

SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2011.

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 1-32219

SOUTHERN CONNECTICUT BANCORP, INC.
(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction of incorporation or organization)

06-1609692
(I.R.S. Employer Identification Number)

215 Church Street
New Haven, Connecticut
(Address of Principal Executive Offices)

06510
(Zip Code)

Registrant's telephone number, including area code

(203) 782-1100

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(Title of each class)

NYSE Amex
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(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 No

The aggregate market value of the voting and non-voting common equity held by non-affiliates (assumes all directors, executive officers and 10% or greater holders are affiliates) of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter: \$7,780,000.

The number of shares outstanding of each of the registrant's classes of common equity: Common Stock, par value \$.01 per share, outstanding as of March 30, 2012: 2,735,359

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report on Form 10-K.

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PART I

Item 1. Business.

Background

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.

SCB Capital, Inc. operated under the name “Evergreen Financial Services” (“Evergreen”) as a licensed mortgage brokerage business through July 31, 2010. After reviewing the historical operations and results of Evergreen, and considering future prospects for the business, management determined that it was in the best interest of the Company to discontinue the mortgage brokerage operation of SCB Capital, Inc. Subsequent to July 31, 2010 the mortgage brokerage activities continued through the Bank.

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation (“NVSL”) and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan (“NVSL Bank”), pursuant to which the Company would merge with and into Newco, with Newco being the surviving corporation. The Agreement and Plan of Merger was subsequently amended on September 17, 2010 to amend the consideration to be paid in the merger, extend the deadline for closing the merger and amend the conditions under which NVSL would be obligated to pay a termination fee to the Company.

On November 12, 2010, the Company, NVSL and Newco entered into a Mutual Termination Agreement pursuant to which the parties mutually agreed to terminate the Agreement and Plan of Merger due to an inability to obtain regulatory approval of the proposed merger. In accordance with the terms and conditions of the Mutual Termination Agreement and the Agreement and Plan of Merger, as amended, NVSL paid a \$350,000 termination fee to the Company on November 12, 2010, as partial reimbursement for the Company’s transaction expenses.

The Greater New Haven Market

The Company serves the Greater New Haven Market, which is comprised of the communities located in and around New Haven County in Southern Central Connecticut. The Greater New Haven Market is located in the center of, and is a critical component of, the commercial activity of the northeast corridor in New England. The market focus resides in the busy transportation and commercial area between New York City to the south, Hartford to the north, Providence to the east, and Boston to the northeast. The diversified economic base of this market region includes educational, pharmaceutical, advanced manufacturing, healthcare, defense, technology, service and energy companies. The region is also one of New England's most popular tourist destinations, featuring popular shoreline and heritage sites. In addition, the Company's headquarters is located in downtown New Haven, in the area of Yale University's campus.

Bank Growth and Operating Strategy

The Bank seeks to differentiate itself by offering prompt, personal "high touch" service and quality banking products. The Bank's target customers are small to medium-sized businesses, professionals and professional corporations, and their owners and employees. The Bank emphasizes personal relationships with customers, community involvement by employees and the board of directors, and responsive lending decisions by an accessible and experienced local management team.

The key elements of the Bank's business strategy include:

Provision of individualized attention with local underwriting and credit decision-making authority. As a commercial bank based in and wholly focused on the greater New Haven area, the Bank is better able to provide the individualized customer service, combined with prompt local underwriting and credit decision-making authority that management believes small to medium-sized businesses desire.

Employing qualified and experienced banking professionals. The Company and the Bank seek to continue to hire and retain highly experienced and qualified local commercial lenders and other banking professionals with successful track records and established relationships with small to medium-sized businesses in targeted market areas. The experience and expertise of these individuals serves to enhance the Bank's image within the communities it serves, thereby increasing the Bank's business.

Leveraging personal relationships and community involvement. The directors, officers and senior employees of the Company and the Bank have extensive personal contacts, business relationships and involvement in communities in which they live and work and which the Bank serves. By building on and leveraging these relationships and community involvement, management believes that the Bank has generated and will continue to generate enthusiasm and interest from small to medium-sized businesses and professionals in the targeted market areas.

Offering a suite of products attractive to our core customer base. The Bank seeks to offer competitive basic, popular products to its commercial and consumer customer base. The Bank offers internet-banking services to its customers through a partnership with Digital Insight, a subsidiary of Intel. The Bank offers remote deposit capture, a system that allows our customers to deposit checks from their places of business, rather than having to make a trip to the Bank. The Bank offers a full complement of banking services utilized by small business customers.

Maintaining high credit quality. The success of the Bank's business plan depends to a significant extent on the quality of the Bank's assets, particularly loans. The Bank has built a strong internal emphasis on credit quality and has established stringent underwriting standards and loan approval processes. The Bank actively manages past due and non-performing loans in an effort to minimize credit loss and related expenses and to ensure that the allowance for loan losses is adequate.

Taking market share from large, non-local competitors. The Greater New Haven Market is dominated by large, non-locally owned financial institutions with headquarters typically located outside of Connecticut. Management believes that the Bank has attracted and can continue to attract small to medium-sized businesses and professionals that prefer local decision-making authority and interaction with banking professionals who can provide prompt personalized and knowledgeable service.

Optimizing net interest margin. The Bank's focus on commercial customers helps to support its net interest margin. The high percentage of assets concentrated in loans to commercial entities that typically provide higher yield than consumer loans, particularly residential mortgages and home equity related loans. The Bank maintains a high percentage of commercial transaction accounts and money market deposit accounts to fund its operations. These deposits typically have a lower interest rate expense than certificates of deposits. The combination of the higher yielding assets and lower expense deposits produces a favorable margin for the Company.

Lending, Depository and Other Products

Lending Products. The Bank offers a broad range of loans to businesses and individuals in its service area, including commercial and business loans, industrial loans, personal loans, commercial and home mortgage loans, home equity loans and automobile loans. The Bank has received lending approval status from the Small Business Administration ("SBA") to enable it to make SBA loans in communities located throughout the State of Connecticut. The Bank holds certified lending status ("CLP") from the SBA.

Loans are made on a variable or fixed rate basis, with fixed rate loans typically limited to three to five year terms. All loans are approved pursuant to lending policies and procedures authorized by the Bank's board of directors. The Bank, at times, participates in multi-bank loans to companies in its market area. Commercial loans and commercial real estate loans may be written for maturities of up to twenty years. Loans to purchase or refinance commercial real estate are typically supported by personal guarantees of the principal owners and related parties, and are collateralized by the subject real estate, which may in certain cases be supplemented by additional collateral in the form of liquid assets. Loans to local businesses are generally supported by the personal guarantees of the principal owners and are carefully underwritten to determine appropriate collateral and covenant requirements.

Depository Products. The Bank has attracted a base of core deposits, including interest bearing and non-interest bearing checking accounts, money market accounts, savings accounts, sweep accounts, NOW accounts, repurchase agreements, and a variety of certificates of deposits and IRA accounts. To continue to attract deposits, the Bank employs an aggressive marketing plan in its service area and features a broad product line and rates and services competitive with those offered in the Greater New Haven Market. The primary sources of deposits have been and are expected to continue to be small to medium-sized businesses, professionals (lawyers, doctors, accountants, etc.) and professional corporations, and their owners and employees. The Bank obtains these deposits through personal solicitation by its officers and directors, outside programs and advertisements published and/or broadcasted in the local media. The Bank offers internet-banking services to its customers, including commercial cash management services and personal banking services. The Bank offers remote deposit capture, which offers check deposit capabilities for customers from their place of business. The Bank also offers drive-in teller services, automated teller services, wire transfer, lock box and safe deposit services.

Other Services. The Bank provides a broad range of other services and products, including cashier's checks, money orders, travelers' checks, bank-by-mail, direct deposit and U.S. Savings Bonds. The Bank is associated with a shared network of automated teller machines that its customers are able to use throughout Connecticut and other regions. The Bank does not expect to offer trust services directly in the near future, but may offer trust services in the future independently or possibly through a joint venture with a third party. To directly offer trust services, the Bank would need the approval of the Connecticut Banking Commissioner and the FDIC.

Investment Services

The Company does not engage in investment services.

Investment Securities

Investment securities are held by the Company and the Bank with the objective of maximizing the long-term rate of return for shareholders. Investments are overseen by the Board of Directors and a committee of officers who take into account returns, liquidity needs, and the overall asset/liability management of the Company and the Bank. Permissible investments include debt securities such as U.S. Government securities, government-sponsored agency securities, municipal bonds, domestic certificates of deposit that are insured by the FDIC, mortgage-backed securities and collateralized mortgage obligations. The Bank's current investment portfolio is limited to U.S. Treasury bills, which have been classified as available for sale. Accordingly, the principal risk associated with the Bank's current investing activities is market risk (variations in value resulting from general changes in interest rates) rather than credit risk. The Bank does not take credit risk for the purposes of increasing interest income. Management continually reviews its portfolio and prevailing market conditions, and under certain market conditions, the Company's strategy may be reviewed and revised by management and the board of directors.

Asset and Liability Management

Interest rate risk measures the impact that changing interest rates have on current and future earnings. The Company's goal is to optimize long-term profitability while minimizing exposure to interest rate fluctuations. Interest rate risk exposure, including, among other things, the Company's exposure to changes in interest income and equity value based on fluctuations in interest rates, is monitored by senior management and reported to the Bank's Asset Liability Committee (ALCO) and the board of directors on a quarterly basis. The Bank employs the services of a national service provider for monitoring, analyzing and managing interest rate risk.

Regulatory Compliance

The Company operates in a heavily regulated industry and is subject to increasing regulatory review and scrutiny from the Federal Reserve Board, the Connecticut Banking Commissioner, and the FDIC. The Company and the Bank have invested and continue to invest significant time and resources to ensure compliance and conformity with applicable regulations (see "REGULATION AND SUPERVISION" below). The Bank is committed to meeting its obligations under the Bank Secrecy Act, the Gramm-Leach-Bliley Act and the USA PATRIOT Act, as well as various other regulations. Management meets and reports to the board of directors on a regular basis regarding new developments in compliance and the Bank's efforts to comply therewith.

