

SOUTHERN CONNECTICUT BANCORP INC
Form 10-K
March 28, 2011

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, 2010.

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

For the transition period from _____ to _____

Commission file number 1-32219

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

Connecticut
(State or other jurisdiction of incorporation or organization)

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

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

06510
(Zip Code)

Registrant's telephone number, including area code (203) 782-1100

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

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

NYSE Amex
(Name of each exchange on which registered)

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

None

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

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

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

Yes ☒ No ☐

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, 2010, the last business day of the registrant's most recently completed second fiscal quarter: \$15,670,056.

The number of shares outstanding of each of the registrant's classes of common equity: Common Stock, par value \$.01 per share, outstanding as of March 28, 2011: 2,696,902

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Item 1. Business.

Background

Southern Connecticut Bancorp, Inc. (the “Company”) is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company’s strategic objective is to serve as a bank holding company for a community-based commercial bank 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. 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.

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

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 Newco, with Newco being the surviving corporation. The Agreement and Plan of Merger was subsequently amended on September 17, 2010 to amend the consideration to be paid in the merger, extend the deadline for closing the merger and amend the conditions under which NVSL would be obligated to pay a termination fee to the Company.

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

The Greater New Haven Market

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

Bank Growth and Operating Strategy

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

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

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

Investment Services

The Company does not engage in investment services.

Investment Securities

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

Asset and Liability Management

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

Regulatory Compliance

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

Competition

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

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

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

Employees

As of December 31, 2010, the Bank had 33 full-time employees. Relationships with all employees are believed to be excellent.

REGULATION AND SUPERVISION

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

Laws and Regulations to which The Company is Subject

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

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

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, 2010, the Company had a Tier I Risk-Based Capital Ratio and a Total Risk-Based Capital Ratio equal to 10.65% and 11.91%, respectively, and a Leverage Ratio equal to 9.00%. For further discussion on capital requirements, please review the subsection titled “Capital Requirements” under the section titled “Significant Laws and Regulations to which the Bank is Subject.”

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

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

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

Dodd-Frank Wall Street Reform And Consumer Protection Act Of 2010. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC.

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

The Dodd-Frank Act also changes the base for FDIC deposit insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per account, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets.

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

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

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

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

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

Significant Laws and Regulations to which the Bank is Subject

General. The Bank is organized under the Banking Law of the State of Connecticut. Its operations are subject to federal and state laws applicable to commercial banks and to extensive regulation, supervision and examination by the Connecticut Banking Commissioner, as well as by the FDIC, as its primary federal regulator and insurer of deposits. While the Bank is not a member of the Federal Reserve System, it is subject to certain regulations of the Federal Reserve Board. In addition to banking laws, regulations and regulatory agencies, the Bank is subject to various other laws, regulations and regulatory agencies, all of which directly or indirectly affect the Bank's operations. The Connecticut Banking Commissioner and the FDIC examine the affairs of the Bank for the purpose of determining its financial condition and compliance with laws and regulations. The Connecticut Banking Commissioner and the FDIC have the authority to limit the Bank's payment of cash dividends based on such factors as the maintenance of adequate capital, which could reduce the amount of dividends otherwise payable.

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

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

Capital Requirements. The 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 Company and the Bank's capital ratios are as follows:

	Company						Bank					
	2010		2009		Capital Adequacy Target Ratio		2010		2009		Capital Adequacy Target Ratio	
Total Capital to Risk												
Weighted Assets	11.91	%	13.25	%	8.00	%	11.20	%	12.39	%	8.00	%
Tier 1 Capital to Risk												
Weighted Assets	10.65	%	11.99	%	4.00	%	9.94	%	11.13	%	4.00	%
Tier 1 (Leverage) Capital												
Ratio to Average Assets	9.00	%	11.24	%	4.00	%	8.39	%	10.44	%	4.00	%

As of December 31, 2010, the Bank and the Company were deemed to be well-capitalized institutions.

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

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

In addition to restrictions and sanctions imposed under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease and desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

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

On February 7, 2011, the FDIC adopted final rules to implement changes required by the Dodd-Frank Act with respect to the FDIC assessment rules. In particular, the definition of an institution’s deposit insurance assessment base is being changed from total deposits to total assets less tangible equity. In addition, the FDIC is revising the deposit insurance assessment rates down. The changes will become effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for Risk Category IV banks. Risk Category II and III banks will have an initial base assessment rate of 14 or 23 basis points, respectively. The Company expects that the new rates and assessment base will further reduce our current FDIC insurance assessments. However, if the risk category of the Bank changes adversely, our FDIC insurance premiums could increase.

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

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

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

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

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a depository institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The FDIC is required to provide a written evaluation and make public disclosure of an institution's CRA performance utilizing a four-tiered descriptive rating system. Institutions are evaluated and rated by the FDIC as "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Non Compliance." Failure to receive at least a "Satisfactory" rating may inhibit an institution from undertaking certain activities, including acquisitions of other financial institutions, which require regulatory approval based, in part, on CRA compliance considerations. In its most recent CRA evaluation, dated December 31, 2009, the Bank was rated as "Satisfactory."

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

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

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

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

Item 1A. Risk Factors.

Not required.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

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

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

The initial lease term ended in 2006, 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 2010.

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, 2010.

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 in the 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 \$24,000 in rent for this property in 2010.

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, 2010	\$ 6.79	\$ 2.81
June 30, 2010	\$ 6.85	\$ 5.66
September 30, 2010	\$ 6.65	\$ 5.51
December 31, 2010	\$ 6.22	\$ 3.25
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

Holders

There were approximately 100 registered shareholders of record of the Company's Common Stock as of March 28, 2011.

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 2010 and 2009.

The Company's only significant operating subsidiary during 2010 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, 2010 and 2009, no cash dividends may be declared by the Bank without regulatory approval.

The payment of cash dividends by the Bank may also be affected by other factors, such as the requirement to maintain capital in accordance with regulatory guidelines. If, in the opinion of the Connecticut Banking Commissioner, the Bank were engaged in or was about to engage in an unsafe or unsound practice, the Commissioner could require, after notice and a hearing, the Bank to cease and desist from the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvements Act of 1991, a depository institution may not pay any cash dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal banking agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Recent Sales of Unregistered Securities

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

Repurchases of Securities by the Company

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

Item 6. Selected Financial Data.

Not required.

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

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

Overview

Southern Connecticut Bancorp, Inc. is a bank holding company headquartered in New Haven, Connecticut that was incorporated on November 8, 2000. The Company's strategic objective is to serve as a bank holding company for The Bank of Southern Connecticut, a commercial bank serving New Haven, Connecticut and the surrounding communities. The Bank of Southern Connecticut commenced operations on October 1, 2001. The Company owns 100% of the capital stock of The Bank of Southern Connecticut (the "Bank"), a Connecticut-chartered bank with its headquarters in New Haven, Connecticut, and 100% of the capital stock of SCB Capital, Inc., which operated under the name "Evergreen Financial Services" ("Evergreen") as a licensed mortgage brokerage business through July 31, 2010. After reviewing the historical operations and results of Evergreen, and considering future prospects for the business, management determined that it was in the best interest of the Company to discontinue the mortgage brokerage operation of SCB Capital, Inc. however the Company is expected to continue to offer mortgage brokerage services.

The Company's net loss for fiscal year 2010 was \$1,370,000 (or basic and diluted loss per share of \$0.51), compared to a net loss of \$2,907,000 (or basic and diluted loss per share of \$1.08) in fiscal year 2009.

The Company's net losses for the years ended December 31, 2010 and 2009 were largely attributable to provisions for loan losses of \$2,037,000 and \$1,992,000, respectively. The provisions for loan losses during 2010 and 2009 were primarily related to a group of four and ten impaired loans, respectively, that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

The Company's net loss for the year ended December 31, 2010, was lower as compared to the same period in 2009, due to a \$1,267,000 increase in net interest income recorded by the Bank to reach a balance of \$5,520,000 for the year ended December 31, 2010, compared to net interest income of \$4,253,000 for the same period in 2009. Net interest income increased due to increases in asset volumes (particularly growth in the loan portfolio), higher yields on interest earning assets (attributable to an increase in average balances of interest earning assets) and lower costs on interest bearing liabilities, which were partially offset by increases in liability volumes.

In addition to the impact of the provision for loan losses and growth in the loan portfolio, the operating results for the year ended December 31, 2010, compared to the same period of 2009, were influenced by the following factors:

- Noninterest income decreased because of decreases in service charges and fees resulting from changes in the business practices of customers of the Bank. These decreases were partially offset by recognition of a gain on the sale of an available for sale security, as well as increases in rental income.
- Noninterest expenses decreased due to lower salaries and benefits expense in 2010 compared to 2009, as well as reimbursement by Naugatuck Valley Financial Corporation in 2010 of a portion of legal and professional fees incurred relating to the Company's proposed merger with Naugatuck Valley Financial Corporation. The proposed merger was mutually terminated by the merger parties on November 12, 2010 due to an inability to obtain regulatory approval of the transaction. In addition, noninterest expenses for 2009 included an impairment write-down of goodwill relating to Evergreen in the amount of approximately \$238,000. There was no similar impairment write-down in 2010.

