PUTNAM MANAGED MUNICIPAL INCOME TRUST
Form DEF 14A
August 21, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant / X /

Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement

/ / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

/ X / Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to Sec. 240.14a-12

PUTNAM MANAGED MUNICIPAL INCOME TRUST

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement,
if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Vote today

Please vote on matters affecting your investment in Putnam Managed Municipal Income Trust.

Turn the page to read an urgent message from your fund's President and Chair.

A Message from the President and Chair

Putnam Managed Municipal Income Trust

August 21, 2013

Dear Fellow Shareholder:

We are writing to ask for your vote on an important matter affecting your investment in Putnam Managed Municipal Income Trust. While you are, of course, welcome to join us at your fund's meeting, most shareholders cast their vote by filling out and signing the enclosed proxy card(s) or voting over the Internet. Voting by telephone is also available for shares held in the account of a bank, broker, or other financial intermediary on behalf of a shareholder. We are asking for your vote on the following matters.

Fixing the number of Trustees at 14 and electing your fund's nominees for Trustees.

Although Trustees do not manage fund portfolios, they play an important role in protecting shareholders, and are responsible for approving the fees paid to your fund's investment adviser and its affiliates, reviewing overall fund expenses, selecting the fund's auditors, monitoring conflicts of interest, overseeing the fund's compliance with federal securities laws and voting proxies for the fund's portfolio securities. More than three-quarters of your fund's Trustees currently are independent of the fund and Putnam Investments.

Please vote today.

Your vote is important to us. Delaying your vote will increase fund expenses if further mailings are required. If you vote by telephone (only for shares held in the account of a bank, broker, or other financial intermediary on behalf of a shareholder) or over the Internet, or complete and return your proxy card(s), your shares will be voted on your behalf exactly as you have instructed. If you simply sign and return your proxy card(s), your shares will be voted in accordance with the Trustees' recommendations.

We appreciate your attention to this important matter. If you have questions about these proposals, please call a customer service representative at 1-800-225-1581 or contact your financial advisor.

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PROXY CARD(S) ENCLOSED

If you have any questions, please contact a customer service representative at 1-800-225-1581 or call your financial advisor.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on September 19, 2013.

The proxy statement for this meeting is available at www.proxyonline.us.com/docs/pmm.pdf

Notice of Annual Meeting of Shareholders

To the Shareholders of Putnam Managed Municipal Income Trust:

This is the formal agenda for your fund's shareholder meeting. It tells you what proposals will be voted on and the time and place of the meeting, in the event you attend in person.

The Annual Meeting of Shareholders of your fund will be held on September 19, 2013 at 11:00 a.m., Eastern time, at the principal offices of the fund on the 8th floor of One Post Office Square, Boston, Massachusetts 02109, to consider the following proposals:

1a. Fixing the number of Trustees at 14. See page 7.

1b. Electing your fund's Trustees. See page 7.

By Michael J. Higgins, Clerk, and by the Trustees

In order for you to be represented at your fund's shareholder meeting, we urge you to record your voting instructions over the Internet or to mark, sign, date, and mail the enclosed proxy card(s) in the postage-paid envelope provided. Voting by telephone is also available for shares held in the account of a bank, broker, or other financial intermediary on behalf of a shareholder.

August 21, 2013

Proxy Statement

This document will give you the information you need to vote on the proposals. Much of the information is required under rules of the Securities and Exchange Commission ("SEC"); some of it is technical. If there is anything you don't understand, please contact a customer service representative toll-free at 1-800-225-1581, or call your financial advisor.

Who is asking for your vote?

Your vote is being solicited by the Board of Trustees of Putnam Managed Municipal Income Trust (the "Board") for use at the Annual Meeting of Shareholders of the fund to be held on September 19, 2013 (the "Meeting"), and, if your fund's Meeting is adjourned, at any later session of the Meeting, for the purposes stated in the Notice of Annual Meeting of Shareholders (see page 5). The Notice of Annual Meeting of Shareholders, the enclosed proxy card(s) and this proxy statement are being mailed on or about August 21, 2013.

How do your fund's Trustees recommend that shareholders vote on these proposals?

The Trustees recommend that you vote as follows on the proposals included in the Notice of Annual Meeting of Shareholders:

1a. FOR fixing the number of Trustees at 14.

1b. FOR electing your fund's nominees for Trustees.

Who is eligible to vote?

Shareholders of record at the close of business on June 27, 2013 (the "Record Date") are entitled to be present and to vote at the Meeting or at any adjourned session of the Meeting.

Each share is entitled to one vote. Unless otherwise noted, the holders of your fund's preferred shares and holders of your fund's common shares will vote together as a single class. Shares represented by a duly executed proxy will be voted in accordance with your instructions. If a duly executed proxy is submitted without filling in a vote on a proposal, your shares will be voted in accordance with the Trustees' recommendations. If any other matters properly come before the Meeting, if a duly executed proxy was submitted, your shares will be voted on such matters in accordance with the judgment of the persons designated on the enclosed proxy card(s).

The Proposals

1a. FIXING THE NUMBER OF TRUSTEES AT 14

The fund's Amended and Restated Agreement and Declaration of Trust (the "Declaration of Trust") states that shareholders shall fix the number of Trustees on the fund's Board at each annual meeting. The Board, based on the recommendation of the Board Policy and Nominating Committee, recommends that shareholders fix the number of Trustees on your fund's Board at 14. The Board also recommends that shareholders vote to elect its 14 Trustee nominees, as described below in **Proposal 1b**.

If a quorum is present at the Meeting, a plurality vote, meaning the greatest number of affirmative votes cast by the holders of the preferred and common shares voting together as a single class, will fix the number of Trustees for the fund. Neither abstentions nor broker non-votes, if any, will have an effect on the outcome of **Proposal 1a**. Each common shareholder and each preferred shareholder will be entitled to one vote for each share held.

The Trustees of your fund unanimously recommend that shareholders vote "FOR" fixing the number of Trustees at 14.

1b. ELECTION OF TRUSTEES

The Board Policy and Nominating Committee of the Board is responsible for making recommendations concerning the nominees for Trustees of your fund. The Board Policy and Nominating Committee consists solely of Trustees who are not "interested persons" (as defined in the Investment Company Act of 1940, as amended, the "1940 Act") of your fund or of Putnam Investment Management, LLC, your fund's investment manager ("Putnam Management"). Those Trustees who are not "interested persons" of your fund or Putnam Management are referred to as "Independent Trustees" throughout this proxy statement.

The Fund's Nominees.

The fund's Declaration of Trust requires that shareholders elect the fund's Trustees by a plurality vote at the fund's annual meeting. The Board, based on the recommendation of the Board Policy and Nominating Committee, recommends that shareholders vote for the election of the nominees described in the following pages.

Pursuant to the Bylaws of your fund and the 1940 Act, holders of the preferred shares of your fund, voting as a separate class, are entitled to elect two nominees for Trustees. Messrs. Hill and Patterson have been nominated to be elected as Trustees by the holders of the preferred shares, while the other 12 nominees have been nominated to be elected by the holders of the preferred shares and common shares voting together as a single class. Each of the fund's nominees is currently a Trustee of your fund and of the other Putnam funds.

Biographical Information For The Fund's Nominees.

The Board's nominees for Trustees and their backgrounds are shown in the following pages. This information includes each nominee's name, year of birth, principal occupation(s) during the past 5 years, and other information about the nominee's professional background, including other directorships the nominee holds. Please refer to pages 25–26 for a discussion of why the Trustees of your fund unanimously recommend that shareholders vote "FOR" the election of the Board's nominees. The address of all of the Trustees is One Post Office Square, Boston, Massachusetts 02109. As of June 30, 2013, there were 116 Putnam funds.

Independent Trustees For Election By All Shareholders

Liaquat Ahamed (Born 1952)
Trustee since 2012

Mr. Ahamed is the Pulitzer Prize-winning author of *Lords of Finance: The Bankers Who Broke the World*. His articles on economics have appeared in the *New York Times, Foreign Affairs*, and the *Financial Times*.

Mr. Ahamed serves as a director of Aspen Insurance Co., a New York Stock Exchange company, and is the Chair of the Aspen Board's Investment Committee. He is a Trustee of the Brookings Institution, where he serves as Chair of the Investment Committee. He is also a director of the Rohatyn Group, an emerging-market fund complex that manages money for institutions. Mr. Ahamed was previously the Chief Executive Officer of Fischer Francis Trees & Watts, Inc., a fixed income investment management subsidiary of BNP Paribas. He was formerly the head of the investment division at the World Bank, and is a member of the Foreign Affairs Policy Board of the U.S. Department of State.

