or suggestions.

Philip A. Nisbet
Chairman

Anthony Giordano, III
President & CEO

Interim Financial Information
March 31, 2012

COLONIAL AMERICAN BANK
BALANCE SHEETS
(Amounts in thousands)

	03/31/12	12/31/11
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	$ 508	$ 360
Interest-bearing deposits with other banks	11,188	4,700
Cash and cash equivalents	11,696	5,060
Investment securities available-for-sale, at fair value, amortized cost of $1,111 and $5,124 at 3/31/12 and 12/31/11, respectively	1,112	5,267
Loans receivable	45,124	32,508
Less: allowance for loan losses	(604)	(466)
Loans receivable, net	44,520	32,042
Bank premises and equipment, net	1,560	563
Other real estate owned	189	189
Accrued interest receivable and other assets	889	927
Total Assets	**$ 59,966**	**$ 44,048**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 2,305	$ 1,265
Interest bearing	40,009	28,097
Total deposits	42,314	29,362
Borrowings	4,000	-
Accrued interest payable and other accrued liabilities	364	646
Total Liabilities	46,678	30,008
Total Shareholders' Equity	13,288	14,040
Total Liabilities and Shareholders' Equity	**$ 59,966**	**$ 44,048**

COLONIAL AMERICAN BANK
STATEMENTS OF OPERATIONS
(Amounts in thousands, except share data)

	Three Months Ending	
	03/31/12	**03/31/11**
	(unaudited)	
Total interest income	$ 494	$ 292
Total interest expense	106	72
Net interest income	388	220
Provision for loan losses	138	74
Net interest income after provision for loan losses	250	146
Total non-interest income	143	6
Compensation and benefits	597	148
Occupancy and data processing	77	137
Professional services	142	33
Other operating expenses	243	56
Total non-interest expense	1,059	374
Loss before taxes	(666)	(222)
Income taxes	-	-
Net loss	$ (666)	$ (222)
Basic and diluted loss per share	$ (0.37)	$ (4.41)

COLONIAL AMERICAN BANK
STATEMENTS OF OPERATIONS
(Amounts in thousands, except share data)

	Three Months Ending			
	03/31/12	12/31/11	09/30/11	06/30/11
	(unaudited)			
Total interest income	$ 494	$ 352	$ 320	$ 311
Total interest expense	106	95	80	73
Net interest income	388	257	240	238
Provision for loan losses	138	286	171	210
Net interest income (loss) after provision for loan losses	250	(29)	69	28
Total non-interest income	143	8	4	7
Compensation and benefits	597	567	620	475
Occupancy and data processing	77	213	138	132
Professional services	142	290	191	96
Capital raising expenses	-	-	-	195
Other operating expenses	243	454	197	135
Total non-interest expense	1,059	1,524	1,146	1,033
Loss before taxes	(666)	(1,545)	(1,073)	(998)
Income taxes	-	-	-	-
Net loss	$ (666)	$ (1,545)	$ (1,073)	$ (998)
Basic and diluted loss per share	$ (0.37)	$ (0.92)	$ (0.59)	$ (0.65)

PERFORMANCE RATIOS:

Yield average interest earning assets	4.34%	3.44%	3.53%	3.57%
Cost average interest bearing liabilities	1.35%	1.51%	1.61%	1.60%
Interest rate spread	2.99%	1.93%	1.92%	1.97%
Net interest margin	3.41%	2.49%	2.65%	2.79%

COLONIAL AMERICAN BANK
SELECTED FINANCIAL DATA
(Amounts in thousands, except share data)

	At	
	03/31/12	**12/31/11**
ASSET QUALITY RATIOS:		
Non-performing loans	$ 1,605	$ 1,152
Non-performing assets	$ 1,794	$ 1,341
Non-performing loans to total loans	3.56%	3.54%
Non-performing assets to total assets	2.99%	3.04%
Allowance for loan losses to total loans	1.34%	1.43%
Coverage Ratio - Allowance for loan losses to total non-performing loans	37.63%	40.45%
CAPITAL RATIOS:		
Shareholders' equity to total assets	22.16%	31.87%
Book value per share	$ 7.36	$ 7.78
Tier 1 leverage capital ratio	27.62%	33.51%
Tier 1 risk-based capital ratio	32.20%	42.01%
Total risk-based capital ratio	33.45%	43.27%
Shares outstanding	1,804,850	1,804,850