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 Company ("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 Newco, with Newco being the surviving corporation. This proposed merger was mutually terminated by the merger parties on November 12, 2010 due to an inability to obtain regulatory approval of the transaction.

Selected Operating and Balance Sheet Data –
Years Ended December 31, 2010 and December 31, 2009

Operating Data	2010	2009
Interest income	\$7,546,900	6,425,869
Interest expense	2,026,870	2,172,387
Net interest income	5,520,030	4,253,482
Provision for loan losses	2,037,115	1,992,113
Noninterest income	613,757	628,944
Noninterest expenses	5,466,410	5,797,738
Net loss	(1,369,738)	(2,907,425)
Basic and diluted loss per share	(0.51)	(1.08)
Balance sheet data		
Cash and due from banks	\$12,194,212	2,541,557
Short-term investments	8,643,548	15,383,081
Interest bearing certificates of deposit	99,426	347,331
Investment securities	1,749,726	2,219,751
Loans, net	124,857,040	109,865,195
Total assets	152,454,555	135,610,178
Total deposits	135,821,459	117,555,542
Repurchase agreements	395,410	294,332
Total shareholders' equity	14,281,376	15,632,536
Book value per share	5.30	5.80

Segment Reporting

The Company has three reporting segments for purposes of reporting business line results, Community Banking, Mortgage Brokerage and the Holding Company. The Community Banking segment is defined as all operating results of the Bank. The Mortgage Brokerage segment is defined as the results of Evergreen (through July 31, 2010), and the Holding Company segment is defined as the results of Southern Connecticut Bancorp on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses. Effective August 1, 2010 the Company discontinued the mortgage brokerage operations of SCB Capital, Inc. however the Company is expected to continue to offer mortgage brokerage services.

Assets

The Company's total assets were \$152.4 million as of December 31, 2010, an increase of \$16.8 million over the December 31, 2009 total assets of \$135.6 million. Of the \$16.8 million increase in total assets during 2010, \$15.0 million was attributable to an increase in loans receivable compared to December 31, 2009. Earning assets comprised \$138.2 million of the total assets and consisted of short-term investments, interest-bearing certificates of deposit, available for sale securities and loans, which collectively increased \$7.6 million from 2009. The Company maintained liquidity by maintaining balances in short-term investments, primarily money market mutual funds, to provide funding for higher yielding loans as such loans were approved. As of December 31, 2010 and 2009, short-term investments balances were \$8.6 million and \$15.4 million, respectively. Investment securities classified as available for sale were \$1.7 million and \$2.2 million as of December 31, 2010 and 2009, respectively. The gross loan portfolio was \$127.6 million and \$112.6 million as of December 31, 2010 and 2009 respectively, an increase of \$15.0 million. The allowance for loan losses of \$2.8 million at December 31, 2010 was unchanged when compared to the allowance for loan losses at December 31, 2009.

Investments

The amortized cost of the Company's investments decreased \$0.5 million during 2010, representing the difference between securities that matured (\$58.0 million), were sold (\$2.1 million) or called (\$2.2 million), and purchases of new securities (\$61.9 million).

The following table presents the maturity distribution of the amortized cost of investment securities at December 31, 2010, 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	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	No Maturity	Total	Weighted Average Yield	
Available for sale	or Less							
U.S. Treasury Bill	\$1,750,000	\$-	\$-	\$-	\$-	\$1,750,000	0.05	%
Weighted Average Yield	0.05	%	0.00	%	0.00	%	0.00	%
							0.05	%

The following table presents a summary of investments for any issuer that exceeds 10% of shareholders' equity at December 31, 2010:

	Amortized Cost	Fair Value
December 31, 2010		
U.S. Treasury	\$ 1,750,000	\$ 1,749,726

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

Loans

The Bank's net loan portfolio was \$124.9 million at December 31, 2010 versus \$109.9 million at December 31, 2009, an increase of \$15.0 million. The Company attributes the 2010 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 Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. See Note 4 – Loans Receivable and Allowance for Loan Losses in the accompanying notes to consolidated financial statements included elsewhere in this report for further details of the Company’s policies and procedures related to loan origination and risk management.

The following table presents the maturities of loans in the Company’s portfolio at December 31, 2010 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	\$20,316,645	\$44,978,503	\$9,088,033	\$74,383,181	58.21	%
Commercial	24,748,435	11,122,184	2,228,153	38,098,772	29.82	%
Construction and land	2,233,545	112,185	294,126	2,639,856	2.07	%
Residential mortgages	5,015,542	6,890,373	419,150	12,325,065	9.64	%
Consumer	184,475	111,823	36,687	332,985	0.26	%
Total	\$52,498,642	\$63,215,068	\$12,066,149	\$127,779,859	100.00	%
Fixed rate loans	\$22,220,117	\$9,083,226	\$9,732,609	\$41,035,952		
Variable rate loans	30,278,525	54,131,842	2,333,540	86,743,907		
Total	\$52,498,642	\$63,215,068	\$12,066,149	\$127,779,859		

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

Critical Accounting Policy

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

Allowance for Loan Losses

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

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

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

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

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

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. Due to the small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC which includes the loss experience of National Banks with assets between \$100 million and \$300 million and combines the data with the Company's actual loss experience. The historical loss ratios are periodically updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

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

Based upon this evaluation, management believes the allowance for loan losses of \$2,787,000 or 2.18% of gross loans outstanding at December 31, 2010 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2009, the allowance for loan losses was \$2,768,000 or 2.46% of gross loans outstanding. The increase in the allowance was attributable to a \$296,000 increase in the general component of the allowance that was partially offset by a \$277,000 decrease in the specific component of the allowance. The decrease in the specific component of the allowance was due to a decrease in specific reserves totaling \$375,000 for loans charged off during the year that were classified as impaired at December 31, 2009 and \$20,000 for loans that were impaired at both December 31, 2010 and December 31, 2009. This decline was partially offset by an increase in specific reserves totaling \$118,000 for three loans (two commercial and industrial loans and one commercial real estate loan) identified as impaired during the year ended December 31, 2010. The increase in the general component of the reserve was primarily due to increased loan volume, partially offset by a decrease in reserve factors.

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

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

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

The table below details the changes in the allowance for loan losses for the years ended December 31, 2010 and 2009:

	2010	2009
Balance at beginning of year	\$2,768,567	\$1,183,369
Provision for loan losses	2,037,115	1,992,113
Recoveries of loans previously charged-off:		
Commercial	2,674	10,000
Consumer	5,047	563
Total recoveries	7,721	10,563
Loans charged-off:		
Commercial loans secured by real estate	(84,387)	(413,839)
Commercial	(1,937,963)	(2,300)
Consumer	(4,412)	(1,339)
Total charge-offs	(2,026,762)	(417,478)
Balance at end of period	\$2,786,641	\$2,768,567
Net charge-offs to average loans	(1.63)%	(0.42)%

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

	2010			2009		
	Allowance	Percent of Loans in Each Category to Total Loans		Allowance	Percent of Loans in Each Category to Total Loans	
	for Loan Losses			for Loan Losses		
Commercial loans secured by real estate	\$ 1,587,196	58.21	%	\$ 1,530,085	56.60	%
Commercial	821,981	29.82	%	810,968	31.87	%
Construction and land	55,182	2.07	%	90,274	4.08	%
Residential mortgages	316,146	9.64	%	329,956	7.05	%
Consumer	6,136	0.26	%	7,284	0.40	%
	\$ 2,786,641	100.00	%	\$ 2,768,567	100.00	%

Non Performing Assets and Potential Problem Loans

The following represents nonperforming assets and potential problem loans at December 31, 2010 and 2009:

Non-accrual loans:		2010		2009	
Commercial loans secured by real estate	\$	4,844,823	\$	3,984,209	
Commercial		560,140		771,041	
Residential mortgages		731,604		607,811	
Total non-accrual loans		6,136,567		5,363,061	
Troubled debt restructured loan:					
Commercial		280,482		-	
Foreclosed assets:					
Commercial		127,453		-	
Total non-performing assets	\$	6,544,502	\$	5,363,061	
Ratio of non-performing assets to:					
Total loans and foreclosed assets		5.24	%	4.88	%
Total assets		4.29	%	3.95	%
Accruing past due loans:					
30 to 89 days past due	\$	1,649,941	\$	1,701,064	
90 or more days past due		205,262		483,897	
Total accruing past due loans	\$	1,855,203	\$	2,184,961	
Ratio of accruing past due loans to total loans:					
30 to 89 days past due		1.32	%	1.55	%
90 or more days past due		0.16	%	0.44	%

Total accruing past due loans	1.48	%	1.99	%
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Deposits

Total deposits were \$135.8 million at December 31, 2009, an increase of \$18.2 million (15.5%) in comparison to total deposits at December 31, 2009 of \$117.6 million. Non-interest bearing deposits were \$30.0 million at December 31, 2010, a slight increase of \$0.2 million (0.7%) from \$29.8 million at December 31, 2009. Total interest bearing checking, money market and savings deposits increased \$7.6 million or 20.3% to \$45.0 million at December 31, 2010 from \$37.4 million at December 31, 2009. Time deposits increased to \$60.9 million at December 31, 2010 from \$50.3 million at December 31, 2009, a \$10.6 million or 21.0% increase. Included in time deposits at December 31, 2010 and December 31, 2009 were \$10.7 million and \$14.0 million, respectively, in brokered deposits. This included the Company's placement of \$2.2 million and \$3.4 million, respectively, in customer deposits; and purchase of \$3.3 million and \$3.5 million, respectively, in brokered certificates of deposit through the CDARS program. The CDARS program offers the Bank both reciprocal and one way swap programs which allow customers to enjoy additional FDIC insurance for deposits that might not otherwise be eligible for FDIC insurance and gives the Bank additional access to funding.

