

SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 29, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2009.

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

For the transition period from _____ to _____

Commission file number 1-32219

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

Connecticut
(State or other jurisdiction of incorporation or
organization)

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

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

06510
(Zip Code)

Registrant's telephone number, including area
code

(203) 782-1100

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

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

American Stock Exchange
(Name of each exchange on which
registered)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [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 [] 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 No

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

Yes No

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

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates (assumes all directors, executive officers and 10% or greater holders are affiliates) of the registrant, computed by reference to the price at which the common equity was last sold as of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter: \$13,323,402.

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 29, 2010: 2,695,902

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders which is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this report on Form 10-K.

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PART I

Item 1. Business.

Background

Southern Connecticut Bancorp, Inc. (the “Company”) is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company’s strategic objective is to serve as a bank holding company for a community-based commercial bank and a mortgage broker 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., operating under the name “Evergreen Financial Services” (“Evergreen”), which is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business and also operates from the Company’s headquarters in New Haven, Connecticut. The Company and its subsidiaries focus on meeting the financial services 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 February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation (“NVSL”) and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan (“NVSL Bank”), pursuant to which the Company will merge with and into NVSL, with NVSL being the surviving corporation.

In connection with the merger, Naugatuck Valley Mutual Holding Company (“NVSL MHC”), which is presently the majority shareholder of NVSL, will reorganize and convert from a mutual holding company form of organization to a stock holding company form of organization. The stock holding company will be Newco, which will (i) offer and sell shares of its common stock as prescribed in a Plan of Conversion adopted concurrently with the execution of the Agreement and Plan of Merger and (ii) exchange shares of its common stock for shares of NVSL common stock held by persons other than NVSL MHC. Additionally, in connection with the merger, the Bank will be merged with and into NVSL 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 pharmaceutical, advanced manufacturing, healthcare, defense, technology, service and energy companies. The region is also one of New England's most popular tourist destinations, featuring popular shoreline and heritage sites. In addition, the Company's headquarters is located in downtown New Haven, in the area of Yale University's campus.

Bank Growth and Operating Strategy

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

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

- Provision of individualized attention with local underwriting and credit decision-making authority. As the only 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 a strong 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 strong 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 larger institution. To directly offer trust services, the Bank would need the approval of the Connecticut Banking Commissioner and the FDIC.

Mortgage Brokerage Services

Evergreen operates from the Company's headquarters in New Haven, Connecticut and is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business.

Evergreen focuses on meeting the mortgage brokerage needs of residential and small to medium-sized businesses, professionals and professional corporations, and their owners and employees in the Southern Connecticut market.

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. Government agency obligations and agency issued collateralized mortgage obligations, 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, 2009, the Bank and Evergreen had 35 and 2 full-time equivalent employees, respectively. Relationships with all employees are believed to be excellent.

REGULATION AND SUPERVISION

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

Laws and Regulations to which The Company is Subject

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

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

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

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

Capital Requirements. The Federal Reserve Board has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications submitted to it under the BHC Act. These capital adequacy guidelines generally require bank holding companies to maintain total capital equal to at least 8% of total risk-adjusted assets and off-balance sheet items (the “Total Risk-Based Capital Ratio”), with at least one-half of that amount consisting of Tier I or core capital and the remaining amount consisting of Tier II or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common shareholders’ equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier I capital), less goodwill and other non-qualifying intangible assets. Tier II capital generally consists of: hybrid capital instruments; perpetual preferred stock, which is not eligible to be included as Tier I capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum leverage capital ratio of Tier I capital (defined by reference to the risk-based capital guidelines) to total average assets (the "Leverage Ratio") of 3.0%. Total average assets for this purpose do not include goodwill and any other intangible assets and investments that the Federal Reserve Board determines should be deducted from Tier I capital. The Federal Reserve Board has announced that the 3.0% Leverage Ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses, deficiencies, or those that are not experiencing or anticipating significant growth. For all other bank holding companies, the minimum leverage ratio is 4%, and bank holding companies with supervisory, financial, managerial or operational weaknesses or organizations expecting significant growth are expected to maintain capital ratios well above minimum levels.

The Company is currently in compliance with the Total Risk-Based Capital Ratio, Tier I Capital and the Leverage Ratio requirements. As of December 31, 2009, the Company had a Tier I Risk-Based Capital Ratio and a Total Risk-Based Capital Ratio equal to 11.99% and 13.25%, respectively, and a Leverage Ratio equal to 11.24%. U.S. bank regulatory authorities and international bank supervisory organizations, principally the Basel Committee on Banking Supervision, currently are considering changes to the risk-based capital adequacy framework, including emphasis on credit, market and operational risk components, which ultimately could affect the appropriate capital guidelines.

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.”

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) 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; (v) 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; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) 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); (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) 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; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; and (xi) a range of enhanced penalties for fraud and other violations. On December 15, 2006, the Securities and Exchange Commission delayed the internal control reporting requirements under Section 404 of the Sarbanes-Oxley Act for non-accelerated filers to periods ending after December 15, 2007. On January 31, 2008, the SEC proposed and on June 20, 2008 approved a further one-year delay from fiscal years ending after December 15, 2008 to fiscal years ending after December 15, 2009 for the auditors attestation report on internal controls over financial reporting. On October 2, 2009, the SEC announced a further six-month deferral from fiscal years ending on or after December 15, 2009 to fiscal years ending on or after June 15, 2010 for the auditors attestation report on internal controls over financial reporting. The six-month deferral was granted as a result of the issuance of the SEC’s cost-benefit study conducted by its Office of Economic Analysis. The study was conducted to determine whether additional guidance provided to company management and auditors in 2007 was effective in reducing the costs of compliance. Because the study was published less than three months before the December 15 deadline, the Commission determined that a six-month deferral is appropriate and reasonable so that small public companies and their auditors can better plan for the required auditor attestation. In accordance with the requirements of Section 404(a), Management’s report on internal controls is included herein at Item 9A(T).

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 FDIC has issued regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, such as the Bank. Under the regulations, a bank generally is deemed to be (i) “well-capitalized” if it has a Total Risk-Based Capital Ratio of 10.0% or more, a Tier I Risk-Based Capital Ratio of 6.0% or more, a Leverage Ratio of 5.0% or more and is not subject to any written capital order or directive; or (ii) “adequately capitalized” if it has a Total Risk-Based Capital Ratio of 8.0% or more, a Tier I Risk-Based Capital Ratio of 4.0% or more, and a Leverage Ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of “well-capitalized;” or (iii) “undercapitalized” if it has a Total Risk-Based Capital Ratio that is less than 8.0%, a Tier I Risk-Based Capital Ratio that is less than 4.0% or a Leverage Ratio that is less than 4.0% (3.0% under certain circumstances); or (iv) “significantly undercapitalized” if it has a Total Risk-Based Capital Ratio that is less than 6.0%, a Tier I Risk-Based Capital Ratio that is less than 3.0% or a Leverage Ratio that is less than 3.0%, and (v) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. If an institution becomes undercapitalized, it would become subject to significant additional oversight and regulation, as mandated by the FDIA.

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

| | Company | | Capital Adequacy Target Ratio | Bank | | Capital Adequacy Target Ratio |
|---|---------|--------|-------------------------------------|--------|--------|--|
| | 2009 | 2008 | | 2009 | 2008 | |
| Total Capital to Risk Weighted Assets | 13.25% | 18.46% | 8.00% | 12.39% | 17.09% | 8.00% |
| Tier 1 Capital to Risk Weighted Assets | 11.99% | 17.13% | 4.00% | 11.13% | 15.96% | 4.00% |
| Tier 1 (Leverage) Capital Ratio to Average Assets | 11.24% | 15.64% | 4.00% | 10.44% | 14.55% | 4.00% |

As of December 31, 2009, the Bank and the Company were deemed to be well-capitalized institutions.

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.

Under this risk-based assessment system, banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three categories based on supervisory evaluations by its primary federal regulator. The three supervisory categories are: financially sound with only a few minor weaknesses (Group A); demonstrates weaknesses that could result in significant deterioration (Group B); and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations.

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, 2008, 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. On October 14, 2008, the FDIC announced a new program, the Temporary Liquidity Guarantee Program (“TLGP”) that provides unlimited FDIC deposit insurance on funds in noninterest-bearing transaction deposit accounts that are not otherwise covered by the existing FDIC deposit insurance limit of \$250,000. The TLGP also provides that the FDIC will guarantee qualifying senior unsecured debt issued before June 2009 by participating banks and certain qualifying holding companies. Participating institutions are assessed a surcharge of 10 basis points on the additional insured deposits and an assessment of 50 to 100 basis points on qualifying senior unsecured debt issued under the debt guarantee segment of the program. The Bank elected to participate in both aspects of the TLGP and incurred the surcharge as a cost of such participation.

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, and Evergreen, are located within this building. The building has a drive-up teller, an automated teller machine, two vaults and a night deposit drop.

The lease term ended in 2006, however, the Bank exercised its option to extend the lease for an additional five years. 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 \$137,933. The Bank is responsible for all costs to maintain the interior of the building, other than structural repairs, and for all real estate taxes.

When practical, the Bank seeks to sublease space within the building that is not needed for operations. The Bank of Southern Connecticut had no tenants during 2009.

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

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

Property at 24 Washington Avenue, North Haven, Connecticut. On February 16, 2006, the Company entered into a lease agreement to lease the facility at 24 Washington Avenue, North Haven, Connecticut, the site of The Bank of North Haven, a division of The Bank of Southern Connecticut. The facility was improved to accommodate the new branch, and \$295,000 was expended for improvements, furnishings and equipment. The Bank of North Haven, a division of The Bank of Southern Connecticut, opened for operations on July 10, 2006. The lease is for an initial term of five years, with three successive five-year option periods. Base rent is \$38,880 annually until April 30, 2011. The base rent for the option periods increases and is fixed in the lease. The Bank is responsible for the pro rata share of operating expenses.

Property in Clinton, Connecticut. In June 2005, the Company purchased a one-acre improved site with two buildings in Clinton, Connecticut for the primary purpose of establishing a branch office of the Bank. The net purchase price of the property was \$495,000. During 2007, the Bank determined that it would not establish a branch at this location and subsequently retained a commercial real estate broker to represent the Company in the sale of the property, and the property is classified as held for sale at December 31, 2009.

In August 2009, 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 \$24,000 annually until August 31, 2009. The base rent for the option periods increases and is fixed in the lease. The tenant has a right of first refusal in the purchase the property. The tenant is responsible for all costs to maintain the building, other than structural repairs and real estate taxes.

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.

PART II

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

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

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

| Quarter Ended | High | Low |
|--------------------|---------|---------|
| March 31, 2009 | \$ 8.90 | \$ 4.93 |
| June 30, 2009 | \$ 5.70 | \$ 4.55 |
| September 30, 2009 | \$ 6.25 | \$ 4.13 |
| December 31, 2009 | \$ 4.65 | \$ 2.04 |
| March 31, 2008 | \$ 7.50 | \$ 6.73 |
| June 30, 2008 | \$ 7.45 | \$ 6.95 |
| September 30, 2008 | \$ 7.05 | \$ 5.48 |
| December 31, 2008 | \$ 6.25 | \$ 1.40 |

Holders

There were approximately 100 registered shareholders of record of the Company's Common Stock as of March 29, 2010.

