SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 28, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10 – K

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

For the Fiscal Year Ended December 31, 2012.

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

For the transition period from _____ to _____

Commission file number 1-32219

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

Connecticut	06-1609692
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
215 Church Street New Haven, Connecticut	06510
(Address of Principal Executive Offices)	(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	NYSE MKT
(Title of each class)	(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 o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

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

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. o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

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, 2012, the last business day of the registrant's most recently completed second fiscal quarter: $3,394,000.

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 28, 2013: 2,810,273

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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.

On January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut ("Liberty"), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the "Merger"), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank. See Note 18 to the Consolidated Financial Statements for additional information relating to the Merger.

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.

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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, 2012, the Bank had 33 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.

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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 at least 4%. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. Moreover, higher capital ratios may be required for any bank holding company if warranted by its particular circumstances or risk profile. In all cases, bank holding companies should hold capital commensurate with the level and nature of the risks, including the volume and severity of problem loans, to which they are exposed.

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. As of December 31, 2012, the Bank's Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, in July 2012, the Bank entered into a Consent Order with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking which, among other things, require it to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At December 31, 2012, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. In September 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. In October 2012, the Bank received regulatory approval for its revised capital plan. In the event the Company and Bank's pending merger with Liberty Bank is not consummated, the Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not maintain the minimum capital ratios set forth in the Consent Order.

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 established 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. To date, this change to existing law has not had an adverse impact on our net interest margin. However, depending on competitive responses, it may result in an increase in our interest expense in the future, which could impact our net interest margin.

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 increased 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 had unlimited deposit insurance through December 31, 2012. The legislation also increased the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directed 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 "critical 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		
	2012	2011	Capital Adequacy Target Ratio	2012	2011	Capital Adequacy Target Ratio
Total Capital to Risk Weighted Assets	12.33%	10.88%	8.00%	11.60%	10.28%	8.00%
Tier 1Capital to Risk Weighted Assets	11.07%	9.62%	4.00%	10.34%	9.03%	4.00%
Tier 1(Leverage) Capital Ratio to Average Assets	9.31%	7.41%	4.00%	8.70%	6.95%	4.00%

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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. As of December 31, 2012, the Bank's Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, in July 2012, the Bank entered into a Consent Order with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking which, among other things, require it to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At December 31, 2012, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. In September 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. In October 2012, the Bank received regulatory approval for its revised capital plan. In the event the Company and Bank's pending merger with Liberty bank is not consummated, the Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not maintain the minimum capital ratios set forth in the Consent Order.

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 December 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.

In June 2012, the federal bank regulatory agencies issued a series of proposed rules that would revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with Basel III and certain provisions of the Dodd-Frank Act. The proposed rules would apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies ("banking organizations"). Among other things, the proposed rules establish a new minimum common equity Tier 1 capital ratio of 4.5% of risk-weighted assets and a higher minimum Tier 1 risk-based capital ratio of 6.0% (up from the present 4.0%). Additionally, the U.S. implementation of Basel III contemplates that, for banking organizations with less than $15 billion in assets, the ability to treat trust preferred securities as Tier 1 capital would be phased out over a ten-year period. The proposed rules also required unrealized gains and losses on certain securities holdings to be included for purposes of calculating regulatory capital requirements. In addition, the proposed rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The proposed rules indicated that the final rule would become effective on January 1, 2013, and the changes set forth in the final rules will be phased in from January 1, 2013 through January 1, 2019. However, the federal bank regulatory agencies

indicated in November 2012 that they did not expect that any of the proposed rules would become effective on January 1, 2013. The federal bank regulatory agencies did not specify a new deadline.

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 provided unlimited FDIC deposit insurance on funds in noninterest-bearing transaction deposit accounts that were not otherwise covered by the existing FDIC deposit insurance limit of $250,000. The TLGP also provided that the FDIC will guarantee qualifying senior unsecured debt issued before June 2009 by participating banks and certain qualifying holding companies. Participating institutions were 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 expired on December 31, 2012 and reverted to the standard FDIC deposit insurance limit of $250,000.

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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 this building that is not needed for operations. The Bank of Southern Connecticut had no tenants in this building during 2012.

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, 2017. The Bank of Southern Connecticut has an option to extend the lease for an additional five year term. The annual base rent payable for the current term is $47,094 until September 30, 2017. 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 period increases and is fixed in the lease. The Bank is responsible for its 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, 2012.

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 for 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 $31,800 and $13,600 in rent for this Clinton, Connecticut property in 2012 and 2011, respectively.

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.

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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 MKT 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, 2012	$2.29	$1.48
June 30, 2012	$1.86	$1.19
September 30, 2012	$1.54	$0.92
December 31, 2012	$2.32	$1.00
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

Holders

There were approximately 100 registered shareholders of record of the Company's Common Stock as of March 28, 2013.

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. No stock dividends were declared in 2012 and 2011 by the Company. The Company and Bank are required to obtain written approval from its regulators prior to declaring or paying any dividends. In addition, the Company has agreed in the merger agreement with Liberty Bank to not declare or pay any dividends on the Company's Common Stock.

The Company's only significant operating subsidiary during 2012 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 to 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, 2012 and 2011, 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.

The Company's net loss for fiscal year 2012 was $173,000 (or basic and diluted loss per share of $.06), compared to a net loss of $2,738,000 (or basic and diluted loss per share of $1.01) in fiscal year 2011.

The Company's net losses for the years ended December 31, 2012 and 2011 were largely attributable to provisions for loan losses of $473,000 and $3,036,000, respectively. The decrease in the provision for loan losses was primarily due to a significant decrease in loan charge-offs in 2012 compared to 2011. The decline in loan charge-offs in 2012 was largely attributable to an initiative undertaken by the Company in 2011 to aggressively identify potential problem loans and reduce the Company's exposure to these loans through loan modifications and partial or complete charge-offs in 2011.

In addition to the impact of the decrease in the provision for loan losses, the Company's operating results for the year ended December 31, 2012, when compared to the year ended December 31, 2011, were influenced by the following factors:

- Net interest income decreased by $243,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in liability volumes and lower rates paid on interest bearing liabilities;
- Noninterest income increased by $60,000 because of loan prepayment fees and net insurance proceeds received during 2012 with no similar income recognized in 2011, as well as an increase in other noninterest income, which were partially offset by a decrease in the recognition of gain on a derivative financial instrument and declines in service charges and fees resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased by $185,000 during 2012 compared to 2011 primarily due to declines in a number of categories of operating expenses, which were partially offset by increases in salaries and benefits expense and insurance expense. The decreases in operating expenses for 2012 when compared to 2011 primarily consisted of declines in foreclosed and repossessed asset expenses and write-downs, loan related collection expenses, including legal and appraisal fees, and decreases in directors' fees and data processing fees. The decreases in foreclosed and repossessed asset expenses and write-downs and loan related collection expenses were due to a decline in loan collection efforts resulting from a significant decrease in newly identified impaired loans in 2012 compared to 2011.The decrease in directors' fees was attributable to reductions in director fees that were approved by the Company's compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The increase in salaries and benefits expense during 2012 when compared to 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to a full year of salary and benefits paid to the Chief Executive Officer, who was hired on October 24, 2011 to fill an open position at the Bank that existed during 2011. Insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008. In addition, the Company realized a loss on the sale of other real estate owned during 2011 with no similar loss realized in 2012.

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 January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut ("Liberty"), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the "Merger"), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank. See Note 18 to the Consolidated Financial Statements for additional information relating to the Merger.

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Selected Operating and Balance Sheet Data –
Years Ended December 31, 2012 and December 31, 2011

Operating Data	2012	2011
Interest income	$6,016,433	$7,137,608
Interest expense	1,072,651	1,950,318
Net interest income	4,943,782	5,187,290
Provision for loan losses	472,848	3,036,340
Noninterest income	639,569	579,358
Noninterest expenses	5,282,996	5,468,225
Net loss	(172,493)	(2,737,917)
Basic and diluted loss per share	(0.06)	(1.01)
Balance sheet data		
Cash and due from banks	$6,913,610	$18,167,794
Short term investments	4,674,556	6,764,409
Interest bearing certificates of deposit	655,278	99,426
Investment securities	1,249,925	3,849,847
Loans, net	103,279,437	111,644,142
Total assets	121,446,561	145,969,905
Total deposits	108,251,238	132,630,681
Repurchase agreements	—	68
Total shareholders' equity	11,547,692	11,545,933
Book value per share	4.16	4.28

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 SCB Capital, Inc., and the Holding Company segment is defined as the results of Southern Connecticut Bancorp, Inc. on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

Assets

The Company’s total assets were $121.5 million as of December 31, 2012, a decrease of $24.5 million from total assets of $146.0 million at December 31, 2011. The $24.5 million decrease in total assets was primarily attributable to decreases of $11.3 million in cash and cash equivalents, $8.3 million in net loans receivable and $2.6 million in available for sale securities, which were partially offset by a $560,000 increase in interest-bearing certificates of deposit. Earning assets comprised $112.1 million of the total assets at December 31, 2012 and consisted of short-term investments, interest-bearing certificates of deposit, available for sale securities and loans receivable, which collectively decreased $12.6 million from the prior fiscal year end.

Cash and cash equivalents, including short term investments, decreased to $11.6 million as of December 31, 2012 from $24.9 million as of December 31, 2011 and the Bank’s net loans receivable decreased to $103.3 million at December 31, 2012 from $111.6 million at December 31, 2011. Total deposits decreased to $108.3 million as of December 31, 2012 from $132.6 million as of December 31, 2011. The decreases in net loans receivable and cash and cash equivalents corresponded with the decrease in deposit liabilities during the year ended December 31, 2012.

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 by the Bank. As of December 31, 2012 and 2011, short-term investment balances were $4.7 million and $6.8 million, respectively. Investment securities classified as available for sale were $1.2 million and $3.8 million as of December 31, 2012 and 2011, respectively. The gross loan portfolio decreased $8.4 million to $105.5 million as of December 31, 2012 from $113.9 million as of December 31, 2011. The allowance for loan losses of $2.2 million at December 31, 2012 decreased $70,000 when compared to the allowance for loan losses at December 31, 2011.

Investments

The amortized cost of the Company's investments decreased $2.6 million during 2012, representing the difference between purchases of new securities ($18.8 million) and securities that matured ($21.4 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2012, 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 or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	No Maturity	Total	Weighted Average Yield
U.S. Treasury Bill	$1,250,000	$—	$—	$—	$—	$1,250,000	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, 2012:

December 31, 2012	Amortized Cost	Fair Value
U.S. Treasury Bills	$ 1,250,000	$ 1,249,925

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

Loans

The Bank's net loan portfolio was $103.3 million at December 31, 2012 versus $111.6 million at December 31, 2011, a decrease of $8.3 million. The Company attributes the decline in the net loan portfolio in 2012 to the combined effects of a decline in loan demand and the impact of charge-offs of loan balances during 2012. 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.

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The following table presents the maturities of loans in the Company's portfolio at December 31, 2012 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	$16,128,511	$24,735,336	$23,813,698	$64,677,545	61.24 %
Commercial	16,498,542	7,145,145	2,268,210	25,911,897	24.53 %
Residential mortgages	2,583,839	5,051,041	5,547,961	13,182,841	12.48 %
Construction and land	1,343,296	98,444	—	1,441,740	1.37 %
Consumer	123,702	279,879	—	403,581	0.38 %
Total	$36,677,890	$37,309,845	$31,629,869	$105,617,604	100.00 %
Fixed rate loans	$15,835,612	$8,850,356	$28,444,867	$53,130,835	
Variable rate loans	20,842,278	28,459,489	3,185,002	52,486,769	
Total	$36,677,890	$37,309,845	$31,629,869	$105,617,604	

Please see "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 either experiencing financial difficulties or absent such concessions, it is probable the borrowers would experience financial difficulty complying with the original terms of the loan. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

Most TDRs are placed on nonaccrual status at the time of restructuring, and continue on nonaccrual status until they have performed under the revised terms of the modified loan agreement for a minimum of six months. In certain instances, for TDRs that are on accrual status at the time the loans are restructured, the Bank may continue to classify the loans as accruing loans based upon the terms and conditions of the restructuring. At December 31, 2012, the Bank had two commercial and industrial loans and one commercial loan secured by real estate classified as TDRs on nonaccrual status and two commercial loans secured by real estate and one commercial loan classified as TDRs on accrual status. TDRs are classified as impaired loans and remain as TDRs for the remaining life of the loan. At December 31, 2012, 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.

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

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

Due to the relatively small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC regarding the loss experience of national banks with assets between $100 million and $300 million and combines this data with the Company's actual loss experience to develop average loss factors by weighting the national banks' loss experience and the Company's loss experience. In reviewing the performance and trends of the Company's loan portfolio during the year ended December 31, 2012 compared to the year ended December 31, 2011, management determined to update the methodology relating to the calculation of the general reserve by reducing the historical loss period to three years from the four year loss period utilized during the year ended December 31, 2011, which is considered more representative of average annual losses inherent in the Bank's loan portfolio. The Company returned to the use of the three year loss period at December 31, 2012 after considering trends in loan loss activity, current loan portfolio quality and present economic, political and regulatory conditions. For the year ended December 31, 2012, the provision for loan losses was $262,000 higher as a result of the effect of this change. Since there was no significant change in both the Company's asset size and outstanding loan balance during 2012, the Company determined to continue to weight the loss experience of national banks and the Company's loss experience equally. As the size of the Company's loan portfolio becomes more significant, the Company intends to weight the Company's loss experience more heavily in determining the allowance for loan loss provision.

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

Based upon this evaluation, management believes the allowance for loan losses of $2,229,334 or 2.11% of gross loans outstanding at December 31, 2012 is adequate, under prevailing economic conditions, to absorb losses on existing loans.

At December 31, 2011, the allowance for loan losses was $2,299,625 or 2.02% of gross loans outstanding. The decrease in the allowance at December 31, 2012 compared to December 2011 was attributable to a $66,000 decrease in the general component of the allowance and a $4,000 decrease in the specific component of the allowance.

The Company's provision for loan losses decreased by $2.6 million for the year ended December 31, 2012 primarily due to a significant decrease in loan charge-offs in 2012 compared to 2011. The decline in charge-offs in 2012 was largely attributable to an initiative undertaken by the Company in 2011 to aggressively identify potential problem loans and reduce the Company's exposure to these loans through loan modifications and partial or complete charge-offs in 2011.

The decrease in the general component of the reserve from December 31, 2011 to December 31, 2012 amounted to $66,000, of which $328,000 was due to a decline in loan volume, which was partially offset by an increase of $262,000 resulting from changes in the reserve factors. The $262,000 increase resulted from changes in general reserve factors and consisted of $94,000 attributable to changes to the qualitative factors and $168,000 attributable to changes to the quantitative factors that resulted from the Company reducing the historical period of the average loss experience to the prior three years instead of the prior four years that were used in the Company's calculations for the year ended December 31, 2011. The decrease in specific reserves totaling $4,000 related to an impaired loan that became a troubled debt restructuring during the year ended December 31, 2011 for which no specific reserve was required at December 31, 2012.