Competition

There are numerous banks and other financial institutions serving the Greater New Haven Market posing significant competition to attract deposits and loans. The Bank competes for loans and deposits with other commercial banks, savings and loan associations, finance companies, money market funds, insurance companies, credit unions and other financial institutions, a number of which are much larger and have substantially greater resources. To increase its business, the Bank will have to win existing customers away from existing banks and financial institutions as well as successfully compete for new customers from growth in the target markets.

New Haven county is currently served by approximately 271 offices of 26 commercial and savings banks. The majority of these banks are substantially larger than the Bank expects to be in the near future, and are able to offer products and services which may be impractical for the Bank to provide at this time. There are numerous banks and other financial institutions serving the communities surrounding New Haven, which also draw customers from New Haven, posing significant competition for the Bank to attract deposits and loans. The Bank also experiences competition from out-of-state financial institutions with little or no traditional bank branches in New Haven. Many of these banks and financial institutions are well established and better capitalized than the Bank, allowing them to provide a greater range of services.

Intense market demands, economic pressures, and significant legislative and regulatory actions have eroded traditional banking industry classifications and have increased competition among banks and other financial institutions. Market dynamics as well as legislative and regulatory changes have resulted in a number of new competitors offering services historically offered only by commercial banks. Increased customer awareness of product and service differences among competitors has also increased competition among banks.

Employees

As of December 31, 2011, the Bank had 34 full-time employees. Relationships with all employees are believed to be excellent.

REGULATION AND SUPERVISION

Banks and bank holding companies are extensively regulated under both federal and state law. The Company and the Bank have set forth below brief summaries of various aspects of supervision and regulation to which they are subject. These summaries do not purport to be complete and are qualified in their entirety by reference to applicable laws, rules and regulations.

Laws and Regulations to which The Company is Subject

General. As a bank holding company registered in accordance with the Bank Holding Company Act of 1956 (the "BHC Act"), the Company is regulated by and subject to the supervision of the Federal Reserve Board and is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board has the authority to conduct examinations of the Company as well. The Federal Reserve Board has the authority to issue orders to bank holding companies to cease and desist from unsound banking practices and violations of conditions imposed by, or violations of agreements with, the Federal Reserve Board. The Federal Reserve Board is also empowered to assess civil money penalties against companies or individuals who violate the BHC Act or orders or regulations thereunder, to order termination of non-banking activities of non-banking subsidiaries of bank holding companies, and to order termination of ownership and control of a non-banking subsidiary by a bank holding company.

The BHC Act—Acquisitions and Permissible Activities. The BHC Act requires the prior approval of the Federal Reserve Board for a bank holding company to acquire substantially all the assets of a bank or acquire direct or indirect ownership or control of more than 5% of any class of the voting shares of any bank, bank holding company or savings association, or increase any such non-majority ownership or control of any bank, bank holding company or savings association, or merge or consolidate with any bank holding company. Federal law generally authorizes bank holding companies to acquire banks located in any state, subject to certain state-imposed age and deposit concentration limits, and also generally authorizes interstate bank holding company and bank mergers and to a lesser extent, interstate branching.

Unless a bank holding company becomes a financial holding company under the Gramm-Leach-Bliley Act of 1999 (“GLBA”) (as discussed below), the BHC Act prohibits a bank holding company from acquiring a direct or indirect interest in or control of more than 5% of any class of the voting shares of a company that is not a bank or a bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks, except that it may engage in and may own shares of companies engaged in certain activities the Federal Reserve Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The GLBA permits a qualifying bank holding company to become a “financial holding company” and thereby engage in a broader range of activities than is permissible for a traditional bank holding company. In order to qualify for this election, all of the depository institution subsidiaries of the bank holding company must be well capitalized and well managed, as defined under Federal Reserve Board regulations, and all such subsidiaries must have achieved a rating of “satisfactory” or better with respect to meeting community credit needs. Pursuant to the GLBA, financial holding companies are permitted to engage in activities that are “financial in nature” or incidental or complementary thereto, as determined by the Federal Reserve Board. The GLBA identifies several activities as “financial in nature,” including, among others, insurance underwriting and agency activities, investment advisory services, merchant banking and underwriting, and dealing in or making a market in securities. At this time, the Company has not elected to become a financial holding company and has no immediate plans to do so.

Capital Requirements. The Company is required to comply with minimum capital adequacy standards established by the Federal Reserve Board. There are two basic measures of capital adequacy for bank holding companies and the depository institutions that they own: a risk based measure and a leverage measure. All applicable capital standards must be satisfied for a bank holding company to be considered in compliance.

The risk-based capital guidelines for bank holding companies such as the Company currently require a minimum ratio of total capital to risk-weighted assets (including off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital is required to be Tier 1 capital, consisting principally of common shareholders’ equity, non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, less goodwill. The remainder of the total capital (Tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock and a limited amount of the general loan loss allowance.

In addition to the risk-based capital guidelines, the federal banking regulators established minimum leverage ratio (Tier 1 capital to total assets) guidelines for bank holding companies. These guidelines provide for a minimum leverage ratio of 3% for those bank holding companies which have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum.

The Company is currently in compliance with the minimum Total Risk-Based Capital Ratio, Tier I Capital and the Leverage Ratio requirements established by the Federal Reserve Board. As of December 31, 2011, the Company had a Tier I Risk-Based Capital Ratio and a Total Risk-Based Capital Ratio equal to 9.62% and 10.88%, respectively, and a Leverage Ratio equal to 7.41%. However, the Bank has agreed with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking to maintain a minimum Tier 1 leverage ratio of at least 8.0%. As a result of the Bank's Tier 1 leverage ratio being 6.95% at December 31, 2011, the Bank developed a capital plan to increase its capital amounts and ratios and submitted such plan to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. Following receipt of regulatory approval, 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 a minimum Tier 1 leverage ratio of at least 8.0%. For further discussion on capital requirements, please review the subsection titled "Capital Requirements" under the section titled "Significant Laws and Regulations to which the Bank is Subject."

Limitations on Acquisitions of Common Stock. The federal Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a depository institution or a depository institution holding company unless the appropriate federal banking agency has been given at least 60 days to review the proposal and public notice has been provided. "Control" is generally defined under this act as ownership of 25% or more of any class of voting stock. In addition, under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a depository institution or a depository institution holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute the acquisition of control. Furthermore, any company, as that term is broadly defined in the BHC Act, would be required to obtain the approval of the Federal Reserve Board under BHC Act before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of voting securities of a depository institution or a depository institution holding company, or such lesser percentage as the Federal Reserve Board deems to constitute a "controlling influence."

Bank Holding Company Dividends. The Federal Reserve Board has authority to prohibit bank holding companies from paying cash dividends if such payment is deemed to be an unsafe or unsound practice. The Federal Reserve Board has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality, and overall financial condition. The Company's ability to pay dividends is also subject to laws and regulations of the Connecticut Department of Banking.

Bank Holding Company Support of Subsidiary Banks. Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act ("FDIA"), the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the "default" of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default."

Dodd-Frank Wall Street Reform And Consumer Protection Act Of 2010. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services

sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC.

Effective as of July 21, 2011, the Dodd-Frank Act provided for the elimination of the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our net interest margin by potentially increasing our interest expense.

The Dodd-Frank Act changed the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per account, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

The Dodd-Frank Act requires publicly traded companies, like the Company, to give their stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. Since the Company qualifies as a “smaller reporting company” under the rules of the Securities and Exchange Commission, the non-binding vote on executive compensation, including “golden parachute” payments, is not required until the Company’s first annual meeting of stockholders after January 21, 2013.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years. It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley’s principal provisions, many of which have been interpreted through regulations of the Securities and Exchange Commission, provide for and include, among other things: (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) internal control reporting requirements by management pursuant to Section 404 of Sarbanes-Oxley; (v) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (vi) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the company’s independent auditors; (vii) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (viii) requirements that companies disclose whether at least one member of the audit committee is a “financial expert” (as such term is defined by the SEC); (ix) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (x) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (xi) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; and (xii) a range of enhanced penalties for fraud and other violations. As a result of a provision of the Dodd-Frank Act, which, among other things, permanently exempted non-accelerated filers, such as the Company, from complying with the requirements of Section 404(b) of Sarbanes-Oxley, which requires an issuer to include an attestation report from an issuer’s independent registered public accounting firm on the issuer’s internal control over financial reporting, this Annual Report on Form 10-K does not include an attestation report of the company’s registered public accounting firm regarding the company’s internal control over financial reporting.

USA PATRIOT ACT. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Company and the Bank, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting, and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under the BHC Act or the Bank Merger Act.

Significant Laws and Regulations to which the Bank is Subject

General. The Bank is organized under the Banking Law of the State of Connecticut. Its operations are subject to federal and state laws applicable to commercial banks and to extensive regulation, supervision and examination by the Connecticut Banking Commissioner, as well as by the FDIC, as its primary federal regulator and insurer of deposits. While the Bank is not a member of the Federal Reserve System, it is subject to certain regulations of the Federal Reserve Board. In addition to banking laws, regulations and regulatory agencies, the Bank is subject to various other laws, regulations and regulatory agencies, all of which directly or indirectly affect the Bank’s operations. The Connecticut Banking Commissioner and the FDIC examine the affairs of the Bank for the purpose of determining its

financial condition and compliance with laws and regulations. The Connecticut Banking Commissioner and the FDIC have the authority to limit the Bank's payment of cash dividends based on such factors as the maintenance of adequate capital, which could reduce the amount of dividends otherwise payable.

The Connecticut Banking Commissioner and the FDIC have significant discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the FDIC, Congress, the Connecticut Banking Commissioner, or the Connecticut General Assembly, could have a material adverse impact on the Bank.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the activities of principal and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. The Company does not expect such provisions to have a material adverse effect on the Company or the Bank.