Dividends

No cash dividends have been declared to date by the Company. Management expects that earnings, if any, will be retained and that no cash dividends will be paid in the near future. The Company may, however, declare stock dividends at the discretion of its Board of Directors. No stock dividends were declared in 2009 and 2008.

The Company's only significant operating subsidiary during 2009 is the Bank. The Company is dependent upon the ability of the Bank to declare and pay dividends to the Company. The Bank's ability to declare cash dividends is dependent upon the Bank's ability to earn profits and to maintain acceptable capital ratios, as well as meet regulatory requirements and remain compliant with banking law.

The policy of the Connecticut Banking Commissioner is to prohibit payment of any cash dividends prior to recapture of organization and pre-operating expenses from operating profits. In addition, the Bank is prohibited by Connecticut law from declaring a cash dividend on its Common Stock without prior approval of the Connecticut Banking Commissioner except from its net profits for that year and any retained net profits of the preceding two years. "Net profits" is defined as the remainder of all earnings from current operations. In some instances, the FDIC may impose further restrictions on dividends. At December 31, 2009 and 2008, 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.

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., operating under the name "Evergreen Financial Services" (Evergreen), a mortgage broker with its headquarters in New Haven, Connecticut.

The Company's net loss for fiscal year 2009 was \$2,907,000 (or basic and diluted loss per share of \$1.08), compared to net income of \$134,000 (or basic and diluted income per share of \$0.05) in fiscal year 2008

The Company's net loss for the year ended December 31, 2009 was largely attributable to a provision for loan losses of \$1,992,000 for 2009 compared to \$226,000 in 2008. The significant increase in the provision for loan losses during the 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the year ended December 31, 2009 compared to 2008 were influenced by the following factors:

- Net interest income decreased due primarily to lower yields on interest earning assets, offset partially by lower costs on interest bearing liabilities and changes in asset and liability volumes;
- Noninterest income decreased because noninterest income in 2008 included the gain on the sale of the New London branch; a decrease in loan fees attributable to a prepayment penalty received in 2008; and due to a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank, and there were no such expenses in 2009; expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts; decreases in advertising and promotional campaigns; and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. These decreases were partially offset by the impairment write-down of goodwill relating to Evergreen; an increase in professional service fees; and by higher FDIC insurance premiums due to an increase in assessment rates and deposit balances subject to assessment, as well as a special one-time assessment paid during 2009.

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

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation (“NVSL”) and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan (“NVSL Bank”), pursuant to which the Company will merge with and into NVSL, with NVSL being the surviving corporation. See Note 18 to the Consolidated Financial Statements for additional information regarding the transaction.

Selected Operating and Balance Sheet Data –
Years Ended December 31, 2009 and December 31, 2008

| Operating Data | 2009 | 2008 |
|---|--------------|-------------|
| Interest income | \$6,425,869 | \$7,000,100 |
| Interest expense | 2,172,387 | 2,240,045 |
| Net interest income | 4,253,482 | 4,760,055 |
| Provision for loan losses | 1,992,113 | 226,019 |
| Noninterest income | 628,944 | 1,666,625 |
| Noninterest expenses | 5,797,738 | 6,066,912 |
| Net (loss) income | (2,907,425) | 133,749 |
| Basic and diluted (loss) income per share | (1.08) | 0.05 |
| Balance sheet data | | |
| Cash and due from banks | \$2,541,557 | \$5,267,439 |
| Short-term investments | 15,383,081 | 8,637,450 |
| Interest bearing certificates of deposit | 347,331 | 1,642,612 |
| Investment securities | 2,219,751 | 5,130,005 |
| Loans, net | 109,865,195 | 89,241,432 |
| Total assets | 135,610,178 | 114,916,562 |
| Total deposits | 117,555,542 | 93,970,024 |
| Repurchase agreements | 294,332 | 214,391 |
| Total shareholders' equity | 15,632,536 | 18,540,954 |
| Book value per share | 5.80 | 6.90 |

Segment Reporting

The Company has three reporting segments for purposes of reporting business line results: Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as the results of Evergreen 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.

Assets

The Company's total assets were \$135.6 million as of December 31, 2009, an increase of \$20.7 million over December 31, 2008 total assets of \$114.9 million. \$20.6 million of the increase in total assets during 2009 is attributable to an increase in loans receivable from December 31, 2008. Earning assets comprise \$130.6 million of the total assets, and consist of short-term investments, interest-bearing certificates of deposit, securities and loans, which collectively increased \$24.7 million from 2008. The Company has maintained liquidity by maintaining balances in overnight Federal Funds sold and in short-term investments, primarily money market mutual funds, to provide funding for higher yielding loans as they are approved. As of December 31, 2009 and 2008 short-term investments balances were \$15.4 million and \$8.6 million, respectively. During the latter part of 2008, due to historically low returns available on federal funds sold, the Company focused on money market funds as a short-term investment strategy. Investment securities classified as available for sale were \$2.2 million and \$5.1 million as of December 31, 2009 and 2008, respectively. The gross loan portfolio was \$112.6 million and \$90.4 million as of December 31, 2009 and 2008 respectively, an increase of \$22.2 million. The allowance for loan losses increased \$1.6 million to \$2.8 million at December 31, 2009 compared to \$1.2 million at the end of 2008.

Investments

The amortized cost of the Company's investments decreased \$2.9 million during 2009, representing the difference between securities that matured (\$7.1 million) and were called (\$5.0 million) and purchases of new securities (\$9.2 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2009, 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.

| | 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 | | | | | |
|--|---------------------|--|--|----------------------|----------------|-------------|------------------------------|---|------|---|------|---|
| Available for sale U. S. Government sponsored agency obligations | \$- | \$- | \$2,126,216 | \$- | \$- | \$2,126,216 | 3.07 | % | | | | |
| Mortgage-backed securities | - | - | - | - | 105,331 | 105,331 | 4.49 | % | | | | |
| Total | \$- | \$- | \$2,126,216 | \$- | \$105,331 | \$2,231,547 | | | | | | |
| Weighted Average Yield | 0.00 | % | 0.00 | % | 3.07 | % | 0.00 | % | 4.49 | % | 3.13 | % |

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2009:

| | Amortized Cost | Fair Value |
|---|-------------------|---------------|
| Federal National Mortgage Association | \$ 2,126,216 | \$ 2,113,733 |

Please see also, “Notes to Consolidated Financial Statements.”

Loans

The Bank's net loan portfolio was \$109.9 million at December 31, 2009 versus \$89.2 million at December 31, 2008, an increase of \$20.7 million. The Company attributes the 2009 loan growth to the success of the Bank's loan business development program in generating loan demand to small to medium-sized businesses. Management believes that the loan growth will continue as the Bank's branch system deposit base grows and additional lending capacity is developed. The Bank's loans have been made to borrowers primarily in the New Haven market area. There are no other significant loan concentrations in the loan portfolio.

The following table presents the maturities of loans in the Company's portfolio at December 31, 2009 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 | \$14,812,625 | \$42,490,005 | \$6,534,082 | \$63,836,712 | 56.60 | % |
| Commercial loans | 30,742,366 | 11,365,251 | 1,785,574 | 43,893,191 | 38.92 | % |
| Construction loans | 3,732,354 | 575,551 | 300,000 | 4,607,905 | 4.08 | % |
| Consumer installment loans | 254,899 | 152,858 | 40,786 | 448,543 | 0.40 | % |
| Total | \$49,542,244 | \$54,583,665 | \$8,660,442 | \$112,786,351 | 100.00 | % |
| Fixed rate loans | \$15,010,814 | \$11,488,564 | \$4,707,011 | \$31,206,389 | | |
| Variable rate loans | 34,531,430 | 43,095,101 | 3,953,431 | 81,579,962 | | |
| Total | \$49,542,244 | \$54,583,665 | \$8,660,442 | \$112,786,351 | | |

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

Critical Accounting Policy

In the ordinary course of business, the Company has made a number of estimates and assumptions relating to reporting the results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company believes the following discussion addresses the Company's only critical accounting policy, which is the policy that is most important to the portrayal of the Company's financial condition and results, and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company has reviewed this critical accounting policy and estimates with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the consolidated financial statements for a detailed description of our estimation process and methodology related to the allowance for loan losses.

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are considered impaired. For such impaired loans, an allowance is established when the discounted cash flows (or observable market price or collateral value if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans, segregated generally by loan type, and 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 obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

Based upon this evaluation, management believes the allowance for loan losses of \$2,768,000 or 2.46% of gross loans outstanding at December 31, 2009 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2008, the allowance for loan losses was \$1,183,000 or 1.31% of gross loans outstanding. The increase in the allowance is attributable to a \$1,327,000 increase in the specific component of the allowance and a \$258,000 increase in the general component of the allowance. The increase in the specific component is due to an increase in specific reserves totaling \$1,420,000 for ten loans (five construction and land loans, four commercial real estate loans and one commercial loan secured by residential real estate) identified as impaired during the year ended December 31, 2009. This was partially offset by a decrease in specific reserves totaling \$5,000, for loans that were impaired, at both December 31, 2009 and December 31, 2008; and by \$88,000 for loans charged off during the year that were classified as impaired at December 31, 2008. The increase in the general component of the reserve is primarily due to an increase in the reserve factors and increased loan volume, partially offset by the reclassification of thirteen loans to impaired loans.

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

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

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

| | 2009 | 2008 |
|---|-------------|-------------|
| Balance at beginning of year | \$1,183,369 | \$1,256,965 |
| Provision for loan losses | 1,992,113 | 226,019 |
| Recoveries of loans previously charged-off: | | |
| Commercial | 10,000 | 37,109 |
| Consumer | 563 | - |
| Total recoveries | 10,563 | 37,109 |
| Loans charged-off: | | |
| Commercial loans secured by real estate | (413,839) | (90,215) |
| Commercial | (2,300) | - |
| Consumer | (1,339) | (246,509) |
| Total charge-offs | (417,478) | (336,724) |
| Balance at end of year | \$2,768,567 | \$1,183,369 |
| Net charge-offs to average loans | (0.42 %) | (0.36 %) |

Allocation of the Allowance for Loan Losses at December 31, 2009 and 2008:

| | 2009 | | | 2008 | | |
|---|-------------|--|---|-------------|--|---|
| | Balance | Percent of Loans in Each Category to Total Loans | | Balance | Percent of Loans in Each Category to Total Loans | |
| Commercial loans secured by real estate | \$1,530,085 | 56.60 | % | \$528,754 | 50.22 | % |
| Commercial loans | 1,140,924 | 38.92 | % | 530,088 | 41.57 | % |
| Construction and land loans | 90,274 | 4.08 | % | 114,340 | 7.18 | % |
| Consumer home equity loans | - | 0.00 | % | 6,890 | 0.42 | % |
| Consumer installment loans | 7,284 | 0.40 | % | 3,297 | 0.61 | % |
| | \$2,768,567 | 100.00 | % | \$1,183,369 | 100.00 | % |

Non-Accrual, Past Due and Restructured Loans

The following represents non-accrual and past due loans at December 31, 2009 and December 31, 2008:

| | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Non-accrual loans | \$5,363,061 | \$881,948 |
| Accruing loans contractually past due 90 days or more | | |
| Loans past due 90 days or more and still accruing | \$483,897 | \$195,822 |
| Matured loans pending renewal and still accruing | - | 188,620 |
| Total | \$483,897 | \$384,442 |

In 2009 and 2008, there were no loans considered “troubled debt restructurings.”

