BOARD OF DIRECTORS

Sreenivas Cherukuri
Director, SC Industries

Vasudev Garlapaty
Physician, Oakwood Hospital

Vinaya Gavini, MD
Physician, Providence Hospital

Armanath Gowda
Attorney

Ravindranath Gullapalli
Real Estate Investor

Murali Guthikonda, MD
Physician, DMC Harper Hospital

Lynn Jerath
President, Bedrock Investments, LLC

Mayur Joshi
Realtor, Max Broock Realtors

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Physician, Bon Secours Hospital

Neal J. Searle
President & CEO, Lotus Bancorp, Inc.

Bala Setty, MD
Physician, Oakwood Hospital

Jay Shah
Vice President, Somat Engineering

Venkat Talasila, MD
Physician, Health Source Saginaw

CORPORATE OFFICERS

Bala Setty, Chairman of the Board
Neal J. Searle, President and Chief Executive Officer
Richard E. Bauer, Executive Vice President and Chief Financial Officer
John W. Westerheide, Senior Vice President and Chief Lending Officer

CORPORATE HEADQUARTERS INVESTOR RELATIONS

Lotus Bancorp, Inc.
44350 West Twelve Mile Road
Novi, Michigan 48377

(248) 735-1000
www.lotusbank.com www.lotusinvestor.com

STOCK TRANSFER AGENT AND REGISTRAR

Broadridge Corporate Issuer Services, Inc.
44 W. Lancaster Avenue
Ardmore, Pennsylvania 19003

(610) 649-7300
www.stocktrans.com

LAW FIRM

Howard & Howard
450 West Fourth Street
Royal Oak, Michigan 48067

(248) 645-1483
www.howardandhoward.com

April, 2013

To our Shareholders:

On behalf of the Board of Directors of Lotus Bancorp, Inc. and our wholly owned subsidiary Lotus Bank, we are pleased to share with you our financial performance as of December 31, 2012. It has been an outstanding year with record-setting profits, excellent asset growth and continued outstanding credit quality. We maintain our 5 Star Bauer Rating, the highest possible rating of a bank's stability and financial strength, and have the lowest possible Texas Ratio (we are a 0 - the higher the # the more likely that the organization will have financial challenges due to credit quality). These are both independent calculations providing our shareholders and clients with indications of our organizations strength and effective administration.

The following are financial highlights of our excellent performance:

- Asset Growth was $12.8M for a growth rate of 18.3%;
- Gross Loan Growth was $6.0M for a growth rate of 11.5%;
- Deposit Growth was $10.4M for a growth rate of 17.5%;
- A 2.6% Return on Assets which is exceptional for a bank of our age; and
- A 17.5% Return on Equity, also considered exceptional

We have completed a 5 year Strategic Plan process during the year and are actively working to achieve the expectations of that plan. We will soon implement a complete revision to our website, and are also very happy to announce that we have acquired www.lotusbank.com after more than 6 years of effort.

Subsequent to year-end, we opened our first branch location on the anniversary of our organization. February 28, 2013 welcomed a new large office location at 37000 Grand River Avenue, Farmington Hills, MI. The Grand Opening celebrations were outstanding and we were welcomed by clients, government officials and many new potential clients.

2012 was a challenging year for the financial services industry, and we are very proud of our accomplishments. We recognize that the industry will continue to experience increased scrutiny and regulatory oversight, requiring that we be diligent and carefully control our expenses while we grow our franchise.

We believe we have set Lotus Bancorp, Inc. on the right path and hope that you will share our excitement for the future of our company.

With regards,

Bala Setty, MD
Chairman of the Board

Neal J. Searle
President and Chief Executive Officer

Independent Auditor’s Report

The Board of Directors
Lotus Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Lotus Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lotus Bancorp, Inc. and Subsidiary as of December 31, 2012 and 2011 and the consolidated results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31	
	2012	2011
Cash and Cash Equivalents		
Cash and due from banks	$ 1,274,534	$ 939,318
Federal funds sold	10,385,116	5,665,125
Total cash and cash equivalents	11,659,650	6,604,443
Securities - available for sale (Note 2)	9,249,903	8,496,176
Loans, less allowance for loan losses of $1,351,470 and $1,388,238 at December 31, 2012 and 2011, respectively (Note 3)	57,348,935	51,265,587
Property and equipment, net of depreciation (Note 7)	2,975,805	2,936,350
Accrued interest receivable and other assets	1,326,367	486,074
Total assets	$ 82,560,660	$ 69,788,630

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31	
	2012	2011
Deposits (Note 5)		
Non-interest bearing	$ 12,022,846	$ 7,872,318
Interest bearing	57,850,749	51,615,515
Total deposits	69,873,595	59,487,833
Accrued interest payable and other liabilities	480,894	246,315
Total liabilities	70,354,489	59,734,148
Shareholders' equity		
Common stock, $0.01 par value		
Authorized –8,000,000 shares		
Issued and outstanding – 1,390,365 shares at December 31, 2012 and December 31, 2011	13,904	13,904
Additional paid-in capital	14,123,027	14,097,030
Accumulated deficit	(2,100,259)	(4,233,101)
Accumulated other comprehensive income	169,499	176,649
Total shareholders' equity	12,206,171	10,054,482
Total liabilities and shareholders' equity	$ 82,560,660	$ 69,788,630