Capital Requirements. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities. In addition, pursuant to FDICIA, each federal banking agency has promulgated regulations, specifying the levels at which a bank would be considered “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized,” and to take certain mandatory and discretionary supervisory actions based on the capital level of the institution.

The regulations implementing these provisions of FDICIA provide that a bank will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a Tier 1 leverage ratio of at least 5.0 percent, and (iv) meets certain other requirements. A bank will be classified as “adequately capitalized” if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 4.0 percent, (iii) has a Tier 1 leverage ratio of (a) at least 4.0 percent, or (b) at least 3.0 percent if the bank was rated 1 in its most recent examination and is not experiencing or anticipating significant growth, and (iv) does not meet the definition of “well capitalized.” A bank will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, or (iii) has a Tier 1 leverage ratio of (a) less than 4.0 percent, or (b) less than 3.0 percent if the bank was rated 1 in its most recent examination and is not experiencing or anticipating significant growth. A bank will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 3.0 percent, or (iii) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as “critically undercapitalized” if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if the FDIC has determined (i) that the insured depository institution is in unsafe or unsound condition or (ii) that, in the most recent examination of the insured depository institution, the insured depository institution received and has not corrected a less-than-satisfactory rating for any of the categories of asset quality, management, earnings, or liquidity.

The Company and the Bank’s capital ratios are as follows:

	Company			Bank		
	2011	2010	Capital Adequacy Target Ratio	2011	2010	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	10.88 %	11.91 %	8.00 %	10.28 %	11.20 %	8.00 %
Tier 1 Capital to Risk Weighted Assets	9.62 %	10.65 %	4.00 %	9.03 %	9.94 %	4.00 %
Tier 1 (Leverage) Capital Ratio to Average Assets	7.41 %	9.00 %	4.00 %	6.95 %	8.39 %	4.00 %

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%. As of December 31, 2011, the Bank’s Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, the Bank has agreed with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking to maintain a minimum Tier 1 leverage ratio of at least 8.0%. As a result of the Bank’s Tier 1 leverage ratio being 6.95% at December 31, 2011, the Bank developed a capital plan to increase its capital amounts and ratios and submitted such plan to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. Following receipt of regulatory approval, 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 a minimum Tier 1 leverage ratio of at least 8.0%.

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. A new international accord, referred to as Basel II, became mandatory for large or “core” international banks outside the U.S. in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more) and emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks. In the latter half of 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its “calibrated” capital standards for major banking institutions, referred to as Basel III. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 capital, and total capital ratios, as well as maintaining a “capital conservation buffer.” The Tier 1 common equity and Tier 1 capital ratio requirements will be phased-in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Tier 1 common equity will be phased-in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased-in incrementally between January 1, 2016 and January 1, 2019. The Basel Committee also announced that a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer. The Basel III rules do not apply to U.S. banks or holding companies automatically and it is not known whether or to what extent the federal banking regulators will incorporate elements of Basel III into the U.S. regulatory system. However, it is expected that federal banking regulators will reform regulations related to capital and liquidity by increasing capital requirements, narrowing what qualifies as appropriate capital, and imposing a new liquidity measurement.

Prompt Corrective Action and Other Enforcement Mechanisms. Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. An institution that, based upon its capital levels, is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat an institution as “critically undercapitalized” unless its capital ratio actually warrants such treatment.

In addition to restrictions and sanctions imposed under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance of

deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Premiums for Deposit Insurance. The FDIC has implemented a risk-based assessment system, under which an institution's deposit insurance premium assessment is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund.

In February 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution's deposit insurance assessment base is being changed from total deposits to total assets less tangible equity. In addition, the FDIC is revising the deposit insurance assessment rates down. The changes became effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for Risk Category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. Accordingly, if the risk category of the Bank changes adversely, its FDIC insurance premiums could increase.

Recent insured depository institution failures, as well as deterioration in banking and economic conditions, have significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio of the Deposit Insurance Fund to historical lows. The FDIC recently increased the designated reserve ratio from 1.25 to 2.00. In addition, the deposit insurance limit on FDIC deposit insurance coverage generally has increased to \$250,000, which may result in even larger losses to the Deposit Insurance Fund.

The FDIC may further increase or decrease the assessment rate schedule in order to manage the Deposit Insurance Fund to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's earnings. FDIC insurance of deposits may be terminated by the FDIC, after notice and hearing, upon finding by the FDIC that the insured institution has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule or order of, or conditions imposed by, the FDIC.

Safety and Soundness Standards. Federal law requires each federal banking agency to prescribe for depository institutions under its jurisdiction standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies have promulgated regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit system; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; and fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standards prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the FDIC.

The federal banking agencies also have adopted regulations for real estate lending prescribing uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards and loan-to-value limits that do not exceed the supervisory limits prescribed by the regulations.

Community Reinvestment Act. Under the Community Reinvestment Act (“CRA”), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a depository institution, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The FDIC is required to provide a written evaluation and make public disclosure of an institution’s CRA performance utilizing a four-tiered descriptive rating system. Institutions are evaluated and rated by the FDIC as “Outstanding,” “Satisfactory,” “Needs to Improve,” or “Substantial Non Compliance.” Failure to receive at least a “Satisfactory” rating may inhibit an institution from undertaking certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. In its most recent CRA evaluation, dated December 31, 2010, the Bank was rated as “Satisfactory.”

Transactions with Affiliates. Sections 23A and 23B of the Federal Reserve Act restrict transactions between a bank and an affiliated company, including a parent bank holding company. The Bank is subject to certain restrictions on loans to affiliated companies, on investments in the stock or securities thereof, on the taking of such stock or securities as collateral for loans to any borrower, and on the issuance of a guarantee or letter of credit on their behalf. Among other things, these restrictions limit the amount of such transactions, require collateral in prescribed amounts for extensions of credit, prohibit the purchase of low quality assets and require that the terms of such transactions be substantially equivalent to terms of similar transactions with nonaffiliates. Generally, the Bank is limited in its extensions of credit to any affiliate to 10% of the Bank’s capital and in its extensions of credit to all affiliates to 20% of the Bank’s capital.

Customer Information Security. The FDIC and other bank regulatory agencies have adopted guidelines (the “Security Guidelines”) for safeguarding confidential, personal customer information. The Security Guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information, and protect against unauthorized access to or use of such information, and ensure the proper disposal of information that could result in substantial harm or inconvenience to any customer.

Recent Legislative and Regulatory Initiatives to Address Difficult Market and Economic Conditions. Among the numerous initiatives the United States government has taken in response to the financial crises affecting the banking system and financial markets, was the enactment of the Emergency Economic Stabilization Act of 2008 (“EESA”) on October 3, 2008. The EESA included a provision for an increase in the amount of deposits insured by the FDIC to \$250,000 until December 2009 (which was subsequently extended to December 31, 2013 by the Helping Families Save Their Homes Act of 2009) as a way to instill confidence in the banking system. The increase in the amount of deposits insured by the FDIC to \$250,000 has been made permanent by the Dodd-Frank Act. On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program (“TLGP”) that provides unlimited FDIC deposit insurance on funds in noninterest-bearing transaction deposit accounts that are not otherwise covered by the existing FDIC deposit insurance limit of \$250,000. The TLGP also provides that the FDIC will guarantee qualifying senior unsecured debt issued before June 2009 by participating banks and certain qualifying holding companies. Participating institutions are assessed a surcharge of 10 basis points on the additional insured deposits and an assessment of 50 to 100 basis points on qualifying senior unsecured debt issued under the debt guarantee segment of the program. The Bank elected to participate in both aspects of the TLGP and incurred the surcharge as a cost of such participation. The unlimited FDIC deposit insurance on funds in noninterest-bearing transaction deposit accounts will expire on December 31, 2012 and revert to the standard FDIC deposit insurance limit of \$250,000.

Privacy. Financial institutions are required to implement policies and procedures regarding their information collection practices and the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the statute requires explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the financial institution's policies and procedures.

Item 1A. Risk Factors.

Not required.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The table below sets forth information about properties the Bank uses for its branch offices. The Company also owns property located in Clinton, Connecticut.

Office	Location	Square Feet	Status
Main Office	215 Church Street, New Haven, Connecticut	11,306	Leased
Branford Office	445 West Main Street, Branford, Connecticut	3,714	Leased
Amity Office	1475 Whalley Avenue, New Haven, Connecticut	2,822	Owned
North Haven Office	24 Washington Avenue, North Haven, Connecticut	2,430	Leased

Property at 215 Church Street, New Haven, Connecticut. The Bank leases a free-standing building located at 215 Church Street, New Haven, Connecticut, in the central business and financial district of New Haven. The headquarters of the Bank and the Company are located within this building. The building has a drive-up teller, an automated teller machine, two vaults and a night deposit drop.

The initial lease term ended in 2006, but was extended for five years when the Bank exercised the first of its three options to extend the lease. In 2011, the Bank exercised its second option to extend the lease for an additional five years such that the lease now ends in 2016. The Bank has a right of first refusal to purchase the building. The Bank's annual rent, which is fixed in the terms of the lease, including during the option periods, is currently \$172,110. The Bank is responsible for all costs to maintain the interior of the building, other than structural repairs, and for all real estate taxes.

When practical, the Bank seeks to sublease space within the building that is not needed for operations. The Bank of Southern Connecticut had no tenants during 2011.

Property at 445 West Main Street, Branford, Connecticut. The Bank of Southern Connecticut leases space at 445 West Main Street, Branford, Connecticut, the site of the Branford branch, which opened for business on October 7, 2002.

The current term of the Branford branch lease expires on September 30, 2012. The Bank of Southern Connecticut has an option to extend the lease for two additional five year terms. The annual base rent payable for the current term is \$40,631 until September 30, 2012. The base rent for the option periods increases and is fixed in the lease. The Bank is responsible for all costs to maintain the building, other than structural repairs, and for all real estate taxes.

