SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
May 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________________ to ____________________________

Commission file number: 0-49784

Southern Connecticut Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Connecticut	06-1609692
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
215 Church Street, New Haven, Connecticut	06510
(Address of Principal Executive Offices)	(Zip Code)

(203) 782-1100
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company x
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 13 2013
Common Stock, $.01 par value per share	2,810,273 shares

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Item 1. Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2013 and December 31, 2012

ASSETS	March 31, 2013	December 31, 2012
Cash and due from banks	$ 11,845,637	$ 6,913,610
Short term investments	4,569,865	4,674,556
Cash and cash equivalents	16,415,502	11,588,166
Interest bearing certificates of deposit	409,811	655,278
Available for sale securities (at fair value)	2,350,000	1,249,925
Federal Home Loan Bank stock	60,600	60,600
Loans receivable		
Loans receivable	100,202,426	105,508,771
Allowance for loan losses	(2,234,391)	(2,229,334)
Loans receivable, net	97,968,035	103,279,437
Accrued interest receivable	362,323	397,497
Premises and equipment	1,850,234	1,928,353
Other real estate owned	582,911	582,911
Other assets held for sale	315,000	315,000
Other assets	1,453,152	1,389,394
Total assets	$ 121,767,568	$ 121,446,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 25,974,461	$ 29,906,051
Interest bearing deposits	80,649,013	78,345,187
Total deposits	106,623,474	108,251,238
Capital lease obligations	1,148,753	1,152,509
Accrued expenses and other liabilities	2,533,974	495,122
Total liabilities	110,306,201	109,898,869
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, no par value; shares authorized: 500,000; none issued	—	—
Common stock, par value $.01; shares authorized: 5,000,000; shares issued and outstanding: 2013 2,810,273; 2012 2,772,816	28,103	27,728
Additional paid-in capital	22,742,539	22,742,914
Accumulated deficit	(11,309,275)	(11,222,875)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	—	(75)
Total shareholders' equity	11,461,367	11,547,692
Total liabilities and shareholders' equity	$ 121,767,568	$ 121,446,561

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2013 and 2012

	March 31,	
	2013	2012
Interest Income:		
Interest and fees on loans	$ 1,340,940	$ 1,541,169
Interest on securities	251	67
Interest on short-term and other investments	17,129	16,964
Total interest income	1,358,320	1,558,200
Interest Expense:		
Interest expense on deposits	179,473	286,590
Interest expense on capital lease obligations	40,198	41,969
Interest expense on repurchase agreements and other borrowings	—	98
Total interest expense	219,671	328,657
Net interest income	1,138,649	1,229,543
Provision for loan losses	—	30,000
Net interest income after provision for loan losses	1,138,649	1,199,543
Noninterest Income:		
Service charges and fees	68,264	74,418
Loan prepayment fees	18,296	51,507
Other noninterest income	44,980	50,322
Total noninterest income	131,540	176,247
Noninterest Expenses:		
Salaries and benefits	680,273	804,110
Professional services	175,188	161,619
Occupancy and equipment	172,653	159,707
Data processing and other outside services	75,771	66,823
FDIC Insurance	68,201	55,450
Directors fees	45,025	36,550
Insurance	26,552	32,427
Other operating expenses	112,926	116,737
Total noninterest expenses	1,356,589	1,433,423
Net loss	$ (86,400)	$ (57,633)
Basic and diluted loss per share	$ (0.03)	$ (0.02)

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Three Months Ended March 31, 2013 and 2012

	March 31, 2013	2012
Net loss	$ (86,400)	$ (57,633)
Other comprehensive income (loss), net of taxes:		
Net change in unrealized holding gain (loss) on available for sale securities	75	(1,666)
Comprehensive loss	$ (86,325)	$ (59,299)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2013 and 2012

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive (Loss) Income	Total
Balance, December 31, 2011	2,697,902	$ 26,979	$ 22,569,489	$ (11,050,382)	$ (153)	$ 11,545,933
Net loss	—	—	—	(57,633)	—	(57,633)
Other comprehensive loss	—	—	—	—	(1,666)	(1,666)
Restricted stock compensation	37,457	375	72,197	—	—	72,572
Balance, March 31, 2012	2,735,359	$ 27,354	$ 22,641,686	$ (11,108,015)	$ (1,819)	$ 11,559,206
Balance, December 31, 2012	2,772,816	$ 27,728	$ 22,742,914	$ (11,222,875)	$ (75)	$ 11,547,692
Net Loss	—	—	—	(86,400)	—	(86,400)
Other comprehensive income	—	—	—	—	75	75
Issuance of restricted stock	37,457	375	(375)	—	—	—
Balance, March 31, 2013	2,810,273	$ 28,103	$ 22,742,539	$ (11,309,275)	$ —	$ 11,461,367

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2013 and 2012

	2013	2012
Cash Flows From Operations		
Net loss	$ (86,400)	$ (57,633)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	55,065	58,519
Share based compensation	—	72,572
Provision for loan losses	—	30,000
Gain on sale of other real estate owned	—	(2,896)
Increase in cash surrender value of life insurance	(13,214)	(9,990)
Changes in assets and liabilities:		
Increase (decrease) in accrued expenses and other liabilities	2,038,852	(134,787)
Decrease in accrued interest receivable	35,174	63,471
(Decrease) increase in deferred loan fees	(4,489)	9,845
(Increase) decrease in other assets	(50,544)	133,658
Net cash provided by operating activities	1,974,444	162,759
Cash Flows From Investing Activities		
Net decrease in loans receivable	5,315,891	4,942,953
Proceeds from maturities of available for sale securities	2,350,000	3,550,000
Purchases of available for sale securities	(3,450,000)	(3,596,158)
Proceeds from maturities of interest bearing certificates of deposits	245,467	—
Proceeds from disposal of premises and equipment	23,054	—
Purchases of premises and equipment	—	(9,248)
Purchases of interest bearing certificates of deposits	—	(555,000)
Proceeds from the sale of other real estate owned	—	181,644
Redemptions of Federal Home Loan Bank stock	—	5,500
Net cash provided by investing activities	4,484,412	4,519,691
Cash Flows From Financing Activities		
Net increase (decrease) in certificates of deposit	1,952,349	(3,747,655)
Net decrease in demand, savings and money market deposits	(3,580,113)	(7,812,388)
Principal repayments on capital lease obligations	(3,756)	(1,873)
Net decrease in repurchase agreements	—	121,551
Net cash used in financing activities	(1,631,520)	(11,440,365)
Net increase (decrease) in cash and cash equivalents	4,827,336	(6,757,915)
Cash and cash equivalents		
Beginning	11,588,166	24,932,203
Ending	$ 16,415,502	$ 18,174,288

See Notes to Consolidated Financial Statements

(Continued)

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Three Months Ended March 31, 2013 and 2012

	2013	2012
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 232,026	$ 338,686
Unrealized holding gains (losses) on available for sale securities arising during the period	$ 75	$ (1,666)

See Notes to Consolidated Financial Statements

Southern Connecticut Bancorp, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations

Southern Connecticut Bancorp, Inc. (the "Company") is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for a community-based commercial bank serving primarily New Haven County (the "Greater New Haven Market"). The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, and 100% of the capital stock of SCB Capital, Inc. The Company and its subsidiaries focus on meeting the financial service needs of consumers and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market.

The Bank operates branches at four locations, including downtown New Haven, the Amity/Westville section of New Haven, Branford and North Haven. The Bank's branches have a consistent, attractive appearance. Each location has an open lobby, comfortable waiting area, offices for the branch manager and a loan officer, and a conference room. The design of the branches complements the business development strategy of the Bank, affording an appropriate space to deliver personalized banking services in professional, confidential surroundings.

The Bank focuses on serving the banking needs of small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Greater New Haven Market. The Bank's target commercial customer has between $1.0 and $30.0 million in revenues, 15 to 150 employees, and borrowing needs of up to $3.0 million. The primary focus on this commercial market makes the Bank uniquely qualified to move deftly in responding to the needs of its clients. The Bank has been successful in winning business by offering a combination of competitive pricing for its services, quick decision making processes and a high level of personalized, "high touch" customer service.

On January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut ("Liberty"), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the "Merger"), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank, as described in Note 14.

Note 2. Basis of Financial Statement Presentation

The consolidated interim financial statements include the accounts of the Company and its subsidiaries. The consolidated interim financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of the Company and notes thereto as of December 31, 2012, filed with the

Securities and Exchange Commission on Form 10-K\A on April 8, 2013. Certain amounts included in the 2012 consolidated financial statements have been reclassified to conform with the 2013 presentation. Such reclassification had no impact on net loss.

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at March 31, 2013 and December 31, 2012 were as follows:

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 2,350,000	$ —	$ —	$ 2,350,000

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 1,250,000	$ —	$ (75)	$ 1,249,925

The following table presents the Company's available for sale securities, gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2013 and December 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Bills	$ 2,350,000	$ —	$ —	$ —	$ 2,350,000	$ —

	Less Than 12 Months		12 Months or More		Total	
December 31, 2012	Value	Loss	Value	Loss	Value	Loss
U.S. Treasury Bills	$ 1,249,925	$ 75	$ —	$ —	$ 1,249,925	$ 75

At March 31, 2013, the Company had no available for sale securities in an unrealized loss position. At December 31, 2012, the Company had two available for sale securities in an unrealized loss position.

The amortized cost and fair value of available for sale debt securities at March 31, 2013 by contractual maturity are presented below:

Maturity:	Amortized Cost	Fair Value
Within one year	$ 2,350,000	$ 2,350,000

Note 4. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at March 31, 2013 and December 31, 2012 was as follows:

	2013	2012
Commercial loans secured by real estate	$ 64,594,296	$ $ 64,677,545
Commercial	21,143,983	25,911,897
Residential mortgages	12,817,625	13,182,841
Construction and land	1,421,183	1,441,740
Consumer	329,683	403,581
Total loans	100,306,770	105,617,604

Net deferred loan fees		(104,344	)		(108,833	)
Allowance for loan losses		(2,234,391	)		(2,229,33	)
Loans receivable, net	$	97,968,035		$	103,279,437	

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The following tables detail the period end loan balances and the period end allowance for loan losses balances by portfolio segment that were collectively and individually evaluated for impairment as of March 31, 2013 and December 31, 2012.