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

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

At December 31, 2010, the Bank's maturities of time deposits were:

(Thousands of dollars)	\$100,000 or greater	Less than \$100,000	Totals
Due within:			
Three months or less	\$4,399	\$1,986	\$6,385
Over three months to six months	3,574	3,452	7,026
Over six months to one year	12,671	10,238	22,909
Over one year to two years	7,145	9,103	16,248
Over two years to three years	735	1,353	2,088
Over three years	3,688	2,521	6,209
	\$32,212	\$28,653	\$60,865

Other

The decrease in other assets of \$223,000 was due mainly to a decline in the balance of FDIC insurance premiums the Company was required to prepay in December 2009. This reduction in prepaid FDIC insurance premiums resulted from offsetting amounts due for 2010 FDIC assessments against the prepaid balance.

Results of Operations

The Company's net loss for fiscal year 2010 was \$1,370,000 (or basic and diluted loss per share of \$0.51), compared to a net loss of \$2,907,000 (or basic and diluted loss per share of \$1.08) in fiscal year 2009.

The Company's net losses for the years ended December 31, 2010 and 2009 were largely attributable to provision for loan losses of \$2,037,000 and \$1,992,000, respectively. The provision for loan losses during 2010 and 2009 was related to a group of four and ten impaired loans, respectively, that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

The Company's net loss for the year ended December 31, 2010 was lower as compared to the same period in 2009 due to a \$1,267,000 increase in net interest income recorded by the Bank to reach a balance of \$5,520,000 for the year ended December 31, 2010, compared to net interest income of \$4,253,000 for the same period in 2009. Net interest income increased due to increases in asset volumes (particularly growth in the loan portfolio), higher yields on interest earning assets (attributable to an increase in average balances of interest earning assets) and lower costs on interest bearing liabilities, which were partially offset by increases in liability volumes.

In addition to the impact of the provision for loan losses and growth in the loan portfolio, the operating results for the year ended December 31, 2010, compared to the same period of 2009, were influenced by the following factors:

- Noninterest income decreased because of decreases in service charges and fees resulting from changes in the business practices of customers of the Bank. These decreases were partially offset by recognition of a gain on the sale of an available for sale security, as well as increases in rental income.
- Noninterest expenses decreased due to lower salaries and benefits expense in 2010 compared to 2009, as well as reimbursement by Naugatuck Valley Financial Corporation in 2010 of a portion of legal and professional fees incurred relating to the Company's proposed merger with Naugatuck Valley Financial Corporation. The proposed merger was mutually terminated by the merger parties on November 12, 2010 due to an inability to obtain regulatory approval of the transaction. In addition, in 2009 noninterest expenses included an impairment write-down of goodwill relating to Evergreen in the amount of approximately \$238,000. There were no similar impairment write-downs in 2010.

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, 2010, net interest income was \$5,520,000 versus \$4,253,000 for the same period in 2009. The \$1,267,000 or 29.8% increase was the result of a \$1,121,000 increase in interest income and a \$146,000 decrease in interest expense. This net increase was primarily the result of increased asset volumes (particularly growth in the loan portfolio). Higher yields on interest earning assets attributable to increases in average balances of interest earning assets, as well as favorable changes in rates on interest bearing liabilities, were partially offset by increased average balances on interest bearing liabilities. The increase in the yield on average earning assets reflects the growth in the Bank's loan portfolio combined with the impact of reductions in interest income related to the increase in non-performing assets.

The Company's average total interest earning assets were \$137.1 million for the period ended December 31, 2010, compared to \$123.1 million for the same period in 2009, an increase of \$14.0 million or 11.4%. The increase in average interest earning assets of \$14.0 million was comprised of increases in average balances of loans of \$26.0 million, partially offset by decreases in average balances of short-term and other investments of \$12.0 million.

The yield on average interest earning assets for the period ended December 31, 2010 was 5.50% compared to 5.22% for the same period in 2009, an increase of 28 basis points. The increase in the yield on average earning assets was attributable to growth in the Bank's higher yielding loan portfolio and reductions in lower yielding short-term investments.

The combined effects of the \$14.0 million increase in average balances of interest earning assets and the 28 basis point increase in yield on average interest earning assets resulted in the \$1,121,000 increase in interest income for the year ended December 31, 2010 compared to the year ended December 31, 2009.

The average balance of the Company's interest bearing liabilities was \$103.0 million for the period ended December 31, 2010 compared to \$85.5 million for the period ended December 31, 2009, an increase of \$17.5 million or 20.5%. The cost of average interest bearing liabilities decreased 57 basis points to 1.97% for the year ended December 31, 2010 compared to 2.54% for the same period in 2009, which was primarily due to a general decrease in market interest rates.

The combined effects of the 57 basis point decrease in cost of average interest bearing liabilities and the \$17.5 million increase in average balances of interest bearing liabilities resulted in the \$146,000 decrease in interest expense for the year ended December 31, 2010 compared to the year ended December 31, 2009.

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, 2010 and 2009.

	Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential 2010				2009				(Decreases) Increases in Interest Income/Expense
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate			
(Dollars in thousands)									
Interest earning assets									
Loans (1)(2)	\$ 123,778	\$ 7,446	6.02 %	\$ 97,773	\$ 6,102	6.24 %		\$ 1,344	
Short-term and other investments	10,068	89	0.88 %	22,023	203	0.92 %		(114)	
Investments	3,309	12	0.36 %	3,353	121	3.61 %		(109)	
Total interest earning assets	137,155	7,547	5.50 %	123,149	6,426	5.22 %		1,121	
Cash and due from banks	9,870			4,362					
Premises and equipment, net	2,357			2,625					
Allowance for loan losses	(2,907)			(2,522)					
Other	2,748			2,319					
Total assets	\$ 149,223			\$ 129,933					
Interest bearing liabilities									
Time certificates	\$ 61,018	1,426	2.34 %	\$ 47,288	1,457	3.08 %		(31)	
Savings deposits	2,400	16	0.67 %	1,907	20	1.05 %		(4)	
Money market / checking deposits	36,697	405	1.10 %	34,318	514	1.50 %		(109)	
Capital lease obligations	1,172	175	14.93 %	1,178	176	14.94 %		(1)	
Repurchase agreements	1,667	5	0.30 %	764	6	0.79 %		(1)	
Total interest bearing liabilities	102,954	2,027	1.97 %	85,455	2,173	2.54 %		(146)	
Non-interest bearing deposits	29,636			26,792					
Accrued expenses and other liabilities	835			1,058					
Shareholder's equity	15,798			16,628					

Total liabilities and equity	\$ 149,223		\$ 129,933	
Net interest income		\$ 5,520		\$ 4,253
				\$ 1,267
Interest spread		3.53 %		2.68 %
Interest margin		4.02 %		3.45 %

(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 2010 and 2009 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)	2010 vs 2009		(Decrease) Increase
	Due to Change in Volume	Average Rate	
Interest earning assets			
Loans	\$ 1,571	\$ (227)	\$ 1,344
Short-term and other investments	(106)	(8)	(114)
Investments	(2)	(107)	(109)
Total interest earning assets	1,463	(342)	1,121
Interest bearing liabilities			
Time certificates	366	(397)	(31)
Savings deposits	4	(8)	(4)
Money market / checking deposits	34	(143)	(109)
Capital lease obligations	(1)	-	(1)
Repurchase agreements	4	(5)	(1)
Total interest bearing liabilities	407	(553)	(146)
Net interest income	\$ 1,056	\$ 211	\$ 1,267

The increase in net interest income during 2010 reflects the increase in the yields on earning assets to 5.50% in 2010 from 5.22% in 2009; an increase in total average interest earning asset balances from 2009, as the average interest earning assets in 2010 of \$137.1 million were 11.4% higher than 2009; and a decrease in rates on interest bearing liabilities to 1.97% in 2010 from 2.54% in 2009. The combined effect of these increases was partially offset by a \$17.5 million increase in average interest bearing liabilities to \$103.0 million in 2010 from \$85.5 million in 2009. Overall, the increase in net interest income attributed to volume changes was \$1,056,000 and to interest rate changes was \$211,000. Interest income from interest earning assets in 2010 compared to 2009 increased by \$1,121,000 because of the combined effect of a \$1,463,000 increase due to volume considerations, which was partially offset by \$342,000 decrease due to a decline in interest rates. Variances in the 2010 cost of interest bearing liabilities in comparison to 2009 were due to decreased rate considerations of \$553,000 partially offset by increased volume considerations of \$407,000.

