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Independent Auditor's Report

To the Board of Directors
Lotus Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Lotus Bancorp, Inc. and Subsidiary (the "Corporation") as of December 31, 2010 and 2009 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lotus Bancorp, Inc. and Subsidiary as of December 31, 2010 and 2009 and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 15, 2011

**LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

ASSETS

	December 31	
	2010	2009
Cash and Cash Equivalents		
Cash and due from banks	\$ 984,598	\$ 1,170,614
Federal funds sold	6,493,836	5,029,499
Total cash and cash equivalents	7,478,434	6,200,113
Securities - available for sale (Note 3)	5,915,518	-
Loans, less allowance for loan losses of \$959,350 and \$780,344 at December 31, 2010 and 2009, respectively (Note 2)	51,237,935	47,098,140
Property and equipment, net of depreciation (Note 6)	3,117,097	3,298,594
Accrued interest receivable and other assets	567,484	554,898
Total assets	\$ 68,316,468	\$ 57,151,745

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	2010	2009
Deposits (Note 4)		
Non-interest bearing	\$ 5,766,150	\$ 5,151,706
Interest bearing	52,845,052	42,165,015
Total deposits	58,611,202	47,316,721
Accrued interest payable and other liabilities	174,607	190,176
Total liabilities	58,785,809	47,506,897
Shareholders' equity		
Common stock, \$0.01 par value		
Authorized - 8,000,000 shares		
Issued and outstanding - 1,390,365 shares at December 31, 2010 and 1,389,965 at December 31, 2009	13,904	13,899
Additional paid in capital	14,082,445	14,047,107
Accumulated deficit	(4,530,592)	(4,416,158)
Accumulated other comprehensive loss	(35,098)	-
Total shareholders' equity	9,530,659	9,644,848
Total liabilities and shareholders' equity	\$ 68,316,468	\$ 57,151,745

See Notes to Financial Statements

**LOTUS BANCORP, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS**

	For the Year Ended December 31	
	2010	2009
Interest income:		
Loans receivable, including fees	\$ 3,211,439	\$ 2,187,662
Federal funds sold	26,723	10,438
Interest bearing deposits with banks	-	45,565
Securities	62,377	-
Other	860	329
Total interest income	3,301,399	2,243,994
Interest expense	848,003	711,481
Net interest income	2,453,396	1,532,513
Provision for loan losses (Note 2)	263,496	468,426
Net interest income after provision for loan losses	2,189,900	1,064,087
Non-interest income		
Service charges on deposit accounts	57,912	40,687
Other income	89,720	51,880
Total non-interest income	147,632	92,567
Non-interest expense		
Salary and benefits (Note 13)	1,369,501	1,035,123
Occupancy and equipment expense	344,383	320,236
Stock based compensation (Note 8)	30,343	57,792
Professional fees	195,952	146,010
Advertising and public relations	31,067	53,192
Data processing expenses	152,478	142,971
Travel and entertainment	16,843	53,747
Printing and office supplies	27,515	24,238
Dues and memberships	11,016	19,645
Outside office services	66,789	44,407
Michigan business tax	25,844	22,550
Other expense	180,235	176,074
Total non-interest expense	2,451,966	2,095,985
Net loss before income taxes	(114,434)	(939,331)
Income taxes (Note 7)	-	-
Net loss	\$ (114,434)	\$ (939,331)
Basic loss per share	\$ (0.08)	\$ (0.68)
Diluted loss per share	\$ (0.08)	\$ (0.68)
Weighted average shares	1,390,298	1,389,965

See Notes to Financial Statements

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

	Common Stock	Paid in Capital	Accumulated Deficit	Comprehensive Loss	Total
Balance January 1, 2009	\$ 13,899	\$ 13,989,315	\$ (3,476,827)	-	\$ 10,526,387
Options expense	-	57,792	-	-	57,792
Net loss	-	-	(939,331)	-	(939,331)
Balance December 31, 2009	13,899	14,047,107	(4,416,158)	-	9,644,848
Comprehensive loss:					
Net loss	-	-	(114,434)	-	(114,434)
Unrealized loss on securities Available for sale	-	-	-	(35,098)	(35,098)
Total comprehensive loss					(149,532)
Warrants exercised	5	4,995	-	-	5,000
Options expense	-	30,343	-	-	30,343
Balance December 31, 2010	<u>\$ 13,904</u>	<u>\$ 14,082,445</u>	<u>\$ (4,530,592)</u>	<u>\$ (35,098)</u>	<u>\$ 9,530,659</u>