March 31, 2013	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$60,196,149	$17,612,307	$12,040,913	$ 96,632	$ 329,683	$90,275,684
Loans individually evaluated for impairment	4,398,147	3,531,676	776,712	1,324,551	—	10,031,086
Total	$64,594,296	$21,143,983	$12,817,625	$ 1,421,183	$ 329,683	$100,306,770
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,257,720	$730,116	$238,079	$ 2,202	$ 6,274	$2,234,391
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$1,257,720	$730,116	$238,079	$ 2,202	$ 6,274	$2,234,391

December 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$60,179,921	$22,347,966	$12,322,319	$ 98,445	$ 403,581	$95,352,232
Loans individually evaluated for impairment	4,497,624	3,563,931	860,522	1,343,295	—	10,265,372
Total	$64,677,545	$25,911,897	$13,182,841	$ 1,441,740	$ 403,581	$105,617,604
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,150,619	$844,347	$225,601	$ 2,062	$ 6,705	$2,229,334
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$1,150,619	$844,347	$225,601	$ 2,062	$ 6,705	$2,229,334

The following tables detail activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

March 31, 2013	Commercial Loans Secured by	Commercial	Residential Mortgages	Construction and Land	Consumer	Total

	Real Estate					
Balance at beginning of year	$ 1,150,619	$ 844,347	$ 225,601	$ 2,062	$ 6,705	$ 2,229,334
Provision for loan losses	104,512	(116,699)	12,478	140	(431)	—
Loans charged-off	—	(9,944)	—	—	—	(9,944)
Recoveries of loans previously charged-off	2,589	12,412	—	—	—	15,001
Net recoveries (charge-offs)	2,589	2,468	—	—	—	5,057
Balance at end of period	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$ 1,257,720	$ 730,116	$ 238,079	$ 2,202	$ 6,274	$ 2,234,391

March 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625
Provision for (credit to) loan losses	(85,023)	119,871	(4,970)	(80)	202	30,000
Loans charged-off	—	—	—	—	—	—
Recoveries of loans previously charged-off	28,543	41,732	—	—	—	70,275
Net charge-offs	28,543	41,732	—	—	—	70,275
Balance at end of period	$ 1,066,219	$ 1,127,582	$ 182,254	$ 20,351	$ 3,494	$ 2,399,900
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,066,219	$ 935,516	$ 182,254	$ 20,351	$ 3,494	$ 2,207,834
Loans individually evaluated for impairment	—	192,066	—	—	—	192,066
Balance at end of period	$ 1,066,219	$ 1,127,582	$ 182,254	$ 20,351	$ 3,494	$ 2,399,900

Impaired Loans. 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 loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

The following tables relate to impaired loans as of March 31, 2013 and December 31, 2012:

March 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$ 4,511,270	$ 4,398,147	$ —	$ 4,398,147	$ —
Commercial	4,857,300	3,531,676	—	3,531,676	—
Construction and land	1,324,551	1,324,551	—	1,324,551	—
Residential mortgages	990,503	776,712	—	776,712	—
Total	$ 11,683,624	$ 10,031,086	$ —	$ 10,031,086	$ —

December 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$4,610,747	$4,497,624	$—	$4,497,624	$—
Commercial	4,880,211	3,563,931	—	3,563,931	—
Construction and land	1,343,295	1,343,295	—	1,343,295	—
Residential mortgages	1,074,313	860,522	—	860,522	—
Total	$11,908,566	$10,265,372	$—	$10,265,372	$—

The following table relates to interest income recognized by class of impaired loans as of and for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,			
	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans secured by real estate	$ 4,466,201	$ 17,410	$ 2,095,449	$ 23,867
Commercial	3,542,248	40,861	3,639,330	31,238
Construction and land	1,335,485	18,533	1,415,208	12,500
Residential mortgages	836,663	9,096	658,201	2,768

Consumer	—	—	930	13
Total	$ 10,180,597	$ 85,900	$ 7,809,118	$ 70,386

The Company’s lending activities are conducted principally in New Haven County of Connecticut. The Company grants commercial and residential real estate loans, commercial business loans and a variety of consumer loans. In addition, the Company may grant loans for the construction of residential homes, residential developments and land development projects. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent in large part upon the status of the regional economy and regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer on an individual basis and, when deemed appropriate, obtains collateral. Collateral varies by each borrower and loan type. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Important types of collateral include business assets, real estate, commercial vehicles, equipment, automobiles, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows.

Loan Origination/Risk Management. Management and the Board of Directors have adopted policies and procedures which dictate the guidelines for all loan originations for the Company. All loan originations are either approved by the Board of Directors or by a management committee comprised of the CEO, the President and Senior Loan Officer and the senior loan officers of the Company. Any loans approved by the management committee are reviewed and ratified by the Board of Directors.

The Company underwrites commercial and industrial loans, loans secured by commercial real estate, loans secured by residential real estate, loans related to commercial and residential development, and loans to consumers. The principal requirement of any borrower is the demonstrated ability to service the interest and principal payments of the loan as structured.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and generate the cash flow necessary to repay the loan as agreed with respect to principal and interest. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and require a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Like commercial and industrial loans, commercial real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and generate the cash flow necessary to repay the loan as agreed with respect to principal and interest. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk rating.

While the Company does have a small number of loans to individual borrowers to finance their primary residence, the majority of the Company's loans secured by residential real estate are made in connection with a commercial loan for which residential real estate is offered as collateral. These loans are underwritten to the same standards as commercial real estate loans.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company requires the borrower to have a proven record of success, and typically requires a personal guarantee from all the principals of the project. Construction loans are underwritten utilizing independent appraisal reviews and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project.

The Company originates consumer loans on a limited basis. Applications for consumer loans are analyzed on an individual basis based on the borrower's ability to repay the loan. Where available, collateral is used to secure consumer loans.

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Not less than annually, the Company utilizes an independent loan review company to review and validate the credit risk program. Results of these reviews are presented to management and reported to the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Nonaccrual and Past Due Loans. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

At March 31, 2013 and December 31, 2012, the unpaid principal balances of loans placed on nonaccrual status were $5,054,364 and $5,179,441, respectively. At March 31, 2013, three commercial real estate loans with an aggregate principal balance of $3,611,125 and three commercial loans with an aggregate principal balance of $1,846,196 were considered to be troubled debt restructurings. There are no further commitments to lend funds to these borrowers. There was one commercial loan past due 90 days or more and still accruing interest at March 31, 2013. There were no loans past due 90 days or more and still accruing interest at December 31, 2012.

Nonaccrual loans segregated by class of loans as of March 31, 2013 and December 31, 2012 were as follows:

Non-accrual loans by class

	2013		2012	
Commercial loans secured by real estate	$	1,026,201	$	1,040,453
Commercial		1,926,900		1,935,171
Construction and land		1,324,551		1,343,295
Residential mortgages		776,712		860,522
	$	5,054,364	$	5,179,441

An age analysis of past due loans, segregated by class of loans, as of March 31, 2013 and December 31, 2012 is as follows:

March 31, 2013	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured by real estate	$ 1,574,755	$ 1,026,201	$ 2,600,956	$ 61,993,340	$ 64,594,296	$ —
Commercial	993,897	2,426,900	3,420,797	17,723,186	21,143,983	500,000
Residential mortgages	35,131	776,712	811,843	12,005,782	12,817,625	—
Construction and land	—	1,324,551	1,324,551	96,632	1,421,183	—
Consumer	25,026	—	25,026	304,657	329,683	—
	$ 2,628,809	$ 5,554,364	$ 8,183,173	$ 92,123,597	$ 100,306,770	$ 500,000

December 31, 2012	Loans 30-89	Loans 90 Days or	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans

	Days Past Due	More Past Due				90 or More Days Past Due
Commercial loans secured by real estate	$363,284	$1,040,453	$1,403,737	$63,273,808	$64,677,545	$—
Commercial	608,612	1,935,171	2,543,783	23,368,114	25,911,897	—
Residential mortgages	—	860,522	860,522	12,322,319	13,182,841	—
Construction and land	—	1,343,295	1,343,295	98,445	1,441,740	—
Consumer	26,273	—	26,273	377,308	403,581	—
	$998,169	$5,179,441	$6,177,610	$99,439,994	$105,617,604	$—

Troubled Debt Restructurings. The recorded investment balance of TDRs, net of charge-offs, as of March 31, 2013 and December 31, 2012 was $5,457,000 and $5,577,000, respectively. At March 31, 2013 and December 31, 2012, the recorded investment balance included $877,000 and $941,000, respectively, for a commercial and industrial loan which returned to accrual status during the second quarter of 2012, as it had performed in accordance with the terms and conditions of its restructuring agreement for a period of one year. At both March 31, 2013 and December 31, 2012, there were no specific reserves recorded for TDRs. There were no charge-offs of TDRs during the three months ended March 31, 2013 and 2012. There were no additional funds committed to borrowers in TDR status at March 31, 2013.

There were no loans previously modified as TDRs for which there were payment defaults during the three months ended March 31, 2013.

Credit Quality Indicators. Oversight of the credit quality of the Company's loan portfolio is managed by members of senior management and a committee of the Board of Directors. This group meets not less than monthly to review all impaired loans, any loans identified by management as potential problem loans, and all loans that are past due. The Company's loan portfolio is comprised principally of loans to commercial entities, but the Company offers consumer loans as well. The Company employs different methodologies for monitoring credit risk in commercial loans and consumer loans.

Commercial Loans. The Company employs a risk rating system to identify the level of risk inherent in commercial loans. The risk rating system assists management in monitoring and overseeing the loan portfolio by providing indications of credit trends, serving as a basis for pricing, and being a part of the quantitative determination of the allowance for loan losses.

All commercial relationships, including loans categorized as commercial and industrial loans, commercial real estate loans, commercial loans secured by residential real estate, and construction loans, are included in this risk rating system. Under the Company's internal risk rating system, the Company has risk rating categories of 0 through 5 that fall into the federal regulatory risk rating of "Pass." A risk rating of 0 is assigned to those loans that are secured by readily marketable assets (including deposits at the bank); risk ratings increase from 1 to 5 in incremental increases of risk inherent in the relationship, with a loan that is rated 5 representing moderate risk. In addition, the Company identifies criticized loans as "special mention," "substandard," "doubtful" or "loss," by employing a numerical risk rating system of 6, 7, 8 and 9, respectively, which correspond with the federal regulatory risk rating definitions of special mention, substandard, doubtful and loss, respectively.

