

# McGladrey & Pullen

Certified Public Accountants

## Colonial American Bank

Financial Statements

December 31, 2007

## Colonial American Bank

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Colonial American Bank  
West Conshohocken, Pennsylvania

We have audited the accompanying balance sheet of Colonial American Bank as of December 31, 2007, and the related statements of operations, shareholders' equity and cash flows for the period February 9, 2007 (Inception) through December 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colonial American Bank as of December 31, 2007, and the results of its operations and its cash flows for the period February 9, 2007 (Inception) through December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Blue Bell, Pennsylvania  
April 15, 2008

## Colonial American Bank

### Balance Sheet

December 31, 2007

(Amounts in Thousands, Except Share Data)

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#### Assets

Cash and due from banks	\$	263
Interest-bearing deposits with other banks		1,938
Cash and cash equivalents		<u>2,201</u>
Investment securities held-to-maturity, at amortized cost, fair value of \$1,499		1,499
Investment securities available-for-sale, at fair value, amortized cost of \$7,499		7,525
Loans receivable (net of allowance for loan losses of \$85)		8,838
Bank premises and equipment, net		651
Accrued interest receivable and other assets		331
<b>Total assets</b>	<b>\$</b>	<b><u><u>21,045</u></u></b>

#### Liabilities and Shareholders' Equity

##### Liabilities

Deposits		
Noninterest-bearing	\$	505
Interest-bearing		15,677
Total deposits		<u>16,182</u>
Accrued interest payable and other accrued liabilities		275
<b>Total liabilities</b>		<b><u>16,457</u></b>

##### Commitments and Contingencies (Note 14)

##### Shareholders' Equity

Common stock,		
\$1 par value, 5,000,000 shares authorized;		
751,079 shares issued and outstanding		751
Additional paid-in-capital		7,286
Accumulated deficit		(3,475)
Accumulated other comprehensive income		26
<b>Total shareholders' equity</b>		<b><u>4,588</u></b>
<b>Total liabilities and shareholders' equity</b>	<b>\$</b>	<b><u><u>21,045</u></u></b>

See Notes to Financial Statements.

## Colonial American Bank

### Statement of Operations

For the Period February 9, 2007 (Inception) through December 31, 2007

(Amounts in Thousands, Except Share Data)

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Interest and Dividend Income	
Interest and fees on loans	\$ 242
Interest and dividends on securities	136
Interest on deposits with other banks	245
Total interest and dividend income	<u>623</u>
Interest Expense	
Interest on deposits	300
Total interest expense	<u>300</u>
Net interest income	323
Provision for Loan Losses	85
Net interest income after provision for loan losses	<u>238</u>
Noninterest Income	
Service fees	3
Gain on sale of securities available-for-sale	6
Other	1
Total noninterest income	<u>10</u>
Noninterest Expense	
Compensation and benefits, net	905
Occupancy and data processing	478
Professional services	100
Pre-opening expenses (Note 16)	1,970
Other operating expenses	270
Total noninterest expenses	<u>3,723</u>
Loss Before Income Taxes	(3,475)
Income Taxes	-
<b>Net loss</b>	<u>\$ (3,475)</u>
Net loss per common share	
Basic and diluted	<u>\$ (4.68)</u>
Weighted average shares outstanding	
Basic and diluted	<u>742,783</u>

See Notes to Financial Statements.

Colonial American Bank

Statement of Shareholders' Equity  
 For the Period February 9, 2007 (Inception) through December 31, 2007  
 (Amounts in Thousands, Except Share Data)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Comprehensive Income	Total Shareholders' Equity
Balance, February 9, 2007 (Inception)	\$ -	\$ -	\$ -	\$ -	\$ -
Net proceeds from issuance of common stock	751	6,561	-	-	7,312
Stock option expense	-	725	-	-	725
Comprehensive income (loss):					
Net loss - 2007	-	-	(3,475)	-	(3,475)
Change in unrealized gain on securities available-for-sale, net of reclassification adjustment of \$6	-	-	-	26	26
Total comprehensive loss					(3,449)
Balance, December 31, 2007	\$ 751	\$ 7,286	\$ (3,475)	\$ 26	\$ 4,588

See Notes to Financial Statements.