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

The following are measurements of the Company's results of operations in relation to assets and equity, and average equity to average assets for the years ended December 31, 2010 and 2009:

	2010	2009
Loss on average assets	(.92 %)	(2.24 %)
Loss on average equity	(8.67 %)	(17.50 %)
Average equity to average assets	10.59 %	12.79 %

Provision for Loan Losses

The Bank's provision for loan losses was \$2,037,000 for the year ended December 31, 2010, as compared to \$1,992,000 for the year ended December 31, 2009. The provision for loan losses during the years ended December 31, 2010 and 2009 was primarily related to charge offs and specific reserves established for a group of four and ten impaired loans, respectively, that have been severely impacted by prevailing economic conditions, discussed in more detail under Allowance for Loan Losses.

Noninterest Income

Total noninterest income was \$614,000 for the year ended December 31, 2010 compared to \$629,000 for the same period in 2009. Noninterest income for the year ended December 31, 2010 included a \$29,000 gain on the sale of an available for sale security. Service charges and fees decreased \$67,000 due to changes in business practices of customers of the Bank during 2010. Other noninterest income increased \$23,000 to \$145,000 for the year ended December 31, 2010 from \$122,000 in the same period in 2009, due to a \$20,000 increase in rental income and a \$3,000 increase in other fees.

Noninterest Expenses

Total noninterest expense was \$5,466,000 for the year ended December 31, 2010 compared to \$5,798,000 for the same period in 2009, a decrease of \$332,000 or 5.7%.

Salaries and benefits expense for the year ended December 31, 2010 declined \$92,000 to \$2,997,000 compared to \$3,089,000 for the same period in 2009.

FDIC insurance expense decreased for the year ended December 31, 2010 by \$2,000 to \$245,000 from \$247,000 in 2009. The 2009 FDIC insurance expense included a one-time special assessment paid in December 2009. Excluding this one-time special assessment, FDIC insurance expense would have increased in 2010 attributable to increases in deposit balances.

Professional services for the year ended December 31, 2010 decreased by \$72,000 to \$438,000 from \$510,000 primarily due to the fact that a portion of legal, accounting and advisory fees incurred during 2010 were offset by a payment received in 2010 by the Company due to the termination of the proposed merger with Naugatuck Valley Financial Corporation.

In addition, other operating expenses decreased by \$164,000 to \$697,000 for the year ended December 31, 2010 compared to the same period in 2009 primarily due to a \$238,000 impairment write-down of goodwill in 2009 relating to Evergreen with no similar write-down in 2010; partially offset by costs incurred by the Company in 2010 related to the terminated merger with Naugatuck Valley Financial Corporation.

Off-Balance-Sheet Arrangements

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

Liquidity

The Company's liquidity position as of December 31, 2010 and 2009 consisted of liquid assets totaling \$22.7 million and \$20.4 million, respectively. This represents 14.9% and 15.1% of total assets at December 31, 2010 and 2009, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: Cash and due from banks, short-term investments, interest-bearing certificates of deposit and securities available for sale. Liquidity is a measure of the Company's ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposits and increases in its loan portfolio.

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

Capital

The following table illustrates the Company's and Bank's regulatory capital ratios at December 31, 2010 and 2009:

	Company						Bank					
	2010		2009		Capital Adequacy Target Ratio		2010		2009		Capital Adequacy Target Ratio	
Total Capital to Risk												
Weighted Assets	11.91	%	13.25	%	8.00	%	11.20	%	12.39	%	8.00	%
Tier 1 Capital to Risk												
Weighted Assets	10.65	%	11.99	%	4.00	%	9.94	%	11.13	%	4.00	%
Tier 1 (Leverage) Capital												
Ratio to Average Assets	9.00	%	11.24	%	4.00	%	8.39	%	10.44	%	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 of Financial Condition and Results of Operations," "Business" and elsewhere in this Annual Report on Form 10-K may include forward-looking statements which reflect our current views with respect to future events and financial performance. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements or that could adversely affect the holders of our common stock. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on the Company's interest earning assets and the interest paid on its interest bearing liabilities, (2) the timing of re-pricing of the Company's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the impact of recently enacted federal legislation and the effect of changes in regulations applicable to the Company and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks, (6) the ability of competitors which are larger than the Company to provide products and services which are impractical for the Company to provide, (7) the volatility of quarterly earnings, due in part to

the variation in the number, dollar volume and profit realized from SBA guaranteed loan participation sales in different quarters, (8) the effect of a loss of any executive officer, key personnel, or directors, (9) the effect of the Company's opening of branches and the receipt of regulatory approval to complete such actions, (10) the concentration of the Company's business in southern and southeastern Connecticut, (11) the concentration of the Company's loan portfolio in commercial loans to small-to-medium sized businesses, which may be impacted more severely than larger businesses during periods of economic weakness, (12) lack of seasoning in the Company's loan portfolio, which may increase the risk of future credit defaults, and (13) the effect of any decision by the Company to engage in any business not historically permitted to it. Other such factors may be described in other filings made by the Company with the SEC.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 8. Financial Statements and Supplementary Data.

The consolidated balance sheets of the Company as of December 31, 2010 and 2009, 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 28, 2011 are included as part of this Form 10-K following page 43 hereof.

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

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of the Company's disclosure controls and procedures performed by the Company's management, with participation of the Company's 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, 2010.

(c) Attestation Report of the Registered Public Accounting Firm

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

(d) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter ended December 31, 2010 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 2011 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, 2010:

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	201,853	\$ 7.79	258,319
Equity Compensation Plan not approved by security holders (1)	77,184	\$ 10.39	0
Total	279,037	\$ 8.51	258,319

(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, 2010, 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 its affiliate RSM McGladrey, Inc. provide audit, audit-related and tax advisory and tax return preparation services for the Company and The Bank of Southern Connecticut. The following table summarizes the fees provided in 2010 and 2009, respectively:

	2010	2009
Audit fees	\$ 150,774	\$ 128,580
Audit Related Fees	145,900	None
Tax fees	13,950	11,900
All Other fees	None	1,700

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 services in connection with filings related to the proposed merger with NVSL. Tax service fees consist of fees for tax return preparation for the Company. 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)
2.2	First Amendment dated as of September 17, 2010 to the Agreement and Plan of Merger, dated as of February 22, 2010, by and among Naugatuck Valley Financial Corporation, Newco (as defined therein) and Southern Connecticut Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on September 20, 2010)
2.3	Mutual Termination Agreement, dated as of November 12, 2010, by and among Naugatuck Valley Financial Corporation, a federally chartered subsidiary holding company, Naugatuck Valley Financial Corporation, a Maryland corporation, and Southern Connecticut Bancorp, Inc., a Connecticut corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 12, 2010)
3(i)	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-QSB filed on August 14, 2002)
3(ii)	By-Laws of the Registrant (incorporated by reference to Exhibit 3(ii) to the Registrant's Current Report on Form 8-K filed on March 6, 2007)
10.1	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)

- 10.2 Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
- 10.3 First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
- 10.4 Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Registrant (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement Form SB-2 filed on April 30, 2001)
- 10.5 Assignment of Lease dated April 11, 2001 between the Registrant and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001)
- 10.6 Lease dated August 2, 2002 between 469 West Main Street LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-KSB filed on March 30, 2004)
- 10.7 Registrant's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #
- 10.8 Registrant's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form SB-2 filed on April 30, 2001) #
- 10.9 Registrant's 2001 Supplemental Warrant Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-KSB filed on March 29, 2002) #
- 10.10 Registrant's 2002 Stock Option Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed on April 18, 2002) #
- 10.11 Form of Stock Option Agreement for Non-qualified Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.18 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #
- 10.12 Form of Stock Option Agreement for Incentive Stock Option granted under the Registrant's 2002 Stock Option Plan (incorporated by reference to Exhibit 10.19 to the Registrant's Quarterly Report on Form 10-QSB filed on November 15, 2004) #
- 10.13 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and John H. Howland covering the period from January 1, 2010 to December 31, 2010 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #
- 10.14 Employment Agreement, effective January 1, 2010, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli covering the period from January 1, 2010 to December 31, 2010

