SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
August 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from ____________________________ to ____________________________

Commission file number: 0-49784

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

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

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

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

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

Yes x No o

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

Yes x No o

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

Large accelerated filer o Accelerated filer o

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

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

Yes o No x

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

Class	Outstanding as of August 13, 2012
Common Stock, $.01 par value per share	2,772,816 shares

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Part I – Financial Information

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Item 1. Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (unaudited)
June 30, 2012 and December 31, 2011

		June 30, 2012		December 31, 2011
ASSETS				
Cash and due from banks	$	9,775,930	$	18,167,794
Short term investments		6,065,606		6,764,409
Cash and cash equivalents		15,841,536		24,932,203
Interest bearing certificates of deposit		655,265		99,426
Available for sale securities (at fair value)		2,249,955		3,849,847
Federal Home Loan Bank stock		60,600		66,100
Loans receivable				
Loans receivable		106,271,992		113,943,767
Allowance for loan losses		(2,185,000)		(2,299,625)
Loans receivable, net		104,086,992		111,644,142
Accrued interest receivable		387,912		434,302
Premises and equipment		1,921,463		2,014,665
Other real estate owned		582,911		374,211
Other assets held for sale		315,000		315,000
Other assets		1,612,351		2,240,009
Total assets	$	127,713,985	$	145,969,905
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Deposits				
Noninterest bearing deposits	$	29,361,309	$	31,003,581
Interest bearing deposits		84,992,606		101,627,100
Total deposits		114,353,915		132,630,681
Repurchase agreements		172,285		68
Capital lease obligations		1,158,148		1,161,938
Accrued expenses and other liabilities		443,572		631,285
Total liabilities		116,127,920		134,423,972
Commitments and Contingencies				
Shareholders' Equity				
Preferred stock, no par value; shares authorized: 500,000; none issued		—		—
Common stock, par value $.01; shares authorized: 5,000,000; shares issued and outstanding: 2012 2,735,359; 2011 2,697,902		27,354		26,979
Additional paid-in capital		22,708,451		22,569,489

Accumulated deficit		(11,149,695)		(11,050,382)
Accumulated other comprehensive loss - net unrealized loss on available for sale securities		(45)		(153)
Total shareholders' equity		11,586,065		11,545,933
Total liabilities and shareholders' equity	$	127,713,985	$	145,969,905

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
For the Three Months and Six Months Ended June 30, 2012 and 2011

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest Income:				
Interest and fees on loans	$1,607,230	$1,805,410	$3,148,400	$3,622,756
Interest on securities	382	—	449	202
Interest on federal funds sold and short-term and other investments	9,578	26,909	26,542	44,498
Total interest income	1,617,190	1,832,319	3,175,391	3,667,456
Interest Expense:				
Interest expense on deposits	230,116	481,339	516,706	940,861
Interest expense on capital lease obligations	41,570	43,101	83,539	86,407
Interest expense on repurchase agreements and other borrowings	58	261	156	489
Total interest expense	271,744	524,701	600,401	1,027,757
Net interest income	1,345,446	1,307,618	2,574,990	2,639,699
Provision (credit) for loan losses	180,254	(77,044)	210,254	666,060
Net interest income after provision (credit) for loan losses	1,165,192	1,384,662	2,364,736	1,973,639
Noninterest Income:				
Service charges and fees	81,855	93,757	156,272	194,480
Loan prepayment fees	—	—	45,207	—
Other noninterest income	53,630	29,122	110,252	63,960
Total noninterest income	135,485	122,879	311,731	258,440
Noninterest Expenses:				
Salaries and benefits	722,765	679,831	1,526,876	1,379,673
Professional services	114,919	56,137	276,538	173,563
Occupancy and equipment	136,269	160,937	295,976	342,471
Data processing and other outside services	69,737	111,983	136,561	206,007
FDIC Insurance	51,956	56,424	107,406	117,364
Directors fees	42,650	85,350	79,200	161,700
Insurance	32,427	13,261	64,854	28,261
Other operating expenses	171,633	166,829	288,369	282,806
Total noninterest expenses	1,342,356	1,330,752	2,775,780	2,691,845
Net (loss) income	$(41,679)	$176,789	$(99,313)	$(459,766)
Basic and diluted (loss) income per share	$(0.02)	$0.07	$(0.04)	$(0.17)