See Notes to Financial Statements

LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31	
	2012	2011
Interest income:		
Loans receivable, including fees	$ 3,683,290	$ 3,317,143
Federal funds sold	17,339	20,606
Securities	207,415	211,301
Other	2,069	1,459
Total interest income	3,910,113	3,550,509
Interest expense	524,534	594,501
Net interest income	3,385,579	2,956,008
Provision for loan losses (Note 3)	-	424,916
Net interest income after provision for loan losses	3,385,579	2,531,092
Non-interest income		
Service charges on deposit accounts	45,789	49,122
Gain on sale of securities	5,971	-
Gain on sale of loans	-	42,303
Other income	132,756	97,089
Total non-interest income	184,516	188,514
Non-interest expense		
Salary and benefits (Note 14)	1,272,682	1,150,619
Occupancy and equipment expense	332,200	356,187
Stock-based compensation (Note 9)	25,997	14,585
Professional fees	194,331	181,451
Advertising and public relations	54,857	29,953
Data processing expenses	149,480	137,028
Insurances	108,874	205,435
Loan costs	36,084	26,299
Travel and entertainment	33,921	22,296
Printing and office supplies	30,685	28,373
Dues and memberships	11,394	9,161
Outside office services	56,273	63,780
Michigan business tax	16,800	25,000
Other expense	94,815	171,948
Total non-interest expense	2,418,393	2,422,115
Net income before income taxes	1,151,702	297,491
Income tax benefit (Note 8)	(981,140)	-
Net income	$ 2,132,842	$ 297,491
Basic earnings per share	$ 1.53	$ 0.21
Diluted earnings per share	$ 1.53	$ 0.21
Weighted average shares	1,390,365	1,390,365

See Notes to Financial Statements

LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the Year Ended December 31	
	2012	2011
Net income	$ 2,132,842	$ 297,491
Other comprehensive (loss) income		
Unrealized (loss) gain on securities		
Change in unrealized gain arising during the year	(7,150)	211,747
Total unrealized (loss) gain on securities	(7,150)	211,747
Tax effect	-	-
Other comprehensive (loss) income	(7,150)	211,747
Comprehensive income	$ 2,125,692	$ 509,238

LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance January 1, 2011	$ 13,904	$ 14,082,445	$ (4,530,592)	(35,098)	$ 9,530,659
Comprehensive loss:					
Net income	-	-	297,491	-	297,491
Change in unrealized gain on securities available for sale	-	-	-	211,747	211,747
Total comprehensive income					509,238
Options expense	-	14,585	-	-	14,585
Balance December 31, 2011	13,904	14,097,030	(4,233,101)	176,649	10,054,482
Comprehensive income:					
Net income	-	-	2,132,842	-	2,132,842
Change in unrealized gain on securities available for sale	-	-	-	(7,150)	(7,150)
Total comprehensive income					2,125,692
Options expense	-	25,997	-	-	25,997
Balance December 31, 2012	$ 13,904	$ 14,123,027	$ (2,100,259)	$ 169,499	$ 12,206,171

See Notes to Financial Statements

LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Adjustments to reconcile net income (loss) to net cash from operating activities		
Net income	$ 2,132,842	$ 297,491
Stock option expense	25,997	14,585
Depreciation	158,940	202,478
Amortization of securities	30,655	19,243
Provision for loan losses	-	424,916
(Increase) decrease in other assets	(840,294)	81,410
Increase in other liabilities	234,579	71,708
Net cash provided by operating activities	1,742,719	1,111,831
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(6,083,348)	(452,568)
Purchases of securities	(6,569,613)	(8,934,984)
Maturities of securities	5,784,053	6,555,830
Gain on sale of securities	(5,971)	-
Purchase of equipment	(198,395)	(21,731)
Net cash used in investing activities	(7,073,274)	(2,862,453)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in non-interest bearing deposits	4,150,528	2,106,168
Increase (decrease) in interest bearing deposits	6,235,234	(1,229,537)
Net cash provided by financing activities	10,385,762	876,631
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,055,207	(873,991)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,604,443	7,478,434
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 11,659,650	$ 6,604,443
Supplemental Disclosure of Non-cash Activity:		
Cash paid for interest	$ 508,444	$ 584,132

See Notes to Financial Statements

LOTUS BANCORP, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Financial Statement Presentation – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation - The consolidated financial statements include the accounts of Lotus Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Lotus Bank (the "Bank"). All significant inter-company accounts and transactions have been eliminated.

Organization – Lotus Bancorp, Inc. (the "Company") was incorporated as De Novo Holdings, Inc. on October 27, 2004 for the purpose of becoming a bank holding company under the Bank Holding Company Act of 1956, as amended. The Company subsequently changed its name to Lotus Bancorp, Inc. The Company received the required regulatory approvals to purchase the common stock of Lotus Bank (the "Bank") on February 2, 2007. The Company withdrew common stock subscription funds totaling $12,582,050 from its escrow account on February 27, 2007 and capitalized the Bank with $10,500,000 on that same date. The Bank commenced operations on February 28, 2007. The Company completed the public offering of its common stock on June 30, 2007. The Company raised a total of $13,899,650 in capital. Direct costs relating to the offering of common stock totaled approximately $487,000 and were capitalized and netted against the offering proceeds.