(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2009) #

- 10.15 Employment Agreement, effective January 1, 2011, by and among the Registrant and The Bank of Southern Connecticut and John H. Howland covering the period from January 1, 2011 to December 31, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2010) #

- 10.16 Employment Agreement, effective January 1, 2011, by and among the Registrant and The Bank of Southern Connecticut and Stephen V. Ciancarelli covering the period from January 1, 2011 to December 31, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 22, 2010) #
- 10.17 2005 Stock Option and Award Plan (incorporated by reference to Exhibit 99.1 to the Registrant's Form S-8 filed on January 13, 2006) #
- 10.18 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 28, 2011

/s/ John Howard Howland
John H. Howland
President and Chief Operating Officer

March 28, 2011
Date

/s/ Stephen V. Ciancarelli
Stephen V. Ciancarelli
Senior Vice President and Chief Financial Officer

March 28, 2011
Date

/s/ Elmer F. Laydon
Elmer F. Laydon
Chairman and Director

March 28, 2011
Date

/s/ Alphonse F. Spadaro, Jr.
Alphonse F. Spadaro, Jr.
Vice Chairman and Director

March 28, 2011
Date

/s/ Carl R. Borrelli
Carl R. Borrelli
Director

March 28, 2011
Date

/s/ James S. Brownstein, Esq.
James S. Brownstein, Esq.
Director

March 28, 2011
Date

/s/ Alfred J. Ranieri, Jr.
Alfred J. Ranieri, Jr.
Director

March 28, 2011
Date

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

March 28, 2011
Date

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

March 28, 2011
Date

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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McGladrey & Pullen, LLP
Certified Public Accountants

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, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/McGladrey & Pullen, LLP

New Haven, Connecticut
March 28, 2011

McGladrey is the brand under which RSM McGladrey, Inc. and McGladrey & Pullen, LLP serve clients' business needs. The two firms operate as separate legal entities in an alternative practice structure.

Member of RSM International network, a network of independent accounting, tax and consulting firms.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and December 31, 2009

ASSETS	2010	2009
Cash and due from banks (Note 2)	\$12,194,212	\$2,541,557
Short-term investments	8,643,548	15,383,081
Cash and cash equivalents	20,837,760	17,924,638
Interest bearing certificates of deposit	99,426	347,331
Available for sale securities (at fair value) (Note 3)	1,749,726	2,219,751
Federal Home Loan Bank stock (Note 7)	66,100	66,100
Loans receivable (Note 4)		
Loans receivable	127,643,681	112,633,762
Allowance for loan losses	(2,786,641)	(2,768,567)
Loans receivable, net	124,857,040	109,865,195
Accrued interest receivable	504,706	480,497
Premises and equipment (Note 5)	2,214,232	2,485,797
Other real estate owned	127,453	-
Other assets held for sale (Note 17)	372,758	372,758
Other assets	1,625,354	1,848,111
Total assets	\$152,454,555	\$135,610,178
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	2010	2009
Deposits (Note 6)		
Noninterest bearing deposits	\$29,970,070	\$29,834,836
Interest bearing deposits	105,851,389	87,720,706
Total deposits	135,821,459	117,555,542
Repurchase agreements	395,410	294,332
Capital lease obligations (Note 8)	1,168,954	1,175,263
Accrued expenses and other liabilities	787,356	952,505
Total liabilities	138,173,179	119,977,642
Commitments and Contingencies (Notes 7, 8, and 14)		
Shareholders' Equity (Notes 10 and 15)		
Preferred stock, no par value; shares authorized: 500,000; none issued	-	-
Common stock, par value \$.01; shares authorized: 5,000,000; shares issued and outstanding: 2010 2,696,902; 2009 2,695,902	26,969	26,959
Additional paid-in capital	22,567,146	22,560,100
Accumulated deficit	(8,312,465)	(6,942,727)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities	(274)	(11,796)
Total shareholders' equity	14,281,376	15,632,536

Total liabilities and shareholders' equity	\$152,454,555	\$135,610,178
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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, 2010 and 2009

	December 31,	
	2010	2009
Interest Income:		
Interest and fees on loans	\$7,445,909	\$6,102,192
Interest on securities	11,577	120,944
Interest on federal funds sold and short-term and other investments	89,414	202,733
Total interest income	7,546,900	6,425,869
Interest Expense:		
Interest expense on deposits (Note 6)	1,847,054	1,990,314
Interest expense on capital lease obligations	174,397	175,641
Interest expense on repurchase agreements and other borrowings	5,419	6,432
Total interest expense	2,026,870	2,172,387
Net interest income	5,520,030	4,253,482
Provision for loan losses (Note 4)	2,037,115	1,992,113
Net interest income after provision for loan losses	3,482,915	2,261,369
Noninterest Income:		
Service charges and fees	440,202	506,944
Gain on sales of available for sale securities	28,979	-
Other noninterest income	144,576	122,000
Total noninterest income	613,757	628,944
Noninterest Expenses:		
Salaries and benefits	2,997,470	3,089,483
Occupancy and equipment	663,333	677,803
Professional services	437,965	510,431
Data processing and other outside services	425,566	412,684
FDIC Insurance	245,108	246,533
Other operating expenses	696,968	860,804
Total noninterest expenses	5,466,410	5,797,738
Net loss	\$(1,369,738)	\$(2,907,425)
Basic and diluted loss per share	\$(0.51)	\$(1.08)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND
SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31,
2010 and 2009

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
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 (Note 11)	-	-	-	-	(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
Comprehensive loss:						
Net loss	-	-	-	(1,369,738)	-	(1,369,738)
Unrealized holding gain on available for sale securities (Note 11)	-	-	-	-	11,522	11,522
Total comprehensive loss						(1,358,216)
Restricted stock compensation (Note	1,000	10	7,046	-	-	7,056

10)

Balance, December

31, 2010	2,696,902	\$ 26,969	\$ 22,567,146	\$ (8,312,465)	\$ (274)	\$ 14,281,376
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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, 2010 and 2009

	2010	2009
Cash Flows From Operations		
Net loss	\$(1,369,738)	\$(2,907,425)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization and accretion of premiums and discounts on investments, net	(10,945)	26,369
Provision for loan losses	2,037,115	1,992,113
Share based compensation	7,056	39,013
Gain on sale of available for sale securities	(28,979)	-
Depreciation and amortization	277,618	290,191
Increase in cash surrender value of life insurance	(40,409)	(40,684)
Write-down of other assets held for sale	-	2,162
Goodwill impairment charge	-	238,440
Changes in assets and liabilities:		
(Decrease) increase in deferred loan fees	(16,411)	53,995
Increase in accrued interest receivable	(24,209)	(68,768)
Decrease (increase) in other assets	263,166	(655,145)
Decrease in accrued expenses and other liabilities	(165,149)	(57,750)
Net cash provided by (used in) operating activities	929,115	(1,087,489)
Cash Flows From Investing Activities		
Proceeds from maturities of interest bearing certificates of deposit	247,905	1,295,281
Purchases of available for sale securities	(61,914,463)	(9,206,124)
Principal repayments on available for sale securities	104,943	3
Proceeds from the sales of available for sale securities	2,179,604	-
Proceeds from maturities / calls of available for sale securities	60,151,387	12,050,000
Net increase in loans receivable	(17,766,519)	(23,198,121)
Proceeds from sales of loans	626,517	-
Purchases of premises and equipment	(6,053)	(21,835)
Proceeds from the sale of other real estate owned	-	528,250
Net cash used in investing activities	(16,376,679)	(18,552,546)
Cash Flows From Financing Activities		
Net increase in demand, savings and money market deposits	7,700,023	5,286,573
Net increase in certificates of deposit	10,565,894	18,298,945
Net increase in repurchase agreements	101,078	79,941
Principal repayments on capital lease obligations	(6,309)	(5,675)
Net cash provided by financing activities	18,360,686	23,659,784
Net increase in cash and cash equivalents	2,913,122	4,019,749
Cash and cash equivalents		
Beginning	17,924,638	13,904,889
Ending	\$20,837,760	\$17,924,638

(Continued)

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2010 and 2009

	2010	2009
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	\$2,001,176	\$2,123,546
Income taxes	\$750	\$750
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Transfer of loans receivable to Other Real Estate Owned	\$127,453	\$528,250
Unrealized holding gains (losses) on available for sale securities arising during the period	\$11,522	\$(40,006)
See Notes to Consolidated Financial Statements		

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 through July 31, 2010, 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. The Company and its subsidiaries focus on meeting the financial services needs of consumers and small to medium-sized businesses, professionals and professional companies, and their owners and employees in the Greater New Haven Market.

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

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

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

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

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

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.