Potential Problem Loans

At December 31, 2009, the Bank had loans totaling \$1.0 million, which were not disclosed in the table above, and were not on non-accrual status, but were deemed to be impaired. The loans were current with respect to principal and interest. Management of the Company has reviewed the collateral for the loans and considers the current specific reserves, if any, on the loans to be adequate to cover potential losses related to the relationships.

Deposits

Total deposits were \$117.6 million at December 31, 2009, an increase of \$23.6 million (25.1%) in comparison to total deposits at December 31, 2008 of \$94.0 million. The overall growth in deposit balances occurred primarily during the first six months of 2009 to fund anticipated increased loan volume. Non-interest bearing deposits were \$29.8 million at December 31, 2009, an increase of \$1.6 million (5.7%) from \$28.2 million at December 31, 2008. The balance of interest bearing checking accounts can fluctuate as much as 5% to 10% on a daily basis. Total interest bearing checking, money market and savings deposits increased \$3.6 million, or 10.8%, to \$37.4 million at December 31, 2009 from \$33.8 million at December 31, 2008. Time deposits increased to \$50.3 million at December 31, 2009 from

\$32.0 million at December 31, 2008, an \$18.3 million (57.2%) increase. Included in time deposits at December 31, 2009 is \$14.0 million in brokered deposits, which includes the Company's placement of \$3.4 million in customer deposits and purchase of \$3.5 million in brokered certificates of deposit through the CDARS program. The CDARS program offers the Bank both reciprocal and one way swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance and gives the Bank additional access to funding. As of December 31, 2009, core deposits represented 57.2% of total deposits compared to 66.0% at December 31, 2008. The decrease in core deposits as a percentage of total deposits is due to seasonal fluctuations in deposit levels as well as the effect of reduced economic activity in general, on the Bank's customer's businesses.

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

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

As of December 31, 2009 the Bank's maturities of time deposits were:

| (Thousands of dollars) | \$100,000 or greater | Less than \$100,000 | Totals |
|---------------------------------|-------------------------|------------------------|----------|
| Three months or less | \$4,196 | \$2,260 | \$6,456 |
| Over three months to six months | 2,873 | 5,505 | 8,378 |
| Over six months to one year | 9,217 | 9,495 | 18,712 |
| Over one year to two years | 2,930 | 4,513 | 7,443 |
| Over two years to three years | 2,843 | 4,842 | 7,685 |
| Over three years | 454 | 1,171 | 1,625 |
| | \$22,513 | \$27,786 | \$50,299 |

Other

The increase in Other Assets of \$457,000 is due mainly to the prepayment in December 2009 of FDIC insurance premiums totaling \$678,000, partially offset by the write-down in 2009 of \$238,000 in Goodwill recorded by the Company related to the Evergreen asset purchase in 2008.

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, 2009 and 2008.

| | Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential | | | | | | | (Decreases) Increases in interest |
|---------------------------------------|---|--------------------------------|-----------------|--------------------|--------------------------------|-----------------|----------------|---|
| | 2009 | | | 2008 | | | | |
| (Dollars in thousands) | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Income/Expense | |
| Interest earning assets | | | | | | | | |
| Loans (1)(2) | \$97,773 | \$6,102 | 6.24 | % \$84,106 | \$6,334 | 7.53 | % \$ (232) | |
| Short-term and other investments | 22,023 | 203 | 0.92 | % 10,120 | 266 | 2.63 | % (63) | |
| Investments | 3,353 | 121 | 3.61 | % 5,051 | 196 | 3.88 | % (75) | |
| Federal funds sold | - | - | - | 7,497 | 204 | 2.72 | % (204) | |
| Total interest earning assets | 123,149 | 6,426 | 5.22 | % 106,774 | 7,000 | 6.56 | % (574) | |
| Cash and due from banks | 4,362 | | | 4,387 | | | | |
| Premises and equipment, net | 2,625 | | | 2,974 | | | | |
| Allowance for loan losses | (2,522) | | | (1,213) | | | | |
| Other | 2,319 | | | 1,995 | | | | |
| Total assets | \$129,933 | | | \$114,917 | | | | |
| Interest bearing liabilities | | | | | | | | |
| Time certificates | \$47,288 | 1,457 | 3.08 | % \$29,904 | 1,251 | 4.18 | % 206 | |
| Savings deposits | 1,907 | 20 | 1.05 | % 1,557 | 21 | 1.35 | % (1) | |
| Money market / checking deposits | 34,318 | 514 | 1.50 | % 35,661 | 783 | 2.20 | % (269) | |
| Capital lease obligations | 1,178 | 176 | 14.94 | % 1,184 | 176 | 14.86 | % - | |
| Repurchase agreements | 764 | 6 | 0.79 | % 567 | 9 | 1.59 | % (3) | |
| Total interest bearing liabilities | 85,455 | 2,173 | 2.54 | % 68,873 | 2,240 | 3.25 | % (67) | |

| | | | | | |
|--|-----------|---------|-----------|---------|-----------|
| Non-interest bearing deposits | 26,792 | | 25,170 | | |
| Accrued expenses and other liabilities | 1,058 | | 1,281 | | |
| Shareholder's equity | 16,628 | | 19,593 | | |
| Total liabilities and equity | \$129,933 | | \$114,917 | | |
| Net interest income | | \$4,253 | | \$4,760 | \$ (507) |
| Interest spread | | 2.68 | % | 3.31 | % |
| Interest margin | | 3.45 | % | 4.46 | % - |

(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 2009 and 2008 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest income and expense attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis.

| (Dollars in thousands) | 2009 vs 2008 | | |
|------------------------------------|-----------------------------|------------|------------------------|
| | Due to Change in Average | | (Decrease) Increase |
| | Volume | Rate | |
| Interest earning assets | | | |
| Loans | \$943 | \$(1,175) | \$(232) |
| Short-term and other investments | 182 | (245) | (63) |
| Investments | (62) | (13) | (75) |
| Federal funds sold | (204) | - | (204) |
| Total interest earning assets | 859 | (1,433) | (574) |
| Interest bearing liabilities | | | |
| Time certificates | 595 | (389) | 206 |
| Savings deposits | 4 | (5) | (1) |
| Money market / checking deposits | (29) | (240) | (269) |
| Capital lease obligations | (1) | 1 | - |
| Repurchase agreements | 2 | (5) | (3) |
| Total interest bearing liabilities | 571 | (638) | (67) |
| Net interest income | \$288 | \$(795) | \$(507) |

The decrease in net interest income during 2009 reflects the decrease in the yields on earning assets from 6.56% in 2008 to 5.22% in 2009, partially offset by an increase in total average interest earning asset balances from 2008, as the average interest earning assets in 2009 of \$123.1 million were 15% higher than 2008. The decline in interest income attributable to average interest earning assets was partially offset by the combined effects of a decrease in rates on interest bearing liabilities from 3.25% in 2008 to 2.54% in 2009 and a \$16.6 million increase in average interest bearing liabilities from \$68.9 million in 2008 to \$85.5 million in 2009. Overall, the change in interest income attributed to volume increases was \$288,000 offset by a decrease of \$795,000 due to the decrease in interest rates. Interest income from interest earning assets in 2009 compared to 2008 declined \$1.4 million due to rates and increased \$859,000 due to volume. Variances in the 2009 cost of interest bearing liabilities in comparison to 2008 were due to decreased rate considerations of \$638,000 offset by increased volume considerations of \$571,000.

The Company intends for the Bank to continue to emphasize lending to small to medium-sized businesses in its market area as 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 also by considering 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, 2009 and 2008:

| | 2009 | 2008 |
|----------------------------------|-----------|---------|
| (Loss) income on average assets | (2.24 %) | 0.12 % |
| (Loss) income on average equity | (17.50 %) | 0.68 % |
| Average equity to average assets | 12.79 % | 17.05 % |

Results of Operations

The Company's net loss for fiscal year 2009 was \$2,907,000 (or basic and diluted loss per share of \$1.08), compared to net income of \$134,000 (or basic and diluted income per share of \$0.05) in fiscal year 2008.

The Company's net loss for the year ended December 31, 2009 was largely attributable to a provision for loan losses of \$1,992,000 for 2009 compared to \$226,000 for 2008. The significant increase in the provision for loan losses during 2009 is related to a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

In addition to the impact of the provision for loan losses, the operating results for the year ended December 31, 2009 compared to 2008 were influenced by the following factors:

- Net interest income decreased due primarily to lower yields on interest earning assets, offset partially by lower costs on interest bearing liabilities and changes in asset and liability volumes;
- Noninterest income decreased because noninterest income in 2008 included the gain on the sale of the New London branch; a decrease in loan fees attributable to a prepayment penalty received in 2008; and due to a decrease in service charges and fees, resulting from changes in the business practices of customers of the Bank; and
- Noninterest expenses decreased due to lower salaries and benefits resulting from reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009. In addition, salaries and benefits expense for 2008 included expenses related to separation payments made to the former Chief Executive Officer and President of the Bank, and there were no such expenses in 2009; expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts; decreases in advertising and promotional campaigns; and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. These decreases were partially offset by the impairment write-down of goodwill relating to Evergreen; an increase in professional service fees; and by higher FDIC insurance premiums due to an increase in assessment rates and deposit balances subject to assessment, as well as a special one-time assessment paid during 2009.

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, 2009, net interest income was \$4,253,000 versus \$4,760,000 for the same period in 2008. The \$507,000 (or 10.6%) decrease was the result of a \$574,000 decrease in interest income and a \$67,000 decrease in interest expense. This net decrease was primarily the result of decreases in rates, partially offset by increases in volume, on both interest earning assets and interest bearing liabilities.

The Company's average total interest earning assets were \$123.1 million during the year ended December 31, 2009 compared to \$106.8 million for the same period in 2008, an increase of \$16.3 million (or 15.3%). The increase in average interest earning assets of \$16.3 million was comprised of increases in average balances of loans of \$13.7 million and short-term and other investments of \$11.9 million, partially offset by decreases in average balances of federal funds sold of \$7.5 million and investments of \$1.6 million.

The yield on average interest earning assets for the year ended December 31, 2009 was 5.22% compared to 6.56% for 2008, a decrease of 134 basis points. The decrease in the yield on average earning assets reflects the impact of reductions in the FOMC rates, particularly in the prime lending rate, LIBOR and the Bank's base lending rate; as well as an increase in non-performing assets and an increasingly competitive market to attract new loans.

The combined effects of the 134 basis point decrease in yield on average interest earning assets and the \$16.3 million increase in average balances of interest earning assets resulted in the \$574,000 decrease in interest income between the year ended December 31, 2009 and the year ended December 31, 2008.

The average balance of the Company's interest bearing liabilities was \$85.5 million during the year ended December 31, 2009 compared to \$68.9 million for 2008, an increase of \$16.6 million (or 24.1%). The cost of average interest bearing liabilities decreased 71 basis points to 2.54% during the year ended December 31, 2009 compared to 3.25% for the same period in 2008, which was primarily due to a general decrease in market interest rates.

The combined effects of the 71 basis point decrease in yield on average interest bearing liabilities and the \$16.6 million increase in average balances of interest bearing liabilities resulted in the \$67,000 decrease in interest expense between the year ended December 31, 2009 and the year ended December 31, 2008.