On March 5, 2010, the Company filed Form 15 to terminate the registration of its common stock with the Securities and Exchange Commission, which ended the Company's obligation to file periodic and annual reports with the Commission.

On August 30, 2012, the Company down-streamed an additional $1,000,000 in capital to the Bank, primarily for legal lending limit and loan concentration purposes.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, valuation of investment securities, and the valuation of deferred tax assets.

Cash and Cash Equivalents – Cash and cash equivalents are comprised of highly liquid investments with purchase maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. At times bank balances may be in excess of insured limits. Management has deemed this a normal business risk.

Securities – Securities are classified as "available-for-sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. 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 is deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (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 Company 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 securities are recorded on the settlement date and are determined using the specific identification method.

Loans – The Company grants mortgage, commercial and consumer loans to customers. A large portion of the loan portfolio is represented by commercial and commercial real estate loans in Oakland County, Michigan and elsewhere. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in those areas.

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 either the straight-line or interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual 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 in nonaccrual 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.

Allowance for Loan Losses – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Actual loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimates of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 borrower and the loan, including 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 interest rate, or the fair value of the collateral if the loan is collateral dependent.

Large groups of homogeneous loans are collectively evaluated for impairment.

During the first seven years of operation, the Bank will maintain an allowance for loan losses at or above a minimum level of 1.00% established by the Federal Deposit Insurance Corporation and the State of Michigan Office of Financial and Insurance Regulation pursuant to their orders granting the Bank authority to commence activity as a de novo financial institution.

Troubled Debt Restructurings – Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a Troubled Debt Restructure (TDR). A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination required consideration of all the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

Off-balance-sheet Instruments – In the ordinary course of business, the Company has entered into commitments under commercial lines of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Property and Equipment – Equipment is stated at cost. Depreciation is computed for financial reporting purposes using the straight-line method over the useful lives of the assets.

Income Taxes – Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effect of the various temporary differences between the book value and tax basis of the various balance sheet assets and liabilities, and requires the current recognition of changes in tax rates and laws. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Net Income per Share – Basic income per share has been computed by dividing the net income by the weighted-average number of common shares outstanding for the period. The Company uses the treasury stock method to compute diluted earnings per share, which assumes the proceeds from an assumed exercise of stock options would be used to purchase common stock at the average market price during the period.

Comprehensive Income – Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income (loss), are components of comprehensive income.

Reclassification – Certain amounts appearing in the prior year's financial statements have been reclassified to conform to the current year's financial statements.

Subsequent Events – The consolidated financial statements and related disclosures include evaluation of events up through and including February 22, 2013, which is the date the consolidated financial statements were issued.

Recent Accounting Pronouncements

Troubled Debt Restructurings – in April 2011, the FASB issued ASU 2011-02, "A Creditors Determination of whether a Restructuring is a Troubled Debt Restructuring", which provides additional guidance to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the Company for the year ending December 31, 2012. This guidance was adopted in the current year with no impact on the consolidated financial statements.

Fair Value – In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." The standard clarifies existing fair value measurement and disclosure requirements and changes existing principles and disclosure guidance. Clarifications were made to the relevancy of the highest and best use valuation concept and measurement of an instrument classified in an entity's shareholder's equity. Changes to existing principles and disclosures included measurement of financial instruments managed within a portfolio, the applications of premiums and discounts in fair value measurement, and additional disclosures related to fair value measurements. The updated guidance and requirements are effective for financial statements issued for the first annual period beginning after December 15, 2011. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

Comprehensive Income – During 2012, the Company adopted new guidance related to the presentation of comprehensive income in the consolidated financial statements. Among other changes, the new guidance eliminated the option only to present comprehensive income in the consolidated statement of equity. The Company has elected to report comprehensive income in a separate consolidated statement of comprehensive income. The change in presentation has been applied retroactively and the 2011 consolidated financial statements have been restated to conform to the new presentation method. Other than the change in presentation of comprehensive income and related disclosures, the new guidance did not have a material effect on the consolidated financial statements

NOTE 2 - SECURITIES

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, at December 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	$ 2,562,400	$ 2,363	$ (16,729)	$ 2,548,034
Corporate	606,994	7,503	-	614,497
Municipal	5,911,010	182,086	(5,724)	6,087,372
Total available-for-sale Securities	$ 9,080,404	$ 191,952	$ (22,453)	$ 9,249,903

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, at December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	$ 3,998,992	$ 23,206	$ -	$ 4,022,198
Corporate	308,603	9,562	-	318,165
Municipal	4,011,932	144,929	(1,048)	4,155,813
Total available-for-sale Securities	$ 8,319,527	$ 177,697	$ (1,048)	$ 8,496,176

At December 31, 2012 and 2011, no securities were pledged to secure borrowing public deposits and for other purposes or permitted by law.