Colonial American Bank

Statement of Cash Flows

For the Period February 9, 2007 (Inception) through December 31, 2007

(Amounts in Thousands, Except Share Data)

<b>Cash Flows from Operating Activities</b>	
Net loss	\$ (3,475)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	131
Provision for loan losses	85
Gain on sale of investment securities available for sale	(6)
Net accretion of discounts on securities	(11)
Stock option expense	725
Changes in operating assets and liabilities:	
Increase in accrued interest receivable and other assets	(331)
Increase in accrued interest payable and other accrued liabilities	273
<b>Net cash used in operating activities</b>	<u>(2,609)</u>
<b>Cash Flows from Investing Activities</b>	
Investment securities available for sale	
Purchases	(10,748)
Sales	3,006
Maturities	250
Investment securities held to maturity	
Purchases	(15,738)
Maturities	14,250
Net increase in loans	(8,922)
Purchases of premises and equipment	(782)
<b>Net cash used in investing activities</b>	<u>(18,684)</u>
<b>Cash Flows from Financing Activities</b>	
Net proceeds from issuance of common stock	7,312
Net increase in interest-bearing deposits	15,677
Net increase in noninterest-bearing deposits	505
<b>Net cash provided by financing activities</b>	<u>23,494</u>
<b>Increase in cash and cash equivalents</b>	<u>2,201</u>
Cash and cash equivalents, beginning	<u>-</u>
Cash and cash equivalents, ending	<u>\$ 2,201</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for:	
Interest	<u>\$ 241</u>

See Notes to Financial Statements.

## Colonial American Bank

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

Nature of Operations: Colonial American Bank (the "Bank") is a state chartered bank, which was incorporated on September 1, 2006 under the laws of the Commonwealth of Pennsylvania. The Bank commenced operations on February 9, 2007. The Bank is chartered by the Pennsylvania Department of Banking and insured by the Federal Deposit Insurance Corporation. The Bank maintains its principal office in West Conshohocken, Pennsylvania and a branch office in Horsham, Pennsylvania and provides financial services primarily to Montgomery County and the surrounding counties of the Greater Delaware Valley.

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flows are summarized below.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, interest bearing deposits with other banks and federal funds sold, all of which mature within ninety days.

Investment Securities: Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The Bank does not hold trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Note 1. Summary of Significant Accounting Policies (Continued)**

Concentration of Credit Risk: The Bank's loans are generally to diversified customers in the Greater Delaware Valley area. Generally, loans are collateralized by real estate assets of the borrower and are expected to be repaid from the cash flow of the borrower or proceeds from the sale of selected assets of the borrower.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to occur through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Bank to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Bank's allowance for loan losses as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Bank Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method and charged to expense over the estimated useful lives of the assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements with terms generally ranging from five to thirty years. The estimated useful lives for calculating depreciation and amortization on furniture and equipment are between three and seven years.

Income Taxes: Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized.

**Note 1. Summary of Significant Accounting Policies (Continued)**

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share considers common stock equivalents (when dilutive) outstanding during the period such as options and warrants outstanding. In computing diluted earnings (loss) per share for 2007, options and warrants to purchase 188,500 and 150,215, respectively, shares of common stock were excluded from the computation because the effect of these instruments would be antidilutive.

Stock-Based Compensation: The Bank accounts for its stock based compensation plans under the provisions of Statement on Financial Accounting Standards (SFAS) No. 123R "*Share-based Payment*", which requires recognizing expense for options granted equal to the grant-date fair value of the unvested amounts over their remaining vesting period. SFAS 123R also amends SFAS 95 "*Statement of Cash Flows*", and requires excess tax benefits arising from increases in the value of equity instruments issued under stock-based payment arrangements to be treated as cash inflows from financing activities.