The Company had $661,000 in loan charge-offs in 2012, of which $558,000 was for loans that were identified as impaired during 2012 and $103,000 was related to collateral dependent loans previously identified as impaired at December 31, 2011 that the Company determined to have experienced a decline in the collateral value of the properties securing such loans. Of the $661,000 in loan charge-offs in 2012, approximately $456,000 was for commercial and industrial loans and $178,000 was for residential loans, each of which were severely impacted by current economic conditions. During 2012, the Company had $118,000 in recoveries of loans that were charged off in prior years.

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, 2012 and 2011:

	2012	2011
Balance at beginning of year	$2,299,625	$2,786,641
Provision for loan losses	472,848	3,036,340
Recoveries of loans previously charged-off:		
Commercial	88,562	
Commercial loans secured by real estate	29,113	10,253
Consumer	—	2,301
Total recoveries	117,675	12,554
Loans charged-off:		
Commercial	(455,696)	(1,590,419)
Residential mortgages	(177,916)	(192,704)
Commercial loans secured by real estate	(24,243)	(1,743,112)
Consumer	(2,959)	(9,675)
Total charge-offs	(660,814)	(3,535,910)
Balance at end of period	$2,229,334	$2,299,625
Net charge-offs to average loans	(0.28)%	(2.90%)

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:

	2012			2011		
	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	$1,150,619	61.24	%	$1,122,699	58.95	%
Commercial	844,347	24.53	%	965,979	27.81	%
Residential mortgages	225,601	12.48	%	187,224	11.01	%
Construction and land	2,062	1.37	%	20,431	2.02	%
Consumer	6,705	0.38	%	3,292	0.21	%
	$2,229,334	100.00	%	$2,299,625	100.00	%

Non-Performing Assets and Potential Problem Loans

The following represents nonperforming assets and potential problem loans at December 31, 2012 and 2011:

Nonaccrual loans:	2012		2011	
Commercial	$1,687,827		$1,707,720	
Construction and land	1,343,295		1,420,156	
Residential mortgages	860,522		554,678	
Commercial loans secured by real estate	796,775		787,311	
Consumer		—	1,460	
Total non-accrual loans	4,688,419		4,471,325	
Troubled debt restructured (TDR) loans:				
Nonaccrual TDR loans not included in Total nonaccrual loans above:				
Commercial	247,344		1,899,342	
Commercial loans secured by real estate	243,678		1,314,030	
Accruing TDR impaired loans:				
Commercial loans secured by real estate	3,457,170			—
Commercial	1,628,761			—
Foreclosed assets:				
Commercial	582,911		374,211	
Total non-performing assets	$10,848,283		$8,058,908	
Ratio of non-performing assets to:				
Total loans and foreclosed assets	10.23	%	7.05	%
Total assets	8.93	%	5.52	%
Accruing past due loans:				
30 to 89 days past due	$998,169		$1,392,936	
90 or more days past due		—		—
Total accruing past due loans	$998,169		$1,392,936	

Ratio of accruing past due loans to total loans net of unearned income:				
30 to 89 days past due	0.95	%	1.22	%
90 or more days past due	0.00	%	0.00	%
Total accruing past due loans	0.95	%	1.22	%

Deposits

Total deposits were $108.2 million at December 31, 2012, a decrease of $24.4 million (18.4%) in comparison to total deposits of $132.6 million at December 31, 2011. Non-interest bearing deposits were $29.9 million at December 31, 2012, a decrease of $1.1 million (3.5%) from $31.0 million at December 31, 2011. Total interest bearing checking, money market and savings deposits decreased $11.1 million or 19.9% to $44.6 million at December 31, 2012 from $55.7 million at December 31, 2011. Time deposits decreased to $33.7 million at December 31, 2012 from $45.9 million at December 31, 2011, a $12.2 million or 26.6% decrease. Included in time deposits at December 31, 2012 and December 31, 2011 were $4.5 million and $9.1 million, respectively, in brokered deposits. This included the Company's placement of $279,000 and $2.2 million at December 31, 2012 and 2011, respectively, in customer deposits and the purchase of $4.0 million and $4.2 million, respectively, at December 31, 2012 and 2011 in brokered certificates of deposit through the CDARS program. The CDARS program offers the Bank reciprocal swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance.

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.

As a result of the Consent Order, described in Note 14, the Bank does not intend to renew or accept brokered deposits without obtaining prior regulatory approval while the Consent Order is in place.

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

December 31, 2012, 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	$2,715	$1,246	$3,961
Over three months to six months	5,077	1,322	6,399
Over six months to one year	6,744	4,039	10,783
Over one year to two years	2,813	1,921	4,734
Over two years to three years	3,100	1,300	4,400
Over three years	2,385	1,046	3,431
	$22,834	$10,874	$33,708

Other

The $851,000 decrease in other assets was attributable mainly to proceeds received by the Bank in 2012 for net settlement proceeds on the sale of foreclosed real estate collateral securing the Bank's participation in a commercial loan and a reduction in FDIC deposit insurance the Bank was required to prepay in December 2009.

Results of Operations

The Company’s net loss for fiscal year 2012 was $173,000 (or basic and diluted loss per share of $.06), compared to a net loss of $2,738,000 (or basic and diluted loss per share of $1.01) in fiscal year 2011.

The Company’s net losses for the years ended December 31, 2012 and 2011 were largely attributable to provisions for loan losses of $473,000 and $3,036,000, respectively. The decrease in the provision for loan losses was primarily due to a significant decrease in loan charge-offs in 2012 compared to 2011. The decline in loan charge-offs in 2012 was largely attributable to an initiative undertaken by the Company in 2011 to aggressively identify potential problem loans and reduce the Company's exposure to these loans through loan modifications and partial or complete charge-offs in 2011.

In addition to the impact of the decrease in the provision for loan losses, the Company’s operating results for the year ended December 31, 2012, when compared to the year ended December 31, 2011, were influenced by the following factors:

- Net interest income decreased by $243,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in liability volumes and lower rates paid on interest bearing liabilities;
- Noninterest income increased by $60,000 because of loan prepayment fees and net insurance proceeds received during 2012 with no similar income recognized in 2011, as well as an increase in other noninterest income, which were partially offset by a decrease in the recognition of gain on a derivative financial instrument and declines in service charges and fees resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased by $185,000 during 2012 compared to 2011 primarily due to declines in a number of categories of operating expenses, which were partially offset by increases in salaries and benefits expense and insurance expense. The decreases in operating expenses for 2012 when compared to 2011 primarily consisted of declines in foreclosed and repossessed asset expenses and write-downs, loan related collection expenses, including legal and appraisal fees, and decreases in directors’ fees and data processing fees. The decreases in foreclosed and repossessed asset expenses and write-downs and loan related collection expenses were due to a decline in loan collection efforts resulting from a significant decrease in newly identified impaired loans in 2012 compared to 2011.The decrease in directors’ fees was attributable to reductions in director fees that were approved by the Company’s compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The increase in salaries and benefits expense during 2012 when compared to 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to a full year of salary and benefits paid to the Chief Executive Officer, who was hired on October 24, 2011 to fill an open position at the Bank that existed during 2011. Insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008. In addition, the Company realized a loss on the sale of other real estate owned during 2011 with no similar loss realized in 2012.

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, 2012, net interest income was $4,944,000 versus $5,187,000 for the same period in 2011. The $243,000 or 4.7% decrease was the result of a $1,121,000 decrease in interest income which was partially offset by an $878,000 decrease in interest expense. This net decrease was primarily the result of decreased asset volumes and lower yields on interest earning assets, which were partially offset by decreases in average balances on interest bearing liabilities and lower rates paid on interest bearing liabilities.

The Company's average total interest earning assets were $116.7 million for the period ended December 31, 2012, compared to $133.3 million for the same period in 2011, a decrease of $16.6 million or 12.4%. The decrease in average interest earning assets of $16.6 million during the year ended December 31, 2012 was comprised of decreases in average balances of loans of $13.6 million, as well as decreases in average balances of short-term and other investments of $2.9 million and investments of $83,000.

The yield on average interest earning assets for the period ended December 31, 2012 was 5.16% compared to 5.35% for the same period in 2011, a decrease of 19 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 low interest rate environment.

The combined effects of the $16.6 million decrease in average balances of interest earning assets and the 19 basis point decrease in yield on average interest earning assets resulted in the $1,121,000 decrease in interest income for the year ended December 31, 2012 when compared to the year ended December 31, 2011.

The average balance of the Company's interest bearing liabilities was $87.0 million for the period ended December 31, 2012 compared to $114.6 million for the period ended December 31, 2011, a decrease of $27.5 million or 24.0%. The cost of average interest bearing liabilities decreased 47 basis points to 1.23% for the period ended December 31, 2012 compared to 1.70% for the same period in 2011, which was primarily due to maturities of higher priced time deposits as well as a general decrease in market interest rates.

The combined effect of the $27.5 million decrease in average balances of interest bearing liabilities and the 47 basis point decrease in the cost of average interest bearing liabilities resulted in the $878,000 decrease in interest expense for the year ended December 31, 2012 when compared to the year ended December 31, 2011.

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, 2012 and 2011.

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

	2012			2011				
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Change in Interest Income/ Expense	Change in Average Balance
Interest earning assets								
Loans (1)(2)	$107,864	$5,974	5.54 %	$121,506	$7,046	5.80 %	$(1,072)	$(13,642)
Short-term and other investments	5,957	41	0.69 %	8,808	91	1.03 %	(50)	(2,851)
Investments	2,876	1	0.03 %	2,959	—	0.00 %	1	(83)
Total interest earning assets	116,697	6,016	5.16 %	133,273	7,137	5.35 %	(1,121)	(16,576)
Cash and due from banks	10,313			22,798				(12,485)
Premises and equipment, net	1,954			2,104				(150)
Allowance for loan losses	(2,349)			(2,520)				171
Other	2,981			3,127				(146)
Total assets	$129,596			$158,782				$(29,186)
Interest bearing liabilities								
Time certificates	$35,908	588	1.64 %	$61,806	1,293	2.09 %	(705)	$(25,898)
Money market / checking deposits	46,770	314	0.67 %	47,951	471	0.98 %	(157)	(1,181)
Savings deposits	2,956	5	0.17 %	2,611	14	0.54 %	(9)	345
Capital lease obligations	1,158	165	14.25 %	1,166	171	14.67 %	(6)	(8)
Repurchase agreements	252	—	0.00 %	1,011	1	0.10 %	(1)	(759)
Total interest bearing liabilities	87,044	1,072	1.23 %	114,545	1,950	1.70 %	(878)	(27,501)
Non-interest bearing deposits	30,284			29,546				738
Accrued expenses and other liabilities	432			745				(313)
Shareholder's equity	11,836			13,946				(2,110)
Total liabilities and equity	$129,596			$158,782				$(29,186)

Net interest income	$4,944		$5,187		$(243)
Interest spread	3.93	%	3.65	%	
Interest margin	4.24	%	3.89	%	

(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 2012 and 2011 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.

	2012 vs 2011 Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	$(766)	$(306)	$(1,072)
Short-term and other investments	(24)	(26)	(50)
Investments	—	1	1
Total interest earning assets	(790)	(331)	(1,121)
Interest bearing liabilities			
Time certificates	(465)	(240)	(705)
Money market / checking deposits	(12)	(145)	(157)
Savings deposits	2	(11)	(9)
Capital lease obligations	(1)	(5)	(6)
Repurchase agreements	(1)	—	(1)
Total interest bearing liabilities	(477)	(401)	(878)
Net interest income	$(313)	$70	$(243)

The decrease in net interest income during 2012 reflected a $16.6 million decrease in total average interest earning asset balances to $116.7 million for the year ended December 31, 2012 when compared to the same period of 2011 and a decrease in the yields on interest earning assets to 5.16% for the year ended December 31, 2012 from 5.35% for the same period of 2011. The combined effects of these changes were partially offset by a $27.5 million decrease in average interest bearing liabilities to $87.0 million for the year ended December 31, 2012 from $114.5 million for the same period of 2011 as well as a decrease in rates on interest bearing liabilities to 1.23% for the year ended December 31, 2012 from 1.70% for the same period in 2011. Overall, the decrease in net interest income attributed to volume changes was $313,000 which was partially offset by a $70,000 increase in net interest income due to interest rate changes. Interest income from interest earning assets decreased by $1,121,000 in 2012 compared to 2011 because of a $790,000 decrease due to volume considerations and a $331,000 decrease due to a decline in interest rates. Variances in the cost of interest bearing liabilities during the year ended December 31, 2012 in comparison to the same period in 2011 were due to decreased rate considerations of $401,000 and decreased volume considerations of $477,000.

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, 2012 and 2011:

	2012	2011	
Loss on average assets	(0.13%)	(1.72	%)
Loss on average equity	(1.46%)	(19.63	%)
Average equity to average assets	9.13%	8.78	%

Provision for Loan Losses

The Bank's provision for loan losses was $473,000 for the year ended December 31, 2012 compared to $3,036,000 for the year ended December 31, 2011. The decrease in the provision for loan losses was primarily due to a significant decrease in loan charge-offs in 2012 compared to 2011. The decline in loan charge-offs in 2012 was largely attributable to an initiative undertaken by the Company in 2011 to aggressively identify potential problem loans and reduce the Company's exposure to these loans through loan modifications and partial or complete charge-offs in 2011.

Noninterest Income

Total noninterest income increased $60,000 to $639,000 for the year ended December 31, 2012 from $579,000 for the same period in 2011. This increase in noninterest income for the year ended December 31, 2012 was primarily due to loan prepayment fees of $92,000 and $36,000 in net insurance proceeds received in 2012 with no similar income in 2011, as well as a $41,000 increase in other noninterest income. The combined effect of these favorable changes were partially offset by a $77,000 decrease in gains on a derivative financial instrument to $9,000 in 2012 compared to $86,000 in 2011 and a $32,000 decrease in service charges and fees due to changes in business practices of customers of the Bank for the year ended December 31, 2012 as compared to the same period in 2011.

Noninterest Expenses

Total noninterest expense was $5,283,000 for the year ended December 31, 2012 compared to $5,468,000 for the same period in 2011, a decrease of $185,000 or 3.4%.

Salaries and benefits expense increased $272,000 to $2,926,000 for the year ended December 31, 2012 from $2,654,000 for the same period in 2011. The increase in salaries and benefits expense during 2012 when compared to 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to a full year of salary and benefits paid to the Chief Executive Officer, who was hired on October 24, 2011 to fill an open position at the Bank that existed during 2011.

Occupancy and equipment expense decreased by $59,000 to $602,000 for the year ended December 31, 2012 from $661,000 for the same period in 2011 primarily due to declines in asset depreciation expense and lower repairs and maintenance expenditures.

Professional services expense increased by $11,000 to $437,000 for the year ended December 31, 2012 30, 2012 from $426,000 for the same period in 2011 due to increased expenditures for loan review and internal auditing and consulting services performed for the year ended December 31, 2012 compared to the same period in 2011.

Fees for data processing and other outside services declined $121,000 to $269,000 for the year ended December 31, 2012 from $390,000 for the same period in 2011. 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 increased by $8,000 to $223,000 for the year ended December 31, 2012 from $215,000 for the same period in 2011. The increase was attributable to an increase in FDIC assessment rates paid by the Bank, partially offset by a decline in deposit balances subject to the FDIC deposit insurance assessment.