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, 2010 the balance in interest-bearing certificates of deposit was approximately \$99,000, which consisted of a fixed rate certificate of deposit which will mature in June 2013.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

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

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based on cash flow projections discounted at the applicable original yield of the security. There were no other-than-temporarily impaired debt securities at December 31, 2010 or 2009.

For equity securities, the entire decline in the value that is considered other-than-temporary is recognized into earnings. There were no equity securities held at December 31, 2010 or 2009.

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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

Loans held for sale

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

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

In June 2009, the Financial Accounting Standards Board (“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 was 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 did not 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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

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

Loans receivable

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

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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

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 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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

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. Effective August 1, 2010 the Company discontinued its licensed mortgage brokerage business associated with this business combination.

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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The Company recognizes a liability for any tax position deemed less likely than not to be sustained under examination by the relevant taxing authorities. The Company has no liabilities for uncertain income tax positions at December 31, 2010 or 2009. The Company's open tax years that remain subject to examination by the relevant taxing authorities are 2007, 2008 and 2009.

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. Compensation cost has been measured using the fair value of an award on the grant dates and is recognized over the service period, which is usually the vesting period.

Related party transactions

Directors and officers of the Company and the Bank and their affiliates have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectibility or favored treatment or terms, or present other unfavorable features. Note 16 contains details regarding related party transactions.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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 (through July 31, 2010), and the Holding Company segment is defined as the results of Southern Connecticut Bancorp on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses. Effective August 1, 2010 the Company discontinued its licensed mortgage brokerage business associated with Evergreen.

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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

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.

In February 2010, the FASB issued guidance which amended the existing guidance related to Fair Value Measurements and Disclosures. The amendments 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; and
- 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; and
- 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 were effective for the Company for the quarter ended March 31, 2010, 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 31, 2010.

See Note 17 for additional information regarding fair value.

Reclassifications

Certain 2009 amounts have been reclassified to conform with the 2010 presentation. Such reclassifications had no effect on 2009 net income.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (“ASU”) No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses in July 2010. The amendments in this ASU apply to all entities, both public and nonpublic, with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The amendments in this ASU enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. This ASU amends existing disclosure guidance to require entities to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. In addition, this ASU requires entities to disclose credit quality indicators, past due information, and modifications of its financing receivables. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. This ASU encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, entities should provide comparative disclosures for those reporting periods ending after initial adoption.

See Note 4 for disclosures about the credit quality of financing receivables and the allowance for credit losses.

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, 2010 and 2009, the Company was required to have cash and liquid assets of approximately \$685,000 and \$536,000, respectively, to meet these requirements. In addition, at both December 31, 2010 and 2009, 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, 2010 and 2009 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
U.S. Treasury Bills	\$1,750,000	\$-	\$(274)	\$1,749,726
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

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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, 2010 and 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2010						
U.S. Treasury Bills	\$1,749,726	\$274	\$-	\$-	\$1,749,726	\$274
	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

At December 31, 2010 and 2009, the Company had 1 and 2 available for sale securities in an unrealized loss position, respectively.

Management believes that none of the unrealized losses on available for sale securities are other than temporary because all of the unrealized losses in the Company's investment portfolio are due to market interest rate changes on debt securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2010.

The amortized cost and fair value of available for sale debt securities at December 31, 2010 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.

	Amortized Cost	Fair Value
Maturity:		
Within one year	\$ 1,750,000	\$ 1,749,726

At December 31, 2010 and 2009, available for sale securities with a carrying value of \$1,749,726 and \$2,219,751, respectively, were pledged as collateral under repurchase agreements with Bank customers and to secure public deposits.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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There were sales of approximately \$2,180,000 of investment securities during the year ended December 31, 2010 which resulted in gains of \$28,979. There were no sales of investment securities during the year ended December 31, 2009.

Note 4. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at December 31, 2010 and December 31, 2009 is as follows:

	2010	2009
Commercial loans secured by real estate	\$74,383,181	\$63,836,712
Commercial	38,098,772	35,943,114
Residential mortgages	12,325,065	7,950,077
Construction and land	2,639,856	4,607,905
Consumer	332,985	448,543
Total loans	127,779,859	112,786,351
Net deferred loan fees	(136,178)	(152,589)
Allowance for loan losses	(2,786,641)	(2,768,567)
Loans receivable, net	\$124,857,040	\$109,865,195

The Company services certain loans that it has sold without recourse to third parties. The aggregate of loans serviced for others approximated \$13,247,000 and \$9,448,000 as of December 31, 2010 and 2009, respectively.

The balance of capitalized servicing rights, included in other assets at December 31, 2010 and 2009, was \$13,045 and \$17,248, respectively. No impairment charges related to servicing rights were recognized during the years ended December 31, 2010 and 2009.

The changes in the allowance for loan losses for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	\$2,768,567	\$1,183,369
Provision for loan losses	2,037,115	1,992,113
Recoveries of loans previously charged-off:		
Commercial	2,674	10,000
Consumer	5,047	563
Total recoveries	7,721	10,563
Loans charged-off:		
Commercial loans secured by real estate	(84,387)	(413,839)
Commercial	(1,937,963)	(2,300)
Consumer	(4,412)	(1,339)
Total charge-offs	(2,026,762)	(417,478)
Balance at end of period	\$2,786,641	\$2,768,567
Net charge-offs to average loans	(1.63)%	(0.42)%

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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At December 31, 2010 and 2009, the unpaid principal balances of loans placed on nonaccrual status were \$6,136,567 and \$5,363,061, respectively. At December 31, 2010 there was one loan aggregating \$280,482 that was considered to be a “troubled debt restructuring.” There were no loans considered “troubled debt restructurings” at December 31, 2009. Accruing loans contractually past due 90 days or more were \$205,262 and \$483,897 at December 31, 2010 and 2009, respectively.

The following information relates to impaired loans as of and for the years ended December 31, 2010 and 2009:

	2010	2009
Impaired loans for which there is a specific allowance	\$4,585,020	\$4,634,634
Impaired loans for which there is no specific allowance	\$1,952,375	\$2,469,484
Allowance for loan losses related to impaired loans	\$1,212,595	\$1,489,255
Average recorded investment in impaired loans	\$6,733,378	\$5,775,813

Interest income collected and recognized on impaired loans was \$100,745 and \$149,040 in 2010 and 2009, respectively. If nonaccrual loans had been current throughout their terms, additional interest income of approximately \$705,676 and \$410,907 would have been recognized in 2010 and 2009, respectively. The Company has no commitments to lend additional funds to borrowers whose loans are impaired.

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, commercial vehicles, equipment, automobiles, marketable securities and time deposits. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower’s ability to generate continuing cash flows.

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

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

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

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

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

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

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

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

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

Nonaccrual loans segregated by class of loans as of December 31, 2010 and 2009 were as follows:

	2010	2009
Commercial loans secured		
by real estate	\$ 4,133,219	\$ 3,984,209
Commercial	1,291,744	771,041
Residential mortgages	711,604	607,811
	\$ 6,136,567	\$ 5,363,061

An age analysis of past due loans, segregated by class of loans, as of December 31, 2010 were as follows:

	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured						
by real estate	\$1,431,575	\$4,133,220	\$5,564,795	\$68,818,386	\$74,383,181	\$-
Commercial	218,366	1,433,299	1,651,665	36,447,107	38,098,772	141,555
Residential mortgages	-	711,604	711,604	11,613,461	12,325,065	-
Consumer	-	63,707	63,707	269,278	332,985	63,707
Construction and land	-	-	-	2,639,856	2,639,856	-
	\$1,649,941	\$6,341,830	\$7,991,771	\$119,788,088	\$127,779,859	\$205,262

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

The following information relates to impaired loans as of and for the year ended December 31, 2010:

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
2010							
Commercial loans secured by							
real estate	\$4,249,974	\$358,523	\$ 3,891,451	\$4,249,974	\$895,894	\$4,330,949	\$ 46,033
Commercial	1,575,817	1,439,538	136,279	1,575,817	124,576	1,772,079	26,904
Residential mortgages	711,604	154,314	557,290	711,604	192,125	630,350	27,808
Total	\$6,537,395	\$1,952,375	\$ 4,585,020	\$6,537,395	\$1,212,595	\$6,733,378	\$ 100,745

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

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

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

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

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

The following table presents credit risk ratings by class of loan as of December 31, 2010:

	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	\$63,470,074	\$33,703,750	\$1,139,856	\$11,421,898	\$332,985	\$110,068,563
Special Mention	6,663,133	1,460,366	1,500,000	191,563	-	9,815,062
Substandard	4,249,974	2,934,656	-	711,604	-	7,896,234
Total	\$74,383,181	\$38,098,772	\$2,639,856	\$12,325,065	\$332,985	\$127,779,859

Allowance for Loan Loss. 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.

