November 13, 2012

Dear Fellow Shareholder:

Another quarter has passed, and yet another line of business has been added by the Bank. During the third quarter, the Bank obtained approval by the NJ Division of the Small Business Administration (SBA) and established an internal SBA loan department to better serve our communities. SBA lending is progressing well, with a pipeline already exceeding $3.0 million. The Bank's new residential mortgage unit has begun generating increased levels of fee income for the Bank, and continues to experience incremental pipeline growth. The Bank continues to move forward with the construction of its third full-service branch to be located in the Borough of Shrewsbury, New Jersey, with an anticipated opening date of March 2013.

Our recently opened Middletown, New Jersey branch has grown to **$78.0 million** in deposits as of October 31, 2012. As of October 31, 2012, the Bank's total deposits have grown to **$107.2 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 third quarter ended September 30, 2012, and since the April 15, 2011 recapitalization. Among the highlights:

- Deposits increased **$4.4 million**, or **4.2%**, during the 3rd quarter and have grown by $89.0 million, or 490%, 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 **$3.2 million**, or **5.0%,** during the 3rd quarter and have grown by $50.8 million, or 321%, since the recapitalization. Loan growth during the quarter was a result of internal loan originations.
- Assets increased **$4.5 million**, or **3.9%**, during the 3rd quarter, and have grown by $100.5 million, or 516%, since the recapitalization.
- Pre-Provision operating losses (which exclude one-time gains/losses, provisions for loan losses and reserves for loan commitments) narrowed to $606,000 in the third quarter of 2012 from $993,000 in the fourth quarter of 2011, $673,000 in the first quarter of 2012, and $646,000 in the second quarter of 2012.

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*www.colonialamericanbank.com*

Please be assured that your Bank's management team and the board of directors are focused on achieving sustained profitability, currently projected for mid-2013. Key factors on achieving this are deposit and loan growth, expense control, and growing the Bank's new fee income 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**
**September 30, 2012**

**COLONIAL AMERICAN BANK**
**BALANCE SHEETS**
(Amounts in thousands)

| | 09/30/12 | 12/31/11 |
|---|---|---|
| | (unaudited) | (audited) |
| **ASSETS** | | |
| Cash and due from banks | $ 1,419 | $ 360 |
| Interest-bearing deposits with other banks | 9,405 | 4,700 |
| Cash and cash equivalents | 10,824 | 5,060 |
| Investment securities available-for-sale, at fair value, amortized cost of $39,864 and $5,124 at 9/30/12 and 12/31/11, respectively | 40,363 | 5,267 |
| Loans receivable | 66,586 | 32,508 |
| Less: allowance for loan losses | (1,032) | (466) |
| Loans receivable, net | 65,554 | 32,042 |
| Bank premises and equipment, net | 2,069 | 563 |
| Other real estate owned | 189 | 189 |
| Accrued interest receivable and other assets | 1,033 | 927 |
| **Total Assets** | **$ 120,032** | **$ 44,048** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits: | | |
| Non-interest bearing | $ 4,269 | $ 1,265 |
| Interest bearing | 102,938 | 28,097 |
| Total deposits | 107,207 | 29,362 |
| Borrowings | - | - |
| Accrued interest payable and other accrued liabilities | 555 | 646 |
| Total Liabilities | 107,762 | 30,008 |
| Total Shareholders' Equity | 12,270 | 14,040 |
| **Total Liabilities and Shareholders' Equity** | **$ 120,032** | **$ 44,048** |

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

| | Three Months Ending | | Nine Months Ending | |
|---|---|---|---|---|
| | 09/30/12 | 09/30/11 | 09/30/12 | 09/30/11 |
| | (unaudited) | | (unaudited) | |
| Total interest income | $ 878 | $ 320 | $ 2,116 | $ 923 |
| Total interest expense | 297 | 80 | 669 | 225 |
| Net interest income | 581 | 240 | 1,447 | 698 |
| Provision for loan losses | 95 | 171 | 600 | 455 |
| Net interest income after provision for loan losses | 486 | 69 | 847 | 243 |
| Total non-interest income | 260 | 4 | 410 | 17 |
| Compensation and benefits | 685 | 620 | 1,941 | 1,243 |
| Occupancy and data processing | 233 | 138 | 532 | 407 |
| Professional services | 103 | 191 | 339 | 320 |
| Capital raising expenses | - | - | - | 195 |
| Other operating expenses | 313 | 197 | 744 | 388 |
| Total non-interest expense | 1,334 | 1,146 | 3,556 | 2,553 |
| Loss before taxes | (588) | (1,073) | (2,299) | (2,293) |
| Income taxes | - | - | - | - |
| Net loss | $ (588) | $ (1,073) | $ (2,299) | $ (2,293) |
| Basic and diluted loss per share | $ (0.33) | $ (0.59) | $ (1.27) | $ (2.03) |

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

| | Three Months Ending | | | |
|---|---|---|---|---|
| | 09/30/12 | 06/30/12 | 03/31/12 | 12/31/11 |
| | (unaudited) | | | |
| Total interest income | $ 878 | $ 744 | $ 494 | $ 352 |
| Total interest expense | 297 | 266 | 106 | 95 |
| Net interest income | 581 | 478 | 388 | 257 |
| Provision for loan losses | 95 | 367 | 138 | 286 |
| Net interest income (loss) after provision for loan losses | 486 | 111 | 250 | (29) |
| Total non-interest income | 260 | 7 | 143 | 8 |
| Compensation and benefits | 685 | 659 | 597 | 567 |
| Occupancy and data processing | 233 | 222 | 77 | 213 |
| Professional services | 103 | 94 | 142 | 290 |
| Capital raising expenses | - | - | - | - |
| Other operating expenses | 313 | 188 | 243 | 454 |
| Total non-interest expense | 1,334 | 1,163 | 1,059 | 1,524 |
| Loss before taxes | (588) | (1,045) | (666) | (1,545) |
| Income taxes | - | - | - | - |
| Net loss | $ (588) | $ (1,045) | $ (666) | $ (1,545) |
| Basic and diluted loss per share | $ (0.33) | $ (0.58) | $ (0.37) | $ (0.92) |

**PERFORMANCE RATIOS:**

| | | | | |
|---|---|---|---|---|
| Yield average interest earning assets | 3.07% | 3.05% | 4.34% | 3.44% |
| Cost average interest bearing liabilities | 1.16% | 1.26% | 1.35% | 1.51% |
| Interest rate spread | 1.91% | 1.79% | 2.99% | 1.93% |
| Net interest margin | 2.03% | 1.96% | 3.41% | 2.49% |

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

| | At | |
|---|---|---|
| | **09/30/12** | **12/31/11** |
| **ASSET QUALITY RATIOS:** | | |
| Non-performing loans | $ 1,795 | $ 1,152 |
| Non-performing assets | $ 1,984 | $ 1,341 |
| Non-performing loans to total loans | 2.70% | 3.54% |
| Non-performing assets to total assets | 1.65% | 3.04% |
| Allowance for loan losses to total loans | 1.55% | 1.43% |
| Coverage Ratio - Allowance for loan losses to total non-performing loans | 57.49% | 40.45% |
| **CAPITAL RATIOS:** | | |
| Shareholders' equity to total assets | 10.22% | 31.87% |
| Book value per share | $ 6.80 | $ 7.78 |
| Tier 1 leverage capital ratio | 9.96% | 33.51% |
| Tier 1 risk-based capital ratio | 17.34% | 42.01% |
| Total risk-based capital ratio | 18.60% | 43.27% |
| Shares outstanding | 1,804,850 | 1,804,850 |