Directors' fees decreased by $129,000 to $169,000 for the year ended December 31, 2012 from $298,000 for the same period in 2011. The decrease was attributable to a reduction in fees paid to directors effective January 1, 2012 that was approved by the Company's compensation committee.

Loan collection expenses decreased by $60,000 to $100,000 for the year ended December 31, 2012 from $160,000 for the year ended December 31, 2011. This $60,000 decrease in loan collection expenses was due to reduced loan collection efforts resulting from a significant decrease in newly identified impaired loans in 2012 compared to 2011.

Insurance expense increased by $38,000 to $123,000 for the year ended December 31, 2012 from $85,000 in 2011 primarily due to increased costs in 2012 associated with insurance policies the Company had entered into during a more favorable environment in July 2008.

Other real estate owned expenses (OREO) of less than $1,000 were incurred during 2012 compared to $93,000 for the year ended December 31, 2011. The expenses incurred during 2011 were 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. In 2012, the Bank sold three OREO properties and realized a net gain of $1,000, which was included in other noninterest income.

Other operating expenses increased by $5,000 to $352,000 for the year ended December 31, 2012 compared to the same period in 2011 primarily due to an increase in other miscellaneous expenses totaling $62,000 that were partially offset by a favorable variance of $57,000 relating to a write-down of other assets held for sale in 2011 due to a decline in the appraised value of a property, with no such write-down in 2012.

Off-Balance-Sheet Arrangements

See Note 13 to the accompanying Consolidated Financial Statements for required disclosure regarding off-balance-sheet arrangements.

Liquidity

The Company's liquidity position as of December 31, 2012 and 2011 consisted of liquid assets totaling $13.5 million and $28.9 million, respectively. This represents 11.1% and 19.8% of total assets at December 31, 2012 and 2011, 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, 2012 and 2011:

	Company						Bank					
	2012		2011		Capital Adequacy Target Ratio		2012		2011		Capital Adequacy Target Ratio	
Total Capital to Risk Weighted Assets	12.33	%	10.88	%	8.00	%	11.60	%	10.28	%	8.00	%
Tier 1 Capital to Risk Weighted Assets	11.07	%	9.62	%	4.00	%	10.34	%	9.03	%	4.00	%
Tier 1 (Leverage) Capital Ratio to Average Assets	9.31	%	7.41	%	4.00	%	8.70	%	6.95	%	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. As of December 31, 2012, the Bank's Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, in July 2012, the Bank entered into a Consent Order with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking which, among other things, require it to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At December 31, 2012, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. In September 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. In October 2012, the Bank received regulatory approval for its revised capital plan. In the event the Company and Bank's pending merger with Liberty Bank is not consummated, the Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not maintain the minimum capital ratios set forth in the Consent Order.

Market Risk

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

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

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

Impact of Inflation and Changing Prices

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

Factors Affecting Future Results

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," "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 n 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, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended, together with the report thereon of McGladrey LLP dated March 28, 2013 are included as part of this Form 10-K following page 59 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, 2012.

(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, 2012 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 Board is divided into three classes designated as Class I, Class II and Class III, with each class containing approximately the same percentage of the total of non employee directors. The Company has one employee director, the Company's Chief Executive Officer, who is a Class II director elected by shareholders to serve until the 2015 Annual Meeting. The term of office of one class of directors expires at each annual meeting of the Company's shareholders. Directors serve for a term of three years and until his or her successor is elected and qualified, or until his or her earlier resignation, removal from office, death or disability. The term of office of Class I directors will expire at the annual meeting of shareholders in 2014; Class II directors will expire at the annual meeting of shareholders in 2015; and Class III directors will expire at the annual meeting of shareholders in 2013. A plurality of votes is required for the election of directors.

The following table sets forth each of the Company's current directors and executive officers and includes such person's name, age, the year he or she first became a director of the Company and the biographies of such directors and executive officers.

Name	Age	Position And Offices With the Company or the Bank and Principal Occupation and Employment During the Past Five Years	Director of the Company Since
		DIRECTORS	
Class I			
Alphonse F. Spadaro, Jr.	71	Chairman of the Company, the Bank, and SCB; managing principal of Levitsky & Berney, P.C. (public accounting firm). Mr. Spadaro's knowledge of accounting issues makes him a valuable member of the Boards of the the Company, the Bank and SCB.	2001. To serve until 2014.
Joshua H. Sandman, Ph.D.	70	Director of the Company and the Bank; Vice President, Deitsch Plastics (plastics fabricating) and Professor, University of New Haven; former Director of The Bank of New Haven. Dr. Sandman's experience as a former director of a community bank and senior executive of a local business, which is the type of customer targeted by the Bank, makes him a valuable member of the Boards of the Company and the Bank.	2000. To serve until 2014
Class II			
James S. Brownstein, Esq.	64	Director of the Company, the Bank and SCB; managing partner, Law Offices of James S. Brownstein, LLC (law firm). Mr. Brownstein's years of practicing law provide insight on legal issues for the Boards of the Company, the Bank and SCB.	2008. To serve until 2015
Joseph J. Greco	62	Director and CEO of the Company, the Bank and SCB; Prior to joining the the Company and the Bank, Mr. Greco served from April 2010 to October 2011 as Executive Vice President, Corporate Development, of Union Savings Bank, headquartered in Danbury, Connecticut. From June 2002 to April 2010, Mr. Greco was President and Chief Executive Officer of First Litchfield Financial Corp. and its primary subsidiary, The First National Bank of Litchfield (collectively, "First Litchfield"),headquartered in Litchfield, Connecticut prior to its acquisition by Union. Mr. Greco's years of experience as a Bank Director and CEO make him well suited to serve as a Director of the Company, the Bank and SCB.	2011. To serve until 2015
Class III			
Alfred J. Ranieri, Jr., M.D.	70	Vice Chairman of the Company and the Bank; Private practice physician, New Haven, CT. Dr. Ranieri brings valuable managerial experience and local knowledge of the Bank's primary market area to the Boards of the Company and the Bank.	2007. To serve until 2013.
Janette J. Parker	82		

		Director of the Company and the Bank; Currently a member of the Mayor of New Haven's Task Force for Universal Access to Pre-School, as well as Director of the Dixwell Community House, Inc and the Historic Wooster Square Association. Ms. Parker's many years as a small business owner and her knowledge of the Bank's primary market area make her a valuable member of the Boards of the Company and the Bank.	2012. To serve until 2013.
		NON-DIRECTORS EXECUTIVE OFFICERS	
Sunil Pallan	50	President of the Company and the Bank since April 2011. Senior Vice President of the Bank from March 2008 to September 2012. Senior Loan Officer of the Bank since September 2012. Chief Credit Officer of the Bank from March 2008 to September 2012; Vice President of Loan Administration and Chief Credit Officer from January 2008 to March 2008;	
Stephen V. Ciancarelli	57	Senior Vice President and Chief Financial Officer of the Company, the Bank and SCB since May 2008. Prior to May 2008, Mr. Ciancarelli spent 5 years as Senior Vice President and Chief Financial Officer with Essex Corporation, a subsidiary of John Hancock Life Insurance the Company. Mr. Ciancarelli is a graduate of L.I.U.-C.W. Post in New York and holds an M.B.A. from L.I.U.-C.W. Post in New York.	

Audit Committee of the Board

Audit Committee. The Company's Audit Committee oversees all internal and external audit and compliance functions. Both the internal auditor and the external auditor report directly to the Audit Committee. In performing its functions, the Audit Committee acts as a joint Audit Committee of the Company, the Bank and SCB. All of the members of the Audit Committee are independent as that term is defined in Section 803A of the NYSE MKT Company Guide. The Board of Directors has determined that Alphonse F. Spadaro, Jr. is an audit committee financial expert under the rules of the Securities and Exchange Commission. The Audit Committee acts under a written charter adopted by the Board of Directors, a copy of which is available on the Company's website at www.scbancorponline.com. The current members of the Company's Audit Committee are Alphonse F. Spadaro, Jr. (Chair), Alfred J. Ranieri, Jr., M.D. and Joshua H. Sandman, Ph.D. In 2012, Carl R. Borelli served as a member of the Audit Committee from January 1, 2012 until he passed away on December 13, 2012. To replace Mr. Borelli, Alfred J. Ranieri, Jr., M.D. was appointed to the Audit Committee effective December 18, 2012. In 2012, Elmer F. Laydon served as a member of the Audit Committee from January 1, 2012 until his retirement on March 20, 2012. To replace Mr. Laydon, Joshua H. Sandman, Ph.D. was appointed to the Audit Committee effective March 20, 2012. The Audit Committee met 7 times during 2012.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than ten percent (10%) of the Company's Common Stock, to file reports of ownership and changes in ownership of the Company's Common Stock with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than ten percent (10%) beneficial owners are required by applicable regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based upon a review of the copies of forms furnished to the Company, the Company believes all forms required by Section 16(a) of the Exchange Act were filed on a timely basis during the year ended December 31, 2012.

Code of Ethics

The Company has adopted a Code of Ethics and Conduct that is designed to promote the highest standards of ethical conduct by the Company's and the Bank's directors, executive officers and employees. The Code of Ethics and Conduct applies to the Company's CEO, President and Chief Financial Officer and is considered to be the Company's Code of Ethics in accordance with Regulations of the Securities and Exchange Commission. The Code of Ethics and Conduct requires that the Company's, the Bank's and SCB's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's, the Bank's and SCB's best interest. Under the terms of the Code of Ethics and Conduct, directors, executive officers, officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code. The Code of Ethics and Conduct is available on the Company's website at www.scbancorponline.com. Amendments to or waivers from the Code of Ethics and Conduct will be discussed in Form 8-Ks filed by the Company and accessible on the Company's website.

Item 11. Executive Compensation.

The following is a summary compensation table for the Company's Chief Executive Officer and the next two highest paid executive officers of the Company (collectively, the "named executive officers").

The Summary Compensation Table summarizes the total compensation paid for the fiscal year ended December 31, 2012 and 2011 to our named executive officers.

Name and Principal Position	Year Ended	Salary	Bonus ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Joseph J. Greco (1)	2012	$ 245,000	$ —	$ 106,752	$ —	$ 17,093 (2)	$ 368,845
Director and Chief Executive Officer of the Company, the Bank and SCB	2011	$ 37,692	$ 100	$ —	$ —	$ 2,081 (2)	$ 39,873
Sunil Pallan (3)	2012	$ 175,000	$ 2,750	$ —	$ —	$ 690 (4)	$ 178,440
President of the Company and the Bank and Senior Loan Officer of the Bank	2011	$ 164,365	$ 500	$ —	$ —	$ 667 (4)	$ 165,532
Stephen V. Ciancarelli	2012	$ 165,000	$ 5,750	$ —	$ —	$ 1,290 (4)	$ 172,040
Senior Vice President and CFO	2011	$ 165,000	$ 500	$ 4,150 (5)	$ —	$ 1,290 (4)	$ 170,940
of the Company, the Bank and SCB							
John H. Howland (6)	2011	$ 67,692	$ —	$ —	$ —	$ 188 (4)	$ 67,880
Former President & Chief Operating Officer of the Company and the Bank							

(1) Mr. Greco was hired as CEO of the Company, the Bank and SCB on October 24, 2011. Mr. Greco, who has served as a Class II Director of the Company, the Bank and SCB since November 15, 2011, does not receive any additional compensation for his services as a director of the Company, the Bank and SCB.

(2) Represents the dollar value of the use of an automobile provided by the Bank and the dollar value of group term life insurance premiums paid by the Bank.

(3) Mr. Pallan was promoted to President of the Company and the Bank effective April 2011 and Senior Loan Officer of the Bank effective September 2012. Prior to his promotion to Senior Loan Officer of the Bank, Mr. Pallan had served as Chief Credit Officer of the Bank.

(4) Represents the dollar value of group term life insurance premiums paid by the Bank.

(5) Includes the dollar value of 1,000 shares of common stock held by Stephen V. Ciancarelli which vested on May 5, 2011. The market price of the common stock on May 5, 2011 was $4.15.

(6) Mr. Howland resigned as President and COO of the Company and the Bank effective April 2011.

Employment Agreements

From October 24, 2011 to February 28, 2012, Joseph J. Greco served as Chief Executive Officer without an employment agreement at an annual base salary of $245,000. He was also entitled to the use of a vehicle owned by the Bank and other customary benefits associated with the hiring of employees by the Bank. Following regulatory approval of his proposed employment agreement, the Company and the Bank entered into an employment agreement with Joseph J. Greco effective as of February 28, 2012. The Company and Mr. Greco also entered into a restricted stock agreement dated as of February 28, 2012.

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

Mr. Greco will earn an annual base salary of $245,000 over the term of the employment agreement and be entitled to receipt of incentive compensation at the end of each calendar year during the term in an amount up to 10% of his base salary for achieving individual or corporate goals established by the Board of Directors of the Company or the Bank. In addition, Mr. Greco has been granted 112,371 shares of restricted common stock of the Company pursuant to the restricted stock agreement. Under the restricted stock agreement, the 112,371 shares of restricted common stock vests as follows: 37,457 shares as of the date of the restricted stock agreement, 37,457 shares as of July 2, 2012 and 37,457 shares as of January 2, 2013.

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

If Mr. Greco is terminated for “Cause” or voluntarily terminates his employment other than for “Good Reason,” he will only be entitled to base salary accrued through the date of his termination. If Mr. Greco’s employment is terminated by reason of “Disability,” he will receive disability benefits under any long-term disability plan maintained by the Company or the Bank. In the event of Mr. Greco’s death, his beneficiary(ies) or estate will be paid Mr. Greco’s base salary for a period of six months following his death. If Mr. Greco is terminated for any reason other than for “Cause” or “Disability” or if Mr. Greco voluntarily terminates his employment for “Good Reason,” then he will be entitled to receive (i) twelve months of base salary and (ii) his individual and/or family health benefits coverage for a period of twelve months following his termination (or such other period prescribed by the then applicable COBRA law), with Mr. Greco paying the same portion of the cost of such coverage as existed at the time of termination; provided, however, that no payments will be made to Mr. Greco if such payments would constitute a “golden parachute payment” and is made after the occurrence of certain events specified under regulations promulgated by the Federal Deposit Insurance Corporation (the “FDIC”), including the determination by the FDIC that the Bank is in “troubled condition.” Any lump sum payment made to Mr. Greco is also subject to claw back by the Company and the Bank if it is later determined he committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

Effective as of January 1, 2011, the Company and the Bank entered into an employment agreement with Mr. Pallan to serve as Senior Vice President and Chief Credit Officer of the Bank through December 31, 2012, unless the Bank terminates the employment agreement earlier under the terms of the employment agreement. Mr. Pallan was subsequently promoted to President of the Company and the Bank in April 2011, while maintaining his position as Chief Credit Officer. The annual base salary payable under the employment agreement was increased from $140,000

to $175,000 when Mr. Pallan was promoted to President of the Company and the Bank. All other terms and conditions of Mr. Pallan's employment agreement remained unchanged. In addition to base salary, Mr. Pallan will be eligible for salary increases and other merit bonuses at the discretion of the Company's Board of Directors.