Mr. Ahamed holds a B.A. in economics from Trinity College, Cambridge University and an M.A. in economics from Harvard University.

Ravi Akhoury (Born 1947)
Trustee since 2009

Mr. Akhoury serves as a Trustee of the Rubin Museum, serving on the Investment Committee, and of the American India Foundation. Mr. Akhoury is also a Director of RAGE Frameworks, Inc. and English Helper, Inc. (each a private software company).

Previously, Mr. Akhoury served as a Director of Jacob Ballas Capital India (a non-banking finance company focused on private equity advisory services) and a member of its Compensation Committee. He was also a Director and on the Compensation Committee of MaxIndia/New York Life Insurance Company in India. He was also Vice President and Investment Policy Committee member of Fischer Francis Trees & Watts, Inc., a fixed income investment management firm. He has also served on the Board of Bharti

Telecom (an Indian telecommunications company), serving as a member of its Audit and Compensation Committees, and as a Director and member of the Audit Committee on the Board of Thompson Press (a publishing company). From 1992 to 2007, he was Chairman and CEO of MacKay Shields, a multi-product investment management firm with over $40 billion in assets under management.

Mr. Akhoury graduated from the Indian Institute of Technology with a B.S. in Engineering and obtained an M.S. in Quantitative Methods from SUNY at Stony Brook.

Barbara M. Baumann (Born 1955)
Trustee since 2010

Ms. Baumann is President and Owner of Cross Creek Energy Corporation, a strategic consultant to domestic energy firms and direct investor in energy projects.

Ms. Baumann currently serves as a Director of SM Energy Company (a publicly held U.S. exploration and production company) and UNS Energy Corporation (a publicly held electric and gas utility in Arizona). She is a Director of Cody Resources Management, a private company in the energy and ranching businesses. Ms. Baumann is a Trustee of Mount Holyoke College. She is the former Chair of the Board and a current Board member of Girls Inc. of Metro Denver, and serves on the Finance Committee of The Children's Hospital of Colorado, as well as the

Investment Committee of The Denver Foundation. Until May 2012, Ms. Baumann was a Director of CVR Energy (a publicly held petroleum refiner and fertilizer manufacturer).

Prior to 2003, Ms. Baumann was Executive Vice President of Associated Energy Managers, a domestic private equity firm. From 1981 until 2000, she held a variety of financial and operational management positions with the global energy company Amoco Corporation and its successor, BP, most recently serving as Commercial Operations Manager of its Western Business Unit.

Ms. Baumann holds an M.B.A. from The Wharton School of the University Pennsylvania and a B.A. from Mount Holyoke College.

Jameson A. Baxter (Born 1943)
Trustee since 1994, Vice Chair from 2005 to 2011 and Chair since 2011

Ms. Baxter is the President of Baxter Associates, Inc., a private investment firm.

Ms. Baxter serves as Chair of the Mutual Fund Directors Forum, Director of the Adirondack Land Trust and Trustee of the Nature Conservancy's Adirondack Chapter. Until 2011, Ms. Baxter was a director of ASHTA Chemical, Inc. Until 2007, she was a Director of Banta Corporation (a printing and supply chain management company), Ryerson, Inc. (a metals service corporation), and Advocate Health Care. She has also served as a director on a number of other boards, including BoardSource (formerly

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the National Center for Nonprofit Boards), Intermatic Corporation (a manufacturer of energy control products), and MB Financial. She is Chair Emeritus of the Board of Trustees of Mount Holyoke College, having served as Chair for five years.

Ms. Baxter has held various positions in investment banking and corporate finance, including Vice President of and Consultant to First Boston Corporation and Vice President and Principal of the Regency Group. She is a graduate of Mount Holyoke College.

Charles B. Curtis (Born 1940)
Trustee since 2001

Mr. Curtis serves as Senior Advisor to the Center for Strategic and International Studies. He is President Emeritus of the Nuclear Threat Initiative (a private foundation dealing with national security issues).

Mr. Curtis is a member of the Council on Foreign Relations and the U.S. State Department International Security Advisory Board. He also serves as a Director of Edison International and Southern California Edison.

Mr. Curtis is an attorney with over 15 years in private practice and 19 years in various positions in public service, including service at the Department of Treasury, the U.S. House of Representatives, the Securities and Exchange Commission, the Federal Energy Regulatory Commission and the Department of Energy.

Robert J. Darretta (Born 1946)
Trustee since 2007

Mr. Darretta serves as Director of UnitedHealth Group, a diversified health-care company.

From 2009-2012, Mr. Darretta served as the Health Care Industry Advisor to Permira, a global private equity firm. Until April 2007, Mr. Darretta was Vice Chairman of the Board of Directors of Johnson & Johnson, one of the world's largest and most broadly based health-care companies. Prior to 2007, he had responsibility for Johnson & Johnson's finance, investor relations, information technology, and procurement functions. He served as Johnson & Johnson Chief Financial Officer for a decade, prior to which he spent two years as Treasurer of the corporation and over 10 years leading various Johnson & Johnson operating companies.

Mr. Darretta received a B.S. in Economics from Villanova University.

Katinka Domotorffy (Born 1975)
Trustee since 2012

Ms. Domotorffy is a voting member of the Investment Committee of the Anne Ray Charitable Trust, part of the Margaret A. Cargill Philanthropies. She also serves as the Vice Chair of Reach Out and Read of Greater New York, an organization dedicated to promoting childhood literacy.

Until December 2011, Ms. Domotorffy was Partner, Chief Investment Officer, and Global Head of Quantitative Investment Strategies at Goldman Sachs Asset Management.

Ms. Domotorffy holds a BSc in Economics from the University of Pennsylvania and an MSc in Accounting and Finance from the London School of Economics.

Paul L. Joskow (Born 1947)
Trustee since 1997

Dr. Joskow is an economist and President of the Alfred P. Sloan Foundation (a philanthropic institution focused primarily on research and education on issues related to science, technology, and economic performance). He is the Elizabeth and James Killian Professor of Economics, Emeritus at the Massachusetts Institute of Technology (MIT), where he joined the faculty in 1972. Dr. Joskow was the Director of the Center for Energy and Environmental Policy Research at MIT from 1999 through 2007.

Dr. Joskow serves as a Trustee of Yale University, as a Director of TransCanada Corporation (an energy company focused on natural gas transmission, oil pipelines, and power services) and of Exelon Corporation (an energy company focused on power services), and as a member of the Board of Overseers of the Boston Symphony Orchestra. Prior to August 2007, he served as a Director of National Grid (a UK-based holding company with interests in electric and gas transmission and distribution and telecommunications infrastructure). Prior to July 2006, he served as President of the Yale University Council. Prior to February 2005, he served on the Board of the Whitehead Institute for Biomedical Research (a non-profit research institution). Prior to February 2002, he was a Director of State Farm Indemnity Company (an automobile insurance company), and prior to March 2000, he was a Director of New England Electric System (a public utility holding company).

Dr. Joskow has published seven books and numerous articles on industrial organization, government regulation of industry, and competition policy. He is active in industry restructuring, environmental, energy, competition, and privatization policies — having served as an advisor to governments and corporations worldwide. Dr. Joskow holds a Ph.D. and M.Phil. from Yale University and a B.A. from Cornell University.

Kenneth R. Leibler (Born 1949) T
rustee since 2006

Mr. Leibler is a founder and former Chairman of the Boston Options Exchange, an electronic marketplace for the trading of derivative securities.

Mr. Leibler currently serves on the Board of Trustees of Beth Israel Deaconess Hospital in Boston. He is also a Director of Northeast Utilities, which operates New England's largest energy delivery system, and, until November 2010, was a Director of Ruder Finn Group, a global communications and advertising firm. Prior to December 2006, he served as a Director of the Optimum Funds group. Prior to October 2006, he

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served as a Director of ISO New England, the organization responsible for the operation of the electric generation system in the New England states. Prior to 2000, Mr. Leibler was a Director of the Investment Company Institute in Washington, D.C.

Prior to January 2005, Mr. Leibler served as Chairman and Chief Executive Officer of the Boston Stock Exchange. Prior to January 2000, he served as President and Chief Executive Officer of Liberty Financial Companies, a publicly traded diversified asset management organization. Prior to June 1990, Mr. Leibler served as President and Chief Operating Officer of the American Stock Exchange (AMEX), and at the time was the youngest person in AMEX history to hold the title of President. Prior to serving as AMEX President, he held the position of Chief Financial Officer, and headed its management and marketing operations. Mr. Leibler graduated with a degree in Economics from Syracuse University.

George Putnam, III (Born 1951)
Trustee since 1984

Mr. Putnam is Chairman of New Generation Research, Inc. (a publisher of financial advisory and other research services), and President of New Generation Advisors, LLC (a registered investment adviser to private funds). Mr. Putnam founded the New Generation companies in 1986.