Risk ratings assigned to loans are recommended by management and approved by the Company's loan committee. The loan officer presents a proposed risk rating based on the underlying loan and the proposal is reviewed for accuracy and confirmed by the credit department. Risk ratings take into account a variety of commonly employed financial metrics, both quantitative and qualitative, which serve to measure risk. As part of the determination, all ratings of 5 or better (which are collectively considered "Pass" ratings by the Company) require that the customers have furnished timely financial information and other data pertinent to the relationships. Cash flow is reviewed and analyzed over a period of two to five years, but particular emphasis is placed on recent data in the event of a material change in performance, particularly a downward trend. New companies are generally considered riskier than established entities and length of time in business is factored into the risk rating decision. As part of the risk rating system, the health of the overall industry in which the company operates is also considered. Risk ratings are reviewed not less than annually.

Consumer Residential Mortgage Loans. The Company does not assign risk ratings to consumer residential mortgage loans. Consumer residential mortgage loans are considered "Pass" loans until such time that it is determined that the loan is impaired. For our consumer residential real estate loans, the Company orders an appraisal at 90 days past due. In the event there is a collateral shortfall, the Company records partial or full charge-offs of the loan balances,

typically immediately.

Consumer Loans. The Company does not assign risk ratings to consumer loans. Consumer loans are considered “Pass” loans until such time that it is determined that the loan is impaired. In the event a consumer loan becomes impaired, the entire balance of the loan is typically charged off immediately.

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The following tables present credit risk ratings by class of loan as of March 31, 2013 and December 31, 2012:

March 31, 2013	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$51,201,780	$14,131,443	$ 96,632	$11,672,382	$329,683	$77,431,920
Special Mention	9,409,128	979,132	—	145,051	—	10,533,311
Substandard	3,983,388	6,033,408	1,324,551	1,000,192	—	12,341,539
Total	$64,594,296	$21,143,983	$ 1,421,183	$12,817,625	$329,683	$100,306,770

December 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$50,805,961	$19,325,262	$ 98,445	$12,176,580	$403,581	$82,809,829
Special Mention	8,006,881	2,616,278	—	145,739	—	10,768,898
Substandard	5,864,703	3,970,357	1,343,295	860,522	—	12,038,877
Total	$64,677,545	$25,911,897	$ 1,441,740	$13,182,841	$403,581	$105,617,604

Note 5. Deposits

At March 31, 2013 and December 31, 2012, deposits consisted of the following:

	2013		2012	
Noninterest bearing	$	25,974,461	$	29,906,051
Interest bearing:				
Checking		3,615,320		5,110,736
Money Market		38,603,326		36,649,525
Savings		2,770,395		2,877,303
Time certificates, less than $100,000 (1)		10,736,846		10,873,751
Time certificates, $100,000 or more (2)		24,923,126		22,833,872
Total interest bearing		80,649,013		78,345,187
Total deposits	$	106,623,474	$	108,251,238

(1) Included in time certificates of deposit, less than $100,000, at March 31, 2013 and December 31, 2012 were brokered deposits totaling $472,907 and $469,037, respectively.

(2) Included in time certificates of deposit, $100,000 or more, at March 31, 2013 and December 31, 2012 were brokered deposits totaling $2,026,998 and $4,049,919, respectively.

Brokered deposits at March 31, 2013 and December 31, 2012 were as follows:

	2013	2012
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$ 281,491	$279,382
	2,026,998	4,049,919

Time certificates of deposit purchased by the Bank through CDARS		
Other brokered time certificates of deposit	191,416	189,655
Total brokered deposits	$2,499,905	$ 4,518,956

As a result of the Consent Order, described in Note 13, the Bank does not intend to renew or accept brokered deposits without obtaining prior regulatory approval during the period in which the Consent Order is in place.

Note 6. Available Borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At March 31, 2013, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no borrowings outstanding with the FHLB at March 31, 2013.

The Bank is required to maintain an investment in capital stock of the FHLB in an amount that is based on a percentage of its outstanding residential first mortgage loans. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation persists; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to its operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Note 7. Shareholders' Equity

Loss Per Share

The Company is required to present basic loss per share and diluted loss per share in its statements of operations. Basic per share amounts are computed by dividing net loss by the weighted average number of common shares outstanding. Diluted per share amounts assume exercise of all potential common stock equivalents in weighted average shares outstanding, unless the effect is antidilutive. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted loss per share.

The following is information about the computation of loss per share for the three months ended March 31, 2013 and 2012:

Three Months Ended March 31,	2013			2012		
	Net Loss	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Loss Per Share						
Loss available to common shareholders	$ (86,400)	2,809,857	$ (0.03)	$ (57,633)	2,711,485	$ (0.02)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	—	—	—	—	—
Loss available to common shareholders plus assumed conversions	$ (86,400)	2,809,857	$ (0.03)	$ (57,633)	2,711,485	$ (0.02)

For the three months ended March 31, 2013 and 2012, common stock equivalents of 0 shares and 27,167 shares have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Restricted stock plan

The Company had no unvested restricted stock outstanding at March 31, 2013. A summary of the status of the Company's nonvested restricted stock at March 31, 2013 and changes during the period then ended, is as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock at December 31, 2012	37,457	$ 1.55
Granted	—	—
Vested and issued	(37,457)	1.55
Forfeited	—	—
Nonvested restricted stock at March 31, 2013	—	$ —

During the three months ended March 31, 2013, there were no shares of time-based restricted stock granted to senior management. As of March 31, 2013, there was no unrecognized compensation cost related to restricted stock.

Note 8. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral become worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis.

The Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral that it deems necessary.

Financial instruments whose contract amounts represent credit risk at March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
Commitments to extend credit:		
Future loan commitments	$ 685,000	$ 3,025,000
Unused lines of credit	16,419,056	15,629,121
Financial standby letters of credit	1,945,140	1,954,807
Undisbursed construction loans	450,000	450,000
	$ 19,499,196	$ 21,058,928

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 to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being

drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. The liability related to guarantees recorded at March 31, 2013 and December 31, 2012 was not significant.

Note 9. Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

Cash and due from banks, short-term investments, interest bearing certificates of deposit, accrued interest receivable and accrued interest payable

The carrying amount is a reasonable estimate of fair value. The Company does not record these assets at fair value on a recurring basis. Cash and due from banks, short-term investments, interest bearing certificates of deposit, accrued interest receivable, accrued interest payable and repurchase agreements are classified as Level 1 within the fair value hierarchy.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston and is required to maintain an investment in capital stock of the FHLB. The carrying amount is a reasonable estimate of fair value. The Company does not record this asset at fair value on a recurring basis. Based on redemption provisions, the stock of the FHLB has no quoted market value and is carried at cost. FHLB stock is classified as Level 3 within the fair value hierarchy.

Available for sale securities

These financial instruments are recorded at fair value in the financial statements on a recurring basis. Where quoted prices are available in an active market, the securities are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models (i.e., matrix pricing) or quoted prices of securities with similar characteristics and the securities are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities and common stock. Securities classified within Level 3 of the valuation hierarchy are securities for which significant unobservable inputs are utilized. Available for sale securities are recorded at fair value on a recurring basis.

The Company's available for sale securities, comprised of U.S. Treasury securities, are classified as Level 1 in the fair value hierarchy, as quoted prices are available in an active market.

Loans receivable

For variable rate loans that reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the loan portfolio. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated period end market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the loan portfolio. The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

At March 31, 2013 and December 31, 2012, the Company's collateral dependent loans receivable considered impaired that were newly measured for fair value purposes during such periods, were categorized as Level 3 within the fair value hierarchy, and the balances, net of related specific reserves, were $0 and $3,448,058, respectively. The remaining balance of loans receivable was classified as Level 2 within the fair value hierarchy.

Servicing assets

The fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company does not record these assets at fair value on a recurring basis. Servicing assets are classified as Level 2 within the fair value hierarchy.

Other assets held for sale and other real estate owned

Other assets held for sale, representing real estate that is not intended for use in operations and real estate acquired through foreclosure, are recorded at fair value on a nonrecurring basis. Fair value is based upon appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies the fair value measurement as Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies the fair value measurement as Level 3. The Company classified the other assets held for sale and other real estate owned as Level 2 within the fair value hierarchy, as the fair value of these assets was based upon current appraisals.

Interest only strips

The fair value is based on a valuation model that calculates the present value of estimated future cash flows. The Company does not record these assets at fair value on a recurring basis. Interest only strips are classified as Level 2 within the fair value hierarchy.

Deposits

The fair value of demand deposits, savings and money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities of such deposits. The Company does not record deposits at fair value on a recurring basis. Demand deposits, savings and money market deposits are classified as Level 1 within the fair value hierarchy. Certificates of deposit are classified as Level 2 within the fair value hierarchy.

Off-balance-sheet instruments

Fair values for the Company's off-balance-sheet instruments (lending commitments) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The Company does not record its off-balance-sheet instruments at fair value on a recurring basis. Off-balance-sheet instruments are classified as Level 3 within the fair value hierarchy.

The following tables detail the financial instruments carried at fair value and measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$2,350,000	$2,350,000	$—	$—

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$1,249,925	$1,249,925	$—	$—

The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$ —	$ —	$ —	$ —

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$ 3,448,058	$ —	$ —	$ 3,448,058

(1) Represents carrying value and related write-downs for which adjustments are based on appraised value. Management makes adjustments to the appraised values as necessary to consider declines in real estate values since the time of the appraisal. Such adjustments are based on management's knowledge of the local real estate markets.

The following tables detail the nonfinancial asset amounts that were carried at fair value and measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012, and indicate the fair value hierarchy of the

valuation techniques utilized by the Company to determine the fair value:

	Balance as of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$315,000	$—	$315,000	$—
Other real estate owned	$582,911	$—	$—	$582,911

	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$315,000	$—	$315,000	$—
Other real estate owned	$582,911	$—	$—	$582,911

The Company discloses fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The estimated fair value amounts as of March 31, 2013 and December 31, 2012 have been measured as of their respective period-ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at such dates.