Mr. Pallan will be provided with health and life insurance comparable to coverage provided to other officers of the Bank, will be reimbursed for certain business expenses, and will be eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiaries).

If Mr. Pallan's employment is terminated as a result of a "Business Combination" (as such term is defined in the employment agreement), Mr. Pallan will, subject to certain conditions, be entitled to receive a lump sum payment in an amount equal to two times the total of his then current base annual salary plus the amount of any bonus for the prior calendar year in the event that (i) Mr. Pallan is not offered a position with the remaining entity at his then current base annual salary (subject to the remaining entity having a reasonable opportunity to remedy the situation), (ii) Mr. Pallan determines in his sole discretion that the position offered by the remaining entity is inconsistent with his current position (subject to the remaining entity having a reasonable opportunity to remedy the situation), (iii) Mr. Pallan's office is relocated more than 25 miles from its location as of the date of the employment agreement or (iv) Mr. Pallan is terminated (other than for certain specified events that constitute cause or as the result of his death or disability) or his office is relocated, within two years following a "Business Combination." In any such event, Mr. Pallan will also be entitled to (a) an acceleration of vesting of all stock options and restricted stock previously granted to him and (b) a continuation of benefits under the employment agreement for the balance of the unexpired term of his employment, which will be paid at his option as a lump sum payment or ratably over the balance of the unexpired term.

On January 29, 2013, the Company and the Bank entered into an employment agreement with Mr. Pallan effective January 1, 2013.

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

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

On December 17, 2010, the Company and its subsidiary, the Bank, entered into an employment agreement with Stephen V. Ciancarelli effective January 1, 2011. Under the employment agreement, Mr. Ciancarelli will serve as the Senior Vice President and Chief Financial Officer of the Company through December 31, 2012, unless the Company terminates the employment agreement pursuant to the terms thereof. Mr. Ciancarelli will receive an annual base salary of $165,000 from January 1, 2011 to December 31, 2012. Mr. Ciancarelli will be eligible for salary increases and other merit bonuses at the discretion of the Company’s Board of Directors.

Mr. Ciancarelli will be provided with health and life insurance, will be reimbursed for certain business expenses, and will be eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiaries).

If Mr. Ciancarelli's employment is terminated as a result of a "Business Combination" (as such term is defined in the employment agreement), Mr. Ciancarelli will, subject to certain conditions, be entitled to receive a lump sum payment in an amount equal to two times the total of his then current base annual salary plus the amount of any bonus for the prior calendar year in the event that (i) Mr. Ciancarelli is not offered a position with the remaining entity at his then current base annual salary (subject to the remaining entity having a reasonable opportunity to remedy the situation), (ii) Mr. Ciancarelli determines in his sole discretion that the position offered by the remaining entity is inconsistent with his current position (subject to the remaining entity having a reasonable opportunity to remedy the situation), (iii) Mr. Ciancarelli's office is relocated more than 25 miles from its location as of the date of the employment agreement or (iv) Mr. Ciancarelli is terminated (other than for certain specified events that constitute cause or as the result of his death or disability) or his office is relocated, within two years following a "Business Combination". In either such event, Mr. Ciancarelli will also be entitled to (a) an acceleration of vesting of all stock options and restricted stock previously granted to him and (b) a continuation of benefits under the employment agreement for the balance of the unexpired term of his employment, which will be paid at his option as a lump sum payment or ratably over the balance of the unexpired term.

On January 29, 2013, the Company and the Bank entered into an employment agreement with Mr. Ciancarelli effective January 1, 2013.

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

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

On December 17, 2010, the Company and the Bank entered into an employment agreement with John H. Howland effective January 1, 2011. Under the employment agreement, Mr. Howland served as the President and Chief Operating Officer of the Company through the date of his resignation from the Company and the Bank in April 2011. Mr. Howland was to receive an annual base salary of $200,000 from January 1, 2011 to December 31, 2012. Mr. Howland was eligible for salary increases and other merit bonuses at the discretion of the Company’s Board of Directors. In addition, he was provided with health and life insurance, was reimbursed for certain business expenses, and was eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiaries).

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DIRECTOR COMPENSATION

The following is the directors' compensation table for the year ended December 31, 2012.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Carl R. Borrelli (1)	$ 30,100	$ —	$ —	$ —	$ 30,100
James S. Brownstein, Esq.	23,100	—	—	—	23,100
Elmer F. Laydon (2)	16,200	—	—	—	16,200
Alfred J. Ranieri, Jr., M.D.	22,650	—	—	—	22,650
Joshua H. Sandman, Ph.D.	20,700	—	—	—	20,700
Alphonse F. Spadaro, Jr.	38,600	—	—	—	38,600
Janette J. Parker	17,400	—	—	—	17,400

(1) Carl R. Borelli served as Vice Chairman of the Board and a director of the Company, the Bank and SCB until his death on December 13, 2012.
(2) Elmer F. Laydon retired as Chairman of the Board and as a director of the Company, the Bank and SCB on March 20, 2012.

During 2012, directors of the Company and the Bank, who are not employees of the Company or the Bank, receive compensation in cash as follows: the Chairman and Vice Chairman of the Board receive $600 and $400 per month, respectively; each director receive $300 for each board meeting attended, $400 for each board committee meeting chaired, $300 for each board committee meeting attended and $300 for each executive committee meeting attended. Directors who sit on the Company and Bank boards are compensated for only one meeting where a meeting of both boards or more than one committee is held jointly. Directors of SCB, who are not employees of the Company, SCB or the Bank, receive no compensation for the SCB board or SCB board committee meetings attended. Each Bank director received an annual stipend of $7,500 for 2012.

Effective January 1, 2013, each Bank director received an annual stipend of $12,500 in 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table sets forth information concerning outstanding restricted stock and stock options as of December 31, 2012 held by the named executive officers.

	Option Awards			Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested ($)
Joseph J. Greco	—	$ —	—	37,457	$ 58,058
Sunil Pallan	500	$ 7.08	12/31/2015	—	$ —

As of December 31, 2012, non-employee directors have the following outstanding stock option awards:

Name	Option Awards (#)
Alfred J. Ranieri, Jr., M.D.	18,538
Joshua H. Sandman, Ph.D.	14,938
Alphonse F. Spadaro, Jr.	14,203
Janette J. Parker	7,054

Elmer F. Laydon retired as Chairman of the Board and as a director of the Company, the Bank and SCB on March 20, 2012. Mr. Laydon has 47,345 outstanding stock options that vested while he served as the Chairman of the Board and as director of the Company and the Bank.

Carl R. Borelli served as Vice Chairman of the Board and a director of the Company, the Bank and SCB until his death on December 13, 2012. Mr. Borelli's estate is entitled to 21,276 outstanding stock options that vested while Mr. Borelli served as the Vice Chairman of the Board and as director of the Company and the Bank.

The Company maintains directors' and officers' liability insurance and the Company's by-laws provide for mandatory indemnification of directors and officers to the fullest extent permitted by Connecticut law. In addition, the Company's certificate of incorporation limits the liability of directors to the Company or its shareholders for breaches of directors' fiduciary duties to the fullest extent permitted by Connecticut law.

The 2005 Stock Option and Award Plan

The Company adopted the Southern Connecticut Bancorp, Inc. 2005 Stock Option and Award Plan (the "2005 Stock Plan"). The purpose of the 2005 Stock Plan is to provide equity-based incentives to employees, officers and directors of the Company in order to attract them to, give them a proprietary interest in, and encourage them to remain in the employ or service of the Company. An aggregate of 150,000 shares of the Company's Common Stock is reserved for issuance upon the exercise of both incentive stock options and nonqualified stock options granted by the Company under the 2005 Stock Plan. All eligible employees and directors of the Company or any subsidiary of the Company, including the Bank, are eligible to receive options under the 2005 Stock Plan. The exercise price for each share for an incentive stock option may not be less than the fair market value of a share of the Company's Common Stock on the date of grant. Although the Plan does not prescribe a minimum option price for non-qualified stock options, it is the current intention of the Compensation Committee to grant non-qualified stock options at or above fair market value of a share of the Company's Common Stock on the date of grant. Options under the 2005 Stock Plan have a term of 10 years unless otherwise determined at the time of grant. As of December 31, 2012 there were 4,820 outstanding options under the 2005 Stock Plan.

The Compensation Committee has broad authority under the 2005 Stock Plan with respect to awards granted under the 2005 Stock Plan, including, without limitation, the authority to:

- authorize the granting of shares of common stock or options under the 2005 Stock Plan;
- determine and designate the employees and directors of the Company to receive awards under the 2005 Stock Plan;
- determine the type, number, price, vesting requirements and other features and conditions of individual stock awards and options under the 2005 Stock Plan; and
- interpret the 2005 Stock Plan and the various written agreements made in connection with grants of shares of common stock or options thereunder.

The 2002 Stock Option Plan

The Company adopted the Southern Connecticut Bancorp, Inc. 2002 Stock Option Plan (the "2002 Plan"). The purpose of the 2002 Plan is to attract and retain the continued services of employees and directors of the Company and the Bank, encourage employees and directors to obtain or increase their stock ownership in the Company, and provide incentive compensation programs competitive with those of other similarly situated companies. An aggregate of 383,250 shares of the Company's Common Stock were reserved for issuance upon the exercise of both incentive stock options and nonqualified stock options granted by the Company under the 2002 Plan, which number has been adjusted to reflect a 10% stock dividend declared in January 2004 and a 5% stock dividend declared in April 2005. All eligible employees and directors of the Company or any subsidiary of the Company, including the Bank, are eligible to receive options under the 2002 Plan. The exercise price for each share covered by an option may not be less than the fair market value of a share of the Company's Common Stock on the date of grant. Options under the 2002 Plan have a term of 10 years unless otherwise determined at the time of grant. On December 22, 2005, the Compensation Committee of the Board of Directors approved the acceleration of all unvested options outstanding as of December 31, 2005 that were granted under the 2002 Plan. Pursuant to this acceleration of all unvested options, options to purchase 197,571 shares of the Company's Common Stock became immediately exercisable as of December 31, 2005. As of December 31, 2012, there were 145,072 outstanding options under the 2002 Plan. The 2002 Plan expired on May 14, 2012.

The 2001 Stock Option Plan

The Company adopted the Southern Connecticut Bancorp, Inc. 2001 Stock Option Plan (the "2001 Option Plan") in 2001 and it was approved by the sole shareholder of the Company in 2001. Under the 2001 Option Plan, an aggregate of 90,000 shares of the Company's Common Stock was reserved for issuance upon the exercise of options granted under the 2001 Option Plan. The Compensation Committee of the Board administers the 2001 Option Plan. The Board voted to terminate the 2001 Option Plan, except for outstanding options previously granted under the 2001 Option Plan, effective as of May 15, 2002. As of December 31, 2012, there were no outstanding options under the 2001 Option Plan.

Warrant Plan

The Company adopted a 2001 Warrant Plan and 2001 Supplemental Warrant Plan (collectively, the "Warrant Plans") on April 11, 2001 and October 16, 2001. Under the Warrant Plans, each non-employee director of the Company and each director of the Bank who was 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's 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 or the Bank received a warrant to purchase one share of the Company's 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 the January 2004 10% stock dividend and the April 2005 5% stock dividend. They became exercisable as to 40%, 30% and 30% of the shares covered thereby on the first, second and third anniversary of the closing of the initial public offering of the Company, respectively. All warrants issued under the Warrant Plans expired in November 2011.

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, 2012:

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 forfuture issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by security holders	145,072	$ 7.62	48,209
Equity Compensation Plan not approved by security holders (1)	—	—	—
Total	145,072	$ 7.62	48,209

(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. All warrants issued under the Warrant Plans expired in November 2011.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information concerning the ownership of the Company's Common Stock as of March 15, 2013 by the Company's directors and named executive officers. Except as otherwise indicated, all shares are owned directly, and the named person possesses sole voting and sole investment power with respect to all such shares. No shares are pledged as collateral. Shares not outstanding but deemed beneficially owned because a person or member of a group has a right to acquire them within 60 days after March 15, 2013 are treated as outstanding only when determining the amount and percent owned by such person or group.

Name and Address of Beneficial Owner the Company Incumbent Directors	Amount and Nature of Beneficial Ownership		Percent of Class (1)	
Class I				
Alphonse F. Spadaro, Jr., Chairman of the Company, the Bank and SCB	33,203	(2)	1.18	%
Managing Principal				
Levitsky & Berney, PC				
100 Bradley Road				
Woodbridge, CT 06525				
Joshua H. Sandman, Ph.D., Director of the Company and the Bank	27,034	(3)	0.96	%
Vice President				
Deitsch Plastic Co., Inc.				
14 Farwell Street				
West Haven, CT 06516				
Class II				
James S. Browstein, Esq., Director of the Company, the Bank and SCB	8,715	(4)	*	
Law Offices of James S. Brownstein, LLC				
One Bradley Road, Suite 305				
Woodbridge, CT 06525				
Joseph J. Greco	112,371		4.00	%
Director and Chief Executive Officer of the Company, the Bank and SCB				
215 Church Street				
New Haven, CT 06510				

Class III

Alfred J. Ranieri, Jr., M.D., Vice Chairman of the Company and the Bank	58,583	(5)	2.08	%
1455 Chapel Street New Haven, CT 06511				
Janette J. Parker, Director of the Company and the Bank	8,352	(6)	*	
215 Church Street New Haven, CT 06510				
Non-Director Executive Officers of the Company and the Bank				
Sunil Pallan Director of Bank, President of the Company and the Bank and Senior Loan Officer of the Bank	500	(7)	*	
215 Church Street New Haven, CT 06510				
Stephen V. Ciancarelli Senior Vice President and Chief Financial Officer of the Company, the Bank and SCB	5,000		*	
215 Church Street New Haven, CT 06510				
All the Company directors, director nominees and the executive officers, as a group (8 persons)	253,758	(8)	9.03	%

* Less than 1%

(1) Percentages are based on a total of 2,810,273 shares of Common Stock outstanding on March 15, 2013. For holders of options and warrants exercisable within 60 days after March 15, 2013, the number of shares so exercisable by such holder has been added to the denominator for purposes of calculating such holder's percentage ownership.

(2) Includes 14,203 shares that may be acquired within 60 days by the exercise of options.

(3) Includes an aggregate of 7,823 shares of stock held by Mr. Sandman’s children, as well as 4,273 shares of stock held by the Sandman Family Trust, LLC, of which Mr. Sandman and his spouse are principals. Also includes 14,938 shares that may be acquired within 60 days by the exercise of options.

(4) Includes 1,207 shares of stock held in trust by Mr. Brownstein’s spouse for the benefit of his son.

(5) Includes 18,538 shares that may be acquired within 60 days by the exercise of options.

(6) Includes 7,054 shares that may be acquired within 60 days by the exercise of options.

(7) Represents 500 shares of stock that may be acquired within 60 days by the exercise of options.

(8) Includes 55,233 shares that may be acquired within 60 days by the exercise of options.