Provision for Loan Losses

The Bank's provision for loan losses was \$1,992,000 for the year ended December 31, 2009, as compared to \$226,000 for the year ended December 31, 2008. The significant increase in the provision for loan losses during the year ended December 31, 2009 was primarily related to specific reserves established for a group of ten impaired loans that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

Noninterest Income

Total noninterest income was \$629,000 for the year ended December 31, 2009 compared to \$1,667,000 for the same period in 2008. Noninterest income in 2008 included an \$875,000 gain on the sale of the Bank's New London branch. Service charges and fees decreased \$70,000 due to changes in business practices of customers of the Bank during the year ended December 31, 2009. Other non-interest income decreased to \$122,000 in 2009 from \$215,000 in 2008, due to decreases in loan prepayment fees (\$74,000), insurance commissions (\$9,000), letter of credit fees (\$10,000), and other fees (\$29,000), partially offset by increases in other loan and SBA servicing related fees (\$29,000).

Noninterest Expenses

Total noninterest expenses were \$5,798,000 for the year ended December 31, 2009 compared to \$6,067,000 for 2008, a decrease of \$269,000 or 4.4%.

Salaries and benefits expense for the year ended December 31, 2009 was \$3,089,000 versus \$3,688,000 for the same period in 2008. Salaries and benefits expense decreased \$599,000, or 16.2%, primarily because of expense savings related to reductions in staff, both from the sale of the New London branch and other reductions, and the elimination of certain employee benefits and bonuses in 2009, as well as the reduction relating to separation payments made to the former Chief Executive Officer and President of the Bank in 2008, with no such expenses incurred in 2009.

FDIC insurance expense increased by \$167,000 from \$79,000 to \$246,000 primarily due to increased assessment rates and deposit balances subject to assessment, as well as a one time special assessment of five basis points based upon deposit balances on June 30, 2009. The Temporary Liquidity Guarantee Program announcement by the FDIC on October 17, 2008 provided banks with the option to fully insure non-interest bearing transaction deposit accounts. The Bank elected to participate in the program, resulting in a 10 basis point annual rate surcharge applied to balances in such accounts over \$250,000, beginning in 2009.

Professional services for the year ended December 31, 2009 increased by \$152,000 from \$358,000 to \$510,000, primarily due to an increase in legal fees related to the merger announced on February 22, 2010 (see Note 18 to the Consolidated Financial Statements) and accounting fees, partially offset by a reduction in other professional fees.

Other operating expenses increased by \$61,000 to \$846,000 for the year ended December 31, 2009, compared to the same period in 2008. The increase is primarily due to the \$238,000 impairment write-down of goodwill relating to Evergreen, partially offset by expense reductions attributable to lower negotiated rates on certain insurance and telecommunications service contracts, and expense savings related to printing the Company's 2009 shareholders' letter and proxy statement. The goodwill impairment recognized was due to the recurring operating losses incurred by Evergreen since its acquisition, and the uncertainty that such results were not likely to improve in the near future.

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, 2009 and 2008 consisted of liquid assets totaling \$20.4 million and \$20.7 million, respectively. This represents 15.1% and 18.0% of total assets at December 31, 2009 and 2008, 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, federal funds sold, 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 the Bank's regulatory capital ratios at December 31:

| | Company | | | Bank | | |
|---|---------|--------|-------------------------------|--------|--------|-------------------------------|
| | 2009 | 2008 | Capital Adequacy Target Ratio | 2009 | 2008 | Capital Adequacy Target Ratio |
| Total Capital to Risk Weighted Assets | 13.25% | 18.46% | 8.00% | 12.39% | 17.09% | 8.00% |
| Tier 1 Capital to Risk Weighted Assets | 11.99% | 17.13% | 4.00% | 11.13% | 15.96% | 4.00% |
| Tier 1 (Leverage) Capital Ratio to Average Assets | 11.24% | 15.64% | 4.00% | 10.44% | 14.55% | 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. Based on the above ratios, the Bank is considered to be "well capitalized" under applicable regulations. To be considered "well capitalized" an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

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 or Plan of Operations," "Business" and elsewhere in this Annual Report on Form 10-K may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the 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 and the impact of recently enacted federal legislation, (6) the ability of competitors which are larger than the Company to provide products and services which it is 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) 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, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, together with the report thereon of McGladrey & Pullen, LLP dated March 29, 2010 are included as part of this Form 10-K following page 46 hereof.

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

Not applicable.

Item 9A(T). 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 President and Chief Operating Officer, Chief Financial Officer, and Chief Accounting Officer as of the end of the period covered by this report, the Company's President and Chief Operating 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 President and Chief Operating 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, 2009.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

(c) 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, 2009 that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated into this Form 10-K by reference from the sections captioned “Proposal 1 – Election of Directors”, “Corporate Governance”, “Section 16(a) Beneficial Ownership Reporting Compliance”, and “Code of Ethics” in the Company's definitive proxy statement for its 2010 Annual Meeting of Shareholders (the “Definitive Proxy Statement”).

Item 11. Executive Compensation.

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

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

Equity Compensation Plan Information

The following schedule provides information with respect to the compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance as of December 31, 2009:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|--|--|---|
| Equity Compensation Plans approved by security holders | 202,201 | \$7.79 | 257,971 |
| Equity Compensation Plan not approved by security holders (1) | 77,184 | \$10.39 | 0 |
| Total | 279,385 | \$8.51 | 257,971 |

(1) The Company adopted a 2001 Warrant Plan and 2001 Supplemental Warrant Plan (collectively, the “Warrant Plans”) on April 11, 2001 and October 16, 2001, respectively. The Warrant Plans were not approved by security holders. Under the Warrant Plans, each director of the Company, other than Mr. Joseph V. Ciaburri (who served as the Chairman of the board of directors of the Company at the time), and each director of the Bank who is not a director of the Company, as of the initial public offering of the Company in July 2001, received a warrant to purchase one share of the Company common stock for each four shares purchased in the offering by such director or members

of such director's immediate family. Under the 2001 Supplemental Warrant Plan, certain organizers of the Company who are not directors, officers or employees of the Company or the Bank but who made contributions to the Company's enterprise received a warrant to purchase one share of the Company common stock for each five shares purchased in the offering by such person or member of such person's immediate family. The warrants have a term of ten years. The exercise price of the warrants is \$10.39, the price at which the Company's common stock was sold in the initial public offering, as adjusted for subsequent stock dividends. As of December 31, 2009, the warrants are fully exercisable.

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

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

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

Item 14. Principal Accountant Fees and Services.

McGladrey & Pullen, LLP and RSM McGladrey, Inc. provide 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 provided in 2009 and 2008, respectively:

| | 2009 | 2008 |
|--------------------|------------|------------|
| Audit fees | \$ 128,580 | \$ 139,609 |
| Audit Related Fees | None | None |
| Tax fees | 11,900 | 10,900 |
| All Other fees | 1,700 | 2,733 |

Audit fees consist of fees for professional services rendered for the audit of the consolidated financial statements, review of consolidated financial statements included in quarterly reports on Form 10-Q and annual reports on Form 10-K, and services connected with statutory and regulatory filings or engagements. Audit-related fees are principally for consultations on various accounting and reporting matters. Tax service fees consist of fees for tax return preparation for the Company. All other fees consist of consultations related to Sarbanes-Oxley Act Section 404 implementation.

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

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Financial Statements and Schedules:

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

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

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

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

| Exhibit No. | Description |
|-------------|-------------|
|-------------|-------------|

| | |
|-----|--|
| 2.1 | Agreement and Plan of Merger, dated as of February 22, 2010, by and among Naugatuck Valley Financial Corporation, Newco (as defined therein) and the Registrant (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on February 23, 2010) |
|-----|--|

| | |
|------|--|
| 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 Consulting agreement dated March 1, 2007, by and among the Registrant and The Bank of Southern Connecticut and Joseph V. Ciaburri (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-KSB filed on March 28, 2007) #
- 10.14 Employment Agreement dated February 8, 2008, effective January 1, 2008, by and among the Registrant and The Bank of Southern Connecticut and John Howard Howland (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 14, 2008)
- 10.15 Employment Agreement dated May 5, 2008, effective May 5, 2008, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 9, 2008)
- 10.16 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and John H. Howland (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #
- 10.17 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #

10.182005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Form S-8 filed on January 13, 2006) #

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10.19 Form of Common Stock Award Agreement for Restricted Stock Awards granted under the 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Form S-8 filed on January 13, 2006) #

14. Code of Ethics (incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)

21. Subsidiaries (filed herewith)

23. Consent of McGladrey & Pullen, LLP (filed herewith)

31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification by President and Chief Operating 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 President and Chief Operating 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)

Management contract or compensatory plan or arrangement

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/ JOHN HOWARD HOWLAND
Name: John Howard Howland
Title: President and Chief Operating Officer

Date: March 29, 2010

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/ John Howard Howland
John H. Howland
President and Chief Operating Officer
March 29, 2010
Date

/s/ Stephen V. Ciancarelli
Stephen V. Ciancarelli
Senior Vice President and Chief Financial Officer
March 29, 2010
Date

/s/ Elmer F. Laydon
Elmer F. Laydon
Chairman and Director
March 29, 2010
Date

/s/ Alphonse F. Spadaro, Jr.
Alphonse F. Spadaro, Jr.
Vice Chairman and Director
March 29, 2010
Date

/s/ Carl R. Borrelli
Carl R. Borrelli
Director
March 29, 2010
Date

/s/ James S. Brownstein, Esq.
James S. Brownstein, Esq.
Director
March 29, 2010
Date

/s/ Alfred J. Ranieri, Jr.
Alfred J. Ranieri, Jr.
Director
March 29, 2010
Date

/s/ Joshua H. Sandman, Ph.D.
Joshua H. Sandman, Ph.D.
Director

March 29, 2010
Date

/s/ Anthony M. Avellani
Anthony M. Avellani
Vice President, Chief Accounting Officer

March 29, 2010
Date

FINANCIAL STATEMENTS
December 31, 2009 and 2008

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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, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Connecticut Bancorp, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting" and accordingly, we do not express an opinion thereon.