Mr. Putnam is a Director of The Boston Family Office, LLC (a registered investment adviser). He is a Trustee of Epiphany School and a Trustee of the Marine Biological Laboratory in Woods Hole, Massachusetts. Prior to June 2007, Mr. Putnam was President of the Putnam funds. Until 2010, he was a Trustee of St. Mark's School, until 2006, he was a Trustee of Shore Country Day School, and until 2002, he was a Trustee of the Sea Education Association.

Mr. Putnam previously worked as an attorney with the law firm of Dechert LLP (formerly known as Dechert Price & Rhoads) in Philadelphia. He is a graduate of Harvard College, Harvard Business School, and Harvard Law School.

W. Thomas Stephens (Born 1942)
Trustee from 1997 to 2008, and since 2009

Mr. Stephens retired as Chairman and Chief Executive Officer of Boise Cascade, LLC (a paper, forest products and timberland assets company) in December 2008.

Mr. Stephens is a Director of TransCanada Pipelines, Ltd. (an energy infrastructure company). Until 2010, Mr. Stephens was a Director of Boise Inc. (a manufacturer of paper and packaging products). Until 2004, Mr. Stephens was a Director of Xcel Energy Incorporated (a public utility company), Qwest Communications and Norske Canada, Inc. (a paper manufacturer). Until 2003, Mr. Stephens was a Director of Mail-Well, Inc. (a diversified printing company). He served as Chairman of Mail-Well until 2001 and as CEO of MacMillan-Bloedel, Ltd. (a forest products company) until 1999.

Prior to 1996, Mr. Stephens was Chairman and Chief Executive Officer of Johns Manville Corporation (a manufacturing company). He holds B.S. and M.S. degrees from the University of Arkansas.

Interested Trustee For Election By All Shareholders*

Robert L. Reynolds (Born 1952)
Trustee since 2008 and President of the Putnam Funds since July 2009

Mr. Reynolds is President and Chief Executive Officer of Putnam Investments, a member of Putnam Investments' Executive Board of Directors, and President of the Putnam funds. He has more than 30 years of investment and financial services experience.

Prior to joining Putnam Investments in 2008, Mr. Reynolds was Vice Chairman and Chief Operating Officer of Fidelity Investments from 2000 to 2007. During this time, he served on the Board of Directors for FMR Corporation, Fidelity Investments Insurance Ltd., Fidelity Investments Canada Ltd., and Fidelity Management Trust Company. He was also a Trustee of the Fidelity Family of Funds. From 1984 to 2000, Mr. Reynolds served in a number of increasingly responsible leadership roles at Fidelity.

Mr. Reynolds serves on several not-for-profit boards, including those of the West Virginia University Foundation, Concord Museum, Dana-Farber Cancer Institute and Boston Chamber of Commerce. He is a member of the Chief Executives Club of Boston, the National Innovation Initiative, and the Council on Competitiveness, and he is a former President of the Commercial Club of Boston.

Mr. Reynolds received a B.S. in Business Administration with a major in Finance from West Virginia University.

* Trustee who is an "interested person" (as defined in the 1940 Act) of the fund and Putnam Management. Mr. Reynolds is deemed an "interested person" by virtue of his position as an officer of the fund and Putnam Management. Mr. Reynolds is the President and Chief Executive Officer of Putnam Investments and the President of your fund and each of the other Putnam funds.

Independent Trustees For Election By Preferred Shareholders Only

John A. Hill (Born 1942)
Trustee since 1985 and Chairman from 2000 to 2011

Mr. Hill is founder and Vice-Chairman of First Reserve Corporation, the leading private equity buyout firm specializing in the worldwide energy industry, with offices in Greenwich, Connecticut; Houston, Texas; London, England; and Hong Kong, China. The firm's investments on behalf of some of the nation's largest pension and

endowment funds are currently concentrated in 31 companies with annual revenues in excess of $15 billion, which employ over 100,000 people in 23 countries.

Mr. Hill is a Director of Devon Energy Corporation (a leading independent natural gas and oil exploration and production company) and various private companies owned by First Reserve, and serves as a Trustee of Sarah Lawrence College where he serves as Chairman and also chairs the Investment Committee. He is also a member of the Advisory Board of the Millstein Center for Global Markets and Corporate Ownership at The Columbia University Law School.

Prior to forming First Reserve in 1983, Mr. Hill served as President of F. Eberstadt and Company, an investment banking and investment management firm. Between 1969 and 1976, Mr. Hill held various senior positions in Washington, D.C. with the federal government, including Deputy Associate Director of the Office of Management and Budget and Deputy Administrator of the Federal Energy Administration during the Ford Administration.

Born and raised in Midland, Texas, he received his B.A. in Economics from Southern Methodist University and pursued graduate studies as a Woodrow Wilson Fellow.

Robert E. Patterson (Born 1945)
Trustee since 1984

Mr. Patterson is Co-Chairman of Cabot Properties, Inc. (a private equity firm investing in commercial real estate) and Chairman of its Investment Committee.

Mr. Patterson is past Chairman and served as a Trustee of the Joslin Diabetes Center. He previously was a Trustee of the Sea Education Association. Prior to December 2001, Mr. Patterson was President and Trustee of Cabot Industrial Trust (a publicly traded real estate investment trust). Prior to February 1998, he was Executive Vice President and Director of Acquisitions of Cabot Partners Limited Partnership (a registered investment adviser involved in institutional real estate investments). Prior to 1990, he served as Executive Vice President of Cabot, Cabot & Forbes Realty Advisors, Inc. (the predecessor company of Cabot Partners).

Mr. Patterson practiced law and held various positions in state government, and was the founding Executive Director of the Massachusetts Industrial Finance Agency. Mr. Patterson is a graduate of Harvard College and Harvard Law School.

Most of the Trustees have served on the Board for many years. Mses. Baumann and Baxter and Messrs. Akhoury, Curtis, Darretta, Joskow, Leibler, Putnam, Reynolds and Stephens were most recently elected by common and preferred shareholders of the fund, voting together as a single class, on September 20, 2012. Messrs. Hill and Patterson were most recently elected by preferred shareholders of the fund on September 10, 2010. A quorum was not present at the fund’s September 20, 2012 annual meeting with

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respect to the matter of electing two Trustees by the preferred shareholders, voting as a separate class. As a result, and in accordance with the fund’s Declaration of Trust and Bylaws, Messrs. Hill and Patterson remained in office and continued to serve as Trustees. Mr. Ahamed and Ms. Domotorffy were appointed to the Board of Trustees of the Putnam funds effective September 13, 2012 by action of the Independent Trustees and the full Board of Trustees.

The Board Policy and Nominating Committee is responsible for recommending proposed nominees for election to the full Board of Trustees for its approval. In recommending the election or appointment of the current Board members as Trustees, the Committee generally considered the educational, business and professional experience of each Trustee in determining his or her qualifications to serve as a Trustee of the fund, including the Trustee’s record of service as a director or trustee of public and private organizations. This included, as applicable, their previous service as a member of the Board of Trustees of the Putnam funds, during which they have demonstrated a high level of diligence and commitment to the interests of fund shareholders and the ability to work effectively and collegially with other members of the Board. The Committee also considered, among other factors, the particular attributes described below with respect to the various individual Trustees.

Liaquat Ahamed — Mr. Ahamed's experience as Chief Executive Officer of a major investment management organization and as head of the investment division at the World Bank, as well as his experience as an author of economic literature.

Ravi Akhoury — Mr. Akhoury's experience as Chairman and Chief Executive Officer of a major investment management organization.

Barbara M. Baumann — Ms. Baumann's experience in the energy industry as a consultant, an investor, and in both financial and operational management positions at a global energy company, and her service as a director of two NYSE companies.

Jameson A. Baxter — Ms. Baxter's experience in corporate finance acquired in the course of her career at a major investment bank, her experience as a director and audit committee chair of two NYSE companies and her role as Chair of the Mutual Fund Directors Forum.

Charles B. Curtis — Mr. Curtis's experience in public and regulatory policy matters relating to energy and finance acquired in the course of his service in various senior positions in government and on numerous boards of public and private organizations.

Robert J. Darretta — Mr. Darretta's experience as the Chief Financial Officer and Vice Chairman of the board of a major NYSE health products company.

Katinka Domotorffy — Ms. Domotorffy's experience as Chief Investment Officer and Global Head of Quantitative Investment Strategies at a major asset management organization.

John A. Hill — Mr. Hill's experience as founder and Chairman of a major open-end mutual fund and as a founder and lead managing partner of one of the largest private equity firms in the United States.