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)
For the Three Months and Six Months Ended June 30, 2012 and 2011

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net (loss) income	$(41,679)	$176,789	$(99,313)	$(459,766)
Other comprehensive income, net of taxes:				
Net change in unrealized holding gain on available for sale securities	1,774	8	108	245
Comprehensive (loss) income	$(39,905)	$176,797	$(99,205)	$(459,521)

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
For the Six Months Ended June 30, 2012 and 2011

	Number of Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive (Loss) Income	Total
Balance, December 31, 2010	2,696,902	$26,969	$22,567,146	$(8,312,465)	$(274)	$14,281,376
Net loss	—	—	—	(459,766)	—	(459,766)
Other comprehensive income	—	—	—	—	245	245
Restricted stock compensation	1,000	10	2,343	—	—	2,353
Balance, June 30, 2011	2,697,902	$26,979	$22,569,489	$(8,772,231)	$(29)	$13,824,208
Balance, December 31, 2011	2,697,902	$26,979	$22,569,489	$(11,050,382)	$(153)	$11,545,933
Net loss	—	—	—	(99,313)	—	(99,313)
Other comprehensive income	—	—	—	—	108	108
Restricted stock compensation	37,457	375	138,962	—	—	139,337
Balance, June 30, 2012	2,735,359	$27,354	$22,708,451	$(11,149,695)	$(45)	$11,586,065

See Notes to Consolidated Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
For the Six Months Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operations		
Net loss	$(99,313)	$(459,766)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	—	(4)
Provision for loan losses	210,254	666,060
Share based compensation	139,337	2,353
Depreciation and amortization	115,901	135,604
Gain on sale of other real estate owned	(2,896)	—
Increase in cash surrender value of life insurance	(19,980)	(20,205)
Changes in assets and liabilities:		
Decrease in deferred loan fees	(31,136)	(1,074)
Decrease in accrued interest receivable	46,390	93,245
Decrease in other assets	647,638	22,034
Decrease in accrued expenses and other liabilities	(187,713)	(145,910)
Net cash provided by operating activities	818,482	292,337
Cash Flows From Investing Activities		
Purchases of interest bearing certificates of deposit	(555,839)	—
Proceeds from maturities of interest bearing certificates of deposits	—	13
Purchases of available for sale securities	(8,596,158)	(18,399,993)
Proceeds from maturities / calls of available for sale securities	10,196,158	16,900,000
Redemptions of Federal Home Loan Bank Stock	5,500	—
Net decrease in loans receivable	6,990,584	5,156,026
Purchases of premises and equipment	(22,699)	(8,243)
Proceeds from the sale of other real estate owned	181,644	—
Capitalized costs related to other real estate owned	—	(7,375)
Net cash provided by investing activities	8,199,190	3,640,428
Cash Flows From Financing Activities		
Net (decrease) increase in demand, savings and money market deposits	(5,351,116)	3,012,423
Net (decrease) increase in certificates of deposit	(12,925,650)	2,689,646
Net increase in repurchase agreements	172,217	57,030
Principal repayments on capital lease obligations	(3,790)	(3,415)
Net cash (used in) provided by financing activities	(18,108,339)	5,755,684
Net (decrease) increase in cash and cash equivalents	(9,090,667)	9,688,449
Cash and cash equivalents		
Beginning	24,932,203	20,837,760
Ending	$15,841,536	$30,526,209

See Notes to Consolidated Financial Statements (Continued)