/s/ McGladrey & Pullen, LLP

New Haven, Connecticut
March 29, 2010

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and December 31, 2008

| ASSETS | 2009 | 2008 |
|---|---------------|---------------|
| Cash and due from banks (Note 2) | \$2,541,557 | \$5,267,439 |
| Short-term investments | 15,383,081 | 8,637,450 |
| Cash and cash equivalents | 17,924,638 | 13,904,889 |
| Interest bearing certificates of deposit | 347,331 | 1,642,612 |
| Available for sale securities (at fair value) (Note 3) | 2,219,751 | 5,130,005 |
| Federal Home Loan Bank stock (Note 7) | 66,100 | 66,100 |
| Loans receivable (Note 4) | | |
| Loans receivable | 112,633,762 | 90,424,801 |
| Allowance for loan losses | (2,768,567) | (1,183,369) |
| Loans receivable, net | 109,865,195 | 89,241,432 |
| Accrued interest receivable | 480,497 | 411,729 |
| Premises and equipment (Note 5) | 2,485,797 | 2,754,153 |
| Other assets held for sale (Note 17) | 372,758 | 374,920 |
| Other assets | 1,848,111 | 1,390,722 |
| Total assets | \$135,610,178 | \$114,916,562 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | 2009 | 2008 |
| Deposits (Note 6) | | |
| Noninterest bearing deposits | \$29,834,836 | \$28,214,381 |
| Interest bearing deposits | 87,720,706 | 65,755,643 |
| Total deposits | 117,555,542 | 93,970,024 |
| Repurchase agreements | 294,332 | 214,391 |
| Capital lease obligations (Note 8) | 1,175,263 | 1,180,938 |
| Accrued expenses and other liabilities | 952,505 | 1,010,255 |
| Total liabilities | 119,977,642 | 96,375,608 |
| Commitments and Contingencies (Notes 7, 8, and 13) | | |
| Shareholders' Equity (Notes 10 and 14) | | |
| 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: 2009 2,695,902; 2008 2,688,152 | 26,959 | 26,882 |
| Additional paid-in capital | 22,560,100 | 22,521,164 |
| Accumulated deficit | (6,942,727) | (4,035,302) |
| Accumulated other comprehensive (loss) income - net unrealized (loss) gain on available for sale securities | (11,796) | 28,210 |
| Total shareholders' equity | 15,632,536 | 18,540,954 |
| Total liabilities and shareholders' equity | \$135,610,178 | \$114,916,562 |

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, 2009 and 2008

| | December 31, | |
|---|---------------|-------------|
| | 2009 | 2008 |
| Interest Income: | | |
| Interest and fees on loans | \$6,102,192 | \$6,333,993 |
| Interest on securities | 120,944 | 195,748 |
| Interest on Federal funds sold and short-term and other investments | 202,733 | 470,359 |
| Total interest income | 6,425,869 | 7,000,100 |
| Interest Expense: | | |
| Interest expense on deposits (Note 6) | 1,990,314 | 2,055,427 |
| Interest expense on capital lease obligations | 175,641 | 176,110 |
| Interest expense on repurchase agreements and other borrowings | 6,432 | 8,508 |
| Total interest expense | 2,172,387 | 2,240,045 |
| Net interest income | 4,253,482 | 4,760,055 |
| Provision for loan losses (Note 4) | 1,992,113 | 226,019 |
| Net interest income after provision for loan losses | 2,261,369 | 4,534,036 |
| Noninterest Income: | | |
| Service charges and fees | 506,944 | 576,801 |
| Gain from sale of branch (Note 17) | - | 874,912 |
| Other noninterest income | 122,000 | 214,912 |
| Total noninterest income | 628,944 | 1,666,625 |
| Noninterest Expenses: | | |
| Salaries and benefits | 3,089,483 | 3,688,383 |
| Occupancy and equipment | 677,803 | 684,817 |
| Professional services | 510,431 | 358,122 |
| Data processing and other outside services | 412,684 | 397,464 |
| Advertising and promotional expenses | 14,321 | 73,641 |
| FDIC Insurance | 246,533 | 79,068 |
| Other operating expenses | 846,483 | 785,417 |
| Total noninterest expenses | 5,797,738 | 6,066,912 |
| Net (loss) income | \$(2,907,425) | \$133,749 |
| Basic and diluted (loss) income per share | \$(1.08 |) \$0.05 |

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND
SUBSIDIARIESCONSOLIDATED STATEMENTS OF SHAREHOLDERS'
EQUITY

For the Years Ended December 31, 2009 and 2008

| | Number of Common Shares | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
|--|----------------------------------|-----------------|----------------------------------|------------------------|---|--------------|
| Balance, December 31, 2007 | 2,969,714 | \$29,697 | \$24,263,531 | \$ (4,169,051) | \$ (39,694) | \$20,084,483 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | 133,749 | - | 133,749 |
| Unrealized holding gain on available for sale securities | - | - | - | - | 67,904 | 67,904 |
| Total comprehensive income | | | | | | 201,653 |
| Restricted stock compensation (Note 10) | 6,750 | 68 | 54,943 | - | - | 55,011 |
| Stock option compensation (Note 10) | | | 20,119 | - | - | 20,119 |
| Stock repurchase (Note 10) | (288,312) | (2,883) | (1,817,429) | - | - | (1,820,312) |
| Balance, December 31, 2008 | 2,688,152 | 26,882 | 22,521,164 | (4,035,302) | 28,210 | 18,540,954 |
| Comprehensive loss: | | | | | | |
| Net loss | - | - | - | (2,907,425) | - | (2,907,425) |
| Unrealized holding loss on available for sale securities | - | - | - | - | (40,006) | (40,006) |
| Total comprehensive loss | | | | | | (2,947,431) |
| Restricted stock compensation (Note 10) | 7,750 | 77 | 53,781 | - | - | 53,858 |
| Stock option compensation (Note 10) | - | - | (14,845) | - | - | (14,845) |
| Balance, December 31, 2009 | 2,695,902 | \$26,959 | \$22,560,100 | \$ (6,942,727) | \$ (11,796) | \$15,632,536 |

See Notes to Consolidated Financial
Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

| | 2009 | 2008 |
|--|----------------|--------------|
| Cash Flows From Operations | | |
| Net (loss) income | \$(2,907,425) | \$133,749 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Amortization and accretion of premiums and discounts on investments, net | 26,369 | 3,575 |
| Provision for loan losses | 1,992,113 | 226,019 |
| Gain on sale of branch | - | (874,912) |
| Share based compensation | 39,013 | 75,130 |
| Loans originated for sale, net of principal payments received | - | (58,513) |
| Depreciation and amortization | 290,191 | 300,165 |
| Increase in cash surrender of life insurance | (40,684) | (46,444) |
| Write-down of other assets held for sale | 2,162 | 40,000 |
| Changes in assets and liabilities: | | |
| Increase in deferred loan fees | 53,995 | 25,299 |
| (Increase) decrease in accrued interest receivable | (68,768) | 121,961 |
| Increase in other assets | (416,705) | (96,364) |
| Decrease in accrued expenses and other liabilities | (57,750) | (432,443) |
| Net cash used in operating activities | (1,087,489) | (582,778) |
| Cash Flows From Investing Activities | | |
| Purchases of interest bearing certificates of deposit | - | (1,642,612) |
| Proceeds from maturities of interest bearing certificates of deposit | 1,295,281 | - |
| Purchases of available for sale securities | (9,206,124) | (11,500,000) |
| Principal repayments on available for sale securities | 3 | 3 |
| Proceeds from maturities / calls of available for sale securities | 12,050,000 | 11,700,000 |
| Net payments on sale of branch | - | (495,521) |
| Net increase in loans receivable | (23,198,121) | (10,333,247) |
| Purchases of premises and equipment | (21,835) | (113,971) |
| Proceeds from the sale of other real estate owned | 528,250 | - |
| Acquisiton of mortgage broker | - | (130,094) |
| Net cash used in investing activities | (18,552,546) | (12,515,442) |
| Cash Flows From Financing Activities | | |
| Net increase (decrease) in demand, savings and money market deposits | 5,286,573 | (4,732,082) |
| Net increase in certificates of deposit | 18,298,945 | 543,614 |
| Net increase (decrease) in repurchase agreements | 79,941 | (329,950) |
| Principal repayments on capital lease obligations | (5,675) | (5,105) |
| Stock repurchased | - | (1,820,312) |
| Net cash provided by (used in) financing activities | 23,659,784 | (6,343,835) |
| Net increase (decrease) in cash and cash equivalents | 4,019,749 | (19,442,055) |
| Cash and cash equivalents | | |
| Beginning | 13,904,889 | 33,346,944 |

Ending

\$17,924,638

\$13,904,889
(Continued)

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2009 and 2008

| | 2009 | 2008 |
|--|-------------|-------------|
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for: | | |
| Interest | \$2,123,546 | \$2,247,054 |
| Income taxes | \$750 | \$750 |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | |
| Assets and Liabilities transferred in sale of branch: | | |
| Premises and equipment | \$- | \$644,723 |
| Loans receivable | \$- | \$7,248,744 |
| Deposits | \$- | \$9,263,900 |
| Transfer of loans held for sale to loans receivable | \$- | \$413,119 |
| Transfer of loans receivable to Other Real Estate Owned | \$528,250 | \$- |
| Unrealized holding (losses) gains on available for sale securities arising during the period | \$(40,006) | \$67,904 |

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note 1. Nature of Operations and Summary of Significant Accounting Policies

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 and a mortgage broker 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., operating under the name “Evergreen Financial Services” (“Evergreen”), which is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business and also operates from the Company’s headquarters in New Haven, Connecticut. The Company and its subsidiaries focus on meeting the financial services 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.

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.

On July 1, 2009, the Accounting Standards Codification (“ASC”) became the Financial Accounting Standard Board’s (“FASB’s”) single source of authoritative U.S. accounting and reporting standards applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related literature. The adoption of this ASC topic changed the applicable citations and naming conventions used when referencing generally accepted accounting principles.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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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, Federal funds sold, and short-term investments are recognized as cash equivalents in the statements of cash flows. Federal funds sold generally mature in one day. 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 and Federal funds sold 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, 2009 the balance in interest-bearing certificates of deposit was \$347,000, which consisted of fixed rate certificates of deposit which mature in March 2010 (\$248,000) and June 2013 (\$99,000).

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.

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Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment. This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the “intent and ability” indication in prior guidance by specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security, and it is more-likely-than-not 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 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 recorded in other comprehensive income for the noncredit portion 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 projected based on cash flow projections discounted at the applicable original yield of the security. The adoption of the other-than-temporary impairment accounting guidance had no impact on the Company’s consolidated financial statements.

Prior to the adoption of the recent accounting guidance on April 1, 2009, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. 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.

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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.

In June 2009, the FASB issued guidance which modifies certain guidance relating to transfers and servicing of financial assets. This guidance eliminates the concept of qualifying special purpose entities, provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets and requires additional disclosures. This guidance is effective for the Company as of January 1, 2010, with adoption applied prospectively for transfers that occur on and after the effective date. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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.

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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.

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. 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 collateral value or observable market price 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 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.

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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 obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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

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.

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.

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Goodwill

During 2008, in connection with a business combination, the Company recorded goodwill. Goodwill represents the cost of acquired assets in excess of value ascribed to net tangible assets. Goodwill is not amortized, but is evaluated for impairment annually. Goodwill recorded on the business combination of \$238,440, which had been included in other assets, was written off during 2009 based upon management's annual impairment evaluation performed in December 2009. The write down of goodwill is included in other operating expenses at December 31, 2009.

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.

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's open tax years that remain subject to examination by the relevant taxing authorities are 2006, 2007 and 2008.

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

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.

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 Evergreen 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.

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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.

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.

Prior to 2009, the fair value guidance only pertained to financial assets and liabilities. In January 2009, the provisions of the fair value accounting guidance became effective for nonfinancial assets and liabilities. The Company adopted these provisions in 2009.

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In April 2009, the FASB issued guidance which addressed concerns that fair value measurements emphasized the use of an observable market transaction even when that transaction may not have been orderly or the market for that transaction may not have been active. This guidance relates to the following: (a) determining when the volume and level of activity for the asset or liability has significantly decreased; (b) identifying circumstances in which a transaction is not orderly; and (c) understanding the fair value measurement implications of both (a) and (b). The Company adopted this new guidance in 2009, and the adoption had no impact on the Company's consolidated financial statements.

In February 2010, the FASB issued guidance which amends the existing guidance related to Fair Value Measurements and Disclosures. The amendments will require the following new fair value disclosures:

- Separate disclosure of the significant transfers in and out of Level 1 and Level 2 fair value measurements, and a description of the reasons for the transfers.
- In the rollforward of activity for Level 3 fair value measurements (significant unobservable inputs), purchases, sales, issuances, and settlements should be presented separately (on a gross basis rather than as one net number).