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The following table sets forth certain information concerning those persons known to the Company who own more than five percent of the Company's Common Stock as of March 15, 2013.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Gardner Lewis Asset Management, L.P. 285 Wilmington West Chester Pike Chadds Ford, PA 19317	286,741 (2)	10.20 %
DellaCamera Capital Master Fund, Ltd. 200 Park Avenue, Suite 3300 New York, NY 10166	259,400 (3)	9.23 %
Wellington Management Company, LLP 280 Congress Street Boston, MA 02210	231,725 (4)	8.25 %
Elmer F. Laydon President Elmer F. Laydon Construction Corp. 69 Wheeler Street New Haven, CT 06512	177,326 (5)	6.31 %
Rangeley Capital, LLC 3 Forest Street New Canaan, CT 06840	161,987 (6)	5.76 %

(1) Percent of class beneficially owned is based on an aggregate of 2,810,273 shares of the Company's Common Stock outstanding as of March 15, 2013. If a shareholder owns options and warrants exercisable within 60 days after March 15, 2013, the number of shares so exercisable by such shareholder has been added to the denominator for purposes of calculating such shareholder's percentage ownership.

(2) Information with respect to Gardner Lewis Asset Management, L.P. is derived from the Schedule 13G filed with the SEC on February 8, 2013 by Gardner Lewis Asset Management, L.P. ("Gardner Lewis"). All 286,741 of the reported shares were owned directly by Gardner Lewis, which has the sole power to vote, and to direct the vote, and sole power to dispose, and to direct the disposition of, such shares.

(3) Information with respect to DellaCamera Capital Master Fund, Ltd. is derived from the Schedule 13D/A filed with the SEC on June 27, 2007 by DellaCamera Capital Master Fund, Ltd. (the "Master Fund"), DellaCamera Capital Fund, Ltd. (the "Offshore Fund"), DellaCamera Capital Management, LLC ("DCM"), Ralph DellaCamera, Jr., Andrew Kurtz and Vincent Spinnato. The Master Fund is the direct owner of the 259,400 shares of the Company's Common Stock. The Offshore Fund is the controlling shareholder of the Master Fund. The Master Fund, the Offshore Fund, DCM, Ralph DellaCamera, Jr., Andrew Kurtz and Vincent Spinnato have shared power to vote, and to direct the vote, and shared power to dispose, and to direct the disposition of, the 259,400 shares of the Company's Common Stock held by the Master Fund.

(4) Information with respect to Wellington Management Company, LLP is derived from the Schedule 13G/A filed with the SEC on February 14, 2013 by Wellington Management Company, LLP ("Wellington"). Wellington, in its capacity as investment adviser, may be deemed to beneficially own 231,725 shares of the Company which are held of record by clients of Wellington. These clients have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from the sale of, such securities. No such client is known to have such right or power with respect to more than five percent of the Company's Common Stock. Wellington has shared voting power over 231,725 shares.

(5) Information with respect to Elmer Laydon is derived from the Schedule 13D filed with the SEC on April 19, 2012 by Elmer Laydon. Mr. Laydon was a director of the Board for the Company since 2000 and served as Chairman of the Board for the Company, the Bank and SCB from July 1, 2007 until his retirement on March 20, 2012. Mr. Laydon is the direct owner of 129,981 shares of the Company and 47,345 shares that may be acquired within 60 days by the exercise of options. Mr. Laydon has sole power to vote and dispose the 129,981 shares of the Company and 47,345 shares that may be acquired within 60 days by the exercise of options.

(6) Information with respect to Rangeley Capital, LLC is derived from the Schedule 13G filed with the SEC on January 11, 2013 by Rangeley Capital, LLC ("Rangeley Capital"), Rangeley Capital Partners, LP ("Rangeley Capital Partners") and Christopher DeMuth, Jr. All 161,987 of the reported shares are beneficially owned by Rangeley Capital, Rangeley Capital Partners and Christopher DeMuth, Jr., who have shared power to vote, and to direct the vote, and shared power to dispose, and to direct the disposition of, such shares.

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

Certain Relationships and Related Transactions

In the normal course of business, the Bank and SCB may grant loans to executive officers, directors, and members of their immediate families and to entities in which these individuals have more than ten percent (10%) equity ownership. As of December 31, 2012, the total amount of loans outstanding to officers and directors was $1,092,277 In the opinion of the Board of Directors, all such loans were made in the ordinary course of business of the Bank and SCB on substantially the same terms, including interest rates and collateral requirements, as those then prevailing for comparable transactions with other persons not related to the Bank and SCB and do not involve more than the normal risk of collectability or present other unfavorable features. The Bank has in place policies and procedures for identifying and handling transactions with related persons.

Information regarding transactions involving related persons is assessed by independent directors of the entity considering the loan. Related persons include directors and executive officers as well as immediate family members of directors and officers. If the independent directors approve or ratify a material transaction involving a related person, then the transaction would be disclosed in accordance with the SEC rules. If the related person is a director, or a family member of a director, then that director would not participate in those discussions.

Director Independence

All of our non-employee directors except Mr. James S. Brownstein are “independent directors” as defined in Section 803A of the NYSE MKT Company Guide.

Family Relationships

There are no family relationships among members of the Board of Directors of the Company and the executive officers of the Company, the Bank or SCB.

Item 14. Principal Accountant Fees and Services.

McGladrey LLP provides audit, audit-related and tax advisory and tax return preparation services for the Company and The Bank of Southern Connecticut. The following table summarizes the fees for services provided in 2012 and 2011, respectively:

	2012	2011
Audit fees	$175,451	$167,849
Tax fees	12,665	12,150

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. Tax service fees consist of fees for tax return preparation for the Company. There were no audit related fees or 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 Comprehensive Loss
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 January 16, 2013, by and among Liberty Bank and Southern Connecticut Bancorp, Inc. and The Bank of Southern Connecticut (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on January 16, 2013)
3(i)	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-QSB filed on 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)

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 as of January 1, 2011, by and between Southern Connecticut Bancorp, Inc. and its subsidiary, The Bank of Southern Connecticut, and Sunil Pallan 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 April 8, 2011) #

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 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 March 1, 2012) #

10.16 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 March 1, 2012) #

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

10.18 Employment Agreement, effective as of January 1, 2013, by and between Southern Connecticut Bancorp, Inc., The Bank of Southern Connecticut and Stephen V. Ciancarelli covering the period from January 1, 2013 to December 31, 2013 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 29, 2013) #

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) #
10.21	Change of Control Agreement, effective as of June 21, 2012, by and between The Bank of Southern Connecticut and David Oliver (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q/A filed on September 13, 2012) #
10.22	Consent Order, dated July 3, 2012, between The Bank of Southern Connecticut, the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking (incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed on July 6, 2012)
10.23	Stipulation and Consent to the Issuance of a Consent Order, dated July 2, 2012, between The Bank of Southern Connecticut, the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking (incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K filed on July 6, 2012)
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 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 28, 2013

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 28, 2013 Date
/s/ Stephen V. Ciancarelli Stephen V. Ciancarelli Senior Vice President and Chief Financial Officer	March 28, 2013 Date
/s/ Alphonse F. Spadaro, Jr. Alphonse F. Spadaro, Jr. Chairman and Director	March 28, 2013 Date
/s/ Alfred J. Ranieri, Jr. Alfred J. Ranieri, Jr. Vice Chairman and Director	March 28, 2013 Date
/s/ James S. Brownstein, Esq. James S. Brownstein, Esq. Director	March 28, 2013 Date
/s/ Joshua H. Sandman, Ph.D. Joshua H. Sandman, Ph.D. Director	March 28, 2013 Date
/s/ Anthony M. Avellani Anthony M. Avellani Vice President, Chief Accounting Officer	March 28, 2013 Date

FINANCIAL STATEMENTS

December 31, 2012 and 2011

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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, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, 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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 19, the Company has entered into an Agreement and Plan of Merger with another institution, pursuant to which the Company will merge into the other institution. Our opinion is not modified with respect to this matter.

/s/ McGladrey LLP

New Haven, Connecticut
March 28, 2013

Item 1. Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2012 and December 31, 2011

ASSETS	December 31, 2012	December 31, 2011
Cash and due from banks (Note 2)	$ 6,913,610	$ 18,167,794
Short term investments	4,674,556	6,764,409
Cash and cash equivalents	11,588,166	24,932,203
Interest bearing certificates of deposit	655,278	99,426
Available for sale securities (at fair value) (Note 3)	1,249,925	3,849,847
Federal Home Loan Bank stock (Note 7)	60,600	66,100
Loans receivable (Note 4)		
Loans receivable	105,508,771	113,943,767
Allowance for loan losses	(2,229,334)	(2,299,625)
Loans receivable, net	103,279,437	111,644,142
Accrued interest receivable	397,497	434,302
Premises and equipment (Note 5)	1,928,353	2,014,665
Other real estate owned	582,911	374,211
Other assets held for sale (Note 17)	315,000	315,000
Other assets	1,389,394	2,240,009
Total assets	$ 121,446,561	$ 145,969,905
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 6)		
Noninterest bearing deposits	$ 29,906,051	$ 31,003,581
Interest bearing deposits	78,345,187	101,627,100
Total deposits	108,251,238	132,630,681
Repurchase agreements	—	68
Capital lease obligations (Note 8)	1,152,509	1,161,938
Accrued expenses and other liabilities	495,122	631,285
Total liabilities	109,898,869	134,423,972
Commitments and Contingencies (Notes 7, 8 and 13)		
Shareholders' Equity		
Preferred stock, no par value; shares authorized: 500,000; none issued	—	—
Common stock, par value $.01; shares authorized: 5,000,000; shares issued and outstanding: 2012 2,772,816; 2011 2,697,902	27,728	26,979
Additional paid-in capital	22,742,914	22,569,489
Accumulated deficit	(11,222,875)	(11,050,382)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(75)	(153)
Total shareholders' equity	11,547,692	11,545,933
Total liabilities and shareholders' equity	$ 121,446,561	$ 145,969,905

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012 and 2011

	December 31, 2012	2011
Interest Income:		
Interest and fees on loans	$ 5,974,297	$ 7,045,527
Interest on securities	1,260	470
Interest on short-term and other investments	40,876	91,611
Total interest income	6,016,433	7,137,608
Interest Expense:		
Interest expense on deposits (Note 6)	907,079	1,778,005
Interest expense on capital lease obligations	165,370	171,504
Interest expense on repurchase agreements and other borrowings	202	809
Total interest expense	1,072,651	1,950,318
Net interest income	4,943,782	5,187,290
Provision for loan losses (Note 4)	472,848	3,036,340
Net interest income after provision for loan losses	4,470,934	2,150,950
Noninterest Income:		
Service charges and fees	326,923	359,405
Loan prepayment fees	91,516	—
Insurance Proceeds	35,899	—
Change in fair value of derivative	9,723	86,434
Other noninterest income	175,508	133,519
Total noninterest income	639,569	579,358
Noninterest Expenses:		
Salaries and benefits	2,925,930	2,654,370
Occupancy and equipment	602,096	660,985
Professional services	437,216	425,679
Data processing and other outside services	269,350	390,211
FDIC Insurance	222,460	214,509
Directors fees	169,500	298,300
Insurance	123,448	84,987
Loan collection expenses	99,579	160,416
Telephone & Communications	81,499	86,832
Other real estate owned expenses	480	93,409
Loss on sale of other real estate owned	—	51,141
Other operating expenses	351,438	347,386
Total noninterest expenses	5,282,996	5,468,225
Net loss	$ (172,493)	$ (2,737,917)
Basic and diluted loss per share	$ (0.06)	$ (1.01)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the Years Ended December 31, 2012 and 2011

	December 31, 2012	2011
Net loss	$ (172,493)	$ (2,737,917)
Other comprehensive income, net of taxes:		
Net change in unrealized holding gain on available for sale securities	78	121
Comprehensive loss	$ (172,415)	$ (2,737,796)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2012 and 2011

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive (Loss) Income	Total
Balance, December 31, 2010	2,696,902	$ 26,969	$ 22,567,146	$ (8,312,465)	$ (274)	$ 14,281,376
Net loss	—	—	—	(2,737,917)	—	(2,737,917)
Other comprehensive income	—	—	—	—	121	121
Restricted stock compensation	1,000	10	2,343	—	—	2,353
Balance, December 31, 2011	2,697,902	$ 26,979	$ 22,569,489	$ (11,050,382)	$ (153)	$ 11,545,933
Balance, December 31, 2011	2,697,902	$ 26,979	$ 22,569,489	$ (11,050,382)	$ (153)	$ 11,545,933
Net Loss	—	—	—	(172,493)	—	(172,493)
Other comprehensive income	—	—	—	—	78	78
Restricted stock compensation	74,914	749	173,425	—	—	174,174
Balance, December 31, 2012	2,772,816	$ 27,728	$ 22,742,914	$ (11,222,875)	$ (75)	$ 11,547,692

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operations		
Net loss	$ (172,493)	$ (2,737,917)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	472,848	3,036,340
Depreciation and amortization	229,826	258,763
Share based compensation	174,174	2,353
Loss on disposal of assets	4,848	—
Increase in cash surrender value of life insurance	(39,345)	(39,973)
Change in fair value of derivative	(9,723)	(86,434)
(Gain) loss on sale of other real estate owned	(1,147)	51,141
Amortization and accretion of premiums and discounts on investments, net	—	(7)
Write-down of other real estate owned	5,701	94,630
Write-down of other assets held for sale	—	57,758
Changes in assets and liabilities:		
Decrease in other assets	899,683	71,647
Decrease in accrued interest receivable	36,805	70,404
Decrease in deferred loan fees	(24,763)	(2,582)
Decrease in accrued expenses and other liabilities	(136,163)	(156,071)
Net cash provided by operating activities	1,440,251	620,052
Cash Flows From Investing Activities		
Proceeds from maturities of available for sale securities	21,430,000	23,100,000
Purchases of available for sale securities	(18,830,000)	(25,199,993)
Net decrease in loans receivable	7,480,297	9,096,232
Proceeds from the sale of other real estate owned	223,069	137,859
Redemptions of Federal Home Loan Bank stock	5,500	—
Purchases of interest bearing certificates of deposit	(555,852)	—
Purchases of premises and equipment	(148,362)	(59,196)
Capitalized costs related to other real estate owned	—	(7,375)
Net cash provided by investing activities	9,604,652	7,067,527
Cash Flows From Financing Activities		
Net decrease in certificates of deposit	(12,203,137)	(14,953,830)
Net (decrease) increase in demand, savings and money market deposits	(12,176,306)	11,763,052
Principal repayments on capital lease obligations	(9,429)	(7,016)
Net decrease in repurchase agreements	(68)	(395,342)
Net cash used in financing activities	(24,388,940)	(3,593,136)
Net (decrease) increase in cash and cash equivalents	(13,344,037)	4,094,443
Cash and cash equivalents		
Beginning	24,932,203	20,837,760
Ending	$ 11,588,166	$ 24,932,203

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2012 and 2011

	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ 1,229,908	$ 1,973,780
Income taxes	$ —	$ 750
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Transfer of loans receivable to other real estate owned	$ 436,323	$ 956,513
Transfer of loans receivable to other assets	$ —	$ 559,895
Financing of sale of other real estate owned	$ —	$ 433,500
Unrealized holding gains on available for sale securities arising during the period	$ 78	$ 121

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NoteNature of Operations and Summary of Significant Accounting Policies
1.