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited), Continued
For the Six Months Ended June 30, 2012 and 2011

	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$736,675	$1,016,885
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Transfer of loans receivable to other real estate owned	$387,448	$858,550
Unrealized holding gains on available for sale securities arising during the period	$108	$245

See Notes to Consolidated Financial Statements

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

Note 1. Nature of Operations

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

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

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

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

Note 2. Basis of Financial Statement Presentation

The consolidated interim financial statements include the accounts of the Company and its subsidiaries. The consolidated interim financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. Amounts in prior period financial statements are reclassified whenever necessary to conform to current period presentations. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results which may be expected for the year as a whole. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of the Company and notes thereto as of December 31, 2011, filed with the Securities and Exchange Commission on Form 10-K on March 30, 2012. Certain amounts included in the

2011 consolidated financial statements have been reclassified to conform with the 2012 presentation. Such reclassification had no impact on net income (loss).

Note 3. Available for Sale Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair values of available for sale securities at June 30, 2012 and December 31, 2011 were as follows:

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$ 2,250,000	$ —	$ (45)	$ 2,249,955

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

The following 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 June 30, 2012 and 2011:

	Less Than 12 Months		12 Months or More		Total	
June 30, 2012	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Bills	$ 2,249,955	$ 45	$ —	$ —	$ 2,249,955	$ 45

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

At both June 30, 2012 and December 31, 2011, the Company had one available for sale security in an unrealized loss position.

Management believes that none of the unrealized losses on available for sale securities are other than temporary because all of the unrealized losses in the Company's investment portfolio are due to market interest rate changes on debt securities issued by U.S. government agencies. Management considers the issuers of the securities to be financially sound and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2012.

The amortized cost and fair value of available for sale debt securities at June 30, 2012 by contractual maturity are presented below:

	Amortized Cost	Fair Value
Maturity:		
Within one year	$ 2,250,000	$ 2,249,955

Note 4. Loans Receivable and Allowance for Loan Losses

A summary of the Company's loan portfolio at June 30, 2012 and December 31, 2011 was as follows:

	2012	2011
Commercial loans secured by real estate	$65,447,716	$67,248,165
Commercial	25,776,880	31,719,229
Residential mortgages	12,667,316	12,565,428
Construction and land	2,276,502	2,309,600
Consumer	206,038	234,941
Total loans	106,374,452	114,077,363
Net deferred loan fees	(102,460)	(133,596)
Allowance for loan losses	(2,185,000)	(2,299,625)
Loans receivable, net	$104,086,992	$111,644,142

The following table details the period end loan balances and the allowance for loan losses by portfolio segment that were collectively and individually evaluated for impairment as of June 30, 2012 and December 31, 2011.

June 30, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$63,530,590	$22,036,857	$11,945,100	$882,386	$206,038	$98,600,97
Loans individually evaluated for impairment	1,917,126	3,740,023	722,216	1,394,116	—	7,773,481
Total	$65,447,716	$25,776,880	$12,667,316	$2,276,502	$206,038	$106,374,4
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,197,231	$758,046	$199,995	$21,754	$3,576	$2,180,602
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$1,197,231	$762,444	$199,995	$21,754	$3,576	$2,185,000

December 31, 2011	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Period-end loan balances:						
Loans collectively evaluated for impairment	$65,146,824	$28,112,167	$12,010,750	$889,444	$233,481	$106,392,6
Loans individually evaluated for impairment	2,101,341	3,607,062	554,678	1,420,156	1,460	7,684,697
Total	$67,248,165	$31,719,229	$12,565,428	$2,309,600	$234,941	$114,077,3
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,122,699	$961,581	$187,224	$20,431	$3,292	$2,295,227
	—	4,398	—	—	—	4,398

Loans individually evaluated for impairment						
Balance at end of period	$1,122,699	$965,979	$187,224	$20,431	$3,292	$2,299,625