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2012 are as follows:

	Amortized Cost	Market Value
Due in one year or less	$ 1,001,069	$ 1,003,432
Due in one through five years	5,036,603	5,197,712
Due after five years through ten years	3,042,732	3,048,759
Total	$ 9,080,404	$ 9,249,903

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ 16,729	$ 1,482,402	$ -	$ -
Corporate	-	-	-	-
Municipal	5,724	206,620	-	-
Total available-for-sale securities	$ 22,453	$ 1,689,022	$ -	$ -

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ -	$ -	$ -	$ -
Corporate	-	-	-	-
Municipal	1,048	175,928	-	-
Total available-for-sale securities	$ 1,048	$ 175,928	$ -	$ -

Unrealized losses on securities have not been recognized into income because the issuer's bonds are of high credit quality, the Company has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

NOTE 3 – LOANS

A summary of the balances of loans as of December 31, 2012 and 2011, respectively, is as follows.

	2012	2011
Mortgage loans on real estate:		
Residential 1 to 4 family	$ 3,695,289	$ 4,176,201
Commercial	43,144,945	34,364,258
Second mortgage	166,639	174,111
Equity lines of credit	808,864	853,097
Total mortgage loans on real estate	47,815,737	39,567,667
Commercial loans	10,674,664	12,969,510
Consumer installment loans	273,009	177,448
Total loans	58,763,410	52,714,625
Less:		
Allowance for loan losses	1,351,470	1,388,238
Net deferred loan fees	63,005	60,800
Net loans	$ 57,348,935	$ 51,265,587

An analysis of the allowance for loan losses follows:

	2012	2011
Balance at beginning of year	$ 1,388,538	$ 959,350
Provision for loan losses	-	424,916
Loans charged off	41,818	-
Recoveries on loans previously charged off	5,050	3,972
Balance at end of year	$ 1,351,470	$ 1,388,238

In the ordinary course of business, the Bank has granted loans to executive officers and directors and their affiliates amounting to $1,485,625 at December 31, 2012 and $3,751,267 at December 31, 2011. During the year ended December 31, 2012, total principal additions were $346,799 and total principal payments were $2,612,441.

NOTE 4 – LOANS and ALLOWANCE FOR LOAN LOSSES

Loans and the allowance for loan losses are disaggregated by segment as of and for the year ended December 31, 2012 as follows:

Allowance:	Real estate-construction	Real estate-residential	Real estate-commercial	Commercial and industrial	Consumer	Unallocated	Total
Beginning balance	$ 21,050	$ 132,129	$1,065,484	$ 166,314	$ 2,265	$ 996	$1,388,238
Charge-offs	-	(41,818)	-	-	-	-	(41,818)
Recoveries	-	-	-	5,050	-	-	5,050
Provision	-	-	-	-	-	-	-
Ending balance	$ 21,050	$ 90,311	$1,065,484	$ 171,364	$ 2,265	$ 996	$ 1,351,470
Ending allowance balance							
Attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 77,010	$ -	$ -	$ -	$ 77,010
Collectively evaluated for impairment	21,050	90,311	1,045,667	171,364	2,265	996	1,274,460
Ending balance	$ 21,050	$ 90,311	$ 1,122,677	$ 171,364	$ 2,265	$ 996	$1,351,470

Loans and leases:	Real estate-construction	Real estate-residential	Real estate-commercial	Commercial and industrial	Consumer	Total
Individually evaluated for impairment	$ -	$ 294,750	$ 1,369,065	$ -	$ -	$ 1,663,815
Collectively evaluated for impairment	1,010,466	4,376,043	40,765,413	10,674,664	273,009	57,099,595
Ending loan balance	$ 1,010,466	$ 4,670,793	$ 42,134,478	$ 10,674,664	$ 273,009	$ 58,763,410

Loans and the allowance for loan losses are disaggregated by segment as of and for the year ended December 31, 2011 as follows:

Allowance:	Real estate-construction	Real estate-residential	Real estate-commercial	Commercial and industrial	Consumer	Unallocated	Total
Beginning balance	$ -	$ 77,981	$ 614,323	$ 262,918	$ 4,128	$ -	$ 959,350
Recoveries	-	-	-	-	3,972	-	3,972
Provision	21,050	54,148	451,161	(96,604)	(5,835)	996	424,916
Ending balance	$ 21,050	$ 132,129	$1,065,484	$ 166,314	$ 2,265	$ 996	$ 1,388,238
Ending allowance balance							
Attributable to loans:							
Individually evaluated for impairment	$ -	$ 71,293	$ 585,106	$ -	$ -	$ -	$ 656,399
Collectively evaluated for impairment	21,050	60,836	480,378	166,314	2,265	996	731,839
Ending balance	$ 21,050	$ 132,129	$ 1,065,484	$ 166,314	$ 2,265	$ 996	$1,388,238

Loans and leases:	Real estate-construction	Real estate-residential	Real estate-commercial	Commercial and industrial	Consumer	Total
Individually evaluated for impairment	$ -	$ 336,568	$ 1,401,920	$ -	$ -	$ 1,738,488
Collectively evaluated for impairment	1,683,969	4,866,841	31,278,369	12,969,510	177,448	50,976,137
Ending loan balance	$ 1,683,969	$ 5,203,409	$ 32,680,289	$ 12,969,510	$ 177,448	$ 52,714,625