Property at 1475 Whalley Avenue, New Haven, Connecticut. The Bank owns a one-acre site with a single story, stucco facility of approximately 2,822 square feet that is located at 1475 Whalley Avenue, New Haven, Connecticut. The Bank operates its Amity branch from this location.

Property at 24 Washington Avenue, North Haven, Connecticut. On February 16, 2006, the Company entered into a lease agreement to lease the facility at 24 Washington Avenue, North Haven, Connecticut, the site of The Bank of North Haven, a division of The Bank of Southern Connecticut. The facility was improved to accommodate the new branch, and \$295,000 was expended for improvements, furnishings and equipment. The Bank of North Haven, a division of The Bank of Southern Connecticut, opened for operations on July 10, 2006. The lease is for an initial term of five years, with three successive five-year option periods. In 2011, the Bank exercised its first five-year option covering the period through April 30, 2016. Base rent is \$43,133 annually until April 30, 2016. The base rent for the option periods increases and is fixed in the lease. The Bank is responsible for the pro rata share of operating expenses.

Property in Clinton, Connecticut. In June 2005, the Company purchased a one-acre improved site with two buildings in Clinton, Connecticut for the primary purpose of establishing a branch office of the Bank. The net purchase price of the property was \$495,000. During 2007, the Bank determined that it would not establish a branch at this location and subsequently retained a commercial real estate broker to represent the Company in the sale of the property, and the property is classified as held for sale at December 31, 2011.

In December 2011, the Company entered into an agreement to lease one of the two buildings located in Clinton, Connecticut. The lease is for an initial term of five years, with two successive five-year option periods. Base rent is \$26,400 annually until December 15, 2016. The base rent for the option periods increases and is fixed in the lease. The tenant has a right of first refusal in the purchase of the property. The tenant is responsible for all costs to maintain the building, other than structural repairs and real estate taxes. Prior to December 2011, the Company had a lease agreement in place under similar terms and conditions with a different tenant. The Company and the former tenant mutually agreed to terminate this lease agreement in August 2011. The Company received \$13,600 in rent for this Clinton, Connecticut property in 2011.

Item 3. 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.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is quoted on the NYSE Amex under the symbol "SSE."

The following table sets forth the high and low sales price per share of the Company's Common Stock for the last two years:

Quarter Ended	High	Low
March 31, 2011	\$ 4.74	\$ 4.15
June 30, 2011	\$ 4.53	\$ 3.10
September 30, 2011	\$ 3.25	\$ 1.65
December 31, 2011	\$ 2.54	\$ 1.51
March 31, 2010	\$ 6.79	\$ 2.81
June 30, 2010	\$ 6.85	\$ 5.66
September 30, 2010	\$ 6.65	\$ 5.51
December 31, 2010	\$ 6.22	\$ 3.25

Holders

There were approximately 100 registered shareholders of record of the Company's Common Stock as of March 30, 2012.

Dividends

No cash dividends have been declared to date by the Company. Management expects that earnings, if any, will be retained and that no cash dividends will be paid in the near future. The Company may, however, declare stock dividends at the discretion of its Board of Directors. No stock dividends were declared in 2011 and 2010.

The Company's only significant operating subsidiary during 2011 is the Bank. The Company is dependent upon the ability of the Bank to declare and pay dividends to the Company. The Bank's ability to declare cash dividends is dependent upon the Bank's ability to earn profits and to maintain acceptable capital ratios, as well as meet regulatory requirements and remain compliant with banking law.

The policy of the Connecticut Banking Commissioner is to prohibit payment of any cash dividends prior to recapture of organization and pre-operating expenses from operating profits. In addition, the Bank is prohibited by Connecticut law from declaring a cash dividend on its Common Stock without prior approval of the Connecticut Banking Commissioner except from its net profits for that year and any retained net profits of the preceding two years. "Net profits" is defined as the remainder of all earnings from current operations. In some instances, the FDIC may impose further restrictions on dividends. At December 31, 2011 and 2010, no cash dividends may be declared by the Bank without regulatory approval.

The payment of cash dividends by the Bank may also be affected by other factors, such as the requirement to maintain capital in accordance with regulatory guidelines. If, in the opinion of the Connecticut Banking Commissioner, the Bank were engaged in or was about to engage in an unsafe or unsound practice, the Commissioner could require, after notice and a hearing, the Bank to cease and desist from the practice. The federal banking agencies have indicated that

paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvements Act of 1991, a depository institution may not pay any cash dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal banking agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Recent Sales of Unregistered Securities

The Company has not sold unregistered securities during the period covered by this report on Form 10-K.

Repurchases of Securities by the Company

The Company did not repurchase any of its securities during the period covered by this report on Form 10-K.

Item 6. Selected Financial Data.

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist you in understanding the financial condition and results of operations of the Company and the Bank, and should be read in conjunction with the consolidated financial statements and related notes beginning on page F-3.

Overview

Southern Connecticut Bancorp, Inc. 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 The Bank of Southern Connecticut, a commercial bank serving New Haven, Connecticut and the surrounding communities. The Bank of Southern Connecticut commenced operations on October 1, 2001. 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., which operated under the name "Evergreen Financial Services" ("Evergreen") as a licensed mortgage brokerage business through July 31, 2010. After reviewing the historical operations and results of Evergreen, and considering future prospects for the business, management determined that it was in the best interest of the Company to discontinue the mortgage brokerage operations of SCB Capital, Inc. Subsequent to July 31, 2010, the mortgage brokerage activities continued through the Bank.

The Company's net loss for fiscal year 2011 was \$2,738,000 (or basic and diluted loss per share of \$1.01), compared to a net loss of \$1,370,000 (or basic and diluted loss per share of \$0.51) in fiscal year 2010.

The Company's net losses for the years ended December 31, 2011 and 2010 were largely attributable to provisions for loan losses of \$3,036,000 and \$2,037,000, respectively. The increase in the provision for loan losses during 2011 when compared to 2010 was primarily related to commercial loans secured by real estate and construction and land loans that were severely impacted by prevailing economic conditions, as well as net increases in the general reserve allowances on performing loans resulting primarily from the Company's increased loan charge-off experience and changes to qualitative factors considered in determining the general reserve discussed in more detail under "Allowance for Loan Losses".

In addition to the impact of the increase in the provision for loan losses, the Company's operating results for the year ended December 31, 2011, when compared to the same period of 2010, were influenced by the following factors:

Net interest income decreased due to the combined effects of lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio); decreases in loan volume, and increases in liability volumes, which were partially offset by lower rates paid on interest bearing liabilities;

Noninterest income decreased primarily because of lower rental income and decreases in service charges and fees resulting from changes in the business practices of customers of the Bank, which was partially offset by recognition of a gain on a derivative financial instrument during 2011; and Noninterest expenses increased during 2011 compared to 2010 due to an increase in other operating expenses, which was partially offset by lower salaries and benefits expense as well as a decline in the cost of FDIC Insurance. The increase in other operating expenses for 2011 when compared to 2010 was primarily related to an increase in foreclosed and repossessed asset expenses and write-downs; loan related collection expenses including legal and appraisal fees; and increases in directors fees. The decrease in salaries and benefits expense during 2011 when compared to 2010 was primarily due to a reduction in staffing levels for SCB Capital, Inc. and expense savings attributable to the departure of the former President of the Company and the Bank in April 2011 and open staff positions at the Bank. These cost savings were partially offset by the salary and expenses attributable to the hiring of a Chief Executive Officer in October, 2011. FDIC insurance expense decreased during 2011 when compared to 2010 primarily due to (i) the FDIC changing the deposit insurance assessment base from total deposits to total assets less tangible equity effective April 1, 2011 and (ii) to the FDIC decreasing the deposit insurance assessment rates.

The Company offers a wide range of services to businesses, professionals, and individuals. The Company focuses on serving the banking needs of small to medium-sized businesses in its geographic areas. The Company makes commercial loans, industrial loans, real estate loans, construction loans and consumer loans, accepts demand, savings, and time deposits and provides a broad range of other services to its customers, either directly or through third parties. The Company derives revenues principally from interest earned on loans and fees from other banking-related services. The operations of the Company are influenced significantly by general economic conditions and by policies of financial institution regulatory agencies, primarily the Connecticut Banking Commissioner and the FDIC. The Company's cost of funds is influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financings may be offered.

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation ("NVSL") and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan ("NVSL Bank"), pursuant to which the Company would merge with and into Newco, with Newco being the surviving corporation. This proposed merger was mutually terminated by the merger parties on November 12, 2010 due to an inability to obtain regulatory approval of the transaction.

Selected Operating and Balance Sheet Data –
Years Ended December 31, 2011 and December 31, 2010

Operating Data	2011	2010
Interest income	\$ 7,137,608	7,546,900
Interest expense	1,950,318	2,026,870
Net interest income	5,187,290	5,520,030
Provision for loan losses	3,036,340	2,037,115
Noninterest income	579,358	602,759
Noninterest expenses	5,468,225	5,455,412
Net loss	(2,737,917)	(1,369,738)
Basic and diluted loss per share	(1.01)	(0.51)
Balance sheet data		
Cash and due from banks	\$ 18,167,794	12,194,212
Short-term investments	6,764,409	8,643,548
Interest bearing certificates of deposit	99,426	99,426
Investment securities	3,849,847	1,749,726
Loans, net	111,644,142	124,857,040
Total assets	145,969,905	152,454,555
Total deposits	132,630,681	135,821,459
Repurchase agreements	68	395,410
Total shareholders' equity	11,545,933	14,281,376
Book value per share	4.28	5.30

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 the results of Evergreen (through July 31, 2010), and the Holding Company segment is defined as the results of Southern Connecticut Bancorp 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. Effective August 1, 2010 the Company discontinued its licensed mortgage brokerage business associated with Evergreen, but continued its mortgage banking activities through the Bank.