The information presented should not be interpreted as an estimate of the fair value of the Company as a whole since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at March 31, 2013 and December 31, 2012:

		March 31, 2013		December 31, 2012	
	Fair Value Hierarachy Level	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$ 11,845,637	$ 11,845,637	$ 6,913,610	$ 6,913,610
Short-term investments	Level 1	4,569,865	4,569,865	4,674,556	4,674,556
Interest bearing certificates of deposit	Level 1	409,811	409,811	655,278	655,278
Available for sale securities	Level 1	2,350,000	2,350,000	1,249,925	1,249,925
Federal Home Loan Bank stock	Level 3	60,600	60,600	60,600	60,600
Loans receivable, net:					
Observable inputs	Level 2	92,913,671	94,164,636	98,099,996	99,788,559
Unobservable inputs	Level 3	5,054,364	5,054,364	5,179,441	5,179,441
Accrued interest receivable	Level 1	362,323	362,323	397,497	397,497
Servicing rights	Level 2	5,604	14,081	6,012	15,106
Interest only strips	Level 2	7,239	11,676	7,769	12,531
Financial Liabilities:					
Noninterest-bearing deposits	Level 1	25,974,461	25,974,461	29,906,051	29,906,051
Interest bearing checking accounts	Level 1	3,615,320	3,615,320	5,110,736	5,110,736
Money market deposits	Level 1	38,603,326	38,603,326	36,649,525	36,649,525
Savings deposits	Level 1	2,770,395	2,770,395	2,877,303	2,877,303
Time certificates of deposits	Level 2	35,659,972	36,200,000	33,707,623	34,357,000
Accrued interest payable	Level 1	34,409	34,409	46,764	46,764

Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at March 31, 2013 and December 31, 2012.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent management believes necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 10. Commitments and Contingencies

Employment agreements

On February 28, 2012, the Company and the Bank entered into an employment agreement with the Chief Executive Officer effective as of February 28, 2012. The Company and the Chief Executive Officer also entered into a restricted stock agreement dated as of February 28, 2012.

Under the employment agreement, the individual will serve as Chief Executive Officer of the Company and the Bank from the date of the employment agreement through December 31, 2014, unless the Company and the Bank terminate the employment agreement earlier under the terms of the agreement. The Chief Executive Officer will also serve as a director of the Company and the Bank.

The Chief Executive Officer will earn an annual base salary over the term of the employment agreement and be entitled to receipt of incentive compensation at the end of each calendar year during the term in an amount up to 10% of the Chief Executive Officer's base salary for achieving individual or corporate goals established by the Board of Directors of the Company or the Bank. In addition, the Chief Executive Officer has been granted 112,371 shares of restricted common stock of the Company pursuant to the restricted stock agreement. Under the restricted stock agreement, the 112,371 shares of restricted common stock vests as follows: 37,457 shares as of the date of the restricted stock agreement, 37,457 shares as of July 2, 2012 and 37,457 shares as of January 2, 2013.

During the term, the Chief Executive Officer will be entitled to benefits including, but not limited to, comprehensive health insurance and major medical and dental coverage, participation in any long-term disability insurance plan and pension plan maintained by the Company or the Bank, supplemental disability insurance such that the monthly disability benefit payable to the Chief Executive Officer is equal to 70% of the Chief Executive Officer monthly base salary, use of a Bank-owned vehicle with a purchase price of up to $40,000, and term life insurance in an amount not less than $300,000.

If the Chief Executive Officer is terminated for "Cause" or voluntarily terminates the Chief Executive Officer's employment other than for "Good Reason," the Chief Executive Officer will only be entitled to base salary accrued through the date of the Chief Executive Officer's termination. If the Chief Executive Officer's employment is terminated by reason of "Disability," the Chief Executive Officer will receive disability benefits under any long-term disability plan maintained by the Company or the Bank. In the event of the Chief Executive Officer's death, the Chief Executive Officer's beneficiary(ies) or estate will be paid the Chief Executive Officer's base salary for a period of six months following the Chief Executive Officer's death. If the Chief Executive Officer is terminated for any reason other than for "Cause" or "Disability" or if the Chief Executive Officer voluntarily terminates the Chief Executive Officer's employment for "Good Reason," then the Chief Executive Officer will be entitled to receive (i) twelve months of base salary and (ii) the Chief Executive Officer's individual and/or family health benefits coverage for a period of twelve months following the Chief Executive Officer's termination (or such other period prescribed by the then applicable

COBRA law), with the Chief Executive Officer paying the same portion of the cost of such coverage as existed at the time of termination; provided, however, that no payment will be made to the Chief Executive Officer if such payment would constitute a "golden parachute payments" and is made after the occurrence of certain events specified under regulations promulgated by the Federal Deposit Insurance Corporation (the "FDIC"), including the determination by the FDIC that the Bank is in "troubled condition." Any lump sum payment made to the Chief Executive Officer is also subject to claw back by the Company and the Bank if it is later determined that the Chief Executive Officer committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

On January 29, 2013, the Company and the Bank entered into an employment agreement with the President and Senior Loan Officer effective January 1, 2013.

Under the employment agreement, the individual will serve as President of the Company and the Bank and Senior Loan Officer of the Bank for the period from January 1, 2013 to December 31, 2013, unless the employment agreement is terminated earlier in accordance with its terms. The President and Senior Loan Officer will be paid a base salary at the annual rate of $175,000 and be eligible for salary increases and bonuses reflecting job performance achievements at the discretion of the Board of Directors of the Company and the Bank. In addition, the President and Senior Loan Officer will be provided with group life insurance and comprehensive health insurance, including major medical coverage, comparable to the coverage provided to officers generally. The President and Senior Loan Officer will also be eligible to participate in any profit sharing plan or 401(k) plan in accordance with their terms.

The employment agreement may be terminated prior to December 31, 2013 as a result of the President and Senior Loan Officer engaging in certain specified acts that constitute cause or the death or disability of the President and Senior Loan Officer. In addition, in the event (i) the Company and the Bank enter into a “Business Combination” as defined in the employment agreement and (ii) the President and Senior Loan Officer (a) is not offered the same position at the President and Senior Loan Officer’s current base salary with the surviving entity, (b) determines in the President and Senior Loan Officer’s sole discretion that the position offered by the surviving entity is inconsistent with the President and Senior Loan Officer’s current position, including diminution in title, authority, duties or responsibilities, (c) has the President and Senior Loan Officer’s office relocated more than 25 miles from its current location or (d) is terminated within 2 years following the “Business Combination,” the President and Senior Loan Officer will be entitled to receipt of a lump sum payment equal to the President and Senior Loan Officer’s then current base salary; provided, however, that no payment will be made to the President and Senior Loan Officer if such payment would constitute a “golden parachute payment” and is made after the occurrence of certain events specified under regulations promulgated by the FDIC, including the determination by the FDIC that the Bank is in “troubled condition.” Any lump sum payment made to the President and Senior Loan Officer is also subject to claw back by the Company and the Bank if it is later determined that the President and Senior Loan Officer committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

On January 29, 2013, the Company and the Bank entered into an employment agreement with the Senior Vice President and Chief Financial Officer effective January 1, 2013.

Under the employment agreement, the individual will serve as Senior Vice President and Chief Financial Officer of the Company and the Bank for the period from January 1, 2013 to December 31, 2013, unless the employment agreement is terminated earlier in accordance with its terms. The Senior Vice President and Chief Financial Officer will be paid a base salary at the annual rate of $165,000 and be eligible for salary increases and bonuses reflecting job performance achievements at the discretion of the Board of Directors of the Company and the Bank. In addition, the Senior Vice President and Chief Financial Officer will be provided with group life insurance and comprehensive health insurance, including major medical coverage, comparable to the coverage provided to officers generally. The Senior Vice President and Chief Financial Officer will also be eligible to participate in any profit sharing plan or 401(k) plan in accordance with their terms.

The employment agreement may be terminated prior to December 31, 2013 as a result of the Senior Vice President and Chief Financial Officer engaging in certain specified acts that constitute cause or the death or disability of the Senior Vice President and Chief Financial Officer. In addition, in the event (i) the Company and the Bank enter into a “Business Combination” as defined in the employment agreement and (ii) the Senior Vice President and Chief Financial Officer (a) is not offered the same position at the Senior Vice President and Chief Financial Officer’s current base salary with the surviving entity, (b) determines in the Senior Vice President and Chief Financial Officer’s sole discretion that the position offered by the surviving entity is inconsistent with the Senior Vice President and Chief

Financial Officer's current position, including diminution in title, authority, duties or responsibilities, (c) has the Senior Vice President and Chief Financial Officer's office relocated more than 25 miles from its current location or

(d) is terminated within 2 years following the “Business Combination,” the Senior Vice President and Chief Financial Officer will be entitled to receipt of a lump sum payment equal to the Senior Vice President and Chief Financial Officer’s then current base salary; provided, however, that no payment will be made to the Senior Vice President and Chief Financial Officer if such payment would constitute a “golden parachute payment” and is made after the occurrence of certain events specified under regulations promulgated by the FDIC, including the determination by the FDIC that the Bank is in “troubled condition.” Any lump sum payment made to the Senior Vice President and Chief Financial Officer is also subject to claw back by the Company and the Bank if it is later determined that the Senior Vice President and Chief Financial Officer committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

On January 29, 2013, the Company and the Bank entered into an employment agreement with the First Vice President, Human Resources Director and Corporate Secretary effective January 1, 2013.

Under the employment agreement, the individual will serve as First Vice President, Human Resources Director and Corporate Secretary of the Company and the Bank for the period from January 1, 2013 to December 31, 2013, unless the employment agreement is terminated earlier in accordance with its terms. The First Vice President, Human Resources Director and Corporate Secretary will be paid a base salary at the annual rate of $82,000 and be eligible for salary increases and bonuses reflecting job performance achievements at the discretion of the Board of Directors of the Company and the Bank. In addition, the First Vice President, Human Resources Director and Corporate Secretary will be provided with group life insurance and comprehensive health insurance, including major medical coverage, comparable to the coverage provided to officers generally. The First Vice President, Human Resources Director and Corporate Secretary will also be eligible to participate in any profit sharing plan or 401(k) plan in accordance with their terms.