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The following table details activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories:

June 30, 2012	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,122,699	$ 965,979	$ 187,224	$ 20,431	$ 3,292	$ 2,299,625
Provision for loan losses	45,418	117,266	45,963	1,323	284	210,254
Loans charged-off	—	(384,027)	(33,192)	—	—	(417,219)
Recoveries of loans previously charged-off	29,114	63,226		—	—	92,340
Net recoveries (charge-offs)	29,114	(320,801)	(33,192)	—	—	(324,879)
Balance at end of period	$ 1,197,231	$ 762,444	$ 199,995	$ 21,754	$ 3,576	$ 2,185,000
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 1,197,231	$ 758,046	$ 199,995	$ 21,754	$ 3,576	$ 2,180,602
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$ 1,197,231	$ 762,444	$ 199,995	$ 21,754	$ 3,576	$ 2,185,000

June 30, 2011	Commercial Loans Secured by Real Estate	Commercial	Residential Mortgages	Construction and Land	Consumer	Total
Balance at beginning of year	$ 1,587,196	$ 821,981	$ 316,146	$ 55,182	$ 6,136	$ 2,786,641
Provision for (credit to) loan losses	522,487	205,384	(29,414)	(37,855)	5,458	666,060
Loans charged-off	(1,124,269)	(156,628)	—	—	(9,115)	(1,290,012)
Recoveries of loans previously charged-off	—	4,104	—	—	2,156	6,260
Net charge-offs	(1,124,269)	(152,524)	—	—	(6,959)	(1,283,752)
Balance at end of period	$ 985,414	$ 874,841	$ 286,732	$ 17,327	$ 4,635	$ 2,168,949
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$ 707,157	$ 696,688	$ 132,795	$ 17,327	$ 4,635	$ 1,558,602
Loans individually evaluated for impairment	278,257	178,153	153,937	—	—	610,347
Balance at end of period	$ 985,414	$ 874,841	$ 286,732	$ 17,327	$ 4,635	$ 2,168,949

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

The following tables relate to impaired loans as of June 30, 2012 and as of December 31, 2011:

June 30, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial loans secured by real estate	$ 1,888,012	$ 1,917,126	$ —	$ 1,917,126	$ —
Commercial	4,060,824	2,072,145	1,667,878	3,740,023	4,398
Construction and land	1,394,116	1,394,116	—	1,394,116	—
Residential mortgages	755,408	722,216	—	722,216	—
Consumer	—	—	—	—	—
Total	$ 8,098,360	$ 6,105,603	$ 1,667,878	$ 7,773,481	$ 4,398

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

The following tables relate to interest income recognized by class of impaired loans as of and for the six months ended June 30, 2012 and 2011:

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans secured by real estate	$ 2,131,753	$ 41,035	$ 3,446,949	$ 60,908
Commercial	3,733,465	38,418	1,473,522	7,766
Construction and land	1,407,061	25,205	1,000,000	—
Residential mortgages	695,715	5,168	724,848	8,186
Consumer	532	14	—	—
Total	$ 7,968,526	$ 109,840	$ 6,645,319	$ 76,860

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

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

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

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

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

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

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

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

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

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 the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

At June 30, 2012 and December 31, 2011, the unpaid principal balances of loans placed on nonaccrual status were $5,010,913 and $5,785,355, respectively. At June 30, 2012, three commercial loans with an aggregate principal balance of $1,926,498 and two commercial real estate loans with an aggregate principal balance of $1,359,953 were considered to be troubled debt restructurings. There are no further commitments to lend funds to these borrowers. Accruing loans contractually past due 90 days or more were $134,902 at June 30, 2012. There were no loans past due 90 days or more and still accruing interest at December 31, 2011.