Credit Risk Grading

The Company utilizes a loan rating system as a means of identifying problem and potential problem loans. The Company assigned the following loan ratings as of December 31, 2012:

	Pass (1 – 4)	Pass with Caution (5)	Special Mention (6)	Substandard (7)	Total
Real estate-construction:					
1-4 family residential	$ 1,010,466	$ -	$ -	$ -	$ 1,010,466
Other construction, land development and land loans	-	-	-	-	-
Real estate-residential:					
Revolving lines of credit	808,864	-	-	-	808,864
1-4 family residential	3,567,179	-	-	294,750	3,861,929
Real estate-commercial					
Multifamily	1,981,276	-	-	-	1,981,276
Nonfarm nonresidential	33,580,186	2,945,628	2,258,323	1,369,065	40,153,202
Commercial and industrial	10,547,228	127,436	-	-	10,674,664
Consumer	273,009	-	-	-	273,009
Total	$ 51,768,208	$ 3,073,064	$ 2,258,323	$ 1,663,815	$ 58,763,410

The Company utilizes a loan rating system as a means of identifying problem and potential problem loans. The Company assigned the following loan ratings as of December 31, 2011:

	Pass (1 – 4)	Pass with Caution (5)	Special Mention (6)	Substandard (7)	Total
Real estate-construction:					
1-4 family residential	$ 508,000	$ -	$ -	$ -	$ 508,000
Other construction, land development and land loans	1,175,969	-	-	-	1,175,969
Real estate-residential:					
Revolving lines of credit	853,097	-	-	-	853,097
1-4 family residential	4,013,744	-	-	336,568	4,350,312
Real estate-commercial					
Multifamily	2,042,580	-	-	-	2,042,580
Nonfarm nonresidential	26,007,571	1,431,790	1,796,428	1,401,920	30,637,709
Commercial and industrial	12,012,950	799,610	156,950	-	12,969,510
Consumer	170,001	7,447	-	-	177,448
Total	$ 46,783,912	$ 2,238,847	$ 1,953,378	$ 1,738,488	$ 52,714,625

The Company assigned each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Company uses the following definitions for credit risk ratings:

Superior (1): Loans to borrowers with unquestionable strength and a solid earnings history. This category includes loans collateralized by cash or other highly liquid collateral where such collateral is held by the bank and is substantially risk-free.

Good (2): Assets of this grade conform to all the bank's underwriting criteria and evidence a below level of credit risk. Borrower's paying capacity is strong, with stable trends. If the borrower is a company, its earnings, liquidity and capitalization compare

favorably to typical companies in its industry. Secondary sources of repayment are considered to be good. Borrower's repayment capacity is good and borrower consistently complies with all major covenants.

Average (3): Assets of this grade conform to substantially all the bank's underwriting criteria and evidence an average level of credit risk. However, such assets display more susceptibility to economic, technological or political changes since they lack the above average credit strength of credits rated Good. Borrower's repayment capacity is considered to be adequate. Credit is appropriately structured and serviced, payment history is satisfactory.

Acceptable (4): Assets of this grade conform to most of the bank's underwriting criteria and evidence an acceptable, though higher than Average level of credit risk. Loans in this category require an above average level of servicing and show more reliance on collateral and guaranties to preclude a loss to the bank should adverse trends develop. If the borrower is a company, its earnings, liquidity and capitalization are slightly below average when compared to peers.

Pass with Caution (5): These loans generally have the same characteristics as those in the Acceptable (4) category. The distinguishing characteristics that cause a loan to be considered a Grade 5 loan would be a major occurrence or condition, either actual or anticipated, the consequences of which are not yet evident, which would materially increase the level of risk in the credit. The loan warrants closer monitoring by the loan officer than does a Grade 4 credit. In addition, loans in this category require a more proactive stance on the part of the loan officer in order to improve the credit's weaknesses and thus prevent the level of credit risk from increasing to a point where a more severe risk rating is justified.

Special Mention (6): Assets included in this category are currently protected but are potentially weak. These assets constitute an undue and unwarranted credit risk but do not presently expose the bank to a sufficient degree of risk to justify adverse classification. Close management attention is required.

Substandard (7): Substandard assets are inadequately protected by the current net worth and financial capacity of the borrower or the collateral pledged. Assets so classified must have well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of Substandard assets, does not have to exist in individual assets classified as Substandard. Loans in this category will generally require a loan loss reserve allocation which will be determined by the Chief Lending Officer in compliance with ASC Topic 310.

Age Analysis of Past Due Loans

Delinquent loans were as follows at December 31, 2012:

	30 – 89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Financing Receivables
Real estate-construction:					
1-4 family residential	$ -	$ -	$ -	$ 1,010,466	$ 1,010,466
Other construction, land development and land loans	-	-	-	-	-
Real estate-residential:					
Revolving lines of credit	-	-	-	808,864	808,864
1-4 family residential	36,518	294,750	331,268	3,530,661	3,861,929
Real estate-commercial					
Multifamily	-	-	-	1,981,276	1,981,276
Nonfarm nonresidential	-	-	-	40,153,202	40,153,202
Commercial and industrial	55,625	-	55,625	10,619,039	10,674,664
Consumer	-	-	-	273,009	273,009
Total	$ 92,143	$ 294,750	$ 386,893	$ 58,376,517	$ 58,763,410