The employment agreement may be terminated prior to December 31, 2013 as a result of the First Vice President, Human Resources Director and Corporate Secretary engaging in certain specified acts that constitute cause or the death or disability of the First Vice President, Human Resources Director and Corporate Secretary. In addition, in the event (i) the Company and the Bank enter into a “Business Combination” as defined in the employment agreement and (ii) the First Vice President, Human Resources Director and Corporate Secretary (a) is not offered the same position at the First Vice President, Human Resources Director and Corporate Secretary’s current base salary with the surviving entity, (b) determines in the First Vice President, Human Resources Director and Corporate Secretary’s sole discretion that the position offered by the surviving entity is inconsistent with the First Vice President, Human Resources Director and Corporate Secretary’s current position, including diminution in title, authority, duties or responsibilities, (c) has the First Vice President, Human Resources Director and Corporate Secretary’s office relocated more than 25 miles from its current location or (d) is terminated within 2 years following the “Business Combination,” the First Vice President, Human Resources Director and Corporate Secretary will be entitled to receipt of a lump sum payment equal to the First Vice President, Human Resources Director and Corporate Secretary’s then current base salary; provided, however, that no payment will be made to the First Vice President, Human Resources Director and Corporate Secretary if such payment would constitute a “golden parachute payment” and is made after the occurrence of certain events specified under regulations promulgated by the FDIC, including the determination by the FDIC that the Bank is in “troubled condition.” Any lump sum payment made to the First Vice President, Human Resources Director and Corporate Secretary is also subject to claw back by the Company and the Bank if it is later determined that the First Vice President, Human Resources Director and Corporate Secretary committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

Change in Control Agreement

Effective June 21, 2012, the Bank entered into a change in control agreement with its Senior Vice President of Retail Banking.

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The agreement provides that in the event of (i) a "Change in Control" (as defined in the agreement) and (ii) the termination within twelve months of such "Change in Control" of the Senior Vice President of Retail Banking's employment (a) for any reason other than for "Cause" (as defined in the agreement), death or "Disability" (as defined in the agreement) or (b) as result of his resignation for "Good Reason" (as defined in the agreement) following the cure period specified in the agreement, the Senior Vice President of Retail Banking will be entitled to receipt of an amount equal to one times his annual base salary immediately prior to his termination of employment or the "Change in Control," whichever is higher. The Senior Vice President of Retail Banking will also be entitled to receipt of accrued but unpaid compensation and vacation time as well as an amount equal to one year's medical and dental insurance premiums totaling approximately $20,000.

The agreement further provides that notwithstanding anything to the contrary contained in the agreement, unless all necessary regulatory approvals are obtained, no "Change in Control" payments will be made to the Senior Vice President of Retail Banking if such payments would constitute a "golden parachute payment" under regulations promulgated by the FDIC. If required, any payments may be suspended, prevented or subject to claw back in whole or in part when warranted to ensure that payments contrary to the intent of federal law and regulations promulgated by the FDIC are not made. In this regard, any payments made to the Senior Vice President of Retail Banking are subject to claw back by the Bank if it is later determined that the Senior Vice President of Retail Banking committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

Note 11. Segment Reporting

The Company has three reporting segments for purposes of reporting business line results: Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as mortgage brokerage activities through the Bank, and the Holding Company segment is defined as the results of Southern Connecticut Bancorp, Inc. on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

Information about the reporting segments and reconciliation of such information to the consolidated financial statements was as follows:

Three Months Ended March 31, 2013

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$1,137,871	$523	$255	$—	$1,138,649
Provision for loan losses	—	—	—	—	—
Net interest income after provision for loan losses	1,137,871	523	255	—	1,138,649
Noninterest income	124,676	—	6,864	—	131,540
Noninterest expense	1,319,164	193	37,232	—	1,356,589
Net (loss) income	(56,617)	330	(30,113)	—	(86,400)
Total assets as of March 31, 2013	121,137,880	45,228	11,477,168	(10,982,708)	121,677,568

Three Months Ended March 31, 2012

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$1,227,911	$1,421	$211	$—	$1,229,543
Provision for loan losses	30,000	—	—	—	30,000
Net interest income after provision for loan losses	1,197,911	1,421	211	—	1,199,543
Noninterest income	167,292	—	8,955	—	176,247
Noninterest expense	1,402,204	193	31,026	—	1,433,423
Net (loss) income	(37,001)	1,228	(21,860)	—	(57,633)
Total assets as of March 31, 2012	133,773,203	43,447	11,569,107	(10,977,731)	134,408,026

Note 12. Recent Accounting Pronouncement

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Non-public companies are required to comply with the requirements of ASU 2013-02 for all reporting periods (interim and annual) beginning after December 15, 2013. The Company adopted the methodologies prescribed by this ASU during the quarter ended March 31, 2013. Adoption of this guidance did not have a material effect on the Company's financial statements.

Note 13. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of March 31, 2013, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. While the Bank met the capital ratio quantitative requirements to be classified as a "well capitalized" financial institution as of March 31, 2013, the Bank is currently classified as "adequately capitalized" as a result of the Consent Order entered into by the Bank in July 2012 with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking, which is described below in the following paragraphs. As an "adequately capitalized" financial institution, the Bank may not accept brokered deposits without first obtaining a waiver from the Federal Deposit Insurance Corporation. With such a waiver, the Bank generally may not pay an interest rate on the brokered deposits in excess of 75 basis points above interest rates in its normal market area or the national interest rate on deposits outside of its normal market area. The Federal Deposit Insurance Corporation insurance assessment also increases when a financial institution falls below the "well capitalized" classification. In addition, financial institutions that are not "well capitalized," such as the Bank, may have more difficulty obtaining certain regulatory approvals (including for acquisitions of other financial institutions and opening of new branches).

On July 2, 2012, the Bank entered into a stipulation and consent to the Issuance of a Consent Order with the FDIC and the State of Connecticut Department of Banking ("Connecticut Department of Banking"). Thereafter, on July 3, 2012, the Bank entered into a Consent Order (the "Consent Order") with the FDIC and the Connecticut Department of Banking.

By entering into the Consent Order, the Bank has agreed to take certain measures in a number of areas, including, without limitation, the following: (i) having and retaining qualified management and reviewing and revising its assessment of senior management; (ii) maintaining minimum specified capital levels and developing and submitting a capital plan in the event any of its capital ratios fall below such minimum specified capital levels; (iii) formulating and submitting a profit and budget plan consisting of goals and strategies consistent with sound banking practices and implementing such plan;

(iv) formulating and submitting a plan to reduce classified assets and implementing such plan; (v) reviewing and improving the loan and credit risk management policies and procedures; (vi) developing and implementing action plans addressing all other recommendations identified within its most recent Report of Examination; (vii) complying with the Interagency Policy Statement on Internal Audit Function and its Outsourcing; and (viii) not accepting, renewing or rolling over any brokered deposits unless the Bank is in compliance with regulations governing the solicitation and acceptance of brokered deposits. The Consent Order also provides that the Bank will obtain prior regulatory approval before the payment of any dividends. The Bank has already adopted and implemented many of the actions prescribed in the Consent Order.

The Consent Order requires the Bank to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At March 31, 2013, the Bank’s capital ratios exceeded such minimums set forth in the Consent Order. In September 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. The capital plan included a profit and budget plan and a plan to reduce classified assets. In October 2012, the Bank received regulatory approval for its revised capital plan. Further regulatory action is possible if the Bank does not continue to maintain the minimum capital ratios set forth in the Consent Order.

The Bank has an Oversight Committee that is responsible for supervising the implementation of the Consent Order. The Oversight Committee meets monthly and is currently composed of the Company’s Chairman of the Board, two additional directors, the Chief Executive Officer, the President and Senior Loan Officer and the Chief Financial Officer.

The Consent Order is the result of ongoing discussions between the Bank’s regulatory agencies and the Bank based on a regulatory examination conducted in early 2012. The Consent Order will remain in effect until it is modified or terminated by the FDIC and the Connecticut Department of Banking. The Bank’s customer deposits remain fully insured to the highest limit set by the FDIC.

Note 14. Pending Merger Transaction

On January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut (“Liberty”), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the “Merger”), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank.

Subject to the terms and conditions of the Merger Agreement, upon consummation of the Merger, each outstanding share of common stock of the Company will be converted into the right to receive cash consideration in the amount of $3.76. In addition, each outstanding option to acquire shares of common stock of the Company will be cancelled and converted into the right to receive cash equal to the product of (i) the positive difference, if any, between $3.76 and the exercise price of such option multiplied by (ii) the number of shares of common stock of the Company underlying such option.

The Merger Agreement contains representations, warranties and covenants of the Company, the Bank and Liberty. Among other customary covenants, each of the Company and the Bank has agreed that it (i) will conduct its business in the ordinary course and consistent with past banking practices during the period between the execution of the Merger Agreement and the consummation of the Merger and (ii) will not engage in certain kinds of transactions during such period unless it obtains the prior written consent of Liberty. The Company has also agreed to not, subject

to certain exceptions generally related to the Company's Board of Directors' evaluation and exercise of its fiduciary duties, (i) solicit proposals relating to alternative business combination transactions or (ii) enter into discussions or negotiations or provide confidential information in connection with any proposals for alternative business combination transactions. The Merger Agreement also provides that Liberty will establish an advisory board for the Greater New Haven, Connecticut market area and invite each director of the Company to serve on such advisory board.

The Merger Agreement provides certain termination rights for both the Company and Liberty, and further provides that upon termination of the Merger Agreement under certain circumstances, the Company will be obligated to pay Liberty a termination fee of up to $450,000.

Completion of the Merger is subject to various conditions, including (i) receipt of the requisite approval of the shareholders of the Company, (ii) the absence of any law or order prohibiting the closing and (iii) receipt of regulatory approvals. In addition, each party's obligation to consummate the Merger is subject to certain other conditions, including the accuracy of the representations and warranties of the other party, compliance by the other party with its covenants in all material respects and the receipt of all material permits, authorizations, consents, waivers or approvals required to be obtained by the other party. If these conditions are satisfied, the Merger is expected to be completed in the second quarter of 2013.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist you in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the accompanying unaudited financial statements as of and for the three months ended March 31, 2013 and 2012 together with the audited financial statements as of and for the year ended December 31, 2012, included in the Company's Form 10-K\A filed with the Securities and Exchange Commission on April 8, 2013.

Summary

As of March 31, 2013, the Company had $121.8 million of total assets, $100.2 million of gross loans receivable, and $106.6 million of total deposits. Total equity capital at March 31, 2013 was $11.5 million and the Company's Tier I Leverage Capital Ratio was 9.53%.

The Company had a net loss for the quarter ended March 31, 2013 of $86,000 (or basic and diluted loss per share of $0.03) as compared to a net loss of $58,000 (or basic and diluted loss per share of $0.02) for the first quarter of 2012.