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

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

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

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

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Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. Due to the small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC which includes the loss experience of National Banks with assets between \$100 million and \$300 million and combines the data with the Company's actual loss experience and develops three year average loss factors by weighting the National Banks' loss experience 75% and the Company's loss experience 25%. The historical loss ratios are annually updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

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

The following table details activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2010. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial Loans Secured by Real Estate	Commercial Residential Mortgages	Consumer	Construction and Land	Total	
Balance at beginning of year	\$ 1,530,085	\$810,968	\$ 329,956	\$7,284	\$ 90,274	\$2,768,567
Provision for loan losses	141,498	1,946,302	(13,810)	(1,783)	(35,092)	2,037,115
Loans charged-off	(84,387)	(1,937,963)	-	(4,412)	-	(2,026,762)
Recoveries of loans previously charged-off	-	2,674	-	5,047	-	7,721
Balance at end of period	\$ 1,587,196	\$821,981	\$ 316,146	\$6,136	\$ 55,182	\$2,786,641
Period-end amount allocated to:						
Loans collectively evaluated for impairment	\$ 691,302	\$697,405	\$ 124,021	\$6,136	\$ 55,182	\$1,574,046
Loans individually evaluated for impairment	895,894	124,576	192,125	-	-	1,212,595

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Balance at end of period	\$ 1,587,196	\$ 821,981	\$ 316,146	\$ 6,136	\$ 55,182	\$ 2,786,641
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	Commercial Loans		Residential		Construction	
Period-end loan balances:	Secured by Real Estate	Commercial	Mortgages	Consumer	and Land	Total
Loans collectively evaluated for impairment	\$70,133,207	\$36,522,955	\$11,613,461	\$332,985	\$2,639,856	\$121,242,464
Loans individually evaluated for impairment	4,249,974	1,575,817	711,604	-	-	6,537,395
Total	\$74,383,181	\$38,098,772	\$12,325,065	\$332,985	\$2,639,856	\$127,779,859

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

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

Note 5. Premises and Equipment

At December 31, 2010 and 2009, premises and equipment consisted of the following:

	2010	2009
Land	\$ 255,766	\$ 255,766
Premises under capital lease	1,192,036	1,192,036
Buildings and improvements	681,142	681,142
Leasehold improvements	1,027,390	1,027,390
Furniture and fixtures	527,969	527,969
Equipment	938,424	932,371
Software	91,134	91,134
	4,713,861	4,707,808
Less accumulated depreciation and amortization	(2,499,629)	(2,222,011)
	\$ 2,214,232	\$ 2,485,797

For the years ended December 31, 2010 and 2009, depreciation and amortization expense related to premises and equipment totaled \$277,618 and \$290,191, respectively.

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Premises under capital lease of \$1,192,036, and related accumulated amortization of \$522,903 and \$463,301, as of December 31, 2010 and 2009, respectively, are included in premises and equipment.

Note 6. Deposits

At December 31, 2010 and 2009, deposits consisted of the following:

	2010	2009
Noninterest bearing	\$29,970,070	\$29,834,836
Interest bearing:		
Checking	5,611,458	8,604,111
Money Market	36,795,756	26,434,495
Savings	2,579,585	2,383,404
Time certificates, less than \$100,000 (1)	28,652,997	27,785,391
Time certificates, \$100,000 or more (2)	32,211,593	22,513,305
Total interest bearing	105,851,389	87,720,706
Total deposits	\$135,821,459	\$117,555,542

(1) Included in time certificates of deposit, less than \$100,000, at December 31, 2010 and December 31, 2009 were brokered deposits totaling \$5,944,563 and \$9,015,482, respectively.

(2) Included in time certificates of deposit, \$100,000 or more, at December 31, 2010 and December 31, 2009 were brokered deposits totaling \$4,736,043 and \$4,991,718, respectively.

Brokered deposits at December 31, 2010 and December 31, 2009 represented:

	2010	2009
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	\$2,151,904	\$3,369,729
Time certificates of deposit purchased by the Bank through CDARS	3,292,528	3,544,135
Other brokered time certificates of deposit	5,236,174	7,093,336
Total brokered deposits	\$10,680,606	\$14,007,200

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Contractual maturities of time certificates of deposit as of December 31, 2010 are summarized below:

Due within:	
1 year	\$ 36,320,865
1- 2 years	16,247,861
2- 3 years	2,087,232
3- 4 years	2,074,568
4- 5 years	4,134,064
	\$ 60,864,590

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, 2010 and 2009, 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, 2010 and 2009.

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 17, 2010, the Company entered into an employment agreement with its President and Chief Operating Officer effective January 1, 2011. Under the agreement, he will serve as the President and Chief Operating Officer of the Company through December 31, 2012, 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 does not accept 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.

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

On December 17, 2010, the Company entered into an employment agreement with its Senior Vice President and Chief Financial Officer effective January 1, 2011. Under the agreement, he will serve as the Senior Vice President and Chief Financial Officer of the Company through December 31, 2012, 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.

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 does not accept 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, 2010, 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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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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.

At December 31, 2010, future minimum lease payments to be made under these lease by year and in the aggregate, are as follows:

Year	Capital Leases	Operating Leases
2011	\$206,741	\$53,214
2012	214,357	54,635
2013	219,204	47,408
2014	219,204	46,751
2015	219,204	46,751
2016 and thereafter	1,373,561	507,233
	2,452,271	\$755,992
Less amount representing interest	(1,283,317)	
Present value of future minimum lease payments - capital lease obligation	\$1,168,954	

Total rent expense charged to operations under the operating leases approximated \$69,700 and \$73,500 for the years ended December 31, 2010 and 2009, respectively. Rental income under subleases, and a lease of space in premises owned, approximated \$24,000 and \$4,000 for the years ended December 31, 2010 and 2009, respectively.

Note 9. Income Taxes

A reconciliation of the anticipated income tax benefit (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, 2010 and 2009 is as follows:

	2010	2009
Benefit for income taxes at statutory Federal rate	\$(465,711)	\$(988,525)
State taxes, net of Federal benefit	(67,802)	(143,423)
Increase in valuation allowance	547,766	1,147,731
Other	(14,253)	(15,783)
	\$-	\$-

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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At December 31, 2010 and 2009, the components of gross deferred tax assets and liabilities are as follows:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$1,085,397	\$1,078,357
Net operating loss carryforwards	1,785,882	1,173,117
Unrealized gain on available for sale securities	107	4,595
Other	700,053	607,135
Gross deferred tax assets	3,571,439	2,863,204
Less valuation allowance	(3,306,088)	(2,762,810)
Deferred tax assets - net of valuation allowance	265,351	100,394
Deferred tax liabilities:		
Tax bad debt reserve	265,351	100,394
Unrealized gain on available for sale securities	-	-
Depreciation	-	-
Gross deferred tax liabilities	265,351	100,394
Net deferred taxes	\$-	\$-

As of December 31, 2010, the Company had net operating loss carryforwards of approximately \$4,729,000 and \$4,700,000 available to reduce future Federal and state taxable income, respectively, which expire in 2021 through 2030.

The net changes in the valuation allowance for 2010 and 2009 were decreases of \$543,278 and \$1,163,314 in 2010 and 2009, respectively. The changes in the valuation allowance have been allocated between operations and equity to adjust the deferred tax asset to an amount considered by management more likely than not to be realized. The portion of the change in the valuation allowance allocated to equity is to eliminate the tax benefit related to the unrealized 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, 2010 and 2009, 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 2009.

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 2009.

Loss 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	2010 Weighted Average Shares	Amount Per Share	Net Loss	2009 Weighted Average Shares	Amount Per Share
Basic Loss Per Share						
Loss available to common shareholders	\$(1,369,738)	2,696,562	\$(0.51)	\$(2,907,425)	2,689,291	\$(1.08)
Effect of Dilutive Securities Warrants/Stock Options outstanding/Restricted Stock	-	-	-	-	-	-
Diluted Loss Per Share						
Loss available to common shareholders plus assumed conversions	\$(1,369,738)	2,696,562	\$(0.51)	\$(2,907,425)	2,689,291	\$(1.08)

For the years ended December 31, 2010 and 2009, common stock equivalents of 1,340 shares and 8,605 shares, respectively, have been excluded in the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Share-based plans

The Company has adopted three share-based plans, the 2001 Stock Option Plan (the "2001 Plan"), the 2002 Stock Option Plan (the "2002 Plan"), and the 2005 Stock Option and Award Plan (the "2005 Plan"), under which an aggregate of 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, 2010 and changes during the year then ended, is as follows:

		2010		
	Number of Shares	Weighted- Average Exercise Price	Weighted -Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	202,201	\$7.79	4.6	
Granted	-	-		
Exercised	-	-		
Exchanged	-	-		
Forfeited	(348)	8.37		
Outstanding at end of year	201,853	7.79	3.6	\$-
Vested at end of year	201,853	\$7.79	3.6	\$-
Exercisable at end of year	201,853	\$7.79	3.6	\$-

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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A summary of the status of the Company's nonvested restricted stock at December 31, 2010 and changes during the year then ended, is as follows:

	2010	
	Number	Weighted-
	of	Average
	Shares	Grant-Date
		Fair Value
Nonvested restricted stock at beginning of the year	2,000	\$7.05
Granted	-	-
Vested and issued	(1,000)	6.75
Forfeited	-	-
Nonvested restricted stock at end of the year	1,000	7.05

As of December 31, 2010, there was no unrecognized compensation cost relating to the option plans and \$2,352 of total unrecognized compensation related to restricted stock. That cost is expected to be recognized over a weighted-average period of .3 years. During the year ended December 31, 2010 expense of \$7,056 for restricted stock was recognized as compensation cost.

