March 22, 2013

Dear Fellow Shareholder:

The year ended December 31, 2012 was a productive one for the Bank. During 2012, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking (PADOB) terminated the Bank's Consent Order that had been put in place before the April 2011 recapitalization. In March 2012, the Bank opened its first New Jersey branch in Middletown, New Jersey. As of December 31, 2012, the Middletown branch had generated $78.1 million of deposits while the Bank's total deposits have grown to **$105.5 million.** This compares very favorably to our year end December 31, 2011 total deposit base of $29.4 million. (As of February 28, 2013, the Middletown branch has grown even further to **$91.1 million** of deposits.) Furthermore, at December 31, 2012, total assets amounted to $136.2 million, which represented a $92.1 million, or 209%, increase from $44.0 million at December 31, 2011, making your Bank one of the fastest growing banks in the region in 2012. During the year ended December 31, 2012, we were able to improve our net loss by $810,000, or 21.1% from the trailing year.

Two new lines of business were also added by the Bank to better serve the needs of its customers. During 2012, the Bank established a residential mortgage unit, as well as a Small Business Administration (SBA) loan department. Both departments are progressing well, with growing pipelines. Both lines of business will continue to generate increased levels of fee income for the Bank during 2013.

The Bank has recently been approved by the New Jersey Department of Banking and Insurance to convert from a Pennsylvania-chartered commercial bank to a New Jersey-chartered commercial bank. As a result, the Bank will close its office located in Horsham, Pennsylvania effective on, or about, March 29, 2013. The Bank's new principal office will be located in Middletown, New Jersey. The Bank continues to move forward with the construction of its second full-service New Jersey branch to be located in the Borough of Shrewsbury, New Jersey, with an anticipated opening date of April 2013.

We are pleased to report continued progress in growing Colonial American Bank during the fourth quarter ended December 31, 2012, and since the prior year ended December 31, 2011. Among the highlights:

- Deposits have grown by **$76.2 million**, or **259%**, since December 31, 2011, but have decreased $1.7 million, or 1.6%, during the 4th quarter of 2012.

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- Loans increased by **$38.9 million**, or **120%**, since December 31, 2011, and have grown $8.9 million, or 13.3%, during the 4th quarter of 2012.
- Assets have grown by **$92.1 million**, or **209%**, since December 31, 2011, and have increased $16.2 million, or 13.5%, during the 4th quarter of 2012.

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 growing the Bank's new fee income businesses, boosting net interest income via loan growth and expense control.

Your "friendly, local banker" is back to serve you. Please visit us today at your local branch office in Middletown, New Jersey. 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 our branch locations or call us at (732) 275-6900 in Middletown, New Jersey.

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
December 31, 2012

COLONIAL AMERICAN BANK
BALANCE SHEETS
(Amounts in thousands)

	12/31/12	12/31/11
	(audited)	
ASSETS		
Cash and due from banks	$ 373	$ 360
Interest-bearing deposits with other banks	4,922	4,700
Cash and cash equivalents	5,295	5,060
Investment securities available-for-sale, at fair value, amortized cost of $52,196 and $5,124 at 12/31/12 and 12/31/11, respectively	52,683	5,267
Loans held-for-sale	4,015	-
Loans held-for-investment, net	71,444	32,508
Less: allowance for loan losses	(1,226)	(466)
Net loans held-for-investment	70,218	32,042
Bank premises and equipment, net	2,297	563
FHLB stock, at cost	726	345
Other real estate owned	189	189
Accrued interest receivable and other assets	763	582
Total Assets	**$ 136,186**	**$ 44,048**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 5,015	$ 1,265
Interest bearing	100,532	28,097
Total deposits	105,547	29,362
Borrowings	14,000	-
Due to broker	4,562	-
Accrued interest payable and other accrued liabilities	490	646
Total Liabilities	124,599	30,008
Total Shareholders' Equity	11,587	14,040
Total Liabilities and Shareholders' Equity	**$ 136,186**	**$ 44,048**

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

	Three Months Ending		Year Ending	
	12/31/12	12/31/11	12/31/12	12/31/11
	(unaudited)		(audited, except per share data)	
Total interest income	$ 882	$ 352	$ 2,998	$ 1,275
Total interest expense	277	95	946	320
Net interest income	605	257	2,052	955
Provision for loan losses	305	286	905	741
Net interest income (loss) after provision for loan losses	300	(29)	1,147	214
Total non-interest income	312	8	722	25
Compensation and benefits	784	567	2,725	1,810
Occupancy and data processing	348	168	880	575
Professional services	87	290	426	610
Capital raising expenses	-	-	-	195
Other operating expenses	122	499	866	887
Total non-interest expense	1,341	1,524	4,897	4,077
Loss before taxes	(729)	(1,545)	(3,028)	(3,838)
Income taxes	-	-	-	-
Net loss	$ (729)	$ (1,545)	$ (3,028)	$ (3,838)
Basic and diluted loss per share	$ (0.40)	$ (0.86)	$ (1.68)	$ (2.94)

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

	Three Months Ending			
	12/31/12	09/30/12	06/30/12	03/31/12
	(unaudited)			
Total interest income	$ 882	$ 878	$ 744	$ 494
Total interest expense	277	297	266	106
Net interest income	605	581	478	388
Provision for loan losses	305	95	367	138
Net interest income after provision for loan losses	300	486	111	250
Total non-interest income	312	260	7	143
Compensation and benefits	784	685	659	597
Occupancy and data processing	348	233	222	77
Professional services	87	103	94	142
Capital raising expenses	-	-	-	-
Other operating expenses	122	313	188	243
Total non-interest expense	1,341	1,334	1,163	1,059
Loss before taxes	(729)	(588)	(1,045)	(666)
Income taxes	-	-	-	-
Net loss	$ (729)	$ (588)	$ (1,045)	$ (666)
Basic and diluted loss per share	$ (0.40)	$ (0.33)	$ (0.58)	$ (0.37)

PERFORMANCE RATIOS:

Yield average interest earning assets	2.93%	3.07%	3.05%	4.34%
Cost average interest bearing liabilities	1.07%	1.16%	1.26%	1.35%
Interest rate spread	1.86%	1.91%	1.79%	2.99%
Net interest margin	2.01%	2.03%	1.96%	3.41%

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

	At	
	12/31/12	**12/31/11**
ASSET QUALITY RATIOS:		
Non-performing loans	$ 2,894	$ 1,152
Non-performing assets	$ 3,083	$ 1,341
Non-performing loans to total loans	4.05%	3.54%
Non-performing assets to total assets	2.26%	3.04%
Allowance for loan losses to total loans	1.72%	1.43%
Coverage Ratio - Allowance for loan losses to total non-performing loans	42.36%	40.45%
CAPITAL RATIOS:		
Shareholders' equity to total assets	8.51%	31.87%
Book value per share	$ 6.42	$ 7.78
Tier 1 leverage capital ratio	8.85%	33.51%
Tier 1 risk-based capital ratio	13.75%	42.01%
Total risk-based capital ratio	15.00%	43.27%
Shares outstanding	1,804,850	1,804,850