Assets

The Company's total assets were \$146.0 million as of December 31, 2011, a decrease of \$6.4 million from \$152.4 million as of December 31, 2010. The \$6.4 million decrease in total assets was primarily attributable to a \$13.2 million decrease in net loans receivable, which was partially offset by increases in cash and cash equivalents and available for sale securities of \$4.1 million and \$2.1 million, respectively. Earning assets comprised \$124.7 million of the total assets at December 31, 2011 and consisted of short-term investments, interest-bearing certificates of deposit, available for sale securities and loans receivable, which collectively decreased \$13.5 million from the prior fiscal year end. The Company maintained liquidity by maintaining balances in short-term investments, primarily money market mutual funds and overnight investments at the Federal Reserve Bank, to provide funding for higher yielding loans as such loans were approved. As of December 31, 2011 and 2010, short-term investment balances were \$6.8 million and \$8.6 million, respectively. Investment securities classified as available for sale were \$3.8 million and \$1.7 million as of December 31, 2011 and 2010, respectively. The gross loan portfolio was \$113.9 million and \$127.6 million as of December 31, 2011 and 2010, respectively, a decrease of \$13.7 million. The allowance for loan losses of \$2.3 million

at December 31, 2011 decreased \$0.5 million when compared to the allowance for loan losses at December 31, 2010.

Investments

The amortized cost of the Company's investments increased \$2.1 million during 2011, representing the difference between purchases of new securities (\$25.2 million) and securities that matured (\$23.1 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2011, and the weighted average yield of such securities. The weighted average yields were calculated based on the amortized cost and effective yields to maturity of each security.

Available for sale	One Year	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	No Maturity	Total	Weighted Average
	or Less						Yield
U.S. Treasury Bill	\$ 3,850,000	\$ -	\$ -	\$ -	\$ -	\$ 3,850,000	0.02 %
Weighted Average Yield	0.02 %	0.00 %	0.00 %	0.00 %	0.00 %	0.02 %	

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2011:

December 31, 2011	Amortized Cost	Fair Value
U.S. Treasury	\$ 3,850,000	\$ 3,849,847

Please see also, "Notes to Consolidated Financial Statements."

Loans

The Bank's net loan portfolio was \$111.6 million at December 31, 2011 versus \$124.9 million at December 31, 2010, a decrease of \$13.3 million. The Company attributes the decline in the net loan portfolio in 2011 to the combined effects of a decline in loan demand and the impact of charge-offs of loan balances during 2011. The Bank's loans have been made to small to medium-sized businesses, primarily in the New Haven market area. There are no other significant loan concentrations in the loan portfolio.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. See Note 4 – Loans Receivable and Allowance for Loan Losses in the accompanying notes to consolidated financial statements included elsewhere in this report for further details of the Company's policies and procedures related to loan origination and risk management.

The following table presents the maturities of loans in the Company's portfolio at December 31, 2011 by type of loan, and the sensitivities of loans to changes in interest rates:

	Due in one year or less	Due after one year through five years	Due after five years	Total	% of Total
Commercial loans					
secured by real estate	\$ 16,600,223	\$ 38,378,987	\$ 12,268,955	\$ 67,248,165	58.95 %
Commercial	21,466,282	7,464,665	2,788,282	31,719,229	27.81 %
Construction and land	1,917,283	105,360	286,957	2,309,600	2.02 %
Residential mortgages	2,218,288	5,673,836	4,673,304	12,565,428	11.01 %
Consumer	95,125	139,816	-	234,941	0.21 %
Total	\$ 42,297,201	\$ 51,762,664	\$ 20,017,498	\$ 114,077,363	100.00 %
Fixed rate loans	\$ 14,736,839	\$ 7,728,732	\$ 17,862,535	\$ 40,328,106	
Variable rate loans	27,560,362	44,033,932	2,154,963	73,749,257	
Total	\$ 42,297,201	\$ 51,762,664	\$ 20,017,498	\$ 114,077,363	

Please see also, "Notes to Consolidated Financial Statements."

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 consolidated financial statements for a detailed description of our estimation process and methodology related to the allowance for loan losses.

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 experiencing financial difficulties. 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 December 31, 2011, the Bank had two commercial loans secured by real estate classified as TDRs on nonaccrual status and one commercial loan classified as a TDR on accrual status. TDRs are classified as impaired loans and remain as TDRs for the remaining life of the loan. At December 31, 2011, 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. As both the Company's asset size and outstanding loan balance increased significantly during 2010, beginning with the quarter ended March 31, 2011, the Company determined to place greater emphasis on the Company's loss experience and to utilize the average loss experience for the prior four years instead of the prior three years used in the Company's calculations through December 31, 2010. The Company increased the weighting of its loss experience from 25% to 50%. The Company intends to weight the Company's loss experience more heavily in determining the allowance for loan loss provision as the size of the Company's loan portfolio becomes more significant. The historical loss period was extended by an additional year from the loss period utilized through December 31, 2010, which is considered more representative of average annual losses inherent in the loan portfolio. For the year ended December 31, 2011, the provision for loan losses was \$31,000 lower as a result of the combined effect of these changes.

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 \$2,300,000 or 2.02% of gross loans outstanding at December 31, 2011 is adequate, under prevailing economic conditions, to absorb losses on existing loans.

At December 31, 2010, the allowance for loan losses was \$2,787,000 or 2.18% of gross loans outstanding. The decrease in the allowance at December 31, 2011 compared to December 2010 was attributable to a \$1,208,000 decrease in the specific component of the allowance, which was partially offset by a \$721,000 increase in the general component of the allowance. The decrease in the specific component of the allowance was due to a decrease in specific reserves totaling \$664,000 for loans charged off during 2011 that were classified as impaired at December 31, 2010; receipt of \$181,000 in principal payments; a \$257,000 increase in the amount of collateral available to the Bank as a result of payments being made by the borrower on a first mortgage in a superior position to the Bank for a loan

that was impaired at both December 31, 2011 and December 31, 2010, and a decrease of \$110,000 relating to a loan classified as impaired at December 31, 2010 that returned to performing status in 2011. This decrease was partially offset by an increase in specific reserves totaling \$4,000 relating to an impaired loan restructured in a troubled debt restructuring during the year ended December 31, 2011.

The increase in the general component of the reserve between December 31, 2010 and December 31, 2011 amounted to \$721,000, of which \$930,000 was due to changes in the reserve factors, which was partially offset by \$209,000 due to a decline in loan volume. The \$930,000 increase resulting from changes in general reserve factors consisted of \$445,000 attributable to changes to the qualitative factors and \$485,000 which consisted of changes in the quantitative factors due to the Company's increased charge-off experience in 2011.

The Company had \$3,536,000 in loan charge-offs in 2011, of which \$2,543,000 was for loans that were not impaired at December 31, 2010; \$664,000 was related to loans that had specific reserves at December 31, 2010 and for which losses were confirmed in 2011; and \$329,000 was for loans identified as impaired at December 31, 2010 that the Company determined to accept a lower than anticipated collateral value to ensure timely disposition of the properties. Of the \$3,536,000 in loan charge-offs in 2011, approximately \$1.7 million was for commercial loans secured by real estate and \$1.6 million was for commercial loans, each of which were severely impacted by current economic conditions. The \$2,543,000 of loans charged off in 2011 that were not impaired at December 31, 2010 consisted primarily of one commercial loan secured by real estate and one commercial loan that began showing signs of deterioration in 2011. These loans were evaluated and confirmed to be impaired. The commercial loan secured by real estate was severely impacted by competitive pressures and unfavorable market conditions that resulted in the borrower's business discontinuing operations in early 2011. The loan was secured by accounts receivable and commercial real estate. The Company received a listing of accounts receivable serving as collateral for the balance of the borrower's loan. Upon analysis, the Company determined that the accounts receivable and commercial real estate serving as collateral for the loan were insufficient to repay the loan, resulting in a direct charge-off of \$913,000, after collection of approximately \$57,000 in business assets securing the loan. In addition, during the Company's review of the financial statements of a borrower whose commercial loan was secured by UCC Filings on business assets and real estate that had been performing under the terms and conditions of the loan, it was determined that there was a lack of demonstrable cash flows from business operations to enable the borrower to continue to meet its debt service obligations. The Company evaluated the collateral supporting the loan and determined that there was a shortfall, which resulted in a partial charge-off of \$636,000. The significant increase in charge-offs in 2011 compared to 2010 was the result of the impact on businesses from the continued general weakness in the economy as described above, as well as increased efforts by the Company to identify problem loans. During 2011, the Company conducted, as described above, a comprehensive review of its loan portfolio to identify and adequately provide for problem loans. The Company employed the services of two independent loan review companies in late 2011 and early 2012 that have confirmed the Company's assessment of its loan portfolio.

The Company's net loan charge-offs in 2011 exceeded its estimates of losses inherent in the portfolio at the beginning of the year. These loan losses reflected the economic and market changes in 2011 that affected borrowers. At December 31, 2010, the allowance included \$1.2 million in specific impaired loan reserves compared to \$4,000 of such reserve at December 31, 2011. Generally, the Company recognized specific reserves for its estimate of impairment losses relating to collateral dependent impaired loans. During the fourth quarter of 2011, the Company determined to record any measured impairment on its impaired loans as a charge to the allowance for loan losses rather than establishing a specific reserve amount for such impaired loans, effectively eliminating the Company's specific impairment reserve component of the allowance. The Company estimates that \$1.3 million of charge offs during 2011 relate to such impairments. Included in these charge-offs were \$905,000 and \$351,000 in commercial loans and commercial loans secured by real estate, respectively. In addition, while overall loan payment performance remained within the expected range throughout the year, the Company undertook an initiative to aggressively identify and provide for potential problem loans. In order to reduce the Company's exposure to problem loans and potential problem loans, management took actions to reduce these exposures through loan modifications and partial or complete charge-offs. Management believes this approach has identified the impairment risk in the loan portfolio and, therefore, management believes the current allowance for loan losses to be adequate to absorb losses inherent in the Company's loan portfolio. Further, management also believes that any strengthening of the economy and or improvement of the real estate markets may result in the recovery of a portion of the losses recorded on its impaired 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 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.