Paul L. Joskow — Dr. Joskow's education and experience as a professional economist familiar with financial economics and related issues and his service on multiple for-profit boards.

Kenneth R. Leibler — Mr. Leibler's extensive experience in the financial services industry, including as Chief Executive Officer of a major asset management organization, and his service as a director of various public and private companies.

Robert E. Patterson — Mr. Patterson's training and experience as an attorney and his experience as president of a NYSE company.

George Putnam, III — Mr. Putnam's training and experience as an attorney, his experience as the founder and Chief Executive Officer of an investment management firm and his experience as an author of various publications on the subject of investments.

W. Thomas Stephens — Mr. Stephens's extensive business experience, including his service as Chief Executive Officer of four public companies, as non-executive chairman of two public companies and as a director of numerous other public companies.

Interested Trustee:

Robert L. Reynolds — Mr. Reynolds's extensive experience as a senior executive of one of the largest mutual fund organizations in the United States. and his current role as the Chief Executive Officer of Putnam Investments.

Each of the nominees has agreed to serve as a Trustee, if elected. If any of the nominees is unavailable for election at the time of the Meeting, which is not anticipated, the Trustees may vote for other nominees at their discretion, or the Trustees may fix the number of Trustees at fewer than 14 for your fund. Each Trustee serves until the election and qualification of his or her successor, or until he or she sooner dies, resigns, retires or is removed.

What are the Trustees' responsibilities?

Your fund's Trustees are responsible for the general oversight of your fund's affairs and for assuring that your fund is managed in the best interests of its shareholders. The Trustees regularly review your fund's investment performance as well as the quality of other services provided to your fund and its shareholders by Putnam Management and its affiliates, including administration and shareholder servicing. At least annually, the Trustees review and evaluate the fees and operating expenses paid by your fund for these services and negotiate changes that they deem appropriate. In carrying out these responsibilities, the Trustees are assisted by an independent administrative staff and by your fund's auditors, independent counsel and other experts as appropriate, selected by and responsible to the Trustees.

Board Leadership Structure. Currently, 13 of the 14 Trustees of your fund are Independent Trustees. These Independent Trustees must vote separately to approve all financial arrangements and other agreements with your fund's investment manager and other affiliated parties. The role of the Independent Trustees has been characterized as that of a "watchdog" charged with oversight to protect shareholders' interests against overreaching and abuse by those who are in a position to control or influence a fund. Your fund's Independent Trustees meet regularly as a group in executive session. An Independent Trustee currently serves as chair of the Board.

Board Committees. Taking into account the number, the diversity and the complexity of the Putnam funds overseen by the Board and the aggregate amount of assets under management, your fund's Trustees have determined that the efficient conduct of the Board's affairs makes it desirable to delegate responsibility for certain specific matters to committees of the Board. Certain committees (the Executive Committee, Distributions Committee and Audit and Compliance Committee) are authorized to act for the Trustees as specified in their charters. The other committees review and evaluate matters specified in their charters and make recommendations to the Board as they deem appropriate. Each committee may utilize the resources of your fund's independent staff, counsel and auditors as well as other experts. The committees meet as often as necessary, either in conjunction with regular meetings of the Trustees or otherwise. The members and chair of each committee are appointed by the Trustees upon recommendation of the Board Policy and Nominating Committee. Each committee is chaired by an Independent Trustee and, except as noted below, the members and chairs of each committee are exclusively Independent Trustees.

The Trustees have determined that this committee structure also allows the Board to focus more effectively on the oversight of risk as part of its broader oversight of your fund's affairs. While risk management is the primary responsibility of the fund's investment manager, the Trustees regularly receive reports regarding investment risks and compliance risks. The Board's committee structure allows separate committees to focus on different aspects of these risks and their potential impact on some or all of the funds and to discuss with the fund's investment manager how it monitors and controls such risks.

Audit and Compliance Committee. The Audit and Compliance Committee provides oversight on matters relating to the preparation of the Putnam funds' financial statements, compliance matters, internal audit functions, and Codes of Ethics issues. This oversight is discharged by regularly meeting with management and the funds' independent auditors and keeping current on industry developments. Duties of this Committee also include the review and evaluation of all matters and relationships pertaining to the funds' independent auditors, including their independence. Information about the fees billed to your fund by the fund's independent auditor, as well as information about the Committee's pre-approval policies relating to the work performed by the fund's independent auditor, is included on pages 31–32 of this proxy

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statement. All of the Committee members are Independent Trustees. Each member of the Committee also is "independent," as that term is interpreted for purposes of Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the listing standards of the New York Stock Exchange. The Board has adopted a written charter for the Committee, a current copy of which is available at putnam.com/about-putnam/. The Committee currently consists of Messrs. Leibler (Chairperson), Curtis, Darretta and Hill and Mses. Baumann and Domotorffy.

Board Policy and Nominating Committee. The Board Policy and Nominating Committee reviews matters pertaining to the operations of the Board and its committees, the compensation of the Trustees and their staff, and the conduct of legal affairs for the Putnam funds. The Committee also oversees the voting of proxies associated with portfolio investments of the Putnam funds, with the goal of ensuring that these proxies are voted in the best interest of the funds' shareholders.

The Committee evaluates and recommends all candidates for election as Trustees and recommends the appointment of members and chairs of each Board committee. The Committee also identifies prospective nominees for election as Trustee by considering individuals that come to its attention through the recommendation of current Trustees, Putnam Management or shareholders. Candidates properly submitted by shareholders (as described below) will be considered and evaluated on the same basis as candidates recommended by other sources. The Committee may, but is not required to, engage a third-party professional search firm to assist it in identifying and evaluating potential nominees.

When evaluating a potential candidate for membership on the Board, the Committee considers the skills and characteristics that it determines would most benefit the Putnam funds at the time the evaluation is made. The Committee may take into account a wide variety of attributes in considering potential Trustee candidates, including, but not limited to: (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities to the Board, (ii) other board experience, (iii) relevant industry and related experience, (iv) educational background, (v) financial expertise, (vi) an assessment of the candidate's ability, judgment and expertise, (vii) an assessment of the perceived needs of the Board and its committees at that point in time and (viii) overall Board composition. The Committee generally believes that the Board benefits from diversity of background, experience and views among its members, and considers this as a factor in evaluating the composition of the Board, but has not adopted any specific policy in this regard. In connection with this evaluation, the Committee will determine whether to interview prospective nominees, and, if warranted, one or more members of the Committee, and other Trustees and representatives of the funds, as appropriate, will interview prospective nominees in person or by telephone. Once this evaluation is completed, the Committee recommends such candidates as it determines appropriate to the Independent

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Trustees for nomination, and the Independent Trustees select the nominees after considering the recommendation of the Committee.

The Committee will consider nominees for Trustee recommended by shareholders of your fund provided shareholders submit their recommendations by the date disclosed in the paragraph entitled "Date for receipt of shareholder proposals for the next annual meeting" in the section "Further Information About Voting and the Meeting," and provided the shareholders' recommendations otherwise comply with applicable securities laws, including Rule 14a-8 under the Exchange Act.

The Committee consists only of Independent Trustees. The Trustees have adopted a written charter for the Board Policy and Nominating Committee, a current copy of which is available at putnam.com/about-putnam/. The Board Policy and Nominating Committee currently consists of Messrs. Hill (Chairperson), Curtis, Patterson and Putnam and Ms. Baxter.

Brokerage Committee. The Brokerage Committee reviews the Putnam funds' policies regarding the execution of portfolio trades and Putnam Management's practices and procedures relating to the implementation of those policies. The Committee reviews periodic reports on the cost and quality of execution of portfolio transactions and the extent to which brokerage commissions have been used (i) by Putnam Management to obtain brokerage and research services generally useful to it in managing the portfolios of the funds and of its other clients, and (ii) by the funds to pay for certain fund expenses. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Dr. Joskow (Chairperson), Ms. Baxter, and Messrs. Ahamed, Akhoury, Patterson, Putnam and Stephens.

Contract Committee. The Contract Committee reviews and evaluates at least annually all arrangements pertaining to (i) the engagement of Putnam Management and its affiliates to provide services to the Putnam funds, (ii) the expenditure of the assets of the open-end Putnam funds for distribution purposes pursuant to Distribution Plans of these funds, and (iii) the engagement of other persons to provide material services to the funds, including in particular those instances where the cost of services is shared between the funds and Putnam Management and its affiliates or where Putnam Management or its affiliates have a material interest. The Committee also reviews the proposed organization of new fund products, proposed structural changes to existing funds and matters relating to closed-end funds. The Committee reports and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Messrs. Patterson (Chairperson), Ahamed, Akhoury, Putnam and Stephens, Dr. Joskow and Ms. Baxter.