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, responsive decision making and a high level of personalized, "high touch" customer service.

On January 16, 2013, the Company and the Bank entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut-chartered mutual savings bank with its main office in Middletown, Connecticut ("Liberty"), pursuant to which a to-be-formed wholly-owned subsidiary of Liberty will be merged with and into the Company with the Company being the surviving entity, immediately followed by the merger of the Company with and into Liberty with Liberty being the surviving entity (collectively, the "Merger"), and immediately followed by the merger of the Bank with and into Liberty with Liberty being the surviving bank, as decribed in Note 19.

Principles of consolidation and basis of financial statement presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America and general practices within the banking industry. All significant intercompany balances and transactions have been eliminated. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

Significant group concentrations of credit risk

Most of the Company’s activities are with customers located within New Haven County, Connecticut. Note 3 discusses the types of securities in which the Company invests and Note 4 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer.

The following is a summary of the Company's significant accounting policies.

Cash and cash equivalents and statement of cash flows

Cash and due from banks and short-term investments are recognized as cash equivalents in the statements of cash flows. For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash flows from loans, deposits, and short-term borrowings are reported net. The Company maintains amounts due from banks which, at times, may exceed Federally insured limits. The Company has not experienced any losses from such concentrations.

Interest-bearing certificates of deposit

Interest-bearing certificates of deposit are carried at cost. At December 31, 2012, the balance in interest-bearing cerificates of deposit was approximately $655,000, which consisted of fixed rate certificate of deposits which will mature between January 2013 and January 2015.

Investments in debt and marketable equity securities

Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date.

Debt securities that management has the positive intent and ability to hold to maturity, if any, are classified as “held to maturity” and recorded at amortized cost. “Trading” securities, if any, are carried at fair value with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

The Company evaluates securities for other-than-temporary impairment on a regular basis. The evaluation considers several factors, including the amount of the unrealized loss and the period of time the security has been in a loss position. When the Company does not intend to sell the security, and it is more-likely-than-not that the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment loss of a debt security in earnings, and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment loss recorded in other comprehensive income for the noncredit loss component of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based on cash flow projections discounted at the applicable original yield of the security. There were no other-than-temporarily impaired debt securities at December 31, 2012 or 2011.

For equity securities, the entire decline in the value that is considered other-than-temporary is recognized in earnings. There were no equity securities held at December 31, 2012 or 2011.

In estimating other-than-temporary impairment losses, management considered (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The sale of a held-to-maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Loans held for sale

Loans held for sale, if any, are primarily the guaranteed portions of SBA loans the Company has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are determined by the difference between the sales proceeds and the carrying value of the loans.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over

the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

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Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of loans, a portion of the original cost of the loan is allocated to the servicing right, and if the pass-through rate to the investor is less than the note rate, to an interest-only strip, based on relative fair value. Fair value is based on a valuation model that calculates the present value of estimated future net servicing and interest income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing and interest income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing assets are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Interest only strips are also reported in other assets and are amortized into other noninterest income under the same method as servicing assets.

Servicing assets and interest-only strips are evaluated for impairment based upon the fair value of the assets as compared to amortized cost. Impairment is determined by stratifying the assets into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, and the amortization of interest-only strips is netted against other noninterest income.

Loans receivable

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, and any unamortized deferred fees or costs.

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Interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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. Loans are considered to be past due when one payment is missed. 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.

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.

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

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

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

Most TDRs are placed on nonaccrual status at the time of restructuring, and continue on nonaccrual status until they have performed under the revised terms of the modified loan agreement for a minimum of six months. In certain instances, for TDRs that are on accrual status at the time the loans are restructured, the Bank may continue to classify the loans as accruing loans based upon the terms and conditions of the restructuring. At December 31, 2012, the Bank had two commercial and industrial loans and one commercial loan secured by real estate classified as TDRs on nonaccrual status and two commercial loans secured by real estate and one commercial and industrial loan classified as TDRs on accrual status. TDRs are classified as impaired loans and remain as TDRs for the remaining life of the loan. At December 31, 2012, 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.

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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 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 loans in the pool. The Company's pools of similar loans includes analogous risk-rated groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

Due to the relatively small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC regarding the loss experience of national banks with assets between $100 million and $300 million and combines this data with the Company's actual loss experience to develop average loss factors by weighting the national banks' loss experience and the Company's loss experience. In reviewing the performance and trends of the Company's loan portfolio during the year ended December 31, 2012 compared to the year ended December 31, 2011, management determined to update the methodology relating to the calculation of the general reserve by reducing the historical loss period to three years from the four year loss period utilized during the year ended December 31, 2011, which is considered more representative of average annual losses inherent in the Bank's loan portfolio. The Company returned to the use of the three year loss period at December 31, 2012 after considering trends in loan loss activity, current loan portfolio quality and present economic, political and regulatory conditions. The three year average loss experience of the Bank and nationwide commercial banks continue to be weighted equally. The general reserve decreased by $66,000 to $2,229,000 at December 31, 2012 compared to $2,295,000 at December 31, 2011. The general reserve decreased by $328,000 due to a $12.6 million decline in gross loans and changes in the composition of loans subject to the general reserve, which was partially offset by a $262,000 increase in the reserve based upon changes in the general reserve formula based factors. The general reserve increased by approximately $94,000 due to the impact of revisions to the qualitative factors used to determine the general reserve and $168,000 due to the impact of the increase in the quantitative factors relating to the change to use of a three year average loss experience for the Bank and nationwide commercial banks with assets from $100 million to $300 million. For the year ended December 31, 2012, the provision for loan losses was $260,000 higher due to the impact of these changes. During the year ended December 31, 2012, the total provision for loan losses decreased by $2.6 million, primarily due to a significant decrease in loan charge-offs in 2012 compared to 2011.

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.

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Other real estate owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operations. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral. Gains or losses are included in operations upon disposal.

Derivative financial instruments

All derivative financial instruments are recognized as assets at their fair value on the balance sheet with the changes in the fair value reported in current-period earnings. These instruments are classified on the balance sheet as other assets and the change in the fair value is recorded in the Consolidated Statement of Operations as change in fair value of derivatives. For the years ended December 31, 2012 and 2011, the Company recognized a gain from the change in fair value of $9,723 and $86,434, respectively, on these instruments. During the year ended December 31, 2012, the Company exercised its derivative financial instruments and sold the underlying equity securities which resulted in a loss on the sale of $435.

Premises and equipment

Premises and equipment are stated at cost for purchased assets, and, for assets under capital lease, at the lower of fair value or the net present value of the minimum lease payments required over the term of the lease, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from 3 to 20 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

Impairment of long-lived assets

Long-lived assets, including premises and equipment, which are held and used by the Company, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

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Repurchase agreements

Repurchase agreements, which are classified as secured borrowings, generally mature within one to three days from the transaction date, and are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Income taxes

The Company files consolidated federal and state income tax returns. The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The Company recognizes a liability for any tax position deemed less likely than not to be sustained under examination by the relevant taxing authorities. The Company has no liabilities for uncertain income tax positions at December 31, 2012 or 2011. The Company’s open tax years that remain subject to examination by the relevant taxing authorities are 2009, 2010 and 2011.

Interest and penalties related to income taxes, if any, are recorded within the provision for income taxes.

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Share-based compensation

The Company accounts for share-based compensation transactions at fair value and recognizes the related expense in the consolidated statement of operations. Compensation cost has been measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period.

Related party transactions

Directors and officers of the Company and the Bank and their affiliates have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectibility or favored treatment or terms, or present other unfavorable features. Note 15 contains details regarding related party transactions.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the shareholders' equity section of the balance sheets, such items, along with net income or loss, are components of comprehensive income.

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 mortgage brokerage activities offered through the Bank, 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.

Fair value

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

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Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Company's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active; and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

See Note 17 for additional information regarding fair value.

Recent Accounting Pronouncements

In April 2011, the FASB amended its guidance relating to repurchase agreements. The amendments change the effective control assessment by removing the criterion that required the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. Instead, the amendments focus the assessment of effective control on the transferor's rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. The amended guidance became effective for the Company as it relates to transactions or modifications of existing transactions that occur in interim and annual periods beginning with the quarter ended March 31, 2012. These amendments did not have an impact on the Company's consolidated financial statements.

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In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRs, (ASU 2011-04). ASU 2011-04 converges the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in existing guidance. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The Company adopted the methodologies prescribed by this ASU during the quarter ended March 31, 2012. Adoption of this guidance did not have a material effect on the Company's financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU eliminated the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this guidance effective for the quarter ended March 31, 2012. The adoption of this guidance did not impact the Company's financial position, results of operations or cash flows and only impacted the presentation of other comprehensive income in the financial statements.

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

Reclassifications

Certain amounts included in the 2011 consolidated financial statements have been reclassified to conform with the 2012 presentation. Such reclassifications had no impact on net loss.

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NoteRestrictions on Cash and Cash Equivalents
2.

The Company is required to maintain reserves against its transaction accounts and non-personal time deposits. At December 31, 2012 and 2011, the Company was required to have cash and liquid assets of approximately $642,000 and $582,000, respectively, to meet these requirements. In addition, at December 31, 2012 and 2011, the Company was required to maintain $650,000 and $125,000, respectively, in the Federal Reserve Bank for clearing purposes.

NoteAvailable for Sale Securities
3.

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at December 31, 2012 and 2011 were as follows:

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

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 3,850,000	$ —	$ (153)	$ 3,849,847

The following tables present the Company's available for sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position, at December 31, 2012 and 2011:

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

	Less Than 12 Months		12 Months or More		Total	
December 31, 2011	Value	Loss	Value	Loss	Value	Loss
U.S. Treasury Bills	$3,849,847	$153	$ —	$ —	$3,849,847	$153

At December 31, 2012 and 2011, the Company had two and five available for sale securities in an unrealized loss position, respectively. Management believes that none of the unrealized losses on available for sale securities are other than temporary because all of the unrealized losses in the Company's investment portfolio are due to market interest rate changes on debt securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be

maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2012.

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The amortized cost and fair value of available for sale debt securities at December 31, 2012 by contractual maturity are presented below.

	Amortized Cost	Fair Value
Maturity:		
Within one year	$1,250,000	$1,249,925

At December 31, 2012 and 2011, available for sale securities with a carrying value of $1,249,925 and $2,349,906, respectively, were pledged as collateral to secure public deposits. At December 31, 2011, available for sale securities with a carrying value of $1,499,941 were pledged as collateral under repurchase agreements with Bank customers. At December 31, 2012, there was no collateral required to meet pledge obligations under repurchase agreements with Bank customers.

There were no sales of investment securities during the years ended December 31, 2012 or 2011.

NoteLoans Receivable and Allowance for Loan Losses
4.

A summary of the Company's loan portfolio at December 31, 2012 and December 31, 2011 is as follows:

	2012	2011
Commercial loans secured by real estate	$ 64,677,545	$ 67,248,165
Commercial	25,911,897	31,719,229
Residential mortgages	13,182,841	12,565,428
Construction and land	1,441,740	2,309,600
Consumer	403,581	234,941
Total loans	105,617,604	114,077,363
Net deferred loan fees	(108,833)	(133,596)
Allowance for loan losses	(2,229,334)	(2,299,625)
Loans receivable, net	$ 103,279,437	$ 111,644,142

The Company services certain loans that it has sold without recourse to third parties. The aggregate of loans serviced for others approximated $6,961,000 and $13,143,000 as of December 31, 2012 and 2011, respectively.

The balance of capitalized servicing rights, included in other assets at December 31, 2012 and 2011, was $6,012 and $7,991, respectively. No impairment charges related to servicing rights were recognized during the years ended December 31, 2012 and 2011.

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The following tables detail the period end loan balances and the period end allowance for loan losses balances by portfolio segment that were collectively and individually evaluated for impairment as of December 31, 2012 and 2011.

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

December 31, 2011	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$ 65,146,824	$ 28,112,167	$ 12,010,750	$ 889,444	$ 233,481	$ 106,392,666
Loans individually evaluated for impairment	2,101,341	3,607,062	554,678	1,420,156	1,460	7,684,697
Total	$ 67,248,165	$ 31,719,229	$ 12,565,428	$ 2,309,600	$ 234,941	$ 114,077,363

Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$ 1,122,699	$ 961,581	$ 187,224	$ 20,431	$ 3,292	$ 2,295,227
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625

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The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

December 31, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625
Provision for loan losses	23,050	245,502	216,293	(18,369)	6,372	472,848
Loans charged-off	(24,243)	(455,696)	(177,916)	—	(2,959)	(660,814)
Recoveries of loans previously charged-off	29,113	88,562	—	—	—	117,675
Net recoveries (charge-offs)	4,870	(367,134)	(177,916)	—	(2,959)	(543,139)
Balance at end of period	$ 1,150,619	$ 844,347	$ 225,601	$ 2,062	$ 6,705	$ 2,229,334
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,150,619	$ 844,347	$ 225,601	$ 2,062	$ 6,705	$ 2,229,334
Loans individually evaluated for impairment	—	—	—	—	—	—
Balance at end of period	$ 1,150,619	$ 844,347	$ 225,601	$ 2,062	$ 6,705	$ 2,229,334

December 31, 2011	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,587,196	$ 821,981	$ 316,146	$ 55,182	$ 6,136	$ 2,786,641
Provision for (credit to) loan losses	1,278,615	1,724,164	63,782	(34,751)	4,530	3,036,340
Loans charged-off	(1,743,112)	(1,590,419)	(192,704)	—	(9,675)	(3,535,910)
Recoveries of loans previously charged-off	—	10,253	—	—	2,301	12,554
Net charge-offs	(1,743,112)	(1,580,166)	(192,704)	—	(7,374)	(3,523,356)
	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625

Balance at end of period						
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,122,699	$ 961,581	$ 187,224	$ 20,431	$ 3,292	$ 2,295,227
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625

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

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The following tables relate to impaired loans as of December 31, 2012 and as of December 31, 2011:

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

December 31, 2011	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$ 2,354,430	$ 2,101,341	$ —	$ 2,101,341	$ —
Commercial	4,664,485	1,707,720	1,899,342	3,607,062	4,398
Construction and land	1,420,156	1,420,156	—	1,420,156	—
Residential mortgages	706,472	554,678	—	554,678	—
Consumer	1,460	1,460	—	1,460	—
Total	$ 9,147,003	$ 5,785,355	$ 1,899,342	$ 7,684,697	$ 4,398

The following tables relate to interest income recognized by class of impaired loans for the years ended December 31, 2012 and 2011:

	Year Ended December 31, 2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans secured by real estate	$2,206,518	$ 39,698	$2,740,115	$ 109,506
Commercial	3,697,995	70,939	1,562,758	27,612
Construction and land	1,395,207	—	1,147,704	—
Residential mortgages	700,380	9,148	717,762	18,538
Consumer	286	14	225	—
Total	$8,000,386	$ 119,799	$6,168,564	$ 155,656

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Interest income collected and recognized on impaired loans was $120,174 and $155,656 in 2012 and 2011, respectively. If nonaccrual loans had been current throughout their terms, additional interest income of $343,910 and $461,754 would have been recognized in 2012 and 2011, respectively. The Company has no commitments to lend additional funds to borrowers whose loans are impaired.