See Notes to Financial Statements

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

	For the Year Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Adjustments to reconcile actual loss to net cash from operating activities		
Net loss	\$ (114,434)	\$ (939,331)
Stock option expense	30,343	57,792
Depreciation	190,836	189,867
Amortization of securities	3,024	-
Provision for loan losses	263,496	468,426
Increase in other assets	(12,586)	(380,033)
Increase (decrease) in other liabilities	(15,569)	86,656
Net cash provided by (used in) operating activities	345,110	(516,623)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(4,403,291)	(22,481,008)
Purchases of securities	(8,454,010)	-
Maturities of securities	2,500,370	-
Purchase of equipment	(9,339)	(9,686)
Net cash used in investing activities	(10,366,270)	(22,490,694)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock warrants	5,000	-
Increase in non-interest bearing deposits	614,444	1,538,423
Increase in interest bearing deposits	10,680,037	22,057,871
Net cash provided by financing activities	11,299,481	23,596,294
INCREASE IN CASH AND CASH EQUIVALENTS	1,278,321	588,977
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,200,113	5,611,136
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 7,478,434	\$ 6,200,113
Supplemental Disclosure of Non-cash Activity:		
Cash paid for interest	\$ 836,507	\$ 697,285

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.

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 are 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 collectibility 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, substandard, or special mention. 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 nonclassified 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. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

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.

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.

Loss per Share – Basic loss per share has been computed by dividing the net loss 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 March 15, 2011, which is the date the consolidated financial statements were issued.

Recent Accounting Pronouncements – In July, 2010, FASB issued ASU No. 2010-20 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". The standard requires the Company to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures will include details on our past due loans and credit quality indicators. The Company will adopt the standard beginning with the December 31, 2011 consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06 "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements about Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Company's disclosures is reflected in Note 14 to the consolidated financial statements.

NOTE 2 – LOANS

A summary of the balances of loans as of December 31, 2010 and 2009, respectively, is as follows.

	2010	2009
Mortgage loans on real estate:		
Residential 1 to 4 family	\$ 4,065,471	\$ 3,617,700
Commercial	29,321,045	25,642,886
Second mortgage	81,475	219,905
Equity lines of credit	1,920,364	2,087,399
Total mortgage loans on real estate	35,388,355	31,567,890
Commercial loans	16,582,894	15,890,178
Consumer installment loans	322,620	507,047
Total loans	52,293,869	47,965,115
Less:		
Allowance for loan losses	959,350	780,344
Net deferred loan fees (costs)	96,584	86,631
Net loans	<u>\$ 51,237,935</u>	<u>\$ 47,098,140</u>

An analysis of the allowance for loan losses follows:

	2010	2009
Balance at beginning of year	\$ 780,344	\$ 314,000
Provision for loan losses	263,496	468,426
Loans charged off	(85,090)	(2,082)
Recoveries on loans previously charged off	600	-
Balance at end of year	<u>\$ 959,350</u>	<u>\$ 780,344</u>

At December 31, 2010 and 2009, there were no loans considered to be impaired or over 90 days delinquent and still accruing.

In the ordinary course of business, the Bank has granted loans to executive officers and directors and their affiliates amounting to \$4,575,066 at December 31, 2010 and \$4,363,003 at December 31, 2009. During the year ended December 31, 2010, total principal additions were \$1,370,624 and total principal payments were \$1,158,561.

NOTE 3 – SECURITIES

The amortized cost and fair value of available-for-sale securities, with gross unrealized gains and losses, at December 31, 2010 (the Company had no investment in securities as of December 31, 2009) are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	\$ 3,500,016	\$ 2,343	\$ (22,812)	\$ 3,479,547
Corporate	-	-	-	-
Municipal	2,450,600	11,439	(26,068)	2,435,971
Total available-for-sale Securities	<u>\$ 5,950,616</u>	<u>\$ 13,782</u>	<u>\$ (48,880)</u>	<u>\$ 5,915,518</u>

At December 31, 2010, 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, 2010 are as follows:

	Amortized Cost	Market Value
Due in one year or less	\$ -	\$ -
Due in one through five years	4,312,073	4,304,858
Due after five years through ten years	1,638,543	1,610,660
Total	<u>\$ 5,950,616</u>	<u>\$ 5,915,518</u>