Nonaccrual loans segregated by class of loans as of June 30, 2012 and December 31, 2011 were as follows:

	2012	2011
Commercial loans secured by real estate	$ 822,436	$ 2,101,341
Commercial	2,072,145	1,707,720
Construction and land	1,394,116	1,420,156
Residential mortgages	722,216	554,678
Consumer	—	1,460
	$ 5,010,913	$ 5,785,355

An age analysis of past due loans, segregated by class of loans, as of June 30, 2012 and December 31, 2011 were as follows:

June 30, 2012	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
	$ 3,029,213	$ 822,436	$ 3,851,649	$ 61,596,067	$ 65,447,716	$ —

Commercial loans secured by real estate						
Commercial	5,762	2,155,088	2,160,850	23,616,030	25,776,880	82,943
Residential mortgages	—	722,216	722,216	11,945,100	12,667,316	—
Construction and land	—	1,394,116	1,394,116	882,386	2,276,502	—
Consumer	—	51,959	51,959	154,079	206,038	51,959
	$ 3,034,975	$ 5,145,815	$ 8,180,790	$ 98,193,662	$ 106,374,452	$ 134,902

December 31, 2011	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Commercial loans secured by real estate	$ 128,384	$ 2,101,341	$ 2,229,725	$ 65,018,440	$ 67,248,165	$ —
Commercial	1,052,990	1,707,720	2,760,710	28,958,519	31,719,229	—
Residential mortgages	211,562	554,678	766,240	11,799,188	12,565,428	—
Construction and land	—	1,420,156	1,420,156	889,444	2,309,600	—
Consumer	—	1,460	1,460	233,481	234,941	—
	$ 1,392,936	$ 5,785,355	$ 7,178,291	$ 106,899,072	$ 114,077,363	$ —

Troubled Debt Restructurings. The recorded investment balance of TDRs, net of charge-offs, as of June 30, 2012 and December 31, 2011 was $3,286,000 and $3,213,000, respectively. At June 30, 2012, this recorded investment balance included $1,095,000 for a commercial and industrial loan which returned to accrual status during the quarter ended June 30, 2012, as it had performed in accordance with the terms and conditions of its restructuring agreement for a period of one year. At both June 30, 2012 and December 31, 2011, there was a $4,398 specific reserve related to one TDR. There were no charge-offs of TDRs during the three and six months ended June 30, 2012 and 2011. There were no additional funds committed to borrowers in TDR status at June 30, 2012.

The following table provides information on loans modified as TDRs during the six months ended June 30, 2012:

	For the Six Months Ended June 30, 2012			
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Coupon Rate
Commercial	2	$ 428,228	$ 428,228	1.12 %

The following table provides information on how loans were modified as TDRs during the six months ended June 30, 2012:

	2012
Extended maturity	$ 79,617
Adjusted interest rates	348,611
Total	$ 428,228

There were no loans previously modified as a TDR for which there was a payment default during the six months ended June 30, 2012.

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

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

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

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

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

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

The following table presents credit risk ratings by class of loan as of June 30, 2012 and December 31, 2011:

June 30, 2012	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$52,203,513	$19,392,802	$ 882,386	$11,945,100	$206,038	$84,629,839
Special Mention	9,897,872	746,979	—	—	—	10,644,851
Substandard	3,346,331	5,637,099	1,394,116	722,216	—	11,099,762
Total	$65,447,716	$25,776,880	$ 2,276,502	$12,667,316	$206,038	$106,374,452

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

Note 5. Deposits

At June 30, 2012 and December 31, 2011, deposits consisted of the following:

	2012	2011
Noninterest bearing	$ 29,361,309	$ 31,003,581
Interest bearing:		
Checking	5,646,296	5,149,535
Money Market	43,289,095	47,728,069
Savings	3,072,105	2,838,736
Time certificates, less than $100,000 (1)	12,033,754	19,657,059
Time certificates, $100,000 or more (2)	20,951,356	26,253,701
Total interest bearing	84,992,606	101,627,100
Total deposits	$ 114,353,915	$ 132,630,681

(1) Included in time certificates of deposit, less than $100,000, at June 30, 2012 and December 31, 2011 were brokered deposits totaling $553,926 and $3,976,764, respectively.