Distributions Committee. The Distributions Committee oversees all dividends and distributions by the Putnam funds. The Committee makes recommendations to the Trustees of the funds regarding the amount and timing of distributions paid by the funds, and determines such matters when the Trustees are not in session. The

Committee also oversees the policies and procedures pursuant to which Putnam Management prepares recommendations for distributions, and meets regularly with representatives of Putnam Management to review the implementation of these policies and procedures. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Mses. Baumann (Chairperson) and Domotorffy and Messrs. Curtis, Darretta, Hill and Leibler.

Executive Committee. The functions of the Executive Committee are twofold. The first is to ensure that the Putnam funds' business may be conducted at times when it is not feasible to convene a meeting of the Trustees or for the Trustees to act by written consent. The Committee may exercise any or all of the power and authority of the Trustees when the Trustees are not in session. The second is to establish annual and ongoing goals, objectives and priorities for the Board, and to ensure coordination of all efforts between the Trustees and Putnam Management on behalf of the shareholders of the funds. The Committee currently consists of Ms. Baxter (Chairperson) and Messrs. Hill, Leibler, Patterson and Putnam.

Investment Oversight Committees. The Investment Oversight Committees regularly meet with investment personnel of Putnam Management to review the investment performance and strategies of the Putnam funds in light of their stated investment objectives and policies. The Committees seek to identify any compliance issues that are unique to the applicable categories of funds and work with the appropriate Board committees to ensure that any such issues are properly addressed. Investment Oversight Committee A currently consists of Messrs. Akhoury (Chairperson), Ahamed, Darretta, Hill, Patterson and Reynolds and Ms. Baxter. Investment Oversight Committee B currently consists of Messrs. Putnam (Chairperson), Curtis, Leibler and Stephens, Dr. Joskow and Mses. Baumann and Domotorffy.

Pricing Committee. The Pricing Committee oversees the valuation of assets of the Putnam funds and reviews the funds' policies and procedures for achieving accurate and timely pricing of fund shares. The Committee also oversees implementation of these policies, including fair value determinations of individual securities made by Putnam Management or other designated agents of the funds. The Committee also oversees compliance by money market funds with Rule 2a-7 under the 1940 Act and the correction of occasional pricing errors. The Committee also reviews matters related to the liquidity of portfolio holdings. The Committee reports to the Trustees and makes recommendations to the Trustees regarding these matters. The Committee currently consists of Messrs. Darretta (Chairperson), Curtis, Hill and Leibler and Mses. Baumann and Domotorffy.

How large a stake do the Trustees have in the Putnam family of funds?

The Trustees allocate their investments among the Putnam funds based on their own investment needs. The table below shows the number of shares beneficially owned by each nominee for Trustee and the value of each nominee's holdings in the fund and in

all of the Putnam funds as of June 30, 2013. As a group, the Trustees owned shares of the Putnam funds valued at approximately $91 million as of June 30, 2013.

Name of Nominee	Dollar Range of Putnam Managed Municipal Income Trust Common Shares Owned	Common Shares of Putnam Managed Municipal Income Trust Beneficially Owned	Aggregate Dollar Range of Shares Held in All of the Putnam Funds Overseen by Trustee
Liaquat Ahamed	$1-$10,000	100.000	over $100,000
Ravi Akhoury	$1-$10,000	100.000	over $100,000
Barbara M. Baumann	$1-$10,000	100.000	over $100,000
Jameson A. Baxter	$1-$10,000	610.497	over $100,000
Charles B. Curtis	$1-$10,000	330.919	over $100,000
Robert J. Darretta	$1-$10,000	100.000	over $100,000
Katinka Domotorffy	$1-$10,000	100.000	over $100,000
John A. Hill	$1-$10,000	367.609	over $100,000
Paul L. Joskow	$1-$10,000	195.000	over $100,000
Kenneth R. Leibler	$1-$10,000	195.000	over $100,000
Robert E. Patterson	$1-$10,000	587.000	over $100,000
George Putnam, III	$10,001-$50,000	3,815.000	over $100,000
W. Thomas Stephens	$1-$10,000	100.000	over $100,000
Robert L. Reynolds*	$1-$10,000	100.000	over $100,000

*Trustee who is an "interested person" (as defined in the 1940 Act) of the fund and Putnam Management. Mr. Reynolds is deemed an "interested person" by virtue of his positions as an officer of the fund and Putnam Management. Mr. Reynolds is the President and Chief Executive Officer of Putnam Investments, LLC and President of your fund and each of the other Putnam funds. None of the other Trustees is an “interested person.”

As of June 30, 2013, none of the Trustees owned any preferred shares of the fund.

As of June 30, 2013, the Trustees and officers of the fund, as a group, owned less than 1% of the fund’s common shares outstanding on that date.

How can shareholders communicate with the Trustees?

The Board provides a process for shareholders to send communications to the Trustees. Shareholders may direct communications to the Board as a whole or to specified individual Trustees by submitting them in writing to the following address:

The Putnam Funds
Attention: “Board of Trustees” or any specified Trustee(s)
One Post Office Square
Boston, Massachusetts 02109

Written communications must include the shareholder’s name, be signed by the shareholder, refer to the Putnam fund(s) in which the shareholder holds shares and include the class and number of shares held by the shareholder as of a recent date.

Representatives of the fund’s transfer agent will review all communications sent to Trustees and, as deemed appropriate, will provide copies and/or summaries of communications to the Trustees.

How often do the Trustees meet?

The Trustees hold regular meetings eight times a year, usually over a two-day period, to review the operations of the Putnam funds. A portion of these meetings is devoted to meetings of various committees of the Board that focus on particular matters. Each Trustee generally attends at least two formal committee meetings during each regular meeting of the Trustees. In addition, the Trustees meet in small groups with senior investment personnel and portfolio managers to review recent performance and the current investment climate for selected funds. These meetings ensure that each Putnam fund’s performance is reviewed in detail at least once a year. The committees of the Board, including the Executive Committee, may also meet on special occasions as the need arises. During calendar year 2012, the average Trustee participated in approximately 45 committee and Board meetings.

The number of times each committee met during your fund’s last fiscal year is shown in the table below:

Fiscal year ended October 31, 2012

Audit and Compliance Committee	10
Board Policy and Nominating Committee	6
Brokerage Committee	5
Contract Committee	9
Distributions Committee	8

Executive Committee	2
Investment Oversight Committees:	
Investment Oversight Committee A	8
Investment Oversight Committee B	8
Pricing Committee	7

Your fund does not have a policy with respect to Trustee attendance at shareholder meetings. While various Trustees may attend shareholder meetings from time to time, your fund's Trustees did not attend the last annual meeting of your fund. The Trustees are generally represented at shareholder meetings by their independent staff and independent counsel.

What are some of the ways in which the Trustees represent shareholder interests?

Among other ways, the Trustees seek to represent shareholder interests:

• by carefully reviewing your fund's investment performance on an individual basis with your fund's investment personnel;

• by discussing with senior management of Putnam Management steps being taken to address any performance deficiencies;

• by carefully reviewing the quality of the various other services provided to your fund and its shareholders by Putnam Management and its affiliates;

• by reviewing in depth the fees paid by your fund and by negotiating with Putnam Management to ensure that such fees remain reasonable and competitive with those of comparable funds, while at the same time providing Putnam Management sufficient resources to continue to provide high quality services in the future;

• by reviewing brokerage costs and fees, allocations among brokers, soft dollar expenditures, if applicable, and similar expenses of your fund;

• by actively addressing the specific concerns of closed-end fund shareholders;

• by monitoring potential conflicts of interest between the Putnam funds, including your fund, and Putnam Management and its affiliates to ensure that the funds continue to be managed in the best interests of their shareholders; and

• by monitoring potential conflicts among funds managed by Putnam Management to ensure that shareholders continue to realize the benefits of participation in a large and diverse family of funds.

What are the Trustees paid for their services?

Each Independent Trustee of the Putnam funds receives an annual retainer fee and an additional fee for each Trustee meeting attended. Independent Trustees also are reimbursed for expenses they incur relating to their service as Trustees. All of the current Independent Trustees of the fund are Trustees of all the Putnam funds and receive fees for their services.

The Trustees periodically review their fees to ensure that the fees continue to be appropriate in light of their responsibilities as well as in relation to fees paid to trustees of other mutual fund complexes. The Board Policy and

Nominating Committee, which consists solely of Independent Trustees of the funds, estimates that committee and Trustee meeting time, together with the appropriate preparation, requires the equivalent of at least four business days per Trustee meeting.