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2010, 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	\$ 22,812	\$ 1,477,187	\$ -	\$ -
Corporate	-	-	-	-
Municipal	26,068	1,649,532	-	-
Total available for sale securities	<u>\$ 48,880</u>	<u>\$ 3,126,719</u>	<u>\$ -</u>	<u>\$ -</u>

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 4 – DEPOSITS

The following is a summary of the distribution of deposits as of December 31, 2010 and 2009, respectively, is as follows:

	<u>2010</u>	<u>2009</u>
Noninterest bearing deposits	\$ 5,766,150	\$ 5,151,706
NOW Accounts	614,258	488,438
Savings and money market accounts	36,513,205	19,603,538
Certificates of deposit less than \$100,000	2,508,458	4,436,376
Certificates of deposit greater than \$100,000	13,209,131	17,636,663
Total	<u>\$ 58,611,202</u>	<u>\$ 47,316,721</u>

At December 31, 2010, the scheduled maturities of time deposits are as follows:

	<u>Less than \$100,000</u>	<u>Greater than \$100,000</u>	<u>Total</u>
2011	\$ 1,677,721	\$ 9,889,384	\$ 11,567,105
2012	704,424	347,749	1,052,173
2013	26,325	100,384	126,709
2014	-	2,107,000	2,107,000
2015	99,988	764,614	864,602
Total	<u>\$ 2,508,458</u>	<u>\$ 13,209,131</u>	<u>\$ 15,717,589</u>

NOTE 5 – OFF-BALANCE SHEET ARRANGEMENTS

Credit Related Financial Instruments – The subsidiary 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, 2010 and 2009, respectively, are shown below:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Commitments to extend credit	\$ 454,000	\$ 4,782,000
Standby letters of credit	938,639	797,931
Undisbursed lines of credit	9,044,994	8,310,157
Total	<u>\$ 10,437,633</u>	<u>\$ 13,890,088</u>

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 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Building and Improvements	\$ 2,212,089	\$ 2,212,089
Land	854,233	854,233
Office Equipment	<u>651,669</u>	<u>642,330</u>
	3,717,991	3,708,652
Less: Accumulated depreciation	<u>600,894</u>	<u>410,058</u>
Property and equipment net of depreciation	<u>\$ 3,117,097</u>	<u>\$ 3,298,594</u>

NOTE 7 – INCOME TAXES

The Company has adopted new accounting guidance related to accounting for income taxes as of January 1, 2009. The new accounting standard clarifies the guidance for the recognition and measurement of income tax benefits related to uncertain tax positions. The adoption of the new guidance did not have a material impact on the consolidated Financial statements.

The Company has net operating loss carryforwards of approximately \$2,425,000 generated from inception through December 31, 2010 that are available to reduce future taxable income through the year ending December 31, 2030. The deferred tax asset generated by that loss carry forward has been offset with a valuation allowance since the Company does not have a history of earnings

The components of the Company’s provision for income taxes for the years ended December 31, 2010 and 2009 are as follows:

	December 31	
	<u>2010</u>	<u>2009</u>
Income tax benefit at statutory rate of 34%	\$ 38,907	\$ 319,373
Change in valuation allowance	(26,536)	(276,435)
Effect of nondeductible expenses and other – net	<u>(12,371)</u>	<u>(42,938)</u>
Net income tax expense	<u>\$ -</u>	<u>\$ -</u>

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

Deferred tax asset:	<u>2010</u>	<u>2009</u>
Assets:		
Bad debt reserve	\$ 264,975	\$ 207,144
Stock warrant expense	187,833	187,833
Organizational costs	227,730	248,277
Net operating loss	824,570	845,974
Fixed assets	2,504	-
Contribution carryover	<u>6,439</u>	<u>6,004</u>
Total assets	1,514,051	1,495,232
Liabilities:		
Deferred loan costs/fees	(19,279)	(16,025)
Fixed assets	-	(10,971)
Total liabilities	<u>(19,279)</u>	<u>(26,996)</u>
Valuation allowance	<u>(1,494,772)</u>	<u>(1,468,236)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2010</u>	<u>2009</u>
Current	\$ -	\$ -
Deferred	(26,536)	(276,435)
Valuation allowance	<u>26,536</u>	<u>276,435</u>
Total income tax	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – 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, 2010, stock options outstanding had a weighted average remaining contractual life of 7.4 years. The following table summarizes stock options outstanding and aggregate intrinsic value as of December 31, 2010:

Exercise Price	Number Outstanding	Weighted Average		Aggregate Intrinsic Value
		Remaining Contractual Life	Exercise Price	
\$ 10.00	17,375	7.4 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 new options were granted in 2010. During 2010, 41,649 options were cancelled. A summary of the weighted average assumptions used in the Black-Scholes pricing model for grants of stock options during 2008 were as follows:

	Years Ended December 31, 2010 and 2009
Risk Free Interest Rate	3.80%
Expected Volatility	22.00%
Expected Dividend Yield	0.00%
Expected Life (in years)	8.00
Forfeiture Rate	0.00%

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, 2010, there was \$7,064 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 0.5 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 and 420,493 warrants to purchase the Company's common stock were issued and outstanding as of December 31, 2010 and 2009, respectively.

NOTE 9 – 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, 2010). At December 31, 2010 and 2009, the Bank had \$0 outstanding in the advances.

The Bank had an available credit line with Great Lakes Bankers Bank as of December 31, 2010. The line allows for advances of up to \$1,000,000 and is unsecured. At December 31, 2010 and 2009, the Bank had \$0 outstanding on the line.

The Bank has the ability to obtain fixed and variable rate advances with the Federal Home Loan Bank of Indianapolis. The borrowing arrangement allows for advances collateralized by specific, mortgage-related assets of the Bank such as loans. At December 31, 2010 and 2009, the Bank had \$0 in outstanding advances.

NOTE 10 – 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, 2010 and 2009.

The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 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, 2010:						
Total Risk Based Capital To Risk Based Assets Lotus Bank	\$ 8,517	14.30%	\$ 4,766	8.00%	\$ 5,958	10.00%
Tier One Capital to Risk Weighted Assets Lotus Bank	\$ 7,770	13.04%	2,383	4.00%	3,575	6.00%
Tier One Capital to Total Assets Lotus Bank	\$ 7,770	11.19%	2,777	4.00%	3,472	5.00%
As of December 31, 2009:						
Total Risk Based Capital To Risk Based Assets Lotus Bank	\$ 8,030	15.34%	\$ 4,186	8.00%	\$ 5,233	10.00%
Tier One Capital to Risk Weighted Assets Lotus Bank	\$ 7,374	14.09%	2,093	4.00%	3,140	6.00%
Tier One Capital to Total Assets Lotus Bank	\$ 7,374	13.49%	2,186	4.00%	2,733	5.00%

NOTE 11 – 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, 2010, 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, 2010.

Loans or advances made by the Bank to the Company are generally limited to 10 percent of the Bank's capital and surplus. Accordingly, at December 31, 2010, Bank funds available for loans or advances to the Company amounted to \$926,000. 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 12 – 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. SFAS 107 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 – 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, 2010 and 2009, respectively, are as follows:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	\$ 984,598	\$ 984,598	\$ 1,170,614	\$ 1,170,614
Federal funds sold	6,493,836	6,493,836	5,029,499	5,029,499
Investment securities	5,915,518	5,915,518	-	-
Loans – net	51,237,935	52,218,768	47,098,140	48,422,406
Accrued interest receivable	193,585	193,585	186,286	186,286
Noninterest bearing deposits	5,766,150	5,766,150	5,151,706	5,151,706
Interest bearing deposits	37,127,463	37,127,463	20,091,976	20,091,976
Time deposits	15,717,589	15,950,001	22,073,039	22,102,688
Accrued interest payable	72,925	72,925	61,429	61,429

NOTE 13 – EMPLOYEE BENEFIT PLAN

On January 1, 2009, the Bank adopted a 401(k) 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 \$27,580 and \$24,875 for 2010 and 2009, 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 2010 or 2009. Contributions made under the discretionary provisions become fully vested after six years.

NOTE 14 – 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 table presents information about the Company’s assets measured at fair value on a recurring basis on December 31, 2010 (there were none at December 31, 2009), 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.

In 2010, the Company adopted, on a prospective basis, net accounting standards which require disclosure of fair value by class of investments.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010

	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, 2010
U.S. government and federal agency	\$ -	\$ 3,479,547	\$ -	\$ 3,479,547
Corporate	-	-	-	-
Municipal	-	2,435,971	-	2,435,971
Total	<u>\$ -</u>	<u>\$ 5,915,518</u>	<u>\$ -</u>	<u>\$ 5,915,518</u>