In addition, the amendments clarify existing disclosure requirements, as follows:

- Fair value measurements and disclosures should be presented for each class of assets and liabilities within a line item in the statement of financial position.
- Reporting entities should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures included in the rollforward of activity for Level 3 fair value measurements, for which the effective date is for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

See Note 16 for additional information regarding fair value.

Subsequent events

In May 2009, the FASB issued guidance relating to accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The guidance became effective for the Company during the year ended December 31, 2009.

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Reclassifications

Certain 2008 amounts have been reclassified to conform with the 2009 presentation. Such reclassifications had no effect on 2008 net income.

Note 2. Restrictions on Cash and Cash Equivalents

The Company is required to maintain reserves against its transaction accounts and non-personal time deposits. At December 31, 2009 and 2008, the Company was required to have cash and liquid assets of approximately \$536,000 and \$428,000, respectively, to meet these requirements. In addition, at both December 31, 2009 and 2008, the Company was required to maintain \$125,000 in the Federal Reserve Bank for clearing purposes.

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at December 31, 2009 and 2008 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| December 31, 2009 | | | | |
| U.S. Government Agency Obligations | \$2,126,216 | \$- | \$(12,483) | \$2,113,733 |
| U.S. Government Agency Mortgage Backed Securities | 105,331 | 687 | - | 106,018 |
| | \$2,231,547 | \$687 | \$(12,483) | \$2,219,751 |
| | | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| December 31, 2008 | | | | |
| U.S. Government Agency Obligations | \$4,996,409 | \$28,552 | \$- | \$5,024,961 |
| U.S. Government Agency Mortgage Backed Securities | 105,386 | - | (342) | 105,044 |
| | \$5,101,795 | \$28,552 | \$(342) | \$5,130,005 |

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The following table presents the Company's available for sale securities' gross unrealized losses and fair value, aggregated by the length of time the individual securities have been in a continuous loss position, at December 31, 2009 and 2008:

| | Less Than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|-----------------|-------------------|-----------------|-------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| 2009 | | | | | | |
| U.S. Government Agency obligations | \$2,113,733 | \$12,483 | \$- | \$- | \$2,113,733 | \$12,483 |
| Totals | \$2,113,733 | \$12,483 | \$- | \$- | \$2,113,733 | \$12,483 |
| | | | | | | |
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| 2008 | | | | | | |
| U.S. Government mortgage-backed securities | \$- | \$- | \$105,044 | \$342 | \$105,044 | \$342 |
| Totals | \$- | \$- | \$105,044 | \$342 | \$105,044 | \$342 |

At both December 31, 2009 and 2008, the Company had 2 available for sale securities in an unrealized loss position.

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 those investments to be other-than-temporarily impaired at December 31, 2009.

The amortized cost and fair value of available for sale debt securities at December 31, 2009 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be called or repaid without any penalties.

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Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary:

| | Amortized Cost | Fair Value |
|----------------------------|-------------------|---------------|
| Maturity: | | |
| Over 10 years | \$ 2,126,216 | \$ 2,113,733 |
| Mortgage-backed securities | 105,331 | 106,018 |
| | \$ 2,231,547 | \$ 2,219,751 |

At December 31, 2009 and 2008, available for sale securities with a carrying value of \$2,219,751 and \$3,117,504, respectively, were pledged as collateral under repurchase agreements with Bank customers and to secure public deposits.

There were no sales of available for sale securities in 2009 and 2008.

Note 4.

Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at December 31, 2009 and December 31, 2008 is as follows:

| | 2009 | 2008 |
|---|----------------|---------------|
| Commercial loans secured by real estate | \$ 63,836,712 | \$ 45,462,172 |
| Commercial loans | 43,893,191 | 37,625,274 |
| Construction and land loans | 4,607,905 | 6,500,111 |
| Consumer home equity loans | - | 383,682 |
| Consumer installment loans | 448,543 | 552,156 |
| Total loans | 112,786,351 | 90,523,395 |
| Net deferred loan fees | (152,589) | (98,594) |
| Allowance for loan losses | (2,768,567) | (1,183,369) |
| Loans receivable, net | \$ 109,865,195 | \$ 89,241,432 |

The Company services certain loans that it has sold without recourse to third parties. The aggregate of loans serviced for others approximated \$9,448,000 and \$4,574,000 as of December 31, 2009 and 2008, respectively.

The balance of capitalized servicing rights, included in other assets at December 31, 2009 and 2008, was \$17,248 and \$26,302, respectively. No impairment charges related to servicing rights were recognized during the years ended December 31, 2009 and 2008.

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The changes in the allowance for loan losses for the years ended December 31, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|-------------|-------------|
| Balance at beginning of year | \$1,183,369 | \$1,256,965 |
| Provision for loan losses | 1,992,113 | 226,019 |
| Recoveries of loans previously charged-off: | | |
| Commercial | 10,000 | 37,109 |
| Consumer | 563 | - |
| Total recoveries | 10,563 | 37,109 |
| Loans charged-off: | | |
| Commercial loans secured by real estate | (413,839) | (90,215) |
| Commercial | (2,300) | - |
| Consumer | (1,339) | (246,509) |
| Total charge-offs | (417,478) | (336,724) |
| Balance at end of year | \$2,768,567 | \$1,183,369 |

At December 31, 2009 and 2008, the unpaid principal balances of loans placed on nonaccrual status were \$5,363,061 and \$881,948, respectively. In 2009 and 2008, there were no loans considered "troubled debt restructurings". Accruing loans contractually past due 90 days or more were \$483,897 and \$384,442 at December 31, 2009 and 2008, respectively.

The following information relates to impaired loans as of and for the years ended December 31, 2009 and 2008:

| | 2009 | 2008 |
|---|-------------|-------------|
| Impaired loans for which there is a specific allowance | \$4,634,634 | \$538,727 |
| Impaired loans for which there is no specific allowance | \$2,469,484 | \$1,957,926 |
| Allowance for loan losses related to impaired loans | \$1,489,255 | \$162,571 |
| Average recorded investment in impaired loans | \$5,775,813 | \$1,978,934 |

Interest income collected and recognized on impaired loans was \$149,040 and \$143,278 in 2009 and 2008, respectively. If nonaccrual loans had been current throughout their terms, additional interest income of approximately \$410,907 and \$111,212 would have been recognized in 2009 and 2008, respectively. The Company has no commitments to lend additional funds to borrowers whose loans are impaired.

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The Company's lending activities were 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 collectibility 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, 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.

Note 5. Premises and Equipment

At December 31, 2009 and 2008, premises and equipment consisted of the following:

| | 2009 | 2008 |
|--|-------------|-------------|
| Land | \$255,766 | \$255,766 |
| Premises under capital lease | 1,192,036 | 1,192,036 |
| Buildings and improvements | 681,142 | 678,492 |
| Leasehold improvements | 1,027,390 | 1,027,390 |
| Furniture and fixtures | 527,969 | 527,969 |
| Equipment | 932,371 | 913,186 |
| Software | 91,134 | 91,134 |
| | 4,707,808 | 4,685,973 |
| Less accumulated depreciation and amortization | (2,222,011) | (1,931,820) |
| | \$2,485,797 | \$2,754,153 |

For the years ended December 31, 2009 and 2008, depreciation and amortization expense related to premises and equipment totaled \$290,191 and \$300,165, respectively.

Premises under capital lease of \$1,192,036, and related accumulated amortization of \$463,301 and \$403,699, as of December 31, 2009 and 2008, respectively, are included in premises and equipment.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6. Deposits

At December 31, 2009 and 2008, deposits consisted of the following:

| | 2009 | 2008 |
|--|---------------|--------------|
| Noninterest bearing | \$29,834,836 | \$28,214,381 |
| Interest bearing: | | |
| Checking | 8,604,111 | 5,685,490 |
| Money Market | 26,434,495 | 26,578,024 |
| Savings | 2,383,404 | 1,492,378 |
| Time certificates, less than \$100,000 (1) | 27,785,391 | 18,066,157 |
| Time certificates, \$100,000 or more (2) | 22,513,305 | 13,933,594 |
| Total interest bearing | 87,720,706 | 65,755,643 |
| Total deposits | \$117,555,542 | \$93,970,024 |

(1) Included in time certificates of deposit, less than \$100,000, at December 31, 2009 and December 31, 2008 were brokered deposits totaling \$9,015,482 and \$5,731,302, respectively.

(2) Included in time certificates of deposit, \$100,000 or more, at December 31, 2009 and December 31, 2008 were brokered deposits totaling \$4,991,718 and \$2,740,969, respectively.

Brokered deposits at December 31, 2009 and December 31, 2008 represented:

| | 2009 | 2008 |
|---|--------------|-------------|
| Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage | \$3,369,729 | \$2,201,901 |
| Time certificates of deposit purchased by the Bank through CDARS | 3,544,135 | 1,999,235 |
| Other brokered time certificates of deposit | 7,093,336 | 4,271,135 |
| Total brokered deposits | \$14,007,200 | \$8,472,271 |

Contractual maturities of time certificates of deposit as of December 31, 2009 are summarized below:

| | | |
|-------------|----|------------|
| Due within: | | |
| 1 year | \$ | 33,545,270 |
| 1-2 years | | 7,442,979 |
| 2-3 years | | 7,685,096 |
| 3-4 years | | 17,101 |
| 4-5 years | | 1,608,250 |
| | \$ | 50,298,696 |

Interest expense on certificates of deposit in denominations of \$100,000 or more was \$579,967 and

\$499,111 for the years ended December 31, 2009 and 2008, respectively.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2009 and 2008, 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, 2009 and 2008.

The Bank is required to maintain an investment in capital stock of the FHLB, as collateral, in an amount equal to a percentage of its outstanding mortgage loans and contracts secured by residential properties, including mortgage-backed securities. No ready market exists for FHLB stock and it has no quoted market value. For disclosure purposes, such stock is assumed to have a market value which is equal to cost since the Bank can redeem the stock with FHLB at cost.

Employment agreements

On December 28, 2009, the Company entered into an employment agreement with its President and Chief Operating Officer effective January 1, 2010. Under the agreement, he will serve as the President and Chief Operating Officer of the Company through December 31, 2010, unless the Company terminates the agreement earlier under the terms of the agreement. The President and Chief Operating Officer will receive a base salary over the term of the agreement and is eligible for salary increases and other merit bonuses at the discretion of the Company’s board of directors.

The President and Chief Operating Officer is provided with health and life insurance, is reimbursed for certain business expenses, and is eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiary).

If the President and Chief Operating Officer’s employment is terminated as a result of a business combination (as defined), the President and Chief Operating Officer will, subject to certain conditions, be entitled to receive a lump sum payment in an amount equal to two times the total of the President and Chief Operating Officer’s then current base annual salary plus the amount of any bonus for the prior calendar year in the event that the employee is not offered a position with the remaining entity at the President and Chief Operating Officer’s then current base annual salary. The President and Chief Operating Officer is also entitled to a continuation of benefits under the President and Chief Operating Officer 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 December 28, 2009, the Company entered into an employment agreement with its Senior Vice President and Chief Financial Officer effective January 1, 2010. Under the agreement, he will serve as the Senior Vice President and Chief Financial Officer of the Company through December 31, 2010, unless the Company terminates the agreement earlier under the terms of the agreement. The Senior Vice President and Chief Financial Officer will receive a base salary that increases over the term of the agreement and is eligible for salary increases and other merit bonuses at the discretion of the Company’s board of directors.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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The Senior Vice President and Chief Financial Officer is provided with health and life insurance, is reimbursed for certain business expenses, and is eligible to participate in the profit sharing or 401(k) plan of the Company (or its subsidiary).