Delinquent loans were as follows at December 31, 2011:

	30 – 89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Financing Receivables
Real estate-construction:					
1-4 family residential	$ -	$ -	$ -	$ 508,000	$ 508,000
Other construction, land development and land loans	-	-	-	1,175,969	1,175,969
Real estate-residential:					
Revolving lines of credit	-	-	-	853,097	853,097
1-4 family residential	-	336,568	336,568	4,013,744	4,350,312
Real estate-commercial					
Multifamily	-	-	-	2,042,580	2,042,580
Nonfarm nonresidential	1,871,631	-	1,871,631	28,766,078	30,637,709
Commercial and industrial	60,460	-	60,460	12,909,050	12,969,510
Consumer	-	-	-	177,448	177,448
Total	$ 1,932,091	$ 336,568	$ 2,268,659	$ 50,445,966	$ 52,714,625

Impaired Loans

Impaired loans were as follows at December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for 2012 Net of Allowance	Interest Income Recognized in 2012
With an allowance recorded:					
Real estate-residential					
1-4 family residential	$ 294,750	$ 336,568	$ -	$ 305,205	$ -
Real estate-commercial					
Nonfarm nonresidential	1,292,055	1,369,065	77,010	1,385,493	115,276
Total	$ 1,586,805	$ 1,705,633	$ 77,010	$ 1,690,698	$ 115,276

Impaired loans were as follows at December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for 2011 Net of Allowance	Interest Income Recognized in 2011
With an allowance recorded:					
Real estate-residential					
1-4 family residential	$ 265,275	$ 336,568	$ 71,293	$ 339,398	$ -
Real estate-commercial					
Nonfarm nonresidential	816,814	1,401,920	585,106	1,414,052	92,126
Total	$ 1,082,089	$ 1,738,488	$ 656,399	$ 1,753,450	$ 92,126

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loans basis for all loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of expected future cash flows using the loans existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Recorded Investment is the Unpaid Principal balance less Related Allowance.

Nonaccrual Loans

Nonaccrual loans were as follows at December 31, 2012 and 2011, respectively:

	2012	2011
Real estate-residential – 1-4 family residential	$ 294,750	$ 336,568

Loans on which interest and/or principal is 90 days or more past due are placed on nonaccrual status and any previously accrued but uncollected interest is reversed against income (current year) or charged to the allowance for credit losses (prior year). Such loans will remain on a cash basis for the recognition of income until such time as the loan has remained current for a period of not less than six months and it is determined an adequate propensity for timely payment to occur in the future. Past due is measured from the date through which interest is due or on which principal payment is due irrespective of the date on which the billing may have been rendered. Unless otherwise specified in the note or loan agreement, demand notes shall, for the purpose of measuring past due status, have an interest due date no less frequently than once each calendar quarter.

There were no troubled debt restructurings as of December 31, 2012 and 2011, or during the year, respectively.

NOTE 5 – DEPOSITS

The following is a summary of the distribution of deposits as of December 31, 2012 and 2011:

	2012	2011
Noninterest bearing deposits	$ 12,022,846	$ 7,872,318
NOW Accounts	1,017,238	891,944
Savings and money market accounts	25,351,435	29,269,098
Certificates of deposit less than $100,000	9,428,945	2,405,884
Certificates of deposit greater than $100,000	22,053,131	19,048,589
Total	$ 69,873,595	$ 59,487,833

At December 31, 2012, the scheduled maturities of time deposits are as follows:

	Less than $100,000	Greater than $100,000	Total
2013	$ 2,231,862	$ 16,132,872	$ 18,364,734
2014	3,480,768	3,504,494	6,985,262
2015	210,826	953,239	1,164,065
2016	3,505,489	1,462,526	4,968,015
2017	-	-	-
Total	$ 9,428,945	$ 22,053,131	$ 31,482,076

NOTE 6 – OFF-BALANCE SHEET ARRANGEMENTS

Credit-Related Financial Instruments – The Bank is a party to credit-related 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, standby letters of credit, and undisbursed lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The contractual amounts of commitments to extend credit, standby letters of credit, and undisbursed lines of credit as of December 31, 2012 and 2011, respectively are shown below:

	December 31, 2012	December 31, 2011
Commitments to extend credit	$ 3,890,750	$ 2,350,000
Standby letters of credit	153,481	653,481
Undisbursed lines of credit	6,381,229	8,606,133
Total	$ 10,425,460	$ 11,609,614

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 repayment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily

represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Undisbursed lines of credit under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit can be collateralized and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to those customers. The Company generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements – To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, and equipment, and real estate.

If the counterparty does not have the right and the ability to redeem the collateral or the Company is permitted to sell or repledge the collateral on short notice, the Company records the collateral on its consolidated balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies – Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2012	December 31, 2011
Building and Improvements	$ 2,223,081	$ 2,220,140
Land	854,233	854,233
Office Equipment	859,629	664,175
	3,936,943	3,738,548
Less: Accumulated depreciation	961,138	802,198
Property and equipment net of depreciation	$ 2,975,805	$ 2,936,350

NOTE 8 – INCOME TAXES

The Company has net operating loss carryforwards of approximately $604,000 generated from inception through December 31, 2012 that are available to reduce future taxable income through the year ending December 31, 2031.