Recent Accounting Pronouncements: Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty Income Taxes*: This interpretation was issued in July 2006 and was effective for fiscal years beginning after December 15, 2006. This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "*Accounting for Income Taxes*." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. FASB Staff Position (FSP) FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, was issued on February 1, 2008 and indicated that for eligible nonpublic enterprises, this Interpretation shall be effective for annual financial statements for fiscal years beginning after December 15, 2007 (applied as of the beginning of the enterprise's fiscal year). Nonpublic enterprises that issued a full set of annual financial statements using the recognition, measurement, and disclosure provisions of this Interpretation prior to the issuance of FSP FIN 48-2 must continue to apply the provisions of this Interpretation. Consequently, the Bank will adopt FIN 48 effective in 2008 and does not expect that the adoption of this interpretation will have a material impact on its financial position, results of operations and cash flows.

SFAS No. 157, *Fair Value Measurements*: In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*". This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, to partially defer FASB Statement No. 157, *Fair Value Measurements*. This FSP defers the effective date of Statement No. 157, for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other provisions of this Statement not within the scope of FSP-FAS 157-2 are effective for fiscal years beginning after November 15, 2007. The Bank does not expect that the adoption of this Statement will have a material impact on its financial position, results of operations and cash flows.

## Colonial American Bank

### Notes to Financial Statements

#### Note 2. Cash and Due from Banks

The Bank maintains various deposit accounts with other banks to meet normal funds transaction requirements, to satisfy minimum deposit requirements, and to compensate other banks for certain correspondent services. The Federal Deposit Insurance Corporation insures these accounts up to \$100,000 per account. Management is responsible for assessing the credit risk of its correspondent banks. The withdrawal or usage restrictions of these balances did not have a significant impact on the operations of the Bank as of December 31, 2007.

#### Note 3. Investment Securities

The amortized cost and estimated fair value of securities at December 31, 2007, summarized by contractual maturities, are shown below (Amounts in Thousands).

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
U.S. Government agencies				
Due within one year	\$ -	\$ -	\$ -	\$ -
Due within one year through five years	-	-	-	-
Due within five years through ten years	1,000	5	-	1,005
Due after ten years	6,499	28	7	6,520
Total available for sale:	<u>\$ 7,499</u>	<u>\$ 33</u>	<u>\$ 7</u>	<u>\$ 7,525</u>
Held-to-maturity:				
U.S. Government agencies				
Due within one year	\$ 1,499	\$ -	\$ -	\$ 1,499
Due within one year through five years	-	-	-	-
Due within five years through ten years	-	-	-	-
Due after ten years	-	-	-	-
Total held-to-maturity:	<u>\$ 1,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499</u>

No securities were pledged at December 31, 2007.

For the period from February 9, 2007 (inception) through December 31, 2007, proceeds from sales of securities available-for-sale amounted to \$3.0 million. Gross realized gains amounted to \$6,200.

Securities available-for-sale are stated at fair value with an adjustment to shareholders' equity for unrealized gains and losses. Information pertaining to securities with gross unrealized losses at December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position is as follows:

	(Amounts in Thousands)	
	Continuous Unrealized Losses Existing for Less Than 12 Months	
	Fair Value	Unrealized Losses
U.S. Government agencies	\$ 993	\$ 7
Total temporarily impaired securities	<u>\$ 993</u>	<u>\$ 7</u>

## Colonial American Bank

### Notes to Financial Statements

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#### Note 3. Investment Securities (Continued)

The unrealized losses that existed as of December 31, 2007 are the result of market changes in interest rates since the securities purchase. This factor coupled with the fact that the Company has both the intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses in the available-for-sale portfolio are temporary. None of the individual unrealized losses are significant.

#### Note 4. Loans

The composition of loans at December 31, 2007 follows:

	(Amounts in Thousands)
Residential mortgages	\$ 7,660
Home equity line of credit	100
Commercial real estate	845
Consumer	229
Total loans	<u>8,834</u>
Less:	
Allowance for loan losses	(85)
Net deferred loan costs	89
Net loans	<u>\$ 8,838</u>

#### Note 5. Loans and Deposits to Related Parties

Loans to related parties were as follows during 2007:

	(Amounts in Thousands)
Balance, beginning of period	\$ -
Advances	120
Less: repayments	4
Balance, December 31	<u>\$ 116</u>

At December 31, 2007, deposits from related parties totaled approximately \$1.3 million.