If the Senior Vice President and Chief Financial Officer employment is terminated as a result of a business combination (as defined), the Senior Vice President and Chief Financial Officer will, subject to certain conditions, be entitled to receive a lump sum payment in an amount equal to two times the total of the Senior Vice President and Chief Financial Officer's then current base annual salary plus the amount of any bonus for the prior calendar year in the event that the employee is not offered a position with the remaining entity at his then current base annual salary. The Senior Vice President and Chief Financial Officer is also entitled to a continuation of benefits under the terms of his 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.

Litigation

At December 31, 2009, 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 we hold security interest, 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.

Note 8. Lease and Subleases

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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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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At December 31, 2009, future minimum lease payments to be made under these leases by year and in the aggregate, are as follows:

| Year | Capital Leases | Operating Leases |
|---|-------------------|---------------------|
| 2010 | \$ 187,609 | \$ 50,382 |
| 2011 | 206,741 | 53,214 |
| 2012 | 214,357 | 54,635 |
| 2013 | 219,204 | 47,408 |
| 2014 | 219,204 | 46,751 |
| 2015 and thereafter | 1,592,765 | 553,984 |
| | 2,639,880 | \$ 806,374 |
| Less amount representing interest | | (1,464,617) |
| Present value of future minimum lease payments - capital lease obligation | \$ 1,175,263 | |

Total rent expense charged to operations under the operating leases approximated \$73,500 and \$82,700 for the years ended December 31, 2009 and 2008, respectively. Rental income under subleases, and a lease of space in premises owned, approximated \$4,000 and \$9,900 for the years ended December 31, 2009 and 2008, respectively. There were no subleases in effect at December 31, 2009.

Note 9. Income Taxes

A reconciliation of the anticipated income tax (benefit) expense (computed by applying the statutory Federal income tax rate of 34% to the (loss) income before income taxes) to the amount reported in the statement of operations for the years ended December 31, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|--|---------------|-----------|
| (Benefit) expense for income taxes at statutory Federal rate | \$ (988,525) | \$ 45,475 |
| State taxes, net of Federal benefit | (143,423) | 7,115 |
| Increase (decrease) in valuation allowance | 1,147,731 | (36,419) |
| Other | (15,783) | (16,171) |
| | \$- | \$- |

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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At December 31, 2009 and 2008, the components of gross deferred tax assets and liabilities are as follows:

| | 2009 | 2008 |
|--|-------------|-------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$1,078,357 | \$460,922 |
| Net operating loss carryforwards | 1,173,117 | 763,460 |
| Unrealized loss on available for sale securities | 4,595 | - |
| Other | 607,135 | 455,350 |
| Gross deferred tax assets | 2,863,204 | 1,679,732 |
| Less valuation allowance | (2,762,810) | (1,599,496) |
| Deferred tax assets - net of valuation allowance | 100,394 | 80,236 |
| Deferred tax liabilities: | | |
| Tax bad debt reserve | 100,394 | 63,319 |
| Unrealized gain on available for sale securities | - | 10,987 |
| Depreciation | - | 5,930 |
| Gross deferred tax liabilities | 100,394 | 80,236 |
| Net deferred taxes | \$- | \$- |

As of December 31, 2009, the Company had tax net operating loss carryforwards of approximately \$3,015,000 and \$2,103,000 available to reduce future Federal and state taxable income, respectively, which expire in 2021 through 2029.

The net changes in the valuation allowance for 2009 and 2008 were a decrease of \$1,163,314 in 2009, and an increase of \$62,868 in 2008. 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 holding 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, 2009 and 2008, 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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Note 10. Shareholders' Equity

Stock repurchases

In November of 2007, the Company's Board of Directors approved the adoption of a Stock Repurchase Program of up to 147,186 shares of its common stock representing 5% of its outstanding common stock. The Company completed this stock repurchase program in July 2008.

On July 15, 2008, the Company's Board of Directors approved the adoption of an additional Stock Repurchase Program of up to 141,126 shares representing 5% of the outstanding shares of the Company's common stock. The Company completed this stock repurchase program in December 2008.

For the year ended December 31, 2008, the Company repurchased 288,312 of its shares for an aggregate purchase price of \$1,820,312.

(Loss) Income per share

The Company is required to present basic (loss) income per share and diluted (loss) income per share in its statements of operations. Basic and diluted (loss) income per share are computed by dividing net (loss) income 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.

For the Year Ended December 31,

| | Net Loss | 2009 Weighted Average Shares | Amount Per Share | Net Income | 2008 Weighted Average Shares | Amount Per Share |
|---|---------------|---------------------------------------|---------------------|---------------|---------------------------------------|---------------------|
| Basic (Loss) Income Per Share | | | | | | |
| (Loss) Income available to common shareholders | \$(2,907,425) | 2,689,291 | \$(1.08) | \$133,749 | 2,849,332 | \$0.05 |
| Effect of Dilutive Securities Warrants/Stock Options outstanding/Restricted Stock | - | - | - | - | 8,636 | - |
| Diluted (Loss) Income Per Share | | | | | | |
| (Loss) Income available to common shareholders plus assumed conversions | \$(2,907,425) | 2,689,291 | \$(1.08) | \$133,749 | 2,857,968 | \$0.05 |

For the year ended December 31, 2009, no common stock equivalents have been included in the computation of net loss per share because the inclusion of such 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 460,012 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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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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.

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.

A summary of the status of the stock options at December 31, 2009 and changes during the year then ended, is as follows:

| | | | 2009 | |
|----------------------------------|---------|-----------|-------------|-----------|
| | Number | Weighted- | Weighted- | Aggregate |
| | of | Average | Average | Intrinsic |
| | Shares | Exercise | Remaining | Value |
| | | Price | Contractual | |
| | | | Term | |
| Outstanding at beginning of year | 202,763 | \$7.79 | 5.6 | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Exchanged | - | - | | |
| Forfeited | (562) | 7.11 | | |
| Outstanding at end of year | 202,201 | 7.79 | 4.6 | \$- |
| Vested at end of year | 202,201 | \$7.79 | 4.5 | \$- |
| Exercisable at end of year | 202,201 | \$7.79 | 4.5 | \$- |

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

A summary of the status of the Company's nonvested restricted stock at December 31, 2009 and changes during the year then ended, is as follows:

| | 2009 | |
|--|------------------------|--|
| | Number of Shares | Weighted- Average Grant-Date Fair Value |
| Nonvested restricted stock at beginning of the year | 9,750 | \$7.35 |
| Granted | - | - |
| Vested and Issued | (7,750) | 7.38 |
| Forfeited | - | - |
| Nonvested restricted stock at end of the year | 2,000 | 7.05 |

As of December 31, 2009, there was no unrecognized compensation cost relating to the option plans and \$9,400 of total unrecognized compensation related to restricted stock. That cost is expected to be recognized over a weighted-average period of 1.3 years. During the year ended December 31, 2009, a credit of \$14,845 for options and expense of \$53,858 for restricted stock, was recognized as net compensation cost. The credit for options resulted from the adjustment to compensation from the consideration of actual versus expected forfeitures in the final year of vesting. During the year ended December 31, 2008 \$20,119 for options and \$55,011 for restricted stock was recognized as compensation cost. No tax benefit related to the compensation cost was recognized due to the uncertainty of realizing the tax benefit in the future.

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 are 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.

Warrants under the Warrant Plans have 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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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A summary of the status of the warrants at December 31, 2009 and changes during the year then ended, is as follows:

| | Number of Shares | Weighted- Average Exercise Price | 2009 Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---------------------------------------|------------------------|---|--|---------------------------------|
| Outstanding at beginning of year | 77,184 | \$ 10.39 | | |
| Granted | - | | | |
| Exercised | - | | | |
| Terminated | - | | | |
| Outstanding at end of year | 77,184 | \$ 10.39 | 1.7 | \$- |
| Exercisable and vested at end of year | 77,184 | \$ 10.39 | 1.7 | \$- |

Note 11. 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 \$30,000 in discretionary contributions made by the Bank during 2008, and no contributions made in 2009. The \$30,000 in discretionary contributions made by the Bank in 2008 had been accrued for in 2007. The Company has not accrued a discretionary contribution for 2009.

Note 12. Segment Reporting

The Company has three reporting segments for purposes of reporting business line results, Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as the results of Evergreen and the Holding Company segment is defined as the results of Southern Connecticut Bancorp on an unconsolidated or standalone basis. The following represents the operating results and total assets for the segments of the Company as of and for the years ended December 31, 2009 and 2008. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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

| | Year Ended December 31, 2009 | | | | Consolidated Total |
|---|------------------------------|--------------------|-----------------|---------------------|--------------------|
| | Community Banking | Mortgage Brokerage | Holding Company | Elimination Entries | |
| Net interest income | \$4,174,743 | \$69,217 | \$9,522 | \$- | \$4,253,482 |
| Provision for loan losses | 1,992,113 | - | - | - | 1,992,113 |
| Net interest income after provision for loan losses | 2,182,630 | 69,217 | 9,522 | - | 2,261,369 |
| Noninterest income | 624,944 | - | 4,000 | - | 628,944 |
| Noninterest expense | 5,178,002 | 481,243 | 138,493 | - | 5,797,738 |
| Net loss | (2,370,428) | (412,026) | (124,971) | - | (2,907,425) |
| Total assets as of December 31, 2009 | 134,437,050 | 106,216 | 15,653,237 | (14,586,325) | 135,610,178 |
| | Year Ended December 31, 2008 | | | | Consolidated Total |
| | Community Banking | Mortgage Brokerage | Holding Company | Elimination Entries | |
| Net interest income | \$4,700,684 | \$3,000 | \$56,371 | \$- | \$4,760,055 |
| Provision for loan losses | 226,019 | - | - | - | 226,019 |
| Net interest income after credit for loan losses | 4,474,665 | 3,000 | 56,371 | - | 4,534,036 |
| Noninterest income | 1,663,651 | - | 2,974 | - | 1,666,625 |
| Noninterest expense | 5,777,307 | 100,935 | 188,670 | - | 6,066,912 |
| Net income (loss) | 361,009 | (97,935) | (129,325) | - | 133,749 |
| Goodwill | - | 238,440 | - | - | 238,440 |
| Total assets as of December 31, 2008 | 113,161,319 | 336,959 | 18,555,881 | (17,137,597) | 114,916,562 |

Note 13. Financial Instruments with Off-Balance-Sheet Risk

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

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, 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 as deemed necessary.

Financial instruments whose contract amounts represent credit risk are as follows at December 31, 2009 and December 31, 2008:

| | December 31, 2009 | December 31, 2008 |
|-------------------------------------|----------------------|----------------------|
| Commitments to extend credit | | |
| Future loan commitments | \$ 5,054,000 | \$ 16,398,484 |
| Unused lines of credit | 28,178,604 | 23,157,442 |
| Financial standby letters of credit | 3,358,597 | 3,570,308 |
| Undisbursed construction loans | 437,000 | 237,000 |
| | \$ 37,028,201 | \$ 43,363,234 |

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, 2009 and 2008 was not significant.

Note 14. Regulatory Matters

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

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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, 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation 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.