The components of the Company's provision for income taxes for the years ended December 31, 2012 and 2011 are as follows:

	December 31	
	2012	2011
Income tax (expense) benefit at statutory rate of 34%	$ (391,578)	$ (101,146)
Change in valuation allowance	1,386,446	108,326
Effect of nondeductible expenses and other – net	(13,728)	(7,180)
Net income tax benefit	$ 981,140	$ -

Components of the Company's deferred tax assets at December 31 are summarized as follows:

Deferred tax asset:	2012	2011
Assets:		
Bad debt reserve	$ 400,923	$ 416,232
Stock warrant expense	187,833	187,833
Organizational costs	186,638	207,184
Net operating loss	205,363	569,392
Fixed assets	31,037	27,191
Contribution carryover	6,883	6,764
Total assets	1,018,677	1,414,596
Liabilities:		
Deferred loan costs/fees	(37,537)	(28,150)
Total liabilities	(37,537)	(28,150)
Valuation allowance	-	(1,386,446)
Net deferred tax asset	$ (981,140)	$ -

The allocation of income taxes between current and deferred is as follows:

	2012	2011
Current	$ -	$ -
Deferred Expense	405,306	108,326
Valuation allowance	(1,386,446)	(108,326)
Total income tax (benefit)	$ (981,140)	$ -

The Company's deferred tax asset ("DTA") is included in other assets on the balance sheet. A valuation reserve is required when it is more likely than not that a portion of all of the benefit related to the asset will not be realized. Since inception, the Company had provided a valuation reserve for the full amount of the DTA balance due to cumulative losses, but this was reversed in 2012. The Company believes there is sufficient evidence that it will be able to recognize the benefits of the DTA based on improved earnings, positive performance trends and future projections demonstrating sustainable profitability. As a result, no valuation reserve is required as of December 31, 2012.

NOTE 9 – STOCK-BASED COMPENSATION

At the Company's Annual Meeting of Shareholders held May 21, 2008, its shareholders approved the 2008 Stock Incentive Plan, which had previously been approved by the Board of Directors. Under the Company's stock-based incentive plan, the Company may grant stock options to its directors, officers and employees for up to 166,795 shares of common stock. Effective January 1, 2007, the Company adopted the fair value recognition provisions of ASC 718-20, *Share Based Payments*. ASC 718-20 established a fair value method of accounting for stock options whereby compensation expense is recognized based on the computed fair value of the options on the grant date.
At December 31, 2012, stock options outstanding had a weighted average remaining contractual life of 8.5 years. The following table summarizes stock options outstanding and aggregate intrinsic value as of December 31, 2012:

		Weighted Average		
Exercise Price	Number Outstanding	Remaining Contractual Life	Exercise Price	Aggregate Intrinsic Value
$ 10.00	38,224	7.5 yrs	$ 10.00	-

The Company granted 59,024 incentive options to purchase common stock to certain officers of the Company during 2008. The fair value of the stock options granted during 2008 was $3.66 per share. No options were granted in 2012; a total of 24,324 new options were granted in 2011. The weighted average assumptions used in the Black-Scholes model for options granted during 2011 are noted in the following table. The Company uses historical data to estimate option expense and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. During 2011, 3,475 options were cancelled; none were cancelled in 2012.

The stock options have an exercise price of $10.00 per share. The options vest ratably over a three-year term. All of the options expire 10 years following the date of grant.

As of December 31, 2012, there was $50,378 of total unrecognized pre-tax compensation expense related to nonvested stock options outstanding. The weighted average term over which this expense will be recognized is 1.9 years. Common shares issued upon exercise of stock options result in new shares issued by the Company from authorized but unissued shares.

In conjunction with its initial public offering, the Company has issued a total of 277,993 warrants to initial shareholders in the ratio of one warrant to every five shares purchased in the offering. These warrants had a strike price of $12.50 per share and expired at noon on February 26, 2010. Additionally, the Company has issued 142,500 warrants to its organizers. These warrants have a strike price of $10.00 per share

and expire February 26, 2017. A total of 142,500 warrants to purchase the Company's common stock were issued and outstanding as of December 31, 2012 and 2011.

NOTE 10– BORROWINGS

In 2008, the Bank entered into a discount window loan agreement with the Federal Reserve Bank of Chicago. The borrower-in-custody arrangement allows for secured advances based on the pledging of assets such as loans, investment securities and other assets. The interest rate on the advances is based on the quoted federal reserve discount window rates (effective rate of 0.50 percent as of December 31, 2012). At December 31, 2012 and 2011, the Bank had $0 outstanding in the advances.

The Bank had available credit lines with Comerica Bank and Great Lakes Bankers Bank as of December 31, 2012. The lines allow for advances of up to $3,000,000 and is unsecured. At December 31, 2012 and 2011, the Bank had $0 outstanding on the lines.

The Bank has the ability to obtain fixed and variable rate advances with the Federal Home Loan Bank of Indianapolis. The blanket collateral borrowing arrangement allows for advances collateralized by pooled mortgage-related assets of the Bank such as loans. At December 31, 2012 and 2011, the Bank had $0 in outstanding advances.