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

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

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

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

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

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

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

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

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

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

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

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At December 31, 2012 and December 31, 2011, the unpaid principal balances of loans placed on nonaccrual status were $5,179,441 and $5,785,355, respectively. At December 31, 2012, three commercial real estate loans with an aggregate principal balance of $3,700,848 and three commercial loans with an aggregate principal balance of $1,876,105 were considered to be troubled debt restructurings. There are no further commitments to lend funds to these borrowers. There were no loans past due 90 days or more and still accruing interest at December 31, 2012 or December 31, 2011.

Non-accrual loans segregated by class of loans as of December 31, 2012 and 2011 were as follows:

	2012	2011
Commercial loans secured by real estate	$1,040,453	$2,101,341
Commercial	1,935,171	1,707,720
Construction and land	1,343,295	1,420,156
Residential mortgages	860,522	554,678
Consumer	-	1,460
	$5,179,441	$5,785,355

An age analysis of past due loans, segregated by class of loans, as of December 31, 2012 and December 31, 2011 was as follows:

December 31, 2012	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured by real estate	$ 363,284	$ 1,040,453	$ 1,403,737	$ 63,273,808	$ 64,677,545	$ —
Commercial	608,612	1,935,171	2,543,783	23,368,114	25,911,897	—
Residential mortgages	—	860,522	860,522	12,322,319	13,182,841	—
Construction and land	—	1,343,295	1,343,295	98,445	1,441,740	—
Consumer	26,273	—	26,273	377,308	403,581	—
	$ 998,169	$ 5,179,441	$ 6,177,610	$ 99,439,994	$ 105,617,604	$ —

December 31, 2011	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured by real estate	$128,384	$2,101,341	$2,229,725	$65,018,440	$67,248,165	$ —
Commercial	1,052,990	1,707,720	2,760,710	28,958,519	31,719,229	—
Residential mortgages	211,562	554,678	766,240	11,799,188	12,565,428	—
Construction and land	—	1,420,156	1,420,156	889,444	2,309,600	—
Consumer	—	1,460	1,460	233,481	234,941	—

$1,392,936	$5,785,355	$7,178,291	$106,899,072	$114,077,363	$ —

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Troubled Debt Restructurings. The recorded investment balance of TDRs, net of charge-offs, as of December 31, 2012 and December 31, 2011 was $5,577,000 and $3,213,000, respectively. At December 31, 2012, this recorded investment balance included $941,000 for a commercial and industrial loan which returned to accrual status during the year ended December 31, 2012, as it had performed in accordance with the terms and conditions of its restructuring agreement for a period of one year. At December 31, 2011, there was a $4,398 specific reserve related to one TDR. There was no such reserve at December 31, 2012. For the years ended December 31, 2012 and 2011, the Bank charged off a total of $109,000 and $129,000, respectively, relating to the portion of TDRs deemed to be uncollectible. There were no additional funds committed to borrowers in TDR status at December 31, 2012.

The following table provides information on loans modified as TDRs during the year ended December 31, 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Commercial loans secured by real estate	1	$ 2,686,863	$ 2,686,863	4.69 %
Commercial	2	428,228	428,228	1.12 %
Total	3	$ 3,115,091	$ 3,115,091	4.20 %

The following table provides information on how loans were modified as TDRs during the year ended December 31, 2012:

	2012
Extended maturity	$79,617
Adjusted interest rates	3,035,474
Total	$3,115,091

There were no loans previously modified as a TDR for which there was a payment default during the year ended December 31, 2012.

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

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

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

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

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

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

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The following table presents credit risk ratings by class of loan as of December 31, 2012 and December 31, 2011:

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

December 31, 2011 Risk Rating:	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Pass	$ 60,201,549	$ 26,578,102	$ 889,444	$ 12,010,750	$ 233,481	$ 99,913,326
Special Mention	4,945,275	269,222	—	—	—	5,214,497
Substandard	2,101,341	4,871,905	1,420,156	554,678	1,460	8,949,540
Total	$ 67,248,165	$ 31,719,229	$ 2,309,600	$ 12,565,428	$ 234,941	$ 114,077,363

NotePremises and Equipment
5.

At December 31, 2012 and 2011, premises and equipment consisted of the following:

	2012	2011
Land	$255,766	$255,766
Premises under capital lease	1,192,036	1,192,036
Buildings and improvements	681,142	681,142
Leasehold improvements	1,020,889	1,027,390
Furniture and fixtures	551,023	527,969
Equipment	811,703	996,259
Software	92,108	92,495
	4,604,667	4,773,057
Less accumulated depreciation and amortization	(2,676,314)	(2,758,392)
	$ 1,928,353	$ 2,014,665

For the years ended December 31, 2012 and 2011, depreciation and amortization expense related to premises and equipment totaled $229,807 and $258,763, respectively.

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Premises under capital lease of $1,192,036, and related accumulated amortization of $642,107 and $582,505 as of December 31, 2012 and 2011, respectively, are included in premises and equipment.

NoteDeposits
6.

At December 31, 2012 and 2011, deposits consisted of the following:

	2012	2011
Noninterest bearing	$ 29,906,051	$ 31,003,581
Interest bearing:		
Checking	5,110,736	5,149,535
Money Market	36,649,525	47,728,069
Savings	2,877,303	2,838,736
Time certificates, less than $100,000 (1)	10,873,751	19,657,059
Time certificates, $100,000 or more (2)	22,833,872	26,253,701
Total interest bearing	78,345,187	101,627,100
Total deposits	$ 108,251,238	$ 132,630,681

(1) Included in time certificates of deposit, less than $100,000, at December 31, 2012 and December 31, 2011were brokered deposits totaling $469,037 and $3,976,764, respectively.

(2) Included in time certificates of deposit, $100,000 or more, at December 31, 2012 and December 31, 2011were brokered deposits totaling $4,049,919 and $5,119,113, respectively.

Brokered deposits at December 31, 2012 and December 31, 2011 were as follows:

	2012	2011
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$279,382	$2,180,568
Time certificates of deposit purchased by the Bank through CDARS	4,049,919	4,161,974
Other brokered time certificates of deposit	189,655	2,753,335
Total brokered deposits	$4,518,956	$9,095,877

As a result of the Consent Order, described in Note 14, the Bank does not intend to renew or accept brokered deposits without obtaining prior regulatory approval during the period in which the Consent Order is in place.

Contractual maturities of time certificates of deposit as of December 31, 2012 are summarized below:

Due within:	
1 year	$21,142,539
1-2 years	4,734,023
2-3 years	4,399,614
3-4 years	3,062,601

4-5 years	368,846
	$33,707,623

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Interest expense on certificates of deposit in denominations of $100,000 or more was $331,025 and $656,309 for the years ended December 31, 2012 and 2011, respectively.

Note 7. Commitments and Contingencies

Federal Home Loan Bank borrowings and stock

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At December 31, 2012, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no borrowings outstanding with the FHLB at December 31, 2012.

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

Employment agreements

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

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

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

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

If the Chief Executive Officer is terminated for "Cause" or voluntarily terminates the Chief Executive Officer's employment other than for "Good Reason," the Chief Executive Officer will only be entitled to base salary accrued through the date of the Chief Executive Officer's termination. If the Chief Executive Officer's employment is terminated by reason of "Disability," the Chief Executive Officer will receive disability benefits under any long-term disability plan maintained by the Company or the Bank. In the event of the Chief Executive Officer's death, the Chief Executive Officer's beneficiary(ies) or estate will be paid the Chief Executive Officer's base salary for a period of six months following the Chief Executive Officer's death. If the Chief Executive Officer is terminated for any reason other than for "Cause" or "Disability" or if the Chief Executive Officer voluntarily terminates the Chief Executive Officer's employment for "Good Reason," then the Chief Executive Officer will be entitled to receive (i) twelve months of base salary and (ii) the Chief Executive Officer's individual and/or family health benefits coverage for a period of twelve months following the Chief Executive Officer's termination (or such other period prescribed by the then applicable COBRA law), with the Chief Executive Officer paying the same portion of the cost of such coverage as existed at the time of termination; provided, however, that no payment will be made to the Chief Executive Officer if such payment would constitute a "golden parachute payments" and is made after the occurrence of certain events specified under regulations promulgated by the Federal Deposit Insurance Corporation (the "FDIC"), including the determination by the FDIC that the Bank is in "troubled condition." Any lump sum payment made to the Chief Executive Officer is also subject to claw back by the Company and the Bank if it is later determined that the Chief Executive Officer committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

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

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

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

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

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

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

in “troubled condition.” Any lump sum payment made to the Senior Vice President and Chief Financial Officer is also subject to claw back by the Company and the Bank if it is later determined that the Senior Vice President and Chief Financial Officer committed or is substantially responsible for certain acts or omissions prohibited under regulations promulgated by the FDIC.

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

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

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

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Change in Control Agreement

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

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

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

Litigation

At December 31, 2012, neither the Company nor any subsidiary was involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits against the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds a security interest, claims involving the making and servicing of real property loans and other issues incident to the Company's business. However, neither the Company nor any subsidiary is a party to any pending legal proceedings that management believes would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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Directors Retirement Plan

Effective March 3, 2011, the Bank adopted a Director Retirement Plan (the "Director Plan") for each non-employee director of the Bank. Under the Director Plan, each non-employee director of the Bank who Retires (as defined below) from the Board of Directors of the Bank (the "Bank Board") with a minimum of five years of service on the Bank Board shall be entitled to receipt of a one-time payment of $50,000 upon his or her Retirement (as defined below). The years of service began accruing on March 3, 2011, the date of adoption of the Director Plan, and will not include any periods in which the person was an employee of the Bank. "Retire" and "Retirement" means termination of service as a director of the Bank and all its subsidiaries for any reason other than death, Disability (as defined in the Director Plan) or Specially-Defined Cause (as defined in the Director Plan). In addition, the one-time payment of $50,000 will also become due and payable to the non-employee directors of the Bank regardless of their number of years of service on the Bank Board in the event of (i) a change in control of the Bank (as may be defined by the Bank Board), (ii) the death of a director, (iii) the Disability (as defined in the Director Plan) of a director or (iv) the failure of a director to stand for reelection due to any age restriction.

Based upon actuarial calculations completed in March 2011, the Company anticipated incurring a net periodic cost for the year ended December 31, 2011 of $47,493. The five-year projection of the net periodic cost for the Director Plan was $333,147.

On October 18, 2011, the Bank terminated the Director Plan for each non-employee director of the Bank effective September 30, 2011. As noted above, the Director Plan was initially adopted on March 3, 2011, and there have been no payments made under the Director Plan prior to the date that the Director Plan was terminated. During the third quarter of 2011, the Bank reversed the $33,000 of retirement benefits expense that had been accrued during 2011 related to the Director Plan.

NoteLease and Subleases
8.

The Company leases the Bank's main and Branford branch offices under twenty-year capital leases that have terms, including renewal periods, through 2021 and 2022, respectively. Under the terms of the leases, the Bank will pay all executory costs including property taxes, utilities and insurance. In 2006, the Company entered into an operating lease for its North Haven branch. The Company also leases the driveway to its main office and certain equipment under non-cancelable operating leases.

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At December 31, 2012, future minimum lease payments to be made under these lease by year and in the aggregate, were as follows:

Year	Capital Leases	Operating Leases
2013	$219,204	$47,408
2014	219,204	46,751
2015	219,204	46,751
2016	236,393	48,782
2017	243,998	49,788
2018 and thereafter	893,169	408,663
	2,031,172	$648,143
	(878,663)	
Less amount representng interest Present value of future minimum lease payments - capital lease obligation	$1,152,509	

Total rent expense charged to operations under the operating leases approximated $67,500 and $54,900 for the years ended December 31, 2012 and 2011, respectively. Rental income under subleases, and a lease of space in premises owned, approximated $31,200 and $13,600 for the years ended December 31, 2012 and 2011, respectively.

NoteIncome Taxes
9.

A reconciliation of the anticipated income tax benefit (computed by applying the statutory Federal income tax rate of 34% to the loss before income taxes) to the amount reported in the statement of operations for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Benefit for income taxes at statutory Federal rate	$(58,648)	$(930,892)
State taxes, net of Federal benefit	(8,538)	(135,527)
Increase in valuation allowance	77,607	1,080,474
Other	(10,421)	(14,055)
	$—	$—

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	2012	2011
Deferred tax assets:		
Allowance for loan losses	$868,326	$895,704
Net operating loss carryforwards	3,343,119	3,261,268
Unrealized gain on available for sale securities	29	60
Interest on non accruing loans	133,953	179,853
Capital lease obligation	238,948	234,813
Other	324,741	261,040
Gross deferred tax assets	4,909,116	4,832,738
Less valuation allowance	(4,464,091)	(4,386,515)
Deferred tax assets - net of valuation allowance	445,025	446,223
Deferred tax liabilities:		
Tax bad debt reserve	445,025	446,223
Gross deferred tax liabilities	445,025	446,223
Net deferred taxes	$ —	$ —

As of December 31, 2012, the Company had net operating loss carryforwards of approximately $8,700,000 and $8,440,000 available to reduce future Federal and state taxable income, respectively, which expire in 2022 through 2032.

The net changes in the valuation allowance for 2012 and 2011 were increases of $77,607 and $1,080,474, respectively. The changes in the valuation allowance have been allocated between operations and equity to adjust the deferred tax asset to an amount considered by management more likely than not to be realized. The portion of the change in the valuation allowance allocated to equity is to eliminate the tax benefit related to the unrealized losses on available for sale securities.

During 2007, the Company had a tax deduction for compensation related to the shares issued to the former Chairman that exceeded the book compensation recorded for such shares and predecessor stock options. The tax benefit for this excess tax deduction is typically recorded as an increase to shareholders' equity. However, because the Company is in a net operating loss position for tax purposes and has a full valuation allowance recorded for its net deferred tax asset, the Company did not record the tax benefit of this deduction in 2007, and will not record such benefit until the Company's net operating losses are fully utilized. At both December 31, 2012 and 2011, approximately $140,000 of net operating losses resulting from this deduction, and related tax benefit of approximately $55,000, have been excluded from the calculation of deferred tax assets.

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NoteShareholders' Equity
10.

Loss per share

The Company is required to present basic loss per share and diluted loss per share in its statements of operations. Basic and diluted loss per share are computed by dividing net loss by the weighted average number of common shares outstanding. Diluted per share amounts assume exercise of all potential common stock instruments unless the effect is to reduce the loss or increase the income per share.

Year Ended December 31,	12/31/2012			12/31/2011		
	Net Loss	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Loss Per Share						
Loss available to common shareholders	$(172,493)	2,748,254	$(0.06)	$(2,737,917)	2,697,902	$(1.01)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	—	—	—	—	—
Loss available to common shareholders plus assumed conversions	$(172,493)	2,748,254	$(0.06)	$(2,737,917)	2,697,902	$(1.01)

For the years ended December 31, 2012 and 2011, common stock equivalents of 44,212 shares and 370 shares, respectively, have been excluded in the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Share-based plans

The Company has adopted three share-based plans, the 2001 Stock Option Plan (the "2001 Plan"), the 2002 Stock Option Plan (the "2002 Plan"), and the 2005 Stock Option and Award Plan (the "2005 Plan"), under which an aggregate of 193,281 shares of the Company's common stock are reserved for issuance of the Company's common stock, or upon the exercise of incentive options, nonqualified options and restricted stock granted under the share-based plans.