The Company's operating results for the first quarter of 2013, when compared to the same period of 2012, were influenced by the following factors:

- Net interest income decreased by $91,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio and the reversal of $42,000 of interest income for one commercial TDR loan resulting from the reclassification of such amount to a reduction in the loan's principal balance where the amount was initially recorded), which were partially offset by decreases in liability volumes and lower rates paid on interest bearing liabilities;
- Provision for loan losses decreased by $30,000 primarily due to declines in loan balances subject to the general reserve;
- Noninterest income decreased by $44,000 because of decreases in loan prepayment fees recognized during the three months ended March 31, 2013 compared to the same period of 2012 as well as a decline in other noninterest income and a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and

Noninterest expenses decreased by $76,000 during the first quarter of 2013 compared to the same period of 2012 primarily due to a decrease in salaries and benefits expense, which was partially offset by increases in occupancy and equipment expense, professional services and the cost of FDIC insurance. The decrease in salaries and benefits during the first quarter of 2013 when compared to the first quarter of 2012 was primarily attributable to restricted stock compensation expense recorded by the Company for restricted stock that vested during the first quarter of 2012 as a result of the Chief Executive Officer's employment agreement and restricted stock agreement being executed on February 28, 2012 with no such expense incurred during the first quarter of 2013. The increase in occupancy and equipment expense was attributable to increased property taxes and maintenance costs. The increase in professional services was due to increased costs for legal and auditing services performed in the first quarter of 2013 when compared to the same period in 2012. The cost of FDIC insurance increased during the first quarter of 2013 compared to the first quarter of 2012 primarily due to an increase in FDIC assessment rates, which was partially offset by a decline in balances subject to the FDIC deposit insurance assessment.

Critical Accounting Policy

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to reporting the results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Company's only critical accounting policy, which is the policy that is most important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has reviewed this critical accounting policy and estimates with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the audited Consolidated Financial Statements as of and for the year ended December 31, 2012 included in the Company's Form 10-K\A filed with the Securities and Exchange Commission on April 8, 2013.

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. 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 allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans, segregated generally by loan type (and further segregated by risk rating), and is based on historical loss experience with adjustments for qualitative factors which are made after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss data.

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 loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers either experiencing financial difficulties or absent such concessions, it is probable the borrowers would experience financial difficulty complying with the original terms of the loan. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

A modified loan is considered a troubled debt restructuring (“TDR”) when two conditions are met: (1) the borrower is experiencing documented financial difficulty and (2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications include interest rate reductions and/or maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower, as the Bank does not employ modification programs for temporary or trial periods. All modifications are permanent. The modified loan does not revert back to its original terms, even if the modified loan agreement is violated. The Company’s workout committee continues to monitor the modified loan and if a re-default occurs, the loan is classified as a re-defaulted TDR and collection is pursued through liquidation of collateral, from guarantors, if any, or through other legal action.

Most TDRs are placed on nonaccrual status at the time of restructuring, and continue on nonaccrual status until they have performed under the revised terms of the modified loan agreement for a minimum of six months. In certain instances, for TDRs that are on accrual status at the time the loans are restructured, the Bank may continue to classify the loans as accruing loans based upon the terms and conditions of the restructuring. At March 31, 2013, the Bank had two commercial and industrial loans and one commercial loan secured by real estate classified as TDRs on nonaccrual status and two commercial loans secured by real estate and one commercial loan classified as TDRs on accrual status. TDRs are classified as impaired loans and remain as TDRs for the remaining life of the loan. At March 31, 2013, all TDRs have been performing in accordance with the restructured terms.

Impairment analysis is performed on a loan by loan basis for all modified commercial loans, residential mortgages and consumer loans that are deemed to be TDRs, and related charge-offs are recorded or specific reserves are established as appropriate. Commercial loans include loans categorized as commercial loans secured by real estate, commercial loans, and construction and land loans. Impairment is measured by the present value of expected future cash flows discounted at the loan’s effective interest rate. The original contractual interest rate for the loan is used as the discount rate for fixed rate loan modifications. The current rate is used as the discount rate when the loan’s interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation.

The allowances established for losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the borrower’s ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed by the credit department, in consultation with the loan officers, for all commercial loans. Specific valuation allowances are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower’s industry, among other things.

General valuation allowances are calculated based on the historical loss experience of specific types of loans. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company’s pools of similar loans include analogous risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and

consumer and other loans.

Due to the relatively small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC regarding the loss experience of national banks with assets between $100 million and $300 million and combines this data with the Company's actual loss experience to develop average loss factors by weighting the national banks' loss experience and the Company's loss experience. In reviewing the performance and trends of the Company's loan portfolio during the year ended December 31, 2012 compared to the year ended December 31, 2011, management determined to update the methodology relating to the calculation of the general reserve by reducing the historical loss period to three years from the four year loss period utilized during the year ended December 31, 2011, which is considered more representative of average annual losses inherent in the Bank's loan portfolio. The Company returned to the use of the three year loss period at December 31, 2012 after considering trends in loan loss activity, current loan portfolio quality and present economic, political and regulatory conditions, and continued using this three year loss period at March 31, 2013. Since there was no significant change in both the Company's asset size and outstanding loan balance during 2012 or the first quarter of 2013, the Company determined to continue to weight the loss experience of national banks and the Company's loss experience equally. As the size of the Company's loan portfolio becomes more significant, the Company intends to weight the Company's loss experience more heavily in determining the allowance for loan loss provision.

General valuation allowances are based on general economic conditions and other qualitative risk factors, both internal and external, to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; and (vi) the impact of national and local economic trends and conditions. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate or low degree of risk. The results are then entered into a general allocation matrix to determine an appropriate general valuation allowance.

Based upon this evaluation, management believes the allowance for loan losses of $2,234,391 or 2.23% of gross loans outstanding at March 31, 2013 is adequate, under prevailing economic conditions, to absorb losses on existing loans.

At December 31, 2012, the allowance for loan losses was $2,229,334 or 2.11% of gross loans outstanding. The increase in the allowance at March 31, 2013 compared to December 31, 2012 was attributable to a $5,000 increase in the general component of the allowance. The $5,000 increase in the general component of the reserve from December 31, 2012 to March 31, 2013 was due to net recoveries realized by the Company during the first quarter of 2013.

The Company's provision for loan losses decreased by $30,000 for the quarter ended March 31, 2013 compared to the same period in 2012 primarily due to declines in loan balances subject to the general reserve.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the loan is well-secured and in process of collection. Consumer installment loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis method until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers all non-accrual loans and troubled-debt restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days and the related loans are not considered to be impaired.

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Allowance for Loan Losses and Nonaccrual, Past Due and Restructured Loans

The changes in the allowance for loan losses for the three months ended March 31, 2013 and 2012 were as follows:

	2013	2012
Balance at beginning of year	$ 2,229,334	$ 2,299,625
Provision for loan losses	—	30,000
Recoveries of loans previously charged-off:		
Commercial	12,412	70,275
Commercial loans secured by real estate	2,589	—
Total recoveries	15,001	70,275
Loans charged-off:		
Commercial	(9,944)	—
Total charge-offs	(9,944)	—
Balance at end of period	$ 2,234,391	$ 2,399,900
Net recoveries to average loans	0.01 %	0.06 %

Non-Performing Assets and Potential Problem Loans

The following table represents non-performing assets and potential problem loans at March 31, 2013 and December 31, 2012:

Nonaccrual loans:	2013	2012
Commercial	$1,685,479	$1,687,827
Construction and land	1,324,551	1,343,295
Residential mortgages	776,712	860,522
Commercial loans secured by real estate	787,023	796,775
Total non-accrual loans	4,573,765	4,688,419
Troubled debt restructured (TDR) loans:		
Nonaccrual TDR loans not included in total nonaccrual loans above:		
Commercial	241,421	247,344
Commercial loans secured by real estate	239,178	243,678
Accruing TDR impaired loans:		
Commercial loans secured by real estate	3,371,947	3,457,170
Commercial	1,604,775	1,628,761
Total impaired loans	10,031,086	10,265,372
Foreclosed assets:		
Commercial	582,911	582,911
Total non-performing assets	$10,613,997	$10,848,283
Ratio of non-performing assets to:		
Total loans and foreclosed assets	10.53 %	10.23 %
Total assets	8.72 %	8.93 %
Accruing past due loans:		
30 to 89 days past due	$2,628,809	$998,169
90 or more days past due	500,000	—
Total accruing past due loans	$3,128,809	$998,169
Ratio of accruing past due loans to total loans net of unearned income:		

30 to 89 days past due	2.62	%	0.95	%
90 or more days past due	0.50	%	0.00	%
Total accruing past due loans	3.12	%	0.95	%

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Recent Accounting Changes

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Non-public companies are required to comply with the requirements of ASU 2013-02 for all reporting periods (interim and annual) beginning after December 15, 2013. The Company adopted the methodologies prescribed by this ASU during the quarter ended March 31, 2013. Adoption of this guidance did not have a material effect on the Company's financial statements.

Comparison of Financial Condition as of March 31, 2013 versus December 31, 2012

General

The Company's total assets were $121.8 million at March 31, 2013, an increase of $300,000 over total assets of $121.5 million at December 31, 2012. The Bank's net loans receivable decreased to $98.0 million at March 31, 2013 from $103.3 million at December 31, 2012, and cash and cash equivalents, including short term investments, increased to $16.4 million as of March 31, 2013 from $11.6 million as of December 31, 2012. Total deposits decreased to $106.6 million as of March 31, 2013 from $108.2 million as of December 31, 2012. Accrued expenses and other liabilities increased $2.0 million to $2.5 million as of March 31, 2013 from $500,000 at December 31, 2012.

Short-term investments

Short-term investments, consisting of money market investments, decreased to $4.6 million at March 31, 2013 from $4.7 million at December 31, 2012.

Investments

Available for sale securities, which consisted of U.S. Treasury Bills, increased $1.1 million to $2.3 million at March 31, 2013 from $1.2 million at December 31, 2012. The Company uses the U.S. Treasury Bills included in its available for sale securities portfolio to meet pledge requirements for public deposits. The Company classifies its securities as "available for sale" to provide greater flexibility to respond to changes in interest rates as well as future liquidity needs.