Under a Retirement Plan for Trustees of the Putnam funds (the "Plan"), each Trustee who retires with at least five years of service as a Trustee of the funds is entitled to receive an annual retirement benefit equal to one-half of the average annual attendance and retainer fees paid to such Trustee for calendar years 2003, 2004 and 2005. This retirement benefit is payable during a Trustee's lifetime, beginning the year following retirement, for the number of years of service through December 31, 2006. A death benefit, also available under the Plan, ensures that the Trustee and his or her beneficiaries will receive benefit payments for the lesser of an aggregate period of (i) ten years or (ii) such Trustee's total years of service.

The Plan Administrator (currently the Board Policy and Nominating Committee) may terminate or amend the Plan at any time, but no termination or amendment will result in a reduction in the amount of benefits (i) currently being paid to a Trustee at the time

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of such termination or amendment, or (ii) to which a current Trustee would have been entitled had he or she retired immediately prior to such termination or amendment. The Trustees have terminated the Plan with respect to any Trustee first elected to the Board after 2003.

The following table includes the year each Trustee became a Trustee of the Putnam funds, the fees paid to each of those Trustees by your fund for its most recent fiscal year and the fees paid to each of those Trustees by all of the Putnam funds during calendar year 2012.

	Fiscal year ended October 31, 2012		Calendar year 2012	
Trustees/Year	**Aggregate compensation from the fund**	**Pension or retirement benefits accrued as part of fund expenses**	**Estimated annual benefits from all Putnam funds upon retirement (1)**	**Total compensation from all Putnam funds (2)**
Liaquat Ahamed/2012(3)	$489	N/A	N/A	$94,288
Ravi Akhoury/2009	$2,077	N/A	N/A	$303,000
Barbara M. Baumann/2010(4)	$2,035	N/A	N/A	$297,000
Jameson A. Baxter/1994(4)(6)	$3,057	$680	$110,500	$442,063
Charles B. Curtis/2001	$2,036	$435	$113,900	$303,000
Robert J. Darretta/2007(4)	$2,077	N/A	N/A	$303,000

Katinka Domotorffy/2012(3)	$489	N/A	N/A	$106,288
John A. Hill/1985(4)(6)	$2,035	$1,176	$161,700	$297,000
Paul L. Joskow/1997(4)	$2,036	$465	$113,400	$303,000
Elizabeth T. Kennan/1992(5)	$1,833	$818	$108,000	$303,000
Kenneth R. Leibler/2006	$2,248	N/A	N/A	$328,000
Robert E. Patterson/1984	$2,248	$695	$106,500	$328,000
George Putnam, III/1984	$2,077	$698	$130,300	$303,000
W. Thomas Stephens/1997(7)	$2,077	$485	$107,100	$303,000
Robert L. Reynolds/2008(8)	N/A	N/A	N/A	N/A

(1) Estimated benefits for each Trustee are based on Trustee fee rates for calendar years 2003, 2004 and 2005.

(2) As of December 31, 2012, there were 109 funds in the Putnam family.

(3) Mr. Ahamed and Ms. Domotorffy were appointed to the Board of Trustees of the Putnam funds effective September 13, 2012.

(4) Certain Trustees are also owed compensation deferred pursuant to a Trustee Compensation Deferral Plan. As of October 31, 2012, the total amounts of deferred compensation payable by the fund, including income earned on such amounts, to these Trustees were:

Mr. Ahamed — $495.85; Ms. Baumann — $1,907.94; Ms. Baxter — $11,199.81; Mr. Darretta — $4,079.45; Mr. Hill — $32,008.54; and Dr. Joskow — $8,918.78

(5) Dr. Kennan retired from the Board of Trustees of the Putnam funds on June 30, 2010. Upon her retirement in 2010, Dr. Kennan became entitled to receive annual retirement benefit payments from the funds commencing on January 15, 2011. Dr. Kennan was re-appointed to the Board of Trustees of the Putnam funds effective January 1, 2012, and in connection with her reappointment, Dr. Kennan agreed to suspend the balance of her retirement benefit payments for the duration of her service as a Trustee, which concluded with her retirement on June 30, 2013.

(6) Includes additional compensation to Mr. Hill and Ms. Baxter for service as Chair of the Board of Trustees of the Putnam funds. Ms. Baxter replaced Mr. Hill as Chair of the Board of Trustees of the Putnam funds on July 1, 2011.

(7) Mr. Stephens retired from the Board of Trustees of the Putnam funds on March 31, 2008. Upon his retirement in 2008, Mr. Stephens became entitled to receive annual retirement benefit payments from the funds commencing on January 15, 2009. Mr. Stephens was re-appointed to the Board of Trustees of the Putnam funds effective May 14, 2009, and in connection with his reappointment, Mr. Stephens has agreed to suspend the balance of his retirement benefit payments for the duration of his service as a Trustee.

(8) Mr. Reynolds is an “interested person” of the Putnam funds and Putnam Management.

On December 21, 2011, Robert L. Reynolds transferred 225,100 Class B shares of Putnam Investments, LLC in equal amounts to four family trusts. The per-share price of Class B shares at the time of these transfers was $17.77.

Why should you vote for your fund's nominees?

Your current Trustees are independent, experienced, and highly qualified fiduciaries who exercise strong fund governance practices.

Independent

• The Chair of your fund, Jameson A. Baxter, is independent of Putnam Management and has served on the Board for nearly 20 years. She also serves as the Chair of the Mutual Fund Directors Forum, which serves investment company directors, promotes vigilant, dedicated and well-informed independent directors, and serves as their voice and advocate on important policy matters;

• 13 of the 14 Trustees are independent of Putnam Management; and

• The Independent Trustees are assisted by an independent administrative staff and by auditors and legal counsel who are selected by the Independent Trustees and are independent of Putnam Management.

Highly Qualified

• The Trustees have significant current and past related industry experience, and have a demonstrated history of actively pursuing the interests of the fund's shareholders;

• The Board includes individuals with substantial professional accomplishments and prior experience in a variety of fields, including investment management, economics, finance, energy, health care, manufacturing, national security, real estate, and telecommunications; and

• The Board has taken actions that directly benefit shareholders — liquidity events such as mergers and tender offers when in the best interests of all shareholders; a share repurchase program that has made a meaningful contribution to investment return; and management fee decreases (including a significant decrease in your fund's management fee rate in 2006).

Strong Governance Practices

• The Board includes a combination of long-tenured and newer members, bringing diverse perspectives to fund oversight;

• The Board has a well-established committee and oversight structure for the Putnam funds, including your fund, which has been developed over a long period of time; and

	$ 22,569,489	$ (9,023,301)	$ (77)	$ 13,573,090	
Balance, December 31, 2011	2,697,902	$ 26,979	$ 22,569,489	$ (11,050,382)	$ (153)
Net Income	—	—	—	63,975	—
Other comprehensive loss	—	—	—	—	(76)

Restricted stock compensation	74,914	749	156,005	—	—
Balance, September 30, 2012	2,772,816	$ 27,728	$ 22,725,494	$ (10,986,407)	$ (229)

See Notes to Consolidated Financial Statements

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SOUTHERN CONNECTICUT BANCORP, INC. AND SUBSIDIARIES

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

	2012	2011
Cash Flows From Operations		
Net income (loss)	$63,975	$(710,836)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization and accretion of premiums and discounts on investments, net	—	(7)
Provision for loan losses	240,254	1,039,212
Write-down of other real estate owned	—	10,000
Share based compensation	156,754	2,353
Depreciation and amortization	173,926	199,273
(Gain) Loss on sale of other real estate owned	(2,896)	51,141
Increase in cash surrender value of life insurance	(29,970)	(30,306)
Changes in assets and liabilities:		
(Decrease) increase in deferred loan fees	(18,239)	1,857
Decrease in accrued interest receivable	31,502	60,124
Decrease (increase) in other assets	682,025	(25,962)
Decrease in accrued expenses and other liabilities	(268,346)	(150,658)
Net cash provided by operating activities	1,028,985	446,191
Cash Flows From Investing Activities		
Purchases of interest bearing certificates of deposit	(555,839)	—
Proceeds from maturities of interest bearing certificates of deposits	—	55
Purchases of available for sale securities	(15,176,158)	(21,649,993)
Proceeds from maturities of available for sale securities	16,111,158	20,150,000
Redemptions of Federal Home Loan Bank Stock	5,500	—
Net decrease in loans receivable	6,896,030	5,283,049
Purchases of premises and equipment	(100,236)	(18,680)
Proceeds from the sale of other real estate owned	181,644	137,859
Capitalized costs related to other real estate owned	—	(7,375)
Net cash provided by investing activities	7,362,099	3,894,915
Cash Flows From Financing Activities		
Net (decrease) increase in demand, savings and money market deposits	(9,446,323)	6,023,607
Net (decrease) increase in certificates of deposit	(14,057,514)	588,743
Net increase (decrease) in repurchase agreements	253,095	(265,726)
Principal repayments on capital lease obligations	(5,771)	(5,191)
Net cash (used in) provided by financing activities	(23,256,513)	6,341,433
Net (decrease) increase in cash and cash equivalents	(14,865,429)	10,682,539
Cash and cash equivalents		
Beginning	24,932,203	20,837,760
Ending	$10,066,774	$31,520,299