Allowance for Loan Losses and Non-Accrual, Past Due and Restructured Loans

The table below details the changes in the allowance for loan losses for the years ended December 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	\$2,786,641	\$2,768,567
Provision for loan losses	3,036,340	2,037,115
Recoveries of loans previously charged-off:		
Commercial	10,253	2,674
Consumer	2,301	5,047
Total recoveries	12,554	7,721
Loans charged-off:		
Commercial	(1,590,419)	(1,937,963)
Commercial loans secured by real estate	(1,743,112)	(84,387)
Residential mortgages	(192,704)	-
Consumer	(9,675)	(4,412)
Total charge-offs	(3,535,910)	(2,026,762)
Balance at end of period	\$2,299,625	\$2,786,641
Net charge-offs to average loans	(2.90 %)	(1.63 %)

The table below provides an allocation of the year-end allowance for loan losses by loan type; however, allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

	2011		2010	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
Commercial loans secured by real estate	\$ 1,122,699	58.95 %	\$ 1,587,196	58.21 %
Commercial	965,979	27.81 %	821,981	29.82 %
Construction and land	20,431	2.02 %	55,182	2.07 %
Residential mortgages	187,224	11.01 %	316,146	9.64 %
Consumer	3,292	0.21 %	6,136	0.26 %
	\$ 2,299,625	100.00 %	\$ 2,786,641	100.00 %

Non-Performing Assets and Potential Problem Loans

The following represents nonperforming assets and potential problem loans at December 31, 2011 and 2010:

Non-accrual loans:		2011		2010
Commercial loans secured by real estate		\$787,311		\$4,844,823
Commercial		1,707,720		560,140
Construction and land		1,420,156		-
Residential mortgages		554,678		731,604
Consumer		1,460		-
Total non-accrual loans		4,471,325		6,136,567
Troubled debt restructured loans:				
Commercial Loans Secured by Real Estate (represents non-accrual loans not included in Total non-accrual loans above)		1,314,030		-
Commercial		1,899,342		280,482
Foreclosed assets:				
Commercial		374,211		127,453
Total non-performing assets		\$8,058,908		\$6,544,502
Ratio of non-performing assets to:				
Total loans and foreclosed assets		7.05 %		5.24 %
Total assets		5.52 %		4.29 %
Accruing past due loans:				
30 to 89 days past due		\$1,392,936		\$1,649,941
90 or more days past due		-		205,262
Total accruing past due loans		\$1,392,936		\$1,855,203
Ratio of accruing past due loans to total net loans:				
30 to 89 days past due		1.22 %		1.32 %
90 or more days past due		0.00 %		0.16 %
Total accruing past due loans		1.22 %		1.48 %

Deposits

Total deposits were \$132.6 million at December 31, 2011, a decrease of \$3.2 million (2.3%) in comparison to total deposits at December 31, 2010 of \$135.8 million. Non-interest bearing deposits were \$31.0 million at December 31, 2011, an increase of \$1.0 million (3.4%) from \$30.0 million at December 31, 2010. Total interest bearing checking, money market and savings deposits increased \$10.7 million or 23.9% to \$55.7 million at December 31, 2011 from \$45.0 million at December 31, 2010. Time deposits decreased to \$45.9 million at December 31, 2011 from \$60.9 million at December 31, 2010, a \$15.0 million or 24.6% decrease. Included in time deposits at December 31, 2011 and December 31, 2010 were \$9.1 million and \$10.7 million, respectively, in brokered deposits. This included the Company's placement of \$2.2 million in customer deposits at both December 31, 2011 and 2010 and the purchase of \$4.2 million and \$3.3 million, respectively, at December 31, 2011 and 2010 in brokered certificates of deposit through the CDARS program. The CDARS program offers the Bank both reciprocal and one way swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance and gives the Bank additional access to funding.

The Bank maintains relationships with several deposit brokers and could utilize the services of one or more of these brokers if management determines that issuing brokered certificates of deposit would be in the best interest of the Bank and the Company.

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 its market.

At December 31, 2011, the Bank's maturities of time deposits were:

(Thousands of dollars)	\$100,000 or greater	Less than \$100,000	Totals
Due within:			
Three months or less	\$7,670	\$4,770	\$12,440
Over three months to six months	6,017	4,384	10,401
Over six months to one year	3,602	5,110	8,712
Over one year to two years	2,383	2,183	4,566
Over two years to three years	1,648	804	2,452
Over three years	4,934	2,406	7,340
	\$26,254	\$19,657	\$45,911

Other

The increase in other assets of \$615,000 was attributable mainly to proceeds due to the Bank for net settlement proceeds on the foreclosure sale of the real estate collateral securing the Bank's participation in a commercial loan.

Results of Operations

The Company's net loss for fiscal year 2011 was \$2,738,000 (or basic and diluted loss per share of \$1.01), compared to a net loss of \$1,370,000 (or basic and diluted loss per share of \$0.51) in fiscal year 2010.

The Company's net losses for the years ended December 31, 2011 and 2010 were largely attributable to provisions for loan losses of \$3,036,000 and \$2,037,000, respectively. The increase in the provision for loan losses during 2011 when compared to 2010 was primarily related to commercial loans secured by real estate and construction and land loans that were severely impacted by prevailing economic conditions, as well as net increases in the general reserve allowances on performing loans resulting primarily from the Company's increased loan charge-off experience and changes to qualitative factors considered in determining the general reserve discussed in more detail under "Allowance for Loan Losses".

In addition to the impact of the increase in the provision for loan losses, the Company's operating results for the year ended December 31, 2011, when compared to the same period of 2010, were influenced by the following factors:

Net interest income decreased due to the combined effects of lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio); decreases in loan volume; and increases in liability volumes, which were partially offset by lower rates paid on interest bearing liabilities;

Noninterest income decreased primarily because of lower rental income and decreases in service charges and fees resulting from changes in the business practices of customers of the Bank, which was partially offset by recognition of a gain on a derivative financial instrument during 2011; and Noninterest expenses increased during 2011 compared to 2010 due to an increase in other operating expenses, which was partially offset by lower salaries and benefits expense as well as a decline in the cost of FDIC Insurance. The increase in other operating expenses for 2011 when compared to 2010 was primarily related to an increase in foreclosed and repossessed asset expenses and write-downs; loan related collection expenses including legal and appraisal fees; and increases in directors fees. The decrease in salaries and benefits expense during 2011 when compared to 2010 was primarily due to a reduction in staffing levels for SCB Capital, Inc. and expense savings attributable to the departure of the former President of the Company and the Bank in April 2011 and open staff positions at the Bank. These cost savings were partially offset by the salary and expenses attributable to the hiring of a Chief Executive Officer in October, 2011. FDIC insurance expense decreased during 2011 when compared to 2010 primarily due to the FDIC changing the deposit insurance assessment base from total deposits to total assets less tangible equity effective April 1, 2011 and due to the FDIC decreasing the deposit insurance assessment rates.

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 year ended December 31, 2011, net interest income was \$5,187,000 versus \$5,520,000 for the same period in 2010. The \$333,000 or 6.0% decrease was the result of a \$410,000 decrease in interest income which was partially offset by a \$77,000 decrease in interest expense. This net decrease was primarily the result of decreased asset volumes, lower yields on interest earning assets and increases in average balances on interest bearing liabilities, which

were partially offset by lower rates on interest bearing liabilities.

The Company's average total interest earning assets were \$133.3 million for the period ended December 31, 2011, compared to \$137.2 million for the same period in 2010, a decrease of \$3.9 million or 2.8%. The decrease in average interest earning assets of \$3.9 million during the year ended December 31, 2011 was comprised of decreases in average balances of loans of \$2.3 million, as well as decreases in average balances of short-term and other investments of \$1.3 million and investments of \$350,000.

The yield on average interest earning assets for the period ended December 31, 2011 was 5.35% compared to 5.50% for the same period in 2010, a decrease of 15 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.

The combined effects of the \$3.9 million decrease in average balances of interest earning assets and the 15 basis point decrease in yield on average interest earning assets resulted in the \$410,000 decrease in interest income for the year ended December 31, 2011 when compared to the year ended December 31, 2010.

The average balance of the Company's interest bearing liabilities was \$114.6 million for the period ended December 31, 2011 compared to \$103.0 million for the period ended December 31, 2010, an increase of \$11.6 million or 11.26%. The cost of average interest bearing liabilities decreased 27 basis points to 1.70% for the period ended December 31, 2011 compared to 1.97% for the same period in 2010, which was primarily due to a general decrease in market interest rates.

The effects of the 27 basis point decrease in the cost of average interest bearing liabilities, which was partially offset by the \$11.6 million increase in average balances of interest bearing liabilities, resulted in the \$77,000 decrease in interest expense for the year ended December 31, 2011 when compared to the year ended December 31, 2010.

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on earning assets and rates paid on interest bearing liabilities for the years ended December 31, 2011 and 2010.

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

	2011			2010			Change in Interest	Change in Average
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate		
(Dollars in thousands)								
Interest earning assets								
Loans (1)(2)	\$ 121,506	\$ 7,046	5.80 %	\$ 123,778	\$ 7,446	6.02 %	\$ (400)	\$ (2,272)
Short-term and other investments	8,808	91	1.03 %	10,068	89	0.88 %	2	(1,260)
Investments	2,959	-	0.00 %	3,309	12	0.36 %	(12)	(350)
Total interest earning assets	133,273	7,137	5.35 %	137,155	7,547	5.50 %	(410)	(3,882)
Cash and due from banks	22,798			9,870				12,928
Premises and equipment, net	2,104			2,357				(253)
Allowance for loan losses	(2,520)			(2,907)				387
Other	3,127			2,748				379
Total assets	\$ 158,782			\$ 149,223				\$ 9,559
Interest bearing liabilities								
Time certificates	\$ 61,806	1,293	2.09 %	\$ 61,018	1,426	2.34 %	(133)	\$ 788
Savings deposits	2,611	14	0.54 %	2,400	16	0.67 %	(2)	211
Money market / checking deposits	47,951	471	0.98 %	36,697	405	1.10 %	66	11,254
Capital lease obligations	1,166	171	14.67 %	1,172	175	14.93 %	(4)	(6)
Repurchase agreements	1,011	1	0.10 %	1,667	5	0.30 %	(4)	(656)
Total interest bearing liabilities	114,545	1,950	1.70 %	102,954	2,027	1.97 %	(77)	11,591

Non-interest bearing deposits	29,546	29,636	(90)
Accrued expenses and other liabilities	745	835	(90)
Shareholder's equity	13,946	15,798	(1,852)
Total liabilities and equity	\$ 158,782	\$ 149,223	\$ 9,559
Net interest income	\$ 5,187	\$ 5,520	\$ (333)
Interest spread	3.65 %	3.53 %	
Interest margin	3.89 %	4.02 %	

(1) Average balance includes nonaccruing loans.