Loans

Interest income on loans is the most important component of the Company's net interest income. The loan portfolio is the largest component of earning assets, and it therefore generates the largest portion of revenues. The Company's net loan portfolio was $98.0 million at March 31, 2013 versus $103.3 million at December 31, 2012, a decrease of $5.3 million. The Company attributes the decline in loan balances during the first three months of 2013 to a decline in loan demand. The Bank's loans have been made to small to medium-sized businesses, primarily in the Greater New Haven Market. There are no other significant loan concentrations in the loan portfolio.

Deposits

Total deposits were $106.6 million at March 31, 2013, a decrease of $1.6 million or 1.5% from total deposits of $108.2 million at December 31, 2012. Non-interest bearing deposits were $26.0 million at March 31, 2013, a decrease

of $3.9 million or 13.2% from $29.9 million at December 31, 2012. Total interest bearing checking, money market and savings deposits increased $400,000 or 0.8% to $45.0 million at March 31, 2013 from $44.6 million at December 31, 2012. Time deposits increased $1.9 million or 3.4% to $35.6 million at March 31, 2013 from $33.7 million at December 31, 2012. Included in time deposits at March 31, 2013 and December 31, 2012 were $2.5 million and $4.5 million, respectively, of brokered deposits. This included the Company's placement of $2.0 million and $4.0 million in customer deposits at March 31, 2013 and December 31, 2012, respectively, and the purchase of $300,000 in brokered certificates of deposit through the CDARS program at both March 31, 2013 and December 31, 2012, respectively. As a result of the Consent Order, the Bank does not intend to renew or accept brokered deposits without obtaining prior regulatory approval during the period in which the Consent Order is in place.

The Greater New Haven Market is highly competitive. The Bank faces competition from a large number of banks (ranging from small community banks to large international banks), credit unions, and other providers of financial services. The level of rates offered by the Bank reflects the high level of competition in the Bank's market.

Other

Accrued expenses and other liabilities totaled $2.5 million at March 31, 2013 as compared to $500,000 at December 31, 2012. The increase was attributable to $2.0 million in loan payments received from a borrower on March 31, 2013 that were due to a participating bank for such participating bank's portion of the loan repayment. On April 1, 2013, the Bank remitted the $2.0 million to the participating bank and accrued expenses and other liabilities decreased by such amount.

Results of Operations: Comparison of Results for the three months ended March 31, 2013 and 2012

General

The Company had a net loss for the quarter ended March 31, 2013 of $86,000 (or basic and diluted loss per share of $0.03) as compared to a net loss of $58,000 (or basic and diluted loss per share of $0.02) for the first quarter of 2012.

The Company's operating results for the first quarter of 2013, when compared to the same period of 2012, were influenced by the following factors:

- Net interest income decreased by $91,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio and the reversal of $42,000 of interest income for one commercial TDR loan resulting from the reclassification of such amount to a reduction in the loan's principal balance where the amount was initially recorded), which were partially offset by decreases in liability volumes and lower rates paid on interest bearing liabilities;
- Provision for loan losses decreased by $30,000 primarily due to declines in loan balances subject to the general reserve;
- Noninterest income decreased by $44,000 because of decreases in loan prepayment fees recognized during the three months ended March 31, 2013 compared to the same period of 2012 as well as a decline in other noninterest income and a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased by $76,000 during the first quarter of 2013 compared to the same period of 2012 primarily due to a decrease in salaries and benefits expense, which was partially offset by increases in occupancy and equipment expense, professional services and the cost of FDIC insurance. The decrease in salaries and benefits during the first quarter of 2013 when compared to the first quarter of 2012 was primarily attributable to restricted stock that vested during the first quarter of 2012 as a result of the Chief Executive Officer's employment agreement and restricted stock agreement being executed on February 28, 2012 with no such expense incurred during the first quarter of 2013. The increase in occupancy and equipment expense was attributable to increased property taxes and maintenance costs. The increase in professional services was due to increased costs for legal and auditing services performed in the first quarter of 2013 when compared to the same period in 2012. The cost of FDIC insurance increased during the first quarter of 2013 compared to the first quarter of 2012 primarily due to an increase in FDIC assessment rates, which was partially offset by a decline in balances subject to the FDIC deposit insurance assessment.

Net Interest Income

The principal source of revenue for the Bank is net interest income. The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable and securities and the average rate paid on deposits and borrowings, as well as the relative amounts of such assets and liabilities. The Bank, like other banking institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

For the quarter ended March 31, 2013, net interest income was $1,139,000 versus $1,230,000 for the same period in 2012. The $91,000 or 7.4% decrease was the result of a $200,000 decrease in interest income partially offset by a $109,000 decrease in interest expense. This net decrease was primarily the result of decreased asset volumes and lower yields on interest earning assets, which were partially offset by decreases in average balances on interest bearing liabilities and lower rates on interest bearing liabilities.

The Company's average total interest earning assets were $110.6 million during the quarter ended March 31, 2013 compared to $123.0 million for the same period in 2012, a decrease of $12.4 million or 10.1%. The decrease in average interest earning assets of $12.4 million during the quarter ended March 31, 2013 was comprised of decreases in average balances of loans of $8.0 million, decreases in average balances of short-term and other investments of $2.7 million and a $1.7 million decrease in average balance of investments.

The yield on average interest earning assets for the quarter ended March 31, 2013 was 4.98% compared to 5.08% for the same period in 2012, a decrease of 10 basis points. The decrease in the yield on average interest earning assets was primarily attributable to lower yields on the Bank's loan portfolio because of the lower interest rate environment as well as the reversal of $42,000 of interest income for one commercial TDR loan resulting from the reclassification of such amount to a reduction in the loan's principal balance where the amount was initially recorded.

The combined effects of the $12.4 million decrease in average balances of interest earning assets and the 10 basis point decrease in yield on average interest earning assets resulted in the $200,000 decline in interest income for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012.

The average balance of the Company's interest bearing liabilities was $80.4 million during the quarter ended March 31, 2013 compared to $98.1 million for the quarter ended March 31, 2012, a decrease of $17.7 million or 18.0%. The cost of average interest bearing liabilities decreased 24 basis points to 1.10% for the quarter ended March 31, 2013 compared to 1.34% for the same period in 2012 due to maturities of higher priced time deposits as well as a general decrease in market interest rates.

The combined effect of the 24 basis point decrease in cost of average interest bearing liabilities and the $17.7 million decrease in average balances of interest bearing liabilities resulted in the $109,000 decrease in interest expense for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012.

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on interest earning assets and rates paid on interest bearing liabilities for the three months ended March 31, 2013 and 2012:

Distribution of Assets, Liabilities and Shareholders' Equity;
Interest Rates and Interest Differential

	2013			2012				
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Change in Interest Income/ Expense	Change in Average Balance
Interest earning assets								
Loans (1)(2)	$103,072	$1,341	5.28 %	$111,107	$1,541	5.56 %	$(200)	$(8,035)
Short-term and other investments	5,121	17	1.35 %	7,813	17	0.87 %	—	(2,692)
Investments	2,377	—	0.00 %	4,122	—	0.00 %	—	(1,745)
Total interest earning assets	110,570	1,358	4.98 %	123,042	1,558	5.08 %	(200)	(12,472)
Cash and due from banks	7,315			14,622				(7,307)
Premises and equipment, net	1,904			1,998				(94)
Allowance for loan losses	(2,237)			(2,351)				114
Other	2,738			3,305				(567)
Total assets	$120,290			$140,616				$(20,326)
Interest bearing liabilities								
Time certificates	$35,200	111	1.28 %	$43,005	198	1.85 %	(87)	$(7,805)
Money market / checking deposits	41,277	67	0.66 %	50,656	87	0.69 %	(20)	(9,379)
Savings deposits	2,796	1	0.15 %	2,770	1	0.14 %	—	26
Capital lease obligations	1,151	40	14.09 %	1,161	42	14.51 %	(2)	(10)
Repurchase agreements	—	—	0.00 %	493	—	0.00 %	—	(493)
Total interest bearing liabilities	80,424	219	1.10 %	98,085	328	1.34 %	(109)	(17,661)
Non-interest bearing deposits	27,780			30,235				(2,455)
Accrued expenses and other liabilities	506			573				(67)
Shareholder's equity	11,580			11,723				(143)
Total liabilities and equity	$120,290			$140,616				$(20,326)
Net interest income		$1,139			$1,230		$(91)	

Interest spread	3.89	%	3.74	%
Interest margin	4.18	%	4.01	%

(1) Includes nonaccruing loans.
(2) Interest income includes loan fees, which are not material.

Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the three months ended March 31, 2013 and 2012 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis:

	March, 2013 vs 2012		
	Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	$ (102)	$ (98)	$ (200)
Short-term and other investments	(5)	5	—
Total interest earning assets	(107)	(93)	(200)
Interest bearing liabilities			
Time certificates	(33)	(54)	(87)
Money market / checking deposits	(16)	(4)	(20)
Capital lease obligations	—	(2)	(2)
Total interest bearing liabilities	(49)	(60)	(109)
Net interest income	$ (58)	$ (33)	$ (91)

The decrease in net interest income during the first quarter of 2013 reflected a $12.4 million decrease in total average interest earning assets to $110.6 million in the first quarter of 2013 from $123.0 million in the first quarter of 2012 and a decrease in the yields on interest earning assets to 4.98% for the three months ended March 31, 2013 from 5.08% in the same period of 2012. The combined effects of these changes were partially offset by a $17.7 million decrease in average interest bearing liabilities to $80.4 million for the three months ended March 31, 2013 from $98.0 million for the same period of 2012 as well as decreases in rates on interest bearing liabilities to 1.10% for the three months ended March 31, 2013 from 1.34% for the same period in 2012. Interest income from interest earning assets in the first quarter of 2013 when compared to the same period in 2012, decreased by $200,000 because of a $107,000 decrease due to volume considerations and a $93,000 decrease due to a decline in interest rates. Variances in the cost of interest bearing liabilities during the three months ended March 31, 2013 in comparison to the same period in 2012 were due to decreased rate considerations of $60,000 and decreased volume considerations of $49,000.

The Company intends for the Bank to continue to emphasize lending to small to medium-sized businesses in its market area as it maintains its strategy to increase assets under management and to improve earnings. The Bank will seek opportunities through marketing to increase its deposit base, with a primary objective of attracting core non-interest checking and related money market deposit accounts, in order to support its earning assets and through the consideration of additional branch locations and new product and service offerings.