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 Nine Months Ended September 30, 2012 and 2011

	2012	2011
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$994,655	$1,520,210
Income taxes	$—	$750
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Transfer of loans receivable to other real estate owned	$436,323	$858,550
Transfer of loans receivable to other assets	$—	$559,895
Financing of sale of other real estate owned	$—	$433,500
Unrealized holding (loss) gain on available for sale securities arising during the period	$(76)	$197

See Notes to Consolidated Financial Statements

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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 nine months ended September 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 September 30, 2012 and December 31, 2011 were as follows:

September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Bills	$2,915,000	$ —	$ (229)	$2,914,771

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

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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 September 30, 2012 and 2011:

	Less Than 12 Months		12 Months or More		Total	
September 30, 2012	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Bills	$2,914,771	$ 229	$ —	$ —	$2,914,771	$ 229

	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 September 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 September 30, 2012.

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

	Amortized Cost	Fair Value
Maturity:		
Within one year	$2,915,000	$2,914,771

Note 4. Loans Receivable and Allowance for Loan Losses

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

	2012	2011
Commercial loans secured by real estate	$64,213,700	$67,248,165
Commercial	26,066,042	31,719,229
Residential mortgages	13,493,660	12,565,428
Construction and land	2,267,099	2,309,600
Consumer	392,962	234,941
Total loans	106,433,463	114,077,363
Net deferred loan fees	(115,357)	(133,596)
Allowance for loan losses	(2,228,332)	(2,299,625)
Loans receivable, net	$104,089,774	$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 September 30, 2012 and December 31, 2011.

September 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	$62,360,677	$22,347,377	$12,840,178	$879,439	$392,962	$98,820,633
Loans individually evaluated for impairment	1,853,023	3,718,665	653,482	1,387,660	—	7,612,830
Total	$64,213,700	$26,066,042	$13,493,660	$2,267,099	$392,962	$106,433,463
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,192,985	$784,074	$218,522	$22,028	$6,325	$2,223,934
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$1,192,985	$788,472	$218,522	$22,028	$6,325	$2,228,332

September 30, 2012		Commercial			Consumer	Total

	Commercial Loans Secured by Real Estate		Residential Mortgages	Construction and Land		
Period-end loan balances:						
Loans collectively evaluated for impairment	$65,146,824	$28,112,167	$12,010,750	$889,444	$233,481	$106,392,666
Loans individually evaluated for impairment	2,101,341	3,607,062	554,678	1,420,156	1,460	7,684,697
Total	$67,248,165	$31,719,229	$12,565,428	$2,309,600	$234,941	$114,077,363
Period-end allowance amount allocated to:						
Loans collectively evaluated for impairment	$1,122,699	$961,581	$187,224	$20,431	$3,292	$2,295,227
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$1,122,699	$965,979	$187,224	$20,431	$3,292	$2,299,625

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The following table details activity in the allowance for loan losses by portfolio segment for the nine months ended September 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:

September 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	41,172	127,003	64,490	1,597	5,992	240,254
Loans charged-off	—	(384,027)	(33,192)	—	(2,959)	(420,178)
Recoveries of loans previously charged-off	29,114	79,517		—	—	108,631
Net recoveries (charge-offs)	29,114	(304,510)	(33,192)	—	(2,959)	(311,547)
Balance at end of period	$1,192,985	$788,472	$218,522	$22,028	$6,325	$2,228,332
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$1,192,985	$784,074	$218,522	$22,028	$6,325	$2,223,934
Loans individually evaluated for impairment	—	4,398	—	—	—	4,398
Balance at end of period	$1,192,985	$788,472	$218,522	$22,028	$6,325	$2,228,332

September 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	779,147	255,354	24,333	(26,959)	7,337	1,039,212
Loans charged-off	(1,344,057)	(138,779)	(40,909)	—	(9,675)	(1,533,420)
Recoveries of loans previously charged-off	—	4,104	—	—	2,301	6,405
Net charge-offs	(1,344,057)	(134,675)	(40,909)	—	(7,374)	(1,527,015)
Balance at end of period	$1,022,286	$942,660	$299,570	$28,223	$6,099	$2,298,838
Period-end amount allocated to:						
Loans collectively evaluated for impairment	$831,817	$719,009	$157,646	$28,223	$6,099	1,742,794
Loans individually evaluated for impairment	190,469	223,651	141,924	—	—	556,044
Balance at end of period	$1,022,286	$942,660	$299,570	$28,223	$6,099	$2,298,838

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 September 30, 2012 and as of December 31, 2011:

September 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	$1,823,909	$1,853,023	$—	$1,853,023	$ —
Commercial	4,023,174	2,066,243	1,652,422	3,718,665	4,398
Construction and land	1,387,660	1,387,660	—	1,387,660	—
Residential mortgages	686,674	653,482	—	653,482	—
Consumer	2,960	—	—	—	—
Total	$7,924,377	$5,960,408	$1,652,422	$7,612,830	$ 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 nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,			
	2012		2011	
September 30, 2012	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial loans secured by real estate	$2,050,684	$ 62,205	$3,039,291	$ 94,238
Commercial	3,733,527	56,029	1,450,042	9,807
Construction and land	1,402,532	50,615	1,125,000	—
Residential mortgages	695,016	45,305	733,590	16,674
Consumer	373	14	—	—
Total	$7,882,132	$ 214,168	$6,347,923	$ 120,719

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

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

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

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

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

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

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

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

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

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

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

At September 30, 2012 and December 31, 2011, the unpaid principal balances of loans placed on nonaccrual status were $4,915,927 and $5,785,355, respectively. At September 30, 2012, three commercial loans with an aggregate principal balance of $1,904,655 and two commercial real estate loans with an aggregate principal balance of $1,299,864 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 $20 at September 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 September 30, 2012 and December 31, 2011 were as follows:

	2012	2011
Commercial loans secured by real estate	$808,542	$2,101,341
Commercial	2,066,243	1,707,720
Construction and land	1,387,660	1,420,156
Residential mortgages	653,482	554,678
Consumer	—	1,460
	$4,915,927	$5,785,355

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

September 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
Commercial loans secured by real estate	$2,902,944	$808,542	$3,711,486	$60,502,214	$64,213,700	$ —
Commercial	—	2,066,263	2,066,263	23,999,779	26,066,042	20
Residential mortgages	107,427	653,482	760,909	12,732,751	13,493,660	—
Construction and land	—	1,387,660	1,387,660	879,439	2,267,099	—
Consumer	—	—	—	392,962	392,962	—
	$3,010,371	$4,915,947	$7,926,318	$98,507,145	$106,433,463	$ 20

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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 September 30, 2012 and December 31, 2011 was $3,205,000 and $3,213,000, respectively. At September 30, 2012, this recorded investment balance included $1,044,000 for a commercial and industrial loan which returned to accrual status during the nine months ended September 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 September 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 nine months ended September 30, 2012 and 2011. There were no additional funds committed to borrowers in TDR status at September 30, 2012.

The following table provides information on loans modified as TDRs during the nine months ended September 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 nine months ended September 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 nine months ended September 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

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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 September 30, 2012 and December 31, 2011:

September 30, 2012	Commercial Loans Secured by Real Estate	Commercial	Construction and Land	Residential Mortgages	Consumer	Total
Risk Rating:						
Pass	$51,190,236	$19,734,366	$879,439	$12,840,178	$392,962	$85,037,181
Special Mention	9,967,425	747,511	—	—	—	10,714,936
Substandard	3,056,039	5,584,165	1,387,660	653,482	—	10,681,346
Total	$64,213,700	$26,066,042	$2,267,099	$13,493,660	$392,962	$106,433,463

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

	2012	2011
Noninterest bearing	$29,861,639	$31,003,581
Interest bearing:		
Checking	8,464,114	5,149,535
Money Market	35,916,740	47,728,069
Savings	3,031,105	2,838,736
Time certificates, less than $100,000 (1)	10,648,800	19,657,059
Time certificates, $100,000 or more (2)	21,204,446	26,253,701
Total interest bearing	79,265,205	101,627,100
Total deposits	$109,126,844	$132,630,681

(1) Included in time certificates of deposit, less than $100,000, at September 30, 2012 and December 31, 2011 were brokered deposits totaling $465,136 and $3,976,764, respectively.