(2) Interest income includes loan fees, which are not material.

Rate Volume Variance Analysis

The following table summarizes the variance in interest income and expense for 2011 and 2010 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest income and expense attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

(Dollars in thousands)	2011 vs 2010		(Decrease) Increase
	Due to Change in Average Volume	Rate	
Interest earning assets			
Loans	\$(133)	\$(267)	\$(400)
Short-term and other investments	(11)	13	2
Investments	(1)	(11)	(12)
Total interest earning assets	(145)	(265)	(410)
Interest bearing liabilities			
Time certificates	18	(151)	(133)
Savings deposits	1	(3)	(2)
Money market / checking deposits	114	(48)	66
Capital lease obligations	(1)	(3)	(4)
Repurchase agreements	(2)	(2)	(4)
Total interest bearing liabilities	130	(207)	(77)
Net interest income	\$(275)	\$(58)	\$(333)

The decrease in net interest income during 2011 reflected a \$3.9 million decrease in total average interest earning asset balances to \$133.3 million for the year ended December 31, 2011 when compared to the same period of 2010 as well as a \$11.6 million increase in average interest bearing liabilities to \$114.6 million for the year ended December 31, 2011 from \$103.0 million in the same period of 2010 and a decrease in the yields on interest earning assets to 5.35% for the year ended December 31, 2011 from 5.50% in the same period of 2010. The combined effects of these changes were partially offset by a decrease in rates on interest bearing liabilities to 1.70% for the year ended December 31, 2011 from 1.97% for the same period in 2010. Overall, the decrease in net interest income attributed to volume changes was \$275,000 and the decrease attributed to interest rate changes was \$58,000. Interest income from interest earning assets decreased by \$410,000 in 2011 compared to 2010 because of a \$265,000 decrease due to a decline in interest rates and a \$145,000 decrease due to volume considerations. Variances in the cost of interest bearing liabilities during the year ended December 31, 2011 in comparison to the same period in 2010 were due to decreased rate considerations of \$207,000 which were partially offset by increased volume considerations of \$130,000.

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.

The following are measurements of the Company's results of operations in relation to assets and equity, and average equity to average assets for the years ended December 31, 2011 and 2010:

	2011	2010
Loss on average assets	(1.72 %)	(.92 %)
Loss on average equity	(19.63 %)	(8.67 %)
Average equity to average assets	8.78 %	10.59 %

Provision for Loan Losses

The Bank's provision for loan losses was \$3,036,000 for the year ended December 31, 2011 compared to \$2,037,000 for the year ended December 31, 2010. The increase in the provision is primarily due to increased charge-offs related to commercial loans secured by real estate and construction and land loans that have been severely impacted by prevailing economic conditions, as well as a net increase in the general reserve allowance on performing loans resulting from the Company's increased loan charge-off experience and changes to qualitative factors considered in determining the general reserve, discussed in more detail under "Allowance for Loan Losses".

Noninterest Income

Total noninterest income decreased \$24,000 to \$579,000 for the year ended December 31, 2011 compared to the same period in 2010. The decline in noninterest income for the year ended December 31, 2011 was due to a \$70,000 decline in service charges and fees due to changes in business practices of customers of the Bank during 2011 and by a \$29,000 gain on the sale of an available for sale security during 2010 with no similar gain recognized in 2011, which was partially offset by recognition of an \$86,000 gain on a derivative financial instrument. Other noninterest income decreased \$11,000 to \$134,000 for the year ended December 31, 2011 from \$145,000 in the same period in 2010, primarily due to a \$10,000 decrease in rental income.

Noninterest Expenses

Total noninterest expense was \$5,536,000 for the year ended December 31, 2011 compared to \$5,467,000 for the same period in 2010, a decrease of \$69,000 or 1.3%.

Salaries and benefits expense declined \$343,000 to \$2,654,000 for the year ended December 31, 2011 from \$2,997,000 for the same period in 2010. The decrease was primarily due to a reduction in staffing levels for SCB Capital, Inc., expense savings attributable to the departure of the former President of the Company and the Bank in April 2011 and open staff positions at the Bank. These cost savings were partially offset by the salary and benefit expenses attributable to the hiring of a Chief Executive Officer in October 2011.

Occupancy and equipment expense of \$661,000 for the year ended December 31, 2011 was relatively unchanged compared to \$663,000 for the same period in 2010.

Professional services expense decreased by \$12,000 to \$426,000 for the year ended December 31, 2011 from \$438,000 for the same period in 2010. This decrease was primarily due to professional services expense for the year ended December 31, 2010 that included legal and accounting fees related to the proposed merger with Naugatuck Valley Financial Corporation, which was mutually terminated by the merger parties on November 12, 2010 due to an inability to obtain regulatory approval of the transaction.

Fees for data processing and other outside services declined \$36,000 to \$390,000 for the year ended December 31, 2011 from \$426,000 for the same period in 2010. The decrease was primarily due to benefits the Company realized on

the renewal of certain related service contracts.

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FDIC insurance expense decreased by \$30,000 for the year ended December 31, 2011 to \$215,000 from \$245,000 in 2010 primarily due to (i) the FDIC changing the deposit insurance assessment base, from total deposits to total assets less tangible equity, effective April 1, 2011 and (ii) the FDIC decreasing the deposit insurance assessment rates.

Directors' fees increased by \$52,000 for the year ended December 31, 2011 to \$298,000 from \$246,000 in 2010. The increase included a \$105,000 increase in director fees related to an annual stipend of \$15,000 payable to each director of the Bank effective January 1, 2011, which was partially offset by a decline in costs associated with director meetings held in 2011.

Loan collection expenses increased to \$160,000 for the year ended December 31, 2011 compared to \$56,000 in 2010. The \$104,000 increase during 2011 was attributable to the loan collection efforts associated with the significant increase in loan charge-offs in 2011, discussed in more detail under Allowance for Loan Losses.

Insurance expense increased by \$20,000 to \$85,000 for the year ended December 31, 2011 from \$65,000 in 2010, primarily due to increased costs in 2011 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008.

Other real estate owned expenses (OREO) increased by \$81,000 to \$93,000 for the year ended December 31, 2011 with no such expense in 2010. The increase during 2011 was related to foreclosed and repossessed asset expenses and write-downs recorded on three OREO properties that resulted from a decline in the appraised value of the properties during 2011.

The Bank incurred a loss on the sale of an OREO property of \$51,000 during 2011 with no such loss in 2010.

Other operating expenses increased by \$103,000 to \$347,000 for the year ended December 31, 2011 compared to the same period in 2010 primarily due to a \$57,000 write-down of other assets held for sale due to a decline in the appraised value of the property and an increase in other miscellaneous expenses totaling \$46,000.

Off-Balance-Sheet Arrangements

See Note 14 to the accompanying Consolidated Financial Statements for required disclosure regarding off-balance-sheet arrangements.

Liquidity

The Company's liquidity position as of December 31, 2011 and 2010 consisted of liquid assets totaling \$28.9 million and \$22.7 million, respectively. This represents 19.8% and 14.9% of total assets at December 31, 2011 and 2010, respectively. 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.

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.

Capital

The following table illustrates the Company's and Bank's regulatory capital ratios at December 31, 2011 and 2010:

	Company			Bank		
	2011	2010	Capital Adequacy Target Ratio	2011	2010	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	10.88 %	11.91 %	8.00 %	10.28 %	11.20 %	8.00 %
Tier 1 Capital to Risk Weighted Assets	9.62 %	10.65 %	4.00 %	9.03 %	9.94 %	4.00 %
Tier 1 (Leverage) Capital Ratio to Average Assets	7.41 %	9.00 %	4.00 %	6.95 %	8.39 %	4.00 %

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%. Based on the above ratios, the Bank is considered to be "well capitalized" under applicable regulations. To be considered "well capitalized" an institution must generally have a leverage capital 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%. As of December 31, 2011, the Bank's Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, the Bank has agreed with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking to maintain a minimum Tier 1 leverage ratio of at least 8.0%. As a result of the Bank's Tier 1 leverage ratio being 6.95% at December 31, 2011, the Bank developed a capital plan to increase its capital amounts and ratios and submitted such plan to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. Following receipt of regulatory approval, 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 a minimum Tier 1 leverage ratio of at least 8.0%.

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," "Business" and elsewhere in this Annual Report on Form 10-K 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 identify 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 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 8. Financial Statements and Supplementary Data.

The consolidated balance sheets of the Company as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, together with the report thereon of McGladrey & Pullen, LLP dated March 30, 2012 are included as part of this Form 10-K following page 50 hereof.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. 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 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 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) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer, we conducted an evaluation of the effectiveness of our control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

(c) Attestation Report of the Registered Public Accounting Firm

As of result of a provision of the Dodd-Frank Act, which, among other things, permanently exempted non-accelerated filers, such as the Company, from complying with the requirements of Section 404(b) of Sarbanes-Oxley, which requires an issuer to include an attestation report from an issuer's independent registered public accounting firm on the issuer's internal control over financial reporting, this Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding the Company's internal control over financial reporting.