#### Note 6. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	(Amounts in Thousands)
Balance, beginning of period	\$ -
Provision for loan losses	85
Charge-offs	-
Recoveries	-
Balance, December 31	<u>\$ 85</u>

There were no impaired loans or loans on non-accrual at December 31, 2007.

## Colonial American Bank

### Notes to Financial Statements

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#### Note 7. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment as of December 31, 2007 is as follows:

	(Amounts in Thousands)
Leasehold improvements	\$ 294
Furniture and equipment	488
	<u>782</u>
Less: accumulated depreciation and amortization	131
Bank premises and equipment	<u><u>\$ 651</u></u>

The Bank has a five-year operating lease agreement for its main office, which commenced on March 1, 2006. The Bank has the option to extend the lease agreement for two additional five-year periods.

The Bank has a five-year operating lease agreement for its branch office, which commenced on March 1, 2007. The Bank has the option to extend the lease agreement for one additional five-year period.

At December 31, 2007, the required future minimum rental payments are as follows:

Years Ending December 31,	(Amounts in Thousands)
2008	\$ 184
2009	189
2010	193
2011	85
2012	10
Total minimum lease payments	<u><u>\$ 661</u></u>

Rent expense of approximately \$121,000 is reflected in the statement of operations for the period February 9, (inception) through December 31, 2007.

#### Note 8. Deposits

Deposits at December 31, 2007 consisted of the following:

	(Amounts in Thousands)
Demand deposits, noninterest-bearing	\$ 505
Demand deposits, interest-bearing	6,511
Savings deposits	1,015
Time deposits of \$100,000 or more	2,674
Other time deposits	5,477
Total deposits	<u><u>\$ 16,182</u></u>

## Colonial American Bank

### Notes to Financial Statements

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#### Note 8. Deposits (Continued)

Scheduled maturities of certificates of deposit at December 31, 2007 are as follows:

Years Ending December 31,	(Amounts in Thousands)
2008	\$ 4,598
2009	377
2010	406
2011	-
2012	2,770
	\$ 8,151

#### Note 9. Income Taxes

The Bank, during its pre-opening period and subsequent to commencement of banking operations, has incurred cumulative net losses which has caused there to be no provision for income taxes, net deferred taxes and income taxes payable as of and for the period February 9, 2007 (inception) through December 31, 2007 because of related valuation allowances.

The components of net deferred taxes at December 31, 2007 are as follows:

	(Amounts in Thousands)
Deferred tax assets:	
Organizational costs	\$ 428
Net operating loss carryforwards	482
Premises and equipment	28
Stock option expense	246
Allowance for loan losses	25
	1,209
Valuation allowance	(1,179)
Total deferred tax assets, net of valuation allowance	30
Deferred tax liabilities:	
Deferred loan costs	30
Net deferred taxes	\$ -

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately \$1.4 million which expire in 2027.

## Colonial American Bank

### Notes to Financial Statements

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#### Note 10. Regulatory Matters

Capital Ratios: The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank met all capital adequacy requirements to which it is subject.

De novo banks are required to maintain Tier I capital to average assets (leverage) ratios of at least 8% for at least three years. As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The Bank's actual capital amounts and ratios are presented in the following table (Dollars in Thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total Risk Based Capital (to Risk Weighted Assets)	\$ 4,647	45.0%	\$ 826	8.0%	\$ 1,033	10.0%
Tier I Capital (to Risk Weighted Assets)	4,562	44.2%	413	4.0%	620	6.0%
Tier I Capital (to Average Assets)	4,562	23.8%	768	4.0%	960	5.0%

Banking regulations limit the amount of dividends that may be paid without prior regulatory agency approval. Since the Bank's deposits are insured by the FDIC, no dividends may be paid if the Bank is in default on any assessment due the FDIC. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

#### Note 11. Employee Benefit Plans

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute up to 15 percent of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions equal to 50 percent of the first 7 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee equally over a five-year period. For the period February 9, 2007 (inception) through December 31, 2007, expense attributable to the Plan amounted to \$17,000.