(2) Included in time certificates of deposit, $100,000 or more, at June 30, 2012 and December 31, 2011 were brokered deposits totaling $4,295,236 and $5,119,113, respectively.

Brokered deposits at June 30, 2012 and December 31, 2011 were as follows:

	2012	2011

Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$	4,387,893	$	4,161,974
Time certificates of deposit purchased by the Bank through CDARS		275,117		2,180,568
Other brokered time certificates of deposit		186,152		2,753,335
Total brokered deposits	$	4,849,162	$	9,095,877

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

Note 6. Available Borrowings

The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). At June 30, 2012, the Bank had the ability to borrow from the FHLB based on a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no borrowings outstanding with the FHLB at June 30, 2012.

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

The FHLB incurred losses in 2008 and 2009 and suspended the payment of dividends and excess stock redemptions during those years. The losses suffered during 2008 and 2009 were primarily attributable to impairment of investment securities associated with the extreme economic conditions in place during those years. The FHLB announced in February 2011 that it was profitable during 2010 and reinstated dividend payments in 2011. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. More consideration was given to the long-term prospects for the FHLB as opposed to the recent stress caused by the current extreme economic conditions. Management also considered that the FHLB's regulatory capital ratios have increased from the prior year, liquidity appears adequate, and new shares of FHLB Stock continue to trade at the $100 par value.

Note 7. Shareholders' Equity

Income (Loss) Per Share

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

The following is information about the computation of (loss) income per share for the three months and six months ended June 30, 2012 and 2011:

Three Months Ended June 30,	2012			2011		
	Net Loss	Weighted Average Shares	Amount Per Share	Net Income	Weighted Average Shares	Amount Per Share
Basic (Loss) Income Per Share						
(Loss) income available to common shareholders	$(41,679)	2,735,359	$(0.02)	$176,789	2,697,407	$0.07
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	—	—	—	495	—
Diluted Loss Income Per Share						
(Loss) income available to common shareholders plus assumed conversions	$(41,679)	2,735,359	$(0.02)	$176,789	2,697,902	$0.07

For the three months ended June 30, 2012, common stock equivalents of 74,914 shares have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Six Months Ended June 30,	2012			2011		
	Net Loss	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Loss Per Share						
Loss available to common shareholders	$(99,313)	2,723,422	$(0.04)	$(459,766)	2,697,156	$(0.17)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	—	—	—	—	—
Diluted Loss Per Share						
Loss available to common shareholders plus assumed conversions	$(99,313)	2,723,422	$(0.04)	$(459,766)	2,697,156	$(0.17)

For the six months ended June 30, 2012 and 2011, common stock equivalents of 51,040 shares and 746 shares, respectively, have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

Restricted stock plan

A summary of the status of the Company's nonvested restricted stock at June 30, 2012 and changes during the period then ended, is as follows:

	2012	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock at beginning of the year	—	$ —
Granted	112,371	1.55
Vested and issued	(37,457)	1.55
Forfeited	—	—
Nonvested restricted stock at June 30, 2012	74,914	1.55

For the six months ended June 30, 2012, there were 112,371 shares of time-based restricted stock granted to senior management. During the six months ended June 30, 2012, $139,337 of compensation cost related to restricted stock awards was recognized. As of June 30, 2012, there was $34,835 of unrecognized compensation cost related to non-vested restricted stock awards expected to be recognized over the remaining vesting period of less than one year. Of the 112,371 shares of restricted common stock, 37,457 shares vested on February 28, 2012, 37,457 shares vested on July 1, 2012 and the remaining 37,457 shares of restricted common stock will vest on January 1, 2013.