(d) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter ended December 31, 2011 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated into this Form 10-K by reference from the sections captioned "Proposal 1 – Election of Directors", "Corporate Governance", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Code of Ethics" in the Company's definitive proxy statement for its 2012 Annual Meeting of Shareholders (the "Definitive Proxy Statement").

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated into this Form 10-K by reference from the sections captioned "Executive Compensation" and "Director Compensation" in the Definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information. The following schedule provides information with respect to the compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance as of December 31, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by security holders	158,388	\$ 7.76	336,882
Equity Compensation Plan not approved by security holders (1)	-	-	-
Total	158,388	\$ 7.76	336,882

(1) The Company adopted a 2001 Warrant Plan and 2001 Supplemental Warrant Plan (collectively, the “Warrant Plans”) on April 11, 2001 and October 16, 2001, respectively. The Warrant Plans were not approved by security holders. Under the Warrant Plans, each director of the Company, other than Mr. Joseph V. Ciaburri (who served as the Chairman of the board of directors of the Company at the time), and each director of the Bank who is not a director of the Company, as of the initial public offering of the Company in July 2001, received a warrant to purchase one share of the Company common stock for each four shares purchased in the offering by such director or members of such director’s immediate family. Under the 2001 Supplemental Warrant Plan, certain organizers of the Company who are not directors, officers or employees of the Company or the Bank but who made contributions to the Company’s enterprise received a warrant to purchase one share of the Company common stock for each five shares purchased in the offering by such person or member of such person’s immediate family. The warrants have a term of ten years. The exercise price of the warrants is \$10.39, the price at which the Company’s common stock was sold in the initial public offering, as adjusted for subsequent stock dividends. As of December 31, 2011, all warrants issued under the 2001 Warrant Plan and 2001 Supplemental Warrant Plan had expired.

Additional information required by this Item 12 is incorporated into this Form 10-K by reference from the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated into this Form 10-K by reference from the sections captioned “Corporate Governance”, “Compensation Committee Interlocks and Insider Participation” and “Certain Relationships and Related Transactions” in the Definitive Proxy Statement.

Item 14. Principal Accountant Fees and Services.

McGladrey & Pullen, LLP and its affiliate RSM McGladrey, Inc. provide audit, audit-related and tax advisory and tax return preparation services for the Company and The Bank of Southern Connecticut. On December 1, 2011 McGladrey & Pullen, LLP acquired RSM McGladrey, Inc. The following table summarizes the fees provided in 2011 and 2010, respectively:

	2011	2010
Audit fees	\$167,849	\$150,774
Audit Related Fees	None	145,900
Tax fees	12,150	13,950
All Other fees	None	None

Audit fees consist of fees for professional services rendered for the audit of the consolidated financial statements, review of consolidated financial statements included in quarterly reports on Form 10-Q and annual reports on Form 10-K, and services connected with statutory and regulatory filings or engagements. Audit-related fees in 2010 were principally for services in connection with filings related to the proposed merger with NVSL. Tax service fees consist of fees for tax return preparation for the Company. There were no other fees for either period.

The audit committee of the Company's Board of Directors has established policies and procedures for the engagement of the independent registered public accounting firm to provide non-audit services, including a requirement for approval in advance of all non-audit services to be provided by the independent auditor. To ensure that this does not restrict access to the independent registered public accounting firm by management on matters where the advice and consultation of the independent registered public accounting firm is sought by management and such advice or consultation, in the opinion of management, cannot practically be delayed pending pre-approval by the audit committee, the committee authorizes management to use their judgment and retain the independent auditor for such matters and consider such services to be pre-approved provided the estimated cost of such services does not exceed 5% of the annual fees paid to the independent registered public accounting firm and such services are formally approved by the audit committee at its next meeting.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Financial Statements and Schedules:

The following Financial Statements and Supplementary Data are filed as part of this annual report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits (numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of February 22, 2010, by and among Naugatuck Valley Financial Corporation, Newco (as defined therein) and the Registrant (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 23, 2010)
2.2	First Amendment dated as of September 17, 2010 to the Agreement and Plan of Merger, dated as of February 22, 2010, by and among Naugatuck Valley Financial Corporation, Newco (as defined therein) and Southern Connecticut Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on September 20, 2010)
2.3	Mutual Termination Agreement, dated as of November 12, 2010, by and among Naugatuck Valley Financial Corporation, a federally chartered subsidiary holding company, Naugatuck Valley Financial Corporation, a Maryland corporation, and Southern Connecticut Bancorp, Inc., a Connecticut corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 12, 2010)
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 August 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	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
10.2	Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on

Form SB-2 filed on April 30, 2001)

- 10.3 First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)

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- 10.4 Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement Form SB-2 filed on April 30, 2001)
- 10.5 Assignment of Lease dated April 11, 2001 between the Registrant and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
- 10.6 Lease dated August 2, 2002 between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)
- 10.7 Registrant's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #
- 10.8 Registrant's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #
- 10.9 Registrant's 2001 Supplemental Warrant Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-KSB filed on March 29, 2002) #
- 10.10 Registrant's 2002 Stock Option Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed on April 18, 2002) #
- 10.11 Form of Stock Option Agreement for Non-qualified Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #
- 10.12 Form of Stock Option Agreement for Incentive Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #
- 10.13 Employment Agreement, effective January 1, 2011, by and among the Registrant and The Bank of Southern Connecticut and John H. Howland covering the period from January 1, 2011 to December 31, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2010) #
- 10.14 Employment Agreement, effective January 1, 2011, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli covering the period from January 1, 2011 to December 31, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2010) #
- 10.15 Employment Agreement, effective as of January 1, 2011, by and between Southern Connecticut Bancorp, Inc. and its subsidiary, The Bank of Southern Connecticut, and Sunil Pallan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 8, 2011) #
- 10.16 Employment Agreement, effective as of February 28, 2012, by and between Southern Connecticut Bancorp, Inc. and its subsidiary, The Bank of Southern Connecticut, and Joseph J. Greco (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 28, 2012) #

- 10.17 Restricted Stock Agreement, dated as of February 28, 2012, by and between Southern Connecticut Bancorp, Inc. and Joseph J. Greco (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 28, 2012) #
- 10.18 Bank of Southern Connecticut Director Retirement Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 8, 2011) #

- 10.19 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Form S-8 filed on January 13, 2006) #
- 10.20 Form of Common Stock Award Agreement for Restricted Stock Awards granted under the 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Form S-8 filed on January 13, 2006) #
14. Code of Ethics (incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)
21. Subsidiaries (filed herewith)
23. Consent of McGladrey & Pullen, LLP (filed herewith)
- 31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer (filed herewith)
- 31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification by Senior Vice President and Chief Financial Officer (filed herewith)
- 31.3 Rule 13(a)-14(a)/15(d)-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)

Management contract or compensatory plan or arrangement.

* 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

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CONNECTICUT BANCORP, INC.
(Registrant)

By: /s/ JOSEPH J. GRECO
Name: Joseph J. Greco
Title: Chief Executive Officer
Date: March 30, 2012

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in capacities and on the dates indicated.

/s/ Joseph J. Greco
Joseph J. Greco
Chief Executive Officer
March 30, 2012
Date

/s/ Stephen V. Ciancarelli
Stephen V. Ciancarelli
Senior Vice President and Chief Financial
Officer
March 30, 2012
Date

/s/ Alphonse F. Spadaro, Jr.
Alphonse F. Spadaro, Jr.
Acting Chairman and Director
March 30, 2012
Date

/s/ Carl R. Borrelli
Carl R. Borrelli
Director
March 30, 2012
Date

/s/ James S. Brownstein, Esq.
James S. Brownstein, Esq.
Director
March 30, 2012
Date

/s/ Alfred J. Ranieri, Jr.
Alfred J. Ranieri, Jr.
Director
March 30, 2012
Date

/s/ Joshua H. Sandman, Ph.D.
Joshua H. Sandman, Ph.D.
Director
March 30, 2012
Date

/s/ Anthony M. Avellani
Anthony M. Avellani
Vice President, Chief Accounting Officer
March 30, 2012
Date

FINANCIAL STATEMENTS

December 31, 2011 and 2010

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Southern Connecticut Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Southern Connecticut Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Connecticut Bancorp, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 30, 2012

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2011 and December 31, 2010

ASSETS	2011	2010
Cash and due from banks (Note 2)	\$ 18,167,794	\$ 12,194,212
Short term investments	6,764,409	8,643,548
Cash and cash equivalents	24,932,203	20,837,760
Interest bearing certificates of deposit	99,426	99,426
Available for sale securities (at fair value) (Note 3)	3,849,847	1,749,726
Federal Home Loan Bank stock (Note 7)	66,100	66,100
Loans receivable (Note 4)		
Loans receivable	113,943,767	127,643,681
Allowance for loan losses	(2,299,625)	(2,786,641)
Loans receivable, net	111,644,142	124,857,040
Accrued interest receivable	434,302	504,706
Premises and equipment (Note 5)	2,014,665	2,214,232
Other real estate owned	374,211	127,453
Other assets held for sale (Note 18)	315,000	372,758
Other assets	2,240,009	1,625,354
Total assets	\$ 145,969,905	\$ 152,454,555
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 6)		
Noninterest bearing deposits	\$ 31,003,581	\$ 29,970,070
Interest bearing deposits	101,627,100	105,851,389
Total deposits	132,630,681	135,821,459
Repurchase agreements	68	395,410
Capital lease obligations (Note 8)	1,161,938	1,168,954
Accrued expenses and other liabilities	631,285	787,356
Total liabilities	134,423,972	138,173,179
Commitments and Contingencies (Notes 7, 8 and 14)		
Shareholders' Equity (Notes 10 and 15)		
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: 2011 2,697,902; 2010 2,696,902	26,979	26,969
Additional paid-in capital	22,569,489	22,567,146
Accumulated deficit	(11,050,382)	(8,312,465)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(153)	(274)
Total shareholders' equity	11,545,933	14,281,376

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