

August 15, 2012

Dear Fellow Shareholder:

With the passing of another quarter, there is much news and progress to report. First and foremost, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking (PADOB) have terminated the Bank's Consent Order. In addition, the Bank has received regulatory approval to open our third full-service branch to be located in the Borough of Shrewsbury, New Jersey, with an anticipated opening date of late fall 2012. Furthermore, the Bank's new residential mortgage unit is up and running, with loan originations and fee income generation underway. We have established relationships with various wholesale lenders, ensured that the appropriate internal controls have been set in place, and continue to recruit experienced residential mortgage officers to grow this line of business.

Our recently opened Middletown, New Jersey branch has grown to **\$74.1 million** in deposits as of July 31, 2012. As of July 31, 2012, the Bank's total deposits have grown to **\$105.0 million**. This compares very favorably to our year end December 31, 2011 total deposit base of \$29.4 million.

We are pleased to report continued progress in growing Colonial American Bank during the second quarter ended June 30, 2012, and since the April 15, 2011 recapitalization. Among the highlights:

- Deposits increased \$60.5 million, or 143%, during the 2nd quarter and have grown \$84.7 million, or 466%, since the recapitalization. Deposit growth is the best indicator of the Bank's future success because deposits fund the Bank's asset growth with low cost, stable liabilities.
- Loans increased \$18.3 million, or 40.5%, during the 2nd quarter and have grown \$47.4 million, or 296%, since the recapitalization. Loan growth was boosted by purchases of residential loans as well as internal loan originations.
- Assets increased \$55.6 million, or 92.7%, during the 2nd quarter, and have grown \$96.0 million, or 492%, since the recapitalization.
- Pre-Provision operating losses (which exclude one-time gains/losses, provisions for loan losses and reserves for loan commitments) narrowed to \$646,000 in the second quarter of 2012 from \$993,000 in the fourth quarter of 2011, and \$673,000 in the first quarter of 2012.

The main contributing factors to the quarter's net loss of \$1.0 million were narrow interest margins as a result of the low interest rate environment and \$367,000 in provisions for loan losses. Provisions for loan

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losses were mostly attributable to reserves required for the Bank's growth in the loan portfolio, as well as risk rating downgrades on a handful of loans from the Bank's legacy portfolio. 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.

In addition to the initiatives discussed above, we have commenced the lender approval process with the NJ Division of the Small Business Administration (SBA). Our goal is to become an "express lender" and this process will take a few months now that the Consent Order has been lifted. Recruiting and interviewing of experienced SBA lenders is underway. This line of business 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

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Anthony Giordano, III President & CEO



Interim Financial Information June 30, 2012

COLONIAL AMERICAN BANK BALANCE SHEETS

(Amounts in thousands)

	0	6/30/12	12/31/11 (audited)		
	(u	naudited)			
ASSETS				-	
Cash and due from banks	\$	1,508	\$	360	
Interest-bearing deposits with other banks		6,203		4,700	
Cash and cash equivalents		7,711		5,060	
Investment securities available-for-sale, at fair value, amortized					
cost of \$42,142 and \$5,124 at 6/30/12 and 12/31/11, respectively		42,103		5,267	
Loans receivable		63,420		32,508	
Less: allowance for loan losses		(937)		(466)	
Loans receivable, net		62,483		32,042	
Bank premises and equipment, net		1,928		563	
Other real estate owned		189		189	
Accrued interest receivable and other assets		1,114		927	
Total Assets	\$	115,528	\$	44,048	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits:					
Non-interest bearing	\$	2,927	\$	1,265	
Interest bearing		99,924		28,097	
Total deposits	'	102,851		29,362	
Borrowings		-		-	
Accrued interest payable and other accrued liabilities		417		646	
Total Liabilities		103,268		30,008	
Total Shareholders' Equity		12,260		14,040	
Total Liabilities and Shareholders' Equity	\$	115,528	\$	44,048	

COLONIAL AMERICAN BANK STATEMENTS OF OPERATIONS

(Amounts in thousands, except share data)

	Three Months Ending			Six Months Ending				
	06	/30/12	06/	'30/11	06	/30/12	06	/30/11
		(unau	dited)		(unau		ıdited)	
Total interest income	\$	744	\$	311	\$	1,238	\$	603
Total interest expense		266		73		372		145
Net interest income		478		238		866		458
Provision for loan losses		367		210		505		284
Net interest income after								
provision for loan losses		111		28		361		174
Total non-interest income		7		7		150		13
Compensation and benefits		659		475		1,256		623
Occupancy and data processing		222		132		299		269
Professional services		94		96		236		129
Capital raising expenses		-		195		-		195
Other operating expenses		188		135		431		191
Total non-interest expense		1,163		1,033		2,222		1,407
Loss before taxes		(1,045)		(998)		(1,711)		(1,220)
Income taxes		-		-		-		-
Net loss	\$	(1,045)	\$	(998)	\$	(1,711)	\$	(1,220)
Basic and diluted loss per share	\$	(0.58)	\$	(0.65)	\$	(0.95)	\$	(1.54)

COLONIAL AMERICAN BANK STATEMENTS OF OPERATIONS

(Amounts in thousands, except share data)

	Three Months Ending							
	06/30/12		03/31/12 12/31/11			09/30/11		
				(unau	dited)			
Total interest income	\$	744	\$	494	\$	352	\$	320
Total interest expense		266		106		95		80
Net interest income		478		388		257		240
Provision for loan losses		367		138		286		171
Net interest income (loss) after								
provision for loan losses		111		250		(29)		69
Total non-interest income		7		143		8		4
Compensation and benefits		659		597		567		620
Occupancy and data processing		222		77		213		138
Professional services		94		142		290		191
Capital raising expenses		-		-		-		-
Other operating expenses		188		243		454		197
Total non-interest expense		1,163		1,059		1,524		1,146
Loss before taxes		(1,045)		(666)		(1,545)		(1,073)
Income taxes		-		-		-		-
Net loss	\$	(1,045)	\$	(666)	\$	(1,545)	\$	(1,073)
Basic and diluted loss per share	\$	(0.58)	\$	(0.37)	\$	(0.92)	\$	(0.59)
PERFORMANCE RATIOS:								
Yield average interest earning assets		3.05%		4.34%		3.44%		3.53%
Cost average interest bearing liabilities		1.26%		1.35%		1.51%		1.61%
Interest rate spread		1.79%		2.99%		1.93%		1.92%
Net interest margin		1.96%		3.41%		2.49%		2.65%

COLONIAL AMERICAN BANK SELECTED FINANCIAL DATA

(Amounts in thousands, except share data)

	At						
	06	/30/12	12/31/11				
ASSET QUALITY RATIOS:							
Non-performing loans	\$	1,676	\$	1,152			
Non-performing assets	\$	1,865	\$	1,341			
Non-performing loans to total loans		2.64%		3.54%			
Non-performing assets to total assets		1.61%		3.04%			
Allowance for loan losses to total loans		1.48%		1.43%			
Coverage Ratio - Allowance for loan							
losses to total non-performing loans		55.91%		40.45%			
CAPITAL RATIOS:							
Shareholders' equity to total assets		10.61%		31.87%			
Book value per share	\$	6.79	\$	7.78			
Tier 1 leverage capital ratio		12.14%		33.51%			
Tier 1 risk-based capital ratio		17.82%		42.01%			
Total risk-based capital ratio		19.07%		43.27%			
Shares outstanding	1,	,804,850	1,804,850				