Under all three plans, the exercise price for each share covered by an option may not be less than the fair market value of a share of the Company's common stock on the date of grant. For incentive options granted to a person who owns more than 10% of the combined voting power of the Company or any subsidiary ("ten percent shareholder"), the exercise price cannot be less than 110% of the fair market value on the date of grant.

Options under all three plans have a term of ten years unless otherwise determined at the time of grant, except that incentive options granted to any ten percent shareholder will have a term of five years unless a shorter term is fixed. Under the 2001 and 2002 plans, unless otherwise fixed at the time of grant, 40% of the options become

exercisable one year from the date of grant, and 30% of the options become exercisable at each of the second and third anniversaries from the date of grant. Under the 2005 plan, the vesting terms of the awards is determined at the date of grant. Dividends are not paid on unexercised options.

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Also, under the 2005 Plan, awards in the form of the Company's common stock may be granted. The vesting terms of the awards are determined at the time of the grant.

Upon adoption of the 2002 Option Plan in May 2002, the Company determined that no additional options will be granted under the 2001 Option Plan. The 2002 Option Plan expired in May 2012.

A summary of the status of the stock options at December 31, 2012 and changes during the year then ended, is as follows:

	2012			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Granted	158,388	$ 7.76	2.2	
Exercised	—	—		
Exchanged	—	—		
Expired	(8,316)	10.39		
Forfeited	(5,000)	7.42		
Outstanding at end of year	145,072	$ 7.62	1.3	$ —
Vested at end of year	145,072	$ 7.62	1.3	$ —
Exercisable at end of year	145,072	$ 7.62	1.3	$ —

There were no stock options granted in 2012 and 2011. In addition, there were no stock options excercised in 2012 and 2011.

A summary of the status of the Company's nonvested restricted stock at December 31, 2012 and changes during the year then ended, is as follows:

	2012	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock at beginning of the year	—	$ —
Granted	112,371	1.55
Vested and issued	(74,914)	1.55
Forfeited	—	—
Nonvested restricted stock at December 31, 2012	37,457	$ 1.55

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As of December 31, 2012, there was no unrecognized compensation cost relating to the option plans or restricted stock. During the years ended December 31, 2012 and 2011, expenses of $174,174 and $2,353 for restricted stock was recognized as compensation cost, respectively.

Stock warrants

The Company adopted the 2001 Warrant Plan and the 2001 Supplemental Warrant Plan (the "Warrant Plans"), under which an aggregate of 77,184 shares of the Company's common stock were reserved for issuance upon the exercise of warrants granted to non-employee directors of the Company and the Bank, and certain other individuals involved in the organization of the Bank. All warrants under the Warrant Plans expired on November 15, 2011.

Warrants under the Warrant Plans had a term of ten years. Forty percent of the warrants became exercisable one year from the date of grant, and 30% of the warrants became exercisable at each of the second and third anniversaries from the date of grant.

Note 11.Other Comprehensive Income

Under guidance relating to reporting comprehensive income, certain transactions and other economic events that bypass the Company's income statement must be displayed as other comprehensive income. The Company's other comprehensive income, which is comprised solely of the change in unrealized gains on available for sale securities, was as follows:

	Amount	Taxes	Amount
Unrealized holding gain arising during period	$78	$(30)	$48
Reclassification adjustment for amounts recognized in net loss	—	—	—
Reduction in deferred tax valuation allowance allocated to equity	—	30	30
Unrealized holding gains on available for sale securities, net of taxes	$78	$—	$78

	Twelve Months Ended December 31, 2011		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding gains arising during period	$121	$(47)	$74
Reclassification adjustment for amounts recognized in net loss	—	—	—
Reduction in deferred tax valuation allowance allocated to equity	—	47	47
Unrealized holding gains on available for sale securities, net of taxes	$121	$—	$121

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Note 12. 401(k) Profit Sharing Plan

The Bank's employees are eligible to participate in The Bank of Southern Connecticut 401(k) Profit Sharing Plan (the "Plan") under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of the Bank. Under the terms of the Plan, participants can contribute a discretionary percentage of compensation, with total annual contributions subject to Federal limitations. The Bank may make discretionary contributions to the Plan. Participants are immediately vested in their contributions and become fully vested in employer contributions after three years of service. There were no contributions made by the Company in 2012 or 2011.

Note 13. Segment Reporting

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

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

Year Ended December 31, 2012

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$4,939,393	$3,840	$549	$ —	$4,943,782
Provision for loan losses	472,848	—	—	—	472,848
Net interest income after provision for loan losses	4,466,545	3,840	549	—	4,470,934
Noninterest income	608,849	—	30,720	—	639,569
Noninterest expense	5,108,618	198	174,180	—	5,282,996
Net (loss) income	(33,224)	3,642	(142,911)	—	(172,493)
Total assets as of December 31, 2012	120,922,463	45,068	11,567,942	(11,088,912)	121,446,561

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Year Ended December 31, 2011

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$5,158,838	$26,303	$2,149	$ —	$5,187,290
Provision for loan losses	3,036,340	—	—	—	3,036,340
Net interest income after provision for loan losses	2,122,498	26,303	2,149	—	2,150,950
Noninterest income	565,758	—	13,600	—	579,358
Noninterest expense	5,313,613	2,030	152,582	—	5,468,225
Net (loss) income	(2,625,357)	24,273	(136,833)	—	(2,737,917)
Total assets as of December 31, 2011	145,325,773	42,389	11,558,084	(10,956,341)	145,969,905

NoteFinancial Instruments with Off-Balance-Sheet Risk
14.

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

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

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

Financial instruments whose contract amounts represent credit risk were as follows at December 31, 2012 and December 31, 2011:

	2012	2011
Commitments to extend credit:		
Future loan commitments	$3,025,000	$1,565,000
Unused lines of credit	15,629,121	17,569,186
Financial standby letters of credit	1,954,807	3,083,828
Undisbursed construction loans	450,000	508,827

	$21,058,928	$22,726,841

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies, but may include residential and commercial property, deposits and securities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. The liability related to guarantees recorded at December 31, 2012 and 2011 was not significant.

NoteRegulatory Matters
15.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Company and the State of Connecticut Department of Banking categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since then that management believes have changed the Bank's category.

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

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By entering into the Consent Order, the Bank has agreed to take certain measures in a number of areas, including, without limitation, the following: (i) having and retaining qualified management and reviewing and revising its assessment of senior management; (ii) maintaining minimum specified capital levels and developing and submitting a capital plan in the event any of its capital ratios fall below such minimum specified capital levels; (iii) formulating and submitting a profit and budget plan consisting of goals and strategies consistent with sound banking practices and implementing such plan; (iv) formulating and submitting a plan to reduce classified assets and implementing such plan; (v) reviewing and improving the loan and credit risk management policies and procedures; (vi) developing and implementing action plans addressing all other recommendations identified within its most recent Report of Examination; (vii) complying with the Interagency Policy Statement on Internal Audit Function and its Outsourcing; and (viii) not accepting, renewing or rolling over any brokered deposits unless the Bank is in compliance with regulations governing the solicitation and acceptance of brokered deposits. The Consent Order also provides that the Bank will obtain prior regulatory approval before the payment of any dividends. The Bank has already adopted and implemented many of the actions prescribed in the Consent Order.

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

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

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

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The Company's actual capital amounts and ratios at December 31, 2012 and December 31, 2011 were (dollars in thousands):

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

December 31, 2011	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$13,057	10.88 %	$9,601	8.00 %	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	11,546	9.62 %	4,800	4.00 %	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	11,546	7.41 %	6,236	4.00 %	N/A	N/A

The Bank's actual capital amounts and ratios at December 31, 2012 and December 31, 2011 were (dollars in thousands):

December 31, 2012	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$ 12,057	11.60 %	$ 8,313	8.00 %	$ 10,391	10.00 %
Tier 1 Capital to Risk-Weighted Assets	10,747	10.34 %	4,156	4.00 %	6,235	6.00 %
Tier 1 (Leverage) Capital to Average Assets	10,747	8.70 %	4,939	4.00 %	6,174	5.00 %

To Be Well

December 31, 2011	Actual		For Capital Adequacy Purposes		Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$ 12,283	10.28 %	$ 9,555	8.00 %	$ 11,943	10.00 %
Tier 1 Capital to Risk-Weighted Assets	10,780	9.03 %	4,777	4.00 %	7,166	6.00 %
Tier 1 (Leverage) Capital to Average Assets	10,780	6.95 %	6,206	4.00 %	7,758	5.00 %

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Restrictions on dividends, loans or advances

The Company's ability to pay cash dividends is dependent on the Bank's ability to pay dividends to the Company. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. Regulatory approval is required to pay cash dividends in excess of the Bank's net earnings retained in the current year plus retained net earnings for the preceding two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements, and the Federal Reserve Board may impose further dividend restrictions on the Company. No such dividends were declared in 2012 or 2011.

Under Federal Reserve regulation, the Bank is also limited to the amount it may loan to the Company, unless such loans are collateralized by specified obligations. Loans or advances to the Company by the Bank are limited to 10% of the Bank's capital stock and surplus on a secured basis. During the years ended December 31, 2012 and 2011, no loans or advances were made to the Company by the Bank.

NoteRelated Party Transactions
16.

In the normal course of business, the Company may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, similar to those available to unrelated customers.

	2012	2011
Balance, at beginning of year	$2,026,960	$1,526,974
Additional loans	836,534	2,089,199
Repayments	(715,262)	(1,589,213)
Other	(1,055,955)	—
	$1,092,277	$2,026,960

Other transactions represent loans to related parties who ceased to be related parties during the year.

Related party deposits aggregated approximately $1,115,662 and $3,908,313 as of December 31, 2012 and 2011, respectively.

Included in professional services for the years ended December 31, 2012 and 2011 were approximately $113,200 and $114,100, respectively, in professional fees incurred for services provided by an accounting firm ($0 in 2012 and $5,700 in 2011) and a law firm ($113,200 in 2012 and $108,400 in 2011), principals of which are directors of the Company. During 2011, the Company paid approximately $5,400 for capital expenditures and maintenance to certain companies, principals of which were directors of the Company. There were no such expenditures paid in 2012.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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NoteFair Value and Interest Rate Risk
17.

As described in Note 1, the Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, is set forth below.

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

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

Federal Home Loan Bank stock

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

Available for sale securities

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

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

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Loans receivable

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

At December 31, 2012 and 2011, the Company’s collateral dependent loans receivable considered impaired that were newly measured for fair value purposes during such periods, were categorized as Level 3 within the fair value hierarchy, and the balances, net of related specific reserves, were $3,448,058 and $3,678,296, respectively. The remaining balance of loans receivable was classified as Level 2 within the fair value hierarchy.

Servicing assets

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

Other assets held for sale and other real estate owned

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

Other assets – derivative financial instruments

Derivative financial instruments represent an equity warrant asset held by the Bank which entitled the Bank to acquire stock in the issuer, a publicly traded company. The Bank held this asset for prospective investment gains. The Bank did not use it to hedge any economic risks nor does it use other derivative instruments to hedge economic risks. The equity warrant asset was recorded at fair value and classified as a derivative asset, which is a component of other assets, on the Company’s consolidated balance sheet at December 31, 2011. The Company classified the other assets –

derivative financial instruments as Level 2 within the fair value hierarchy.

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Interest only strips

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

Deposits

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

Off-balance-sheet instruments

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

The following tables detail the financial asset amounts that were carried at fair value and measured at fair value on a recurring basis as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

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

	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

U.S. Treasury Bills	$ 3,849,847	$ 3,849,847	$ —	$ —
Other assets - derivatives	$ 86,434		$ 86,434	$ —

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The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

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

	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$3,678,296	$ —	$ —	$ 3,678,296

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

The following tables detail the nonfinancial assets carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

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

Other real estate owned	$582,911	$ —	$ —	$ 582,911

	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets held for sale	$315,000	$ —	$315,000	$ —
Other real estate owned	$374,211	$ —	$ —	$ 374,211

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

The estimated fair value amounts as of December 31, 2012 and 2011 have been measured as of their respective year-ends and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at each year-end.

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

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at December 31, 2012 and 2011, in thousands:

		December 31, 2012		December 31, 2011	
	Fair Value Hierarachy Level	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$ 6,913,610	$ 6,913,610	$ 18,167,794	$ 18,167,794
Short-term investments	Level 1	4,674,556	4,674,556	6,764,409	6,764,409
Interest bearing certificates of deposit	Level 1	655,278	655,278	99,426	99,426
Available for sale securities	Level 1	1,249,925	1,249,925	3,849,847	3,849,847
Federal Home Loan Bank stock	Level 3	60,600	60,600	66,100	66,100
Loans receivable, net:					
Observable inputs	Level 2	98,099,996	99,788,559	105,858,787	108,656,645
Unobservable inputs	Level 3	5,179,441	5,179,441	5,785,355	5,785,355
Accrued interest receivable	Level 1	397,497	397,497	434,302	434,302
Servicing rights	Level 2	6,012	15,106	7,991	20,079
Interest only strips	Level 2	7,769	12,531	10,364	16,717
Derivative financial instruments	Level 2	—	—	86,434	86,434
Financial Liabilities:					
Noninterest-bearing deposits	Level 1	29,906,051	29,906,051	31,003,581	31,003,581
Interest bearing checking accounts	Level 1	5,110,736	5,110,736	5,149,535	5,149,535
Money market deposits	Level 1	36,649,525	36,649,525	47,728,069	47,728,069
Savings deposits	Level 1	2,877,303	2,877,303	2,838,736	2,838,736
Time certificates of deposits	Level 2	33,707,623	34,357,000	45,910,760	46,787,000
Repurchase agreements	Level 1	—	—	68	68
Accrued interest payable	Level 1	46,764	46,764	204,021	204,021

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Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at December 31, 2012 and 2011.

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

NoteProperty Held for Sale
18.

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. 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 with respect to the sale of the property. The property is classified as other assets held for sale as of December 31, 2012 and 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 to purchase 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 the lease agreement in August 2011. The Company received approximately $31,200 and $13,600 in rent for this Clinton, Connecticut property in 2012 and 2011, respectively.

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Note 19. Subsequent Events

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

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

The Merger Agreement contains representations, warranties and covenants of the Company, the Bank and Liberty. Among other customary covenants, each of the Company and the Bank has agreed that it (i) will conduct its business in the ordinary course and consistent with past banking practices during the period between the execution of the Merger Agreement and the consummation of the Merger and (ii) will not engage in certain kinds of transactions during such period unless it obtains the prior written consent of Liberty. The Company has also agreed to not, subject to certain exceptions generally related to the Company's Board of Directors' evaluation and exercise of its fiduciary duties, (i) solicit proposals relating to alternative business combination transactions or (ii) enter into discussions or negotiations or provide confidential information in connection with any proposals for alternative business combination transactions. The Merger Agreement also provides that Liberty will establish an advisory board for the Greater New Haven, Connecticut market area and invite each director of the Company to serve on such advisory board.

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

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