Provision for Loan Losses

The Bank had no provision for loan losses during the three months ended March 31, 2013 compared to a provision for loan losses of $30,000 during the same period in 2012. The Bank recorded no provision for loan losses in the first quarter of 2013 primarily due to declines in the loan balances subject to the general reserve.

Noninterest Income

Total noninterest income decreased $44,000 to $132,000 for the three months ended March 31, 2013 from $176,000 for the same period in 2012. This decrease was primarily due to decline of $33,000 in loan prepayment fees recognized in the three months ended March 31, 2013 compared to the same period of 2012. In addition, service charges and fees decreased by $6,000 due to changes in business practices of customers of the Bank and other noninterest income decreased by $5,000 for the first quarter of 2013 as compared to the same period in 2012.

Noninterest Expense

Total noninterest expense was $1,357,000 for the three months ended March 31, 2013 compared to $1,433,000 for the same period in 2012, a decrease of $76,000 or 5.3%.

Salaries and benefits expense decreased $124,000 to $680,000 for the three months ended March 31, 2013 from $804,000 for the same period in 2012. The decrease in salaries and benefits expense during the first quarter of 2013 when compared to the first quarter of 2012 was primarily attributable to restricted stock compensation expense recorded by the Company for restricted stock that vested during the first quarter of 2012 relating to the Chief Executive Officer's employment agreement and restricted stock agreement being executed on February 28, 2012 with no such expense incurred during the first quarter of 2013.

Occupancy and equipment expense increased by $13,000 to $173,000 for the three months ended March 31, 2013 from $160,000 for the same period in 2012 primarily due to increased property taxes and maintenance costs.

Professional services expense increased by $13,000 to $175,000 for the three months ended March 31, 2013 from $162,000 for the same period in 2012 due to increased costs for legal and auditing services performed during the quarter ended March 31, 2013 compared to the same period in 2012.

FDIC insurance expense increased by $13,000 to $68,000 for the three months ended March 31, 2013 from $55,000 for the same period in 2012. The increase was attributable to an increase in FDIC assessment rates, which was partially offset by a decline in balances subject to the FDIC deposit insurance assessment.

Other operating expenses of $113,000 for the three months ended March 31, 2013 were relatively unchanged from $117,000 for the same period in 2012.

Off-Balance Sheet Arrangements

See Note 8 to the Consolidated Financial Statements for information regarding the Company's off-balance sheet arrangements.

Liquidity

Management believes the Company's short-term assets provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

The Company's liquidity position consisted of liquid assets totaling $19.2 million and $13.5 million as of March 31, 2013 and December 31, 2012, respectively. This represented 15.7% and 11.1%, respectively, of total assets at March 31, 2013 and December 31, 2012. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: Cash and due from banks, short-term investments, interest-bearing certificates of deposit and securities available for sale. Liquidity is a measure of the Company's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio.

In addition to the foregoing sources of liquidity, the Bank maintains a relationship with the Federal Home Loan Bank of Boston and has the ability to pledge certain of the Bank's assets as collateral for borrowings from that institution.

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Capital

The Company's and Bank's actual capital amounts and ratios at March 31, 2013 and December 31, 2012 were as follows:

The Company's actual capital amounts and ratios at March 31, 2013 and December 31, 2012 were:

(dollars in thousands):

March 31, 2013	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
Total Capital to Risk-Weighted Assets	$12,716	12.79	%	$7,951	8.00	%	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	11,461	11.53	%	3,976	4.00	%	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	11,461	9.53	%	4,812	4.00	%	N/A	N/A

December 31, 2012	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
Total Capital to Risk-Weighted Assets	$12,863	12.33	%	$8,343	8.00	%	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	11,548	11.07	%	4,171	4.00	%	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	11,548	9.31	%	4,960	4.00	%	N/A	N/A

The Bank's actual capital amounts and ratios at March 31, 2013 and December 31, 2012 were:

(dollars in thousands):

March 31, 2013	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital to Risk-Weighted Assets	$11,940	12.06	%	$7,920	8.00	%	$9,900	10.00	%
Tier 1 Capital to Risk-Weighted Assets	10,690	10.80	%	3,960	4.00	%	5,940	6.00	%
Tier 1 (Leverage) Capital to Average Assets	10,690	8.93	%	4,790	4.00	%	5,988	5.00	%

December 31, 2012	Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions

	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$ 12,057	11.60 %	$ 8,313	8.00 %	$ 10,391	10.00 %
Tier 1 Capital to Risk-Weighted Assets	10,747	10.34 %	4,156	4.00 %	6,235	6.00 %
Tier 1 (Leverage) Capital to Average Assets	10,747	8.70 %	4,939	4.00 %	6,174	5.00 %

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. To be considered "well capitalized," an institution must generally have a Tier 1 leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. While the Bank met the capital ratio quantitative requirements to be classified as a "well capitalized" financial institution as of March 31, 2013, the Bank is currently classified as "adequately capitalized" as a result of the Consent Order entered into by the Bank in July 2012 with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking. The Consent Order required, among other things, that the Bank maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At March 31, 2013, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. As an "adequately capitalized" financial institution, the Bank may not accept brokered deposits without first obtaining a waiver from the Federal Deposit Insurance Corporation. With such a waiver, the Bank generally may not pay an interest rate on the brokered deposits in excess of 75 basis points above interest rates in its normal market area or the national interest rate on deposits outside of its normal market area. The Federal Deposit Insurance Corporation insurance assessment also increases when a financial institution falls below the "well capitalized" classification. In addition, financial institutions that are not "well capitalized," such as the Bank, may have more difficulty obtaining certain regulatory approvals (including for acquisitions of other financial institutions and opening of new branches).

In September 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. In October 2012, the Bank received regulatory approval for its revised capital plan. In the event the Company and Bank's pending merger with Liberty Bank is not consummated, the Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not maintain the minimum capital ratios set forth in the Consent Order.

Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. Based upon the nature of the Company's business, market risk is primarily limited to interest rate risk, which is defined as the impact of changing interest rates on current and future earnings.

The Company's goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Company's assets and liabilities to maintain an acceptable interest rate spread, while reducing the net effect of changes in interest rates. In order to reach an acceptable interest rate spread, the Company must generate loans and seek acceptable long-term investments to replace the lower yielding balances in Federal Funds sold and short-term investments. The focus also must be on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing within the balance sheet. One method of achieving this balance is to originate variable loans for the portfolio to offset the short-term re-pricing of the liabilities. In fact, a number of the interest bearing deposit products have no contractual maturity. Customers may withdraw funds from their accounts at any time and deposits balances may therefore run off unexpectedly due to changing market conditions.

The exposure to interest rate risk is monitored by senior management of the Bank and reported quarterly to the Asset and Liability Management Committee and the Board of Directors. Management reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk.

Impact of Inflation and Changing Prices

The Company's consolidated financial statements have been prepared in terms of historical dollars, without considering changes in relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Notwithstanding this fact, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, or disinflation, could significantly affect the Company's earnings in future periods.

Factors Affecting Future Results

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report on Form 10-Q may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate" and similar statements of a future or forward-looking nature ident forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to,

(1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the impact of recently enacted federal legislation and the effect of changes in regulations applicable to the Company and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors which are larger than the Company to provide products and services which are impractical for the Company to provide, (7) the volatility of quarterly earnings, due in part to the variation in the number, dollar volume and profit realized from SBA guaranteed loan participation sales in different quarters, (8) the effect of a loss of any executive officer, key personnel, or directors, (9) the effect of the Company's opening of branches and the receipt of regulatory approval to complete such actions, (10) the concentration of the Company's business in southern and southeastern Connecticut, (11) the concentration of the Company's loan portfolio in commercial loans to small-to-medium sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness, (12) lack of seasoning in the Company's loan portfolio, which may increase the risk of future credit defaults, and (13) the effect of any decision by the Company to engage in any business not historically permitted to it. Other such factors may be described in other filings made by the Company with the SEC.

Although the Company believes that it has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Company to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of the Company's disclosure controls and procedures performed by the Company's management, with participation of the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer as of the end of the period covered by this report, the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures have been effective in ensuring that material information relating to the Company, including its consolidated subsidiary, is made known to the certifying officers by others within the Company and the Bank during the period covered by this report.

As used herein, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or

persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

Periodically, there have been various claims and lawsuits against the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to our business. However, neither the Company nor any subsidiary is a party to any pending legal proceedings that management believes would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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Item 1A. Risk Factors

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of January 16, 2013, by and among Liberty Bank and Southern Connecticut Bancorp, Inc. and The Bank of Southern Connecticut (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on January 16, 2013)
3(i)	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-QSB filed on November 14, 2002)
3(ii)	By-Laws of the Registrant (incorporated by reference to Exhibit 3(ii) to the Registrant's Current Report on Form 8-K filed on March 6, 2007)

10.1	Employment Agreement, effective as of January 1, 2013, by and between Southern Connecticut Bancorp, Inc., The Bank of Southern Connecticut and Sunil Pallan covering the period from January 1, 2013 to December 31, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 29, 2013)

10.2	Employment Agreement, effective as of January 1, 2013, by and between Southern Connecticut Bancorp, Inc., The Bank of Southern Connecticut and Stephen V. Ciancarelli covering the period from January 1, 2013 to December 31, 2013 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 29, 2013)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer (filed herewith)
31.3	Rule 13a-14(a)/15d-14(a) Certification by Vice President and Chief Accounting Officer (filed herewith)
32.1	Section 1350 Certification by Chief Executive Officer (filed herewith)
32.2	Section 1350 Certification by Senior Vice President and Chief Financial Officer (filed herewith)
32.3	Section 1350 Certification by Vice President and Chief Accounting Officer (filed herewith)
101.INS	XBRL Instance Document* (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document* (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document* (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document* (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document* (filed herewith)
101.DEF	Taxonomy Extension Definitions Linkbase Document* (filed herewith)

* As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SOUTHERN CONNECTICUT BANCORP, INC.	
	By:	/s/ Joseph J. Greco
	Name:	Joseph J. Greco
Date: May 13, 2013	Title:	Chief Executive Officer
	By:	/s/ Stephen V. Ciancarelli
	Name:	Stephen V. Ciancarelli
Date: May 13, 2013	Title:	Senior Vice President & Chief Financial Officer
	By:	/s/ Anthony M. Avellani
	Name:	Anthony M. Avellani
Date: May 13, 2013	Title:	Vice President & Chief Accounting Officer