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, 2010 and changes during the year then ended, is as follows:

	Number of Shares	Weighted- Average Exercise Price	2010 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	0.7	\$-
Exercisable and vested at end of year	77,184	\$ 10.39	0.7	\$-

Note 11. Other Comprehensive Loss

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

	Year End December 31, 2010		
	Before-Tax Amount	Taxes	Net-of-Tax Amount
Unrealized holding gains arising during period	\$40,501	\$(15,775)	\$24,726
Reclassification adjustment for amounts recognized in net loss	(28,979)	11,287	(17,692)
Deferred tax valuation allowance allocated to equity	-	4,488	4,488
Unrealized holding gains on available for sale securities	\$11,522	\$-	\$11,522

Note 12. 401(k) Profit Sharing Plan

The Bank's employees are eligible to participate in The Bank of Southern Connecticut 401(k) Profit Sharing Plan (the "Plan") under Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of the Bank. Under the terms of the Plan, participants can contribute a discretionary percentage of compensation, with total annual contributions subject to Federal limitations. The Bank may make discretionary contributions to the Plan. Participants are immediately vested in their contributions and become fully vested in employer contributions after three years of service. There were no contributions made by the Company in 2010 or 2009.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Note 13. Segment Reporting

The Company had three reporting segments for purposes of reporting business line results, Community Banking, Mortgage Brokerage and the Holding Company during the year ended December 31, 2009 and for the seven months ended July 31, 2010. 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. Effective August 1, 2010 the Company discontinued its licensed mortgage brokerage business associated with Evergreen, however the Company expects to continue mortgage brokerage activities.

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

	Year Ended December 31, 2010				
	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	\$5,471,394	\$43,857	\$4,779	\$-	\$5,520,030
Provision for loan losses	2,037,115	-	-	-	2,037,115
Net interest income after provision for loan losses	3,434,279	43,857	4,779	-	3,482,915
Noninterest income	589,757	-	24,000	-	613,757
Noninterest expense	5,184,154	166,162	116,094	-	5,466,410
Net loss	(1,160,118)	(122,305)	(87,315)	-	(1,369,738)
Total assets as of December 31, 2010	151,550,904	99,881	14,302,678	(13,498,908)	152,454,555
	Year Ended December 31, 2009				
	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
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

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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

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 14. Financial Instruments with Off-Balance-Sheet Risk

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

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer 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, 2010 and December 31, 2009:

	December 31, 2010	December 31, 2009
Commitments to extend credit:		
Future loan commitments	\$ 700,000	\$ 5,054,000
Unused lines of credit	20,663,844	28,178,604
Financial standby letters of credit	3,355,769	3,358,597
Undisbursed construction loans	761,189	437,000
	\$ 25,480,802	\$ 37,028,201

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, 2010 and 2009 was not significant.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Note 15. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Company and the State of Connecticut Department of Banking categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since then, that management believes have changed the Bank's category.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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The Company's actual capital amounts and ratios at December 31, 2010 and December 31, 2009 were
(dollars in thousands):

December 31, 2010	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	\$15,971	11.91	%	\$10,730	8.00	%	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	14,281	10.65	%	5,365	4.00	%	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	14,281	9.00	%	6,344	4.00	%	N/A	N/A

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

The Bank's actual capital amounts and ratios at December 31, 2010 and December 31, 2009 were
(dollars in thousands):

December 31, 2010	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	\$14,914	11.20	%	\$10,657	8.00	%	\$13,321	10.00	%
Tier 1 Capital to Risk-Weighted Assets	13,235	9.94	%	5,329	4.00	%	7,993	6.00	%
Tier 1 (Leverage) Capital to Average Assets	13,255	8.39	%	6,308	4.00	%	7,885	5.00	%

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	%

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Restrictions on dividends, loans or advances

The Company's ability to pay cash dividends is dependent on the Bank's ability to pay dividends to the Company. However, certain restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. Regulatory approval is required to pay cash dividends in excess of the Bank's net earnings retained in the current year plus retained net earnings for the preceding two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements, and the Federal Reserve Board may impose further dividend restrictions on the Company. No such dividends were declared in 2010 or 2009.

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, 2010 and 2009, no loans or advances were made to the Company by the Bank.

Note 16. 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 2010 and 2009 are as follows:

	2010	2009
Balance, at beginning of year	\$ 1,006,463	\$ 798,574
Additional loans	1,685,664	869,972
Repayments	(1,131,684)	(662,083)
Other	(33,469)	-
Balance, end of year	\$ 1,526,974	\$ 1,006,463

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 \$4,081,900 and \$4,206,600 as of December 31, 2010 and 2009, respectively.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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Included in professional services for the year ended December 31, 2010 and 2009 was approximately \$102,000 and \$102,000, respectively, in consulting fees paid to the former Chairman, as well as \$68,100 and \$109,200, respectively, in professional fees incurred for services provided by an accounting firm (\$12,000 in 2010) and a law firm (\$56,100 in 2010 and \$109,200 in 2009), principals of which are directors of the Company. During 2010 and 2009, the Company paid approximately \$2,100 and \$1,200, respectively, for capital expenditures and maintenance to certain companies, principals of which are directors of the Company.

Note 17. 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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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 other real estate owned represents real estate acquired through foreclosure, both of which 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.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

The following tables detail the financial asset amounts that are carried at fair value and measured at fair value on a recurring basis as of December 31, 2010 and 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	\$ 1,749,726	\$ 1,749,726	\$ -	\$ -

	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agency Obligations - FNMA	\$ 2,113,733	\$ -	\$ 2,113,733	\$ -
U.S. Government Agency Mortgage Backed Securities	106,018	-	106,018	-
Available for sale securities	\$ 2,219,751	\$ -	\$ 2,219,751	\$ -

The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2010 and 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	\$ 3,370,154	\$ -	\$ -	\$ 3,370,154
	Balance as of December 31,	Quoted Prices in Active Markets for Identical	Significant Observable Inputs	Significant Unobservable Inputs

		Assets		
	2009	(Level 1)	(Level 2)	(Level 3)
Impaired loans (1)	\$3,097,995	\$-	\$-	\$ 3,097,995

(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, 2010 and 2009

The following tables detail the nonfinancial assets carried at fair value and measured at fair value on a nonrecurring basis as of December 31, 2010 and 2009, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of December 31, 2010	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	\$372,758	\$-	\$372,758	\$ -
Other real estate owned	\$127,453	\$-	\$-	\$ 127,453

	Balance as of December 31, 2009	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	\$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 2010 and 2009 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, 2010 and 2009

The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at December 31, 2010 and 2009, in thousands:

	December 31, 2010		December 31, 2009	
	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
Financial Assets:				
Cash and due from banks	\$12,194,212	\$12,194,212	\$2,541,557	\$2,541,557
Short-term investments	8,643,548	8,643,548	15,383,081	15,383,081
Interest bearing certificates of deposit	99,426	99,426	347,331	347,331
Available for sale securities	1,749,726	1,749,726	2,219,751	2,219,751
Federal Home Loan Bank stock	66,100	66,100	66,100	66,100
Loans receivable, net	124,857,040	128,265,000	109,865,195	111,191,000
Accrued interest receivable	504,706	504,706	480,497	480,497
Servicing rights	13,045	20,088	17,248	32,261
Interest only strips	16,415	12,198	22,176	26,709
Financial Liabilities:				
Noninterest-bearing deposits	29,970,070	29,970,070	29,834,836	29,834,836
Interest bearing checking accounts	5,611,458	5,611,458	8,604,111	8,604,111
Money market deposits	36,795,756	36,795,756	26,434,495	26,434,495
Savings deposits	2,579,585	2,579,585	2,383,404	2,383,404
Time certificates of deposits	60,864,590	62,155,000	50,298,696	51,377,000
Repurchase agreements	395,410	395,410	294,332	294,332
Accrued interest payable	227,483	227,483	201,789	201,789

Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate are insignificant at December 31, 2010 and 2009.

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, 2010 and 2009

Note 18. 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, 2010 and 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, 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 recorded \$24,000 in rental income on this property in 2010.