NOTE 11 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks are subject to regulatory capital requirements administered by federal banking authorities. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting policies. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications: well capitalized, adequately capitalized, undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. The Bank was well capitalized as of December 31, 2012 and 2011.

The Bank's actual capital amounts and ratios as of December 31, 2012 and 2011 are represented in the following table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total Risk Based Capital To Risk Weighted Assets						
Lotus Bank	$ 11,439	17.21%	$ 5,319	8.00%	$ 6,648	10.00%
Tier One Capital to Risk Weighted Assets						
Lotus Bank	$ 10,689	16.08%	$ 2,659	4.00%	$ 3,989	6.00%
Tier One Capital to Total Average Assets						
Lotus Bank	$ 10,689	13.45%	$ 3,178	4.00%	$ 3,972	5.00%
As of December 31, 2011:						
Total Risk Based Capital To Risk Weighted Assets						
Lotus Bank	$ 8,820	15.26%	$ 4,623	8.00%	$ 5,779	10.00%
Tier One Capital to Risk Weighted Assets						
Lotus Bank	$ 8,089	14.00%	$ 2,311	4.00%	$ 3,467	6.00%
Tier One Capital to Total Average Assets						
Lotus Bank	$ 8,089	11.43%	$ 2,832	4.00%	$ 3,540	5.00%

NOTE 12 – RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company.

Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. 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 standards. Because of the Bank's de novo status and its startup losses, at December 31, 2012, the Bank's retained earnings available for the payment of dividends, without approval from regulators, was $0. Accordingly, all of the Company's investment in the Bank was restricted at December 31, 2012.

Loans or advances made by the Bank to the Company are generally limited to 10 percent of the Bank's capital and surplus. The Federal Reserve Bank of Chicago, which is the Company's regulator, however, has restricted borrowings by the Company during its first seven years of operation without its prior approval.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents – the carrying amounts of cash and cash equivalents approximate fair value.

Loans Receivable – for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Securities – the fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Deposit Liabilities – the fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts also approximate the fair value for money market deposit, other savings, and variable rate certificate of deposit accounts. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest – the carrying amounts of accrued interest approximate fair value.

Other Financial Instruments – the fair value of other financial instruments, including loan commitments, unfunded lines of credit and unfunded standby letters of credit, based on discounted cash flow analyses, is not material.

The carrying and fair values of the Company's assets and liabilities as of December 31, 2012 and 2011, respectively are as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	$ 1,274,534	$ 1,274,534	$ 939,318	$ 939,318
Federal funds sold	10,385,116	10,385,116	5,665,125	5,665,125
Investment securities	9,249,903	9,249,903	8,496,176	8,496,176
Loans – net	57,348,935	58,119,287	51,265,587	52,237,009
Accrued interest receivable	231,998	231,998	254,998	254,998
Noninterest bearing deposits	12,022,846	12,022,846	7,872,318	7,872,318
Interest bearing deposits	26,368,673	26,368,673	30,161,042	30,161,042
Time deposits	31,482,076	31,812,864	21,454,473	22,047,244
Accrued interest payable	108,116	108,116	83,294	83,294

NOTE 14 – EMPLOYEE BENEFIT PLAN

On January 1, 2009, the Bank adopted a 401(k) Plan (the "Plan") for the benefit of substantially all of its employees. Under the Plan, employees may elect to defer, up to the maximum allowed by IRS regulations, pre-tax income through contributions to the Plan. In order to maintain "safe harbor" status, the Bank may contribute 3.0% of eligible employees' compensation into the Plan. The contributions to the Plan were $29,792 and $27,145 for 2012 and 2011, respectively. Participant contributions and employer safe harbor contributions are fully vested immediately. The Plan also has discretionary profit-sharing and matching provisions. The Bank made no contributions under either of these provisions in 2012 or 2011. Contributions made under the discretionary provisions become fully vested after six years.

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting standards require that certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Company's assets measured at fair value on a recurring basis on December 31, 2012 and 2011 and the valuation techniques used by the Company to determine those values.

Level 1 – In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

Level 2 – Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.
In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
U.S. government and federal agency	$ 2,548,034	$ -	$ -	$ 2,548,034
Corporate	614,497	-	-	614,497
Municipal	-	6,087,372	-	6,087,372
Total	$ 3,162,531	$ 6,087,372	$ -	$ 9,249,903

Assets Measured at Fair Value on a Recurring Basis at December 31, 2011

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2011
U.S. government and federal agency	$ 4,022,216	$ -	$ -	$ 4,022,216
Corporate	318,165	-	-	318,165
Municipal	-	4,155,795	-	4,155,795
Total	$ 4,340,381	$ 4,155,795	$ -	$ 8,496,176

The Company also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans. The fair value of these loans are $1,663,815 and $1,738,488 as of December 31, 2012 and 2011, respectively. The Company has estimated the fair values of these assets primarily on Level 3 inputs. Impaired loans are generally valued using the fair value of collateral provided by third party appraisals. These valuations include assumptions related to cash flow projections, discount rates, and recent comparable sales. The numerical ranges of unobservable inputs for these valuation assumptions are not meaningful.