## Colonial American Bank

### Notes to Financial Statements

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#### Note 12. Shareholders' Equity

Initial Offering: In connection with the organization of the Bank, there was an initial offering of a minimum of 650,000 and a maximum of 2,000,000 shares of \$1.00 par value stock at an offering price of \$10.00 per share. On March 23, 2007, the Bank completed this initial offering by selling 751,079 shares of common stock. Gross proceeds totaled \$7.5 million, with net proceeds of \$7.3 million, after stock issuance costs of \$199,000.

Stock Warrants: In connection with the initial offering, each shareholder was also granted one stock purchase warrant for every five shares of common stock purchased. Each warrant was issued at a price of \$12.50 and expires on March 23, 2012. There are 150,215 warrants outstanding and exercisable at December 31, 2007.

Stock Options: Upon the closing of the Initial Offering, on March 23, 2007, the Bank issued transferable stock options exercisable over a 10-year period to certain organizers and initial subscribers to purchase a total of 188,500 shares of common stock at the initial offering price of \$10.00 per share. These options were granted in consideration of their efforts in connection with the formation and the organization of the Bank. Of these grants, 96,000 options were issued to related parties including directors and officers of the Bank.

The options were valued using the Black-Scholes option pricing model assuming a risk-free rate of 4.50%, a 10 year expected/contractual life, 0 dividend yield and volatility of 13%, which is the historical volatility of an area public banking entity with less than \$500 million in assets that has been in existence for 10 years. Expense related to the valuation of these options totaled \$725,000 and is included in Pre-Opening Expenses on the Statement of Operations. The options were granted on March 23, 2007, are exercisable on March 23, 2008 and all expense related to the grant was recognized as of the grant date for past services. Consequently, there is no unrecognized stock option expense as of December 31, 2007.

Employee and Director Stock Compensation Plan: The Bank's Board of Directors has approved the 2006 Colonial American Stock Compensation Plan (the "Plan") that will have a term of 10 years. Pursuant to the Plan, 15% of the common stock shares that were issued in the initial offering, or 112,662, are reserved for future issuance. To grant incentive stock options under the Plan, the shareholders must approve the Plan. As of December 31, 2007, there were no awards under the Plan.

#### Note 13. Other Related Party Transactions

The Bank has an agreement to purchase, at its discretion, loans from a mortgage banking entity, Colonial Mortgage Service Company of America, which is 100% owned by the Bank's Chief Executive Officer for which the mortgage banking entity receives a broker fee. Such fees totaled \$28,000 in the period from February 9, 2007 (inception) through December 31, 2007. Total loans purchased from inception through December 31, 2007 from Colonial Mortgage Service Company of America were \$2.2 million.

#### Note 14. Commitments and Contingencies

The Bank has entered into "change in control" agreements with the Chief Executive Officer ("CEO"), the President and the Chief Financial Officer ("CFO") of the Bank which provide for continued payment of certain employment salaries and benefits in the event of a change in control, as defined. The CEO, the President and CFO are also eligible to receive a discretionary bonus as determined by the Board of Directors on an annual basis.

## Colonial American Bank

### Notes to Financial Statements

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#### Note 14. Commitments and Contingencies (Continued)

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement in these particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance sheet instruments.

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 total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, 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. As of December 31, 2007, commitments to extend credit amounted to approximately \$281,000.

#### Note 15. Development Stage Bank

During a portion of 2007, the Bank was a development stage bank as it had not yet commenced its planned principal operations of banking. The Bank commenced operations on February 9, 2007 and at that time the Bank ceased to be a development stage bank.

#### Note 16. Pre-Opening Expenses

Pre-opening expenses, net represent expenses incurred, net of interest income earned, while by the Bank was a development stage bank. Below is a breakdown of these expenses.

	(Amounts in Thousands)
Compensation and benefits	\$ 15
Professional and application fees	909
Occupancy expenses	132
Printing, postage and supplies	32
Stock option expense	725
Advertising and marketing	59
Travel and entertainment	60
Data Processing	39
Other expenses	87
Interest income on escrow funds	(88)
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	\$ 1,970
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