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

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

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

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

Financial instruments whose contract amounts represent credit risk at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012	December 31, 2011
Commitments to extend credit:		
Future loan commitments	$ 2,860,000	$ 1,565,000
Unused lines of credit	14,546,460	17,569,186
Financial standby letters of credit	2,279,806	3,083,828
Undisbursed construction loans	508,827	508,827

	$ 20,195,093	$ 22,726,841

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 June 30, 2012 and December 31, 2011 was not significant.

Note 9. Fair Value

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

Cash and due from banks, 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. 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 are classified as Level 1 within the fair value hierarchy.

Available for sale securities

These financial instruments are recorded at fair value in the financial statements on a recurring basis. Where quoted prices are available in an active market, 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 and common stock. Securities classified within level 3 of the valuation hierarchy are securities for which significant unobservable inputs are utilized. Available for sale securities are recorded at fair value on a recurring basis.

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

Loans receivable

For variable rate loans that reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using estimated period end market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the 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.

At June 30, 2012 and December 31, 2011, the Company’s collateral dependent loans receivable considered impaired that were newly measured for fair value purposes during such periods, were categorized as Level 3 within the fair value hierarchy, and the balances, net of related specific reserves, were $609,149 and $3,678,296, respectively. The remainder of the balance of loans receivable is classified as Level 2 within the fair value hierarchy.

Servicing assets

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

Other assets held for sale and other real estate owned

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

Other assets – derivative financial instruments

Derivative financial instruments represent an equity warrant asset held by the Bank which entitled the Bank to acquire stock in the issuer, a publicly traded company. The Bank held this asset for prospective investment gains. The Bank did not use it to hedge any economic risks nor does it use other derivative instruments to hedge economic risks. The equity warrant asset was recorded at fair value and classified as a derivative asset, which is a component of other assets, on the Company's consolidated balance sheet at December 31, 2011. The Company classified the other assets – derivative financial instruments as Level 2 within the fair value hierarchy.

Interest only strips

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

Deposits

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

Off-balance-sheet instruments

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

The following tables detail the financial instruments carried at fair value and measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$2,249,955	$2,249,955	$ -	$ -

	Balance	Quoted Prices in	Significant Observable	Significant Unobservable

	as of December 31, 2011	Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
U.S. Treasury Bills	$ 3,849,847	$3,849,847	$-	$ -
Other Assets - derivatives	$ 86,434	$-	$86,434	$ -

The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of June 30, 2012 and December 31, 2011 and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Balance as of June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets held at fair value				
Impaired loans (1)	$ 609,149	$-	$-	$ 609,149

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

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

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

The estimated fair value amounts as of June 30, 2012 and December 31, 2011 have been measured as of their respective periods and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than amounts reported at such reporting dates.

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.

The following is a summary of the recorded book balances and estimated fair values of the Company's financial instruments at June 30, 2012 and December 31, 2011:

		June 30, 2012		December 31, 2011	
	Fair Value Hierarachy Level	Recorded Book Balance	Fair Value	Recorded Book Balance	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$9,775,930	$9,775,930	$18,167,794	$18,167,794
Short-term investments	Level 1	6,065,606	6,065,606	6,764,409	6,764,409
Interest bearing certificates of deposit	Level 1	655,265	655,265	99,426	99,426
Available for sale securities	Level 1	2,249,955	2,249,955	3,849,847	3,849,847
Federal Home Loan Bank stock	Level 1	60,600	60,600	66,100	66,100
Loans receivable, net:					
Observable inputs	Level 2	99,076,079	101,265,087	106,893,215	109,691,073
Unobservable inputs	Level 3	5,010,913	5,010,913	4,750,927	4,750,927
Accrued interest receivable	Level 1	387,912	387,912	434,302	434,302
Servicing rights	Level 2	6,925	17,400	7,991	20,079
Interest only strips	Level 2	8,964	14,459	10,364	16,717
Derivative financial instruments	Level 2	-	-	86,434	86,434