Evergreen offers mortgage brokerage services and is licensed by the State of Connecticut Department of Banking to operate a mortgage brokerage business. Minimum net worth requirements for mortgage brokers at December 31, 2009 were \$50,000.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company's actual capital amounts and ratios at December 31, 2009 and December 31, 2008 were (dollars in thousands):

| December 31, 2009 | 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 | \$ 17,290 | 13.25% | \$ 10,436 | 8.00% | N/A | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 15,645 | 11.99% | 5,218 | 4.00% | N/A | N/A |
| Tier 1 (Leverage) Capital to Average Assets | 15,645 | 11.24% | 5,569 | 4.00% | N/A | N/A |

| December 31, 2008 | 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 | \$ 19,696 | 18.46% | \$ 8,537 | 8.00% | N/A | N/A |
| Tier 1 Capital to Risk-Weighted Assets | 18,275 | 17.13% | 4,268 | 4.00% | N/A | N/A |
| Tier 1 (Leverage) Capital to Average Assets | 18,275 | 15.64% | 4,673 | 4.00% | N/A | N/A |

The Bank's actual capital amounts and ratios at December 31, 2009 and December 31, 2008 were (dollars in thousands):

| December 31, 2009 | 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 | \$ 16,014 | 12.39% | \$ 10,340 | 8.00% | \$12,924 | 10.00% |
| Tier 1 Capital to Risk-Weighted Assets | 14,384 | 11.13% | 5,170 | 4.00% | 7,755 | 6.00% |
| Tier 1 (Leverage) Capital to Average Assets | 14,384 | 10.44% | 5,512 | 4.00% | 6,889 | 5.00% |

| December 31, 2008 | 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 | \$ 17,938 | 17.09% | \$ 8,396 | 8.00% | \$10,495 | 10.00% |

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| | | | | | | |
|---|--------|--------|-------|-------|-------|-------|
| Tier 1 Capital to Risk-Weighted Assets | 16,755 | 15.96% | 4,198 | 4.00% | 6,297 | 6.00% |
| Tier 1 (Leverage) Capital to Average Assets | 16,755 | 14.55% | 4,607 | 4.00% | 5,759 | 5.00% |

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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. On October 23, 2008, the Bank declared a dividend of \$403,000 payable to the Company.

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, 2009 and 2008, no loans or advances were made to the Company by the Bank.

Note 15. Related Party Transactions

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.

Changes in loans outstanding to such related parties during 2009 and 2008 are as follows:

| | 2009 | 2008 |
|-------------------------------|--------------|-------------|
| Balance, at beginning of year | \$ 798,574 | \$ 670,057 |
| Additional loans | 869,972 | 1,461,828 |
| Repayments | (662,083) | (1,129,369) |
| Other | - | (203,942) |
| Balance, end of year | \$ 1,006,463 | \$ 798,574 |

Other related party loan transactions represent loans to related parties who either became related parties, or ceased being related parties, during the year.

Related party deposits aggregated approximately \$4,206,600 and \$4,336,900 as of December 31, 2009 and 2008, respectively.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Included in professional services for the year ended December 31, 2009 and 2008 was approximately \$102,000 and \$102,000, respectively, in consulting fees paid to the former Chairman, as well as \$109,200 and \$130,700, respectively, in legal fees incurred for services provided by law firms, principals of which were directors of the Company. During 2009 and 2008, the Company paid approximately \$1,200 and \$5,900, respectively, for capital expenditures and maintenance to certain companies, principals of which are directors of the Company.

Rental income and expense reimbursements of approximately \$7,800 were received in 2008 from a tenant, the principal of which is related to the Company's Chairman. No such reimbursements were received during 2009.

Note 16. Fair Value and Interest Rate Risk

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, Federal funds sold, short-term investments, interest bearing certificates of deposit, accrued interest receivable, Federal Home Loan Bank stock, 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.

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, 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 are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency bonds and mortgage-backed securities. Level 3 securities are securities for which significant unobservable inputs are utilized. Available-for-sale-securities are recorded at fair value on a recurring basis.

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 portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated year 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 portfolios. 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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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.

Other assets held for sale and other real estate owned

Other assets held for sale represents real estate that is not intended for use in operations and real estate acquired through foreclosure, and are recorded at fair value on a nonrecurring basis. Fair value is based upon independent market prices, 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 asset 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 asset as Level 3.

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.

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 on such deposits. The Company does not record deposits at fair value on a recurring basis.

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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

The following table details the financial asset amounts that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2009 and 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

| | Balance | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|-------------------------------|--|--|--|
| Available for sale securities | as of December 31, 2009 | \$2,219,751 | \$- | \$2,219,751 |
| | | | | \$ - |

| | Balance | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|-------------------------------|--|--|--|
| Available for sale securities | as of December 31, 2008 | \$5,130,005 | \$- | \$5,130,005 |
| | | | | \$ - |

The following table details the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2009 and 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

| | Balance | 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 | as of December 31, 2009 | | | |
| Impaired loans (1) | \$3,097,995 | \$- | \$- | \$ 3,097,995 |

| | Balance | Quoted Prices in Active Markets for Identical Assets | Significant Observable Inputs | Significant Unobservable Inputs |
|--|---------|---|-------------------------------------|---------------------------------------|
| | as of | | | |

| | December | | | |
|--------------------|-------------|-----------|-----------|--------------|
| | 31, 2008 | (Level 1) | (Level 2) | (Level 3) |
| Impaired loans (1) | \$2,248,920 | \$- | \$- | \$ 2,248,920 |

(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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

The following table details the nonfinancial assets carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

| | Balance | 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 | as of December 31, 2009 \$372,758 | \$- | \$372,758 | \$ - |

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

The estimated fair value amounts for 2009 and 2008 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 entire Company 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at December 31, 2009 and 2008, in thousands:

| | December 31, 2009 | | December 31, 2008 | |
|--|-----------------------------|-------------|-----------------------------|-------------|
| | Recorded Book Balance | Fair Value | Recorded Book Balance | Fair Value |
| Financial Assets: | | | | |
| Cash and due from banks | \$2,541,557 | \$2,541,557 | \$5,267,439 | \$5,267,439 |
| Short-term investments | 15,383,081 | 15,383,081 | 8,637,450 | 8,637,450 |
| Interest bearing certificates of deposit | 347,331 | 347,331 | 1,642,612 | 1,642,612 |
| Available for sale securities | 2,219,751 | 2,219,751 | 5,130,005 | 5,130,005 |
| Federal Home Loan Bank stock | 66,100 | 66,100 | 66,100 | 66,100 |
| Loans receivable, net | 109,865,195 | 111,191,000 | 89,241,432 | 91,679,000 |
| Accrued interest receivable | 480,497 | 480,497 | 411,729 | 411,729 |
| Servicing rights | 17,248 | 32,261 | 26,302 | 32,077 |
| Interest only strips | 22,176 | 26,709 | 34,643 | 37,887 |
| Financial Liabilities: | | | | |
| Noninterest-bearing deposits | 29,834,836 | 29,834,836 | 28,214,381 | 28,214,381 |
| Interest bearing checking accounts | 8,604,111 | 8,604,111 | 5,685,490 | 5,685,490 |
| Money market deposits | 26,434,495 | 26,434,495 | 26,578,024 | 26,578,024 |
| Savings deposits | 2,383,404 | 2,383,404 | 1,492,378 | 1,492,378 |
| Time certificates of deposits | 50,298,696 | 51,377,000 | 31,999,751 | 32,371,000 |
| Repurchase agreements | 294,332 | 294,332 | 214,391 | 214,391 |
| Accrued interest payable | 201,789 | 201,789 | 152,052 | 152,052 |

Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate are insignificant at December 31, 2009 and 2008.

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 believed 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, members 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 shares and by investing in securities with terms that mitigate the Company's overall interest rate risk.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

Note 17. Assets and Liabilities Held for Sale

Branch Disposal

During 2007, the Company entered into an agreement for the sale of the majority of the assets and liabilities of its branch located in New London, Connecticut to another bank, and the sale was completed as of the close of business February 29, 2008. The Company realized a gain of \$874,912 in 2008 from the disposition of these assets and liabilities.

Property Held for Sale

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, and the property is classified as other assets held for sale as of December 31, 2009 and 2008.

In August 2009, 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 \$24,000 annually until August 31, 2014. 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. The Company received \$4,000 in rent on this property in 2009.

Note 18. Subsequent Events

On February 22, 2010, the Company entered into an Agreement and Plan of Merger with Naugatuck Valley Financial Corporation ("NVSL") and Newco, a corporation to be formed by NVSL to be the holding company for Naugatuck Valley Savings and Loan ("NVSL Bank"), pursuant to which the Company will merge with and into NVSL, with NVSL being the surviving corporation.

In connection with the merger, Naugatuck Valley Mutual Holding Company ("NVSL MHC"), which is presently the majority shareholder of NVSL, will reorganize and convert from a mutual holding company form of organization to a stock holding company form of organization. The stock holding company will be Newco, which will (i) offer and sell shares of its common stock as prescribed in a Plan of Conversion adopted concurrently with the execution of the Agreement and Plan of Merger and (ii) exchange shares of its common stock for shares of NVSL common stock held by persons other than NVSL MHC. Additionally, in connection with the merger, the Bank will be merged with and into NVSL Bank.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Subject to the terms and conditions of the Agreement and Plan of Merger, each outstanding share of common stock of the Company will be converted into the right to receive, at the election of the holder of such share of common stock of the Company, (i) cash consideration of \$7.25, (ii) stock consideration equal to the number of shares of Newco common stock in an exchange ratio equal to the result obtained by dividing \$7.25 by the initial offering price of Newco common stock in the conversion stock offering, or (iii) a combination of the cash consideration and the stock consideration, subject to customary proration and allocation procedures, if necessary, to assure that 50% of the outstanding shares of common stock of the Company are exchanged for Newco common stock and 50% of the outstanding shares of common stock of the Company are exchanged for cash.

The Agreement and Plan of Merger contains representations, warranties and covenants of the Company and NVSL. Among other customary covenants, the Company has agreed that it will conduct its business in the ordinary course and consistent with prudent banking practices during the period between the execution of the Agreement and Plan of Merger and the consummation of the merger and will refrain from taking certain actions during such period unless it obtains the prior written consent of NVSL. The Board of Directors of the Company has agreed, subject to certain conditions, to submit the merger for approval by the shareholders of the Company and to recommend the approval of the merger. All of the Company's directors have entered into voting agreements whereby they have agreed to vote their shares of common stock of the Company owned on the record date for the shareholder meeting to approve the merger. The Company has agreed not to solicit, initiate or encourage or, subject to certain exceptions, participate in any discussions or negotiations with or furnish any information to, any person, entity or group (other than NVSL) concerning the Company or the Bank entering into an alternative business combination.

Newco and NVSL Bank will select and invite, in their sole discretion and subject to their corporate governance policies and procedures, one director of the Company to serve on the Board of Directors of Newco and NVSL. NVSL Bank will also establish an advisory board for the Company's market area and invite each director of the Company other than the director selected and invited to join the Boards of Directors of Newco and NVSL Bank to serve on such advisory board. NVSL Bank will maintain the advisory board for a minimum period of one year following the consummation of the merger.

The merger is expected to be completed during the third quarter of 2010 and is subject to the completion of the conversion, approval of the shareholders of the Company and NVSL, the receipt of regulatory approvals and other customary closing conditions. The Agreement and Plan of Merger further provides that, upon termination of the Agreement and Plan of Merger under specified circumstances, the Company may be required to pay NVSL a termination fee of up to \$900,000 and in other specified circumstances, NVSL may be required to pay the Bank a termination fee of up to \$900,000.