(2) Included in time certificates of deposit, $100,000 or more, at September 30, 2012 and December 31, 2011 were brokered deposits totaling $4,048,326 and $5,119,113, respectively.

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

	2012	2011
Bank customer time certificates of deposit placed through CDARS to ensure FDIC coverage	$4,048,326	$4,161,974
Time certificates of deposit purchased by the Bank through CDARS	277,241	2,180,568
Other brokered time certificates of deposit	187,895	2,753,335
Total brokered deposits	$4,513,462	$9,095,877

As a result of the Consent Order, described in Note 12, 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 September 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 September 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 persists; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to its operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB.

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 income (loss) per share for the three months and nine months ended September 30, 2012 and 2011:

Three Months Ended September 30,	2012			2011		
	Net Income	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Income (Loss) Per Share						
Income (loss) available to common shareholders	$163,287	2,772,816	$ 0.06	$(251,070)	2,697,902	$ (0.09)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	37,457	—	—	—	—
Diluted Income (Loss) Per Share						
Income (loss) available to common shareholders plus assumed conversions	$163,287	2,810,273	$ 0.06	$(251,070)	2,697,902	$ (0.09)

For the three months ended September 30, 2011, common stock equivalents of 0 shares have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

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Nine Months Ended September 30,	2012			2011		
	Net Income	Weighted Average Shares	Amount Per Share	Net Loss	Weighted Average Shares	Amount Per Share
Basic Income (Loss) Per Share						
Income (loss) available to common shareholders	$63,975	2,740,007	$ 0.02	$(710,836)	2,697,407	$ (0.26)
Effect of Dilutive Securities						
Warrants/Restricted Stock/Stock Options outstanding	—	46,479	—	—	—	—
Diluted Income (Loss) Per Share						
Income (loss) available to common shareholders plus assumed conversions	$63,975	2,786,486	$ 0.02	$(710,836)	2,697,407	$ (0.26)

For the nine months ended September 30, 2011, common stock equivalents of 495 shares have been excluded from the computation of net loss per share because the inclusion of such common stock equivalents is anti-dilutive.

<u>Restricted stock plan</u>

A summary of the status of the Company's nonvested restricted stock at September 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	(74,914)	1.55
Forfeited	—	—
Nonvested restricted stock at September 30, 2012	37,457	1.55

For the nine months ended September 30, 2012, there were 112,371 shares of time-based restricted stock granted to senior management. During the nine months ended September 30, 2012, $156,754 of compensation cost related to restricted stock awards was recognized. As of September 30, 2012, there was $17,417 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 September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	December 31, 2011
Commitments to extend credit:		
Future loan commitments	$1,688,456	$1,565,000
Unused lines of credit	15,673,175	17,569,186
Financial standby letters of credit	2,279,807	3,083,828
Undisbursed construction loans	508,827	508,827
	$20,150,265	$22,726,841

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

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. The liability related to guarantees recorded at September 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, 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, 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 September 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 $619,472 and $3,678,296, respectively. The remaining 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 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 of such deposits. The Company does not record deposits at fair value on a recurring basis. Demand deposits, savings and money market deposits are classified as Level 1 within the fair value hierarchy. Certificates of deposit are classified as Level 2 within the fair value hierarchy.

Off-balance-sheet instruments

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

The following tables detail the financial instruments carried at fair value and measured at fair value on a recurring basis as of September 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 September 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	$ 2,914,771	**$2,914,771**	**$ —**	**$ —**

	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$3,849,847	$3,849,847	$ —	$ —
Other Assets - derivatives	$86,434	$—	$ 86,434	$ —

The following tables detail the financial instruments carried at fair value and measured at fair value on a nonrecurring basis as of September 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 September 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)	$ 619,472	$ —	$ —	$ 619,472

	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.

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The Company discloses fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. Certain financial instruments are 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 September 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 September 30, 2012 and December 31, 2011:

	September 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	$6,425,119	$6,425,119	$18,167,794	$18,167,794
Short-term investments	Level 1	3,641,655	3,641,655	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	2,914,771	2,914,771	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	99,173,847	101,608,073	106,893,215	109,691,073
Unobservable inputs	Level 3	4,915,927	4,915,927	4,750,927	4,750,927
Accrued interest receivable	Level 1	402,800	402,800	434,302	434,302
Servicing rights	Level 2	6,451	16,209	7,991	20,079
Interest only strips	Level 2	8,343	13,457	10,364	16,717
Derivative financial instruments	Level 2	—	—	86,434	86,434
Financial Liabilities:					
Noninterest-bearing deposits	Level 1	29,861,639	29,861,639	31,003,581	31,003,581

Interest bearing checking accounts	Level 1	8,464,114	8,464,114	5,149,535	5,149,535
Money market deposits	Level 1	35,916,740	35,916,740	47,728,069	47,728,069
Savings deposits	Level 1	3,031,105	3,031,105	2,838,736	2,838,736
Time certificates of deposits	Level 2	31,853,246	31,801,000	45,910,760	46,787,000
Repurchase agreements	Level 1	253,163	253,163	68	68
Accrued interest payable	Level 1	56,089	56,089	204,021	204,021

Unrecognized financial instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at September 30, 2012 and December 31, 2011.

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent management believes necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate

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environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 10. Segment Reporting

For the seven months ended July 31, 2010, the Company had 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 subsequently, the continuation of mortgage brokerage activities through the Bank, and the Holding Company segment is defined as the results of Southern Connecticut Bancorp on an unconsolidated or standalone basis. The Company uses an internal reporting system to generate information by operating segment. Estimates and allocations are used for noninterest expenses. Effective August 1, 2010, the Company discontinued its licensed mortgage brokerage business associated with SCB Capital, Inc. Subsequent to July 31, 2010, the mortgage brokerage activities continued through the Bank.

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

Three Months Ended September 30, 2012	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$1,243,238	$ 977	$120	$—	$1,244,335
Provision for loan losses	30,000	—	—	—	30,000
Net interest income after provision for loan losses	1,213,238	977	120	—	1,214,335
Noninterest income	173,784	—	7,500	435	181,719
Noninterest expense	1,202,243	193	29,896	435	1,232,767
Net income (loss)	184,779	784	(22,276)	—	163,287
Total assets as of September 30, 2012	122,131,650	44,863	11,781,438	(11,292,252)	122,665,699

Three Months Ended September 30, 2011

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$1,269,796	$ 5,957	$439	$—	$1,276,192
Provision for loan losses	373,152	—	—	—	373,152
Net interest income after provision for loan losses	896,644	5,957	439	—	903,040
Noninterest income	155,026	—	(4,500)	—	150,526
Noninterest expense	1,282,832	375	21,429	—	1,304,636
Net (loss) income	(231,162)	5,582	(25,490)	—	(251,070)
Total assets as of September 30, 2011	157,197,684	36,403	13,584,891	(12,881,934)	157,937,044

Nine Months Ended September 30, 2012

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	3,815,731	3,160	427	—	3,819,318
Provision for loan losses	240,254	—	—	—	240,254
Net interest income after provision for loan losses	3,575,477	3,160	427	—	3,579,064
Noninterest income	479,275	—	24,120	435	503,830
Noninterest expense	3,882,282	5	136,197	435	4,018,919
Net income (loss)	172,470	3,155	(111,650)	—	63,975
Total assets as of September 30, 2012	122,131,650	44,863	11,781,438	(11,292,252)	122,665,699

Nine Months Ended September 30, 2011

	Community Banking	Mortgage Brokerage	Holding Company	Elimination Entries	Consolidated Total
Net interest income	$3,894,279	$ 19,813	$1,800	$—	$3,915,892
Provision for loan losses	1,039,212	—	—	—	1,039,212
Net interest income after provision for loan losses	2,855,067	19,813	1,800	—	2,876,680
Noninterest income	414,737	—	7,500	—	422,237
Noninterest expense	3,936,433	1,697	71,623	—	4,009,753
Net (loss) income	(666,628)	18,116	(62,323)	—	(710,835)
Total assets as of September 30, 2011	157,197,684	36,403	13,584,891	(12,881,934)	157,937,044

Note 11. Recent Accounting Pronouncements

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

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

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

Note 12. Regulation and Supervision

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

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

The Consent Order requires the Bank to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At September 30, 2012, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. In June 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. The capital plan included a profit and budget plan and a plan to reduce classified assets. In October 2012, the Bank received regulatory approval for its revised capital plan. The Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not continue to maintain the minimum capital ratios set forth in the Consent Order.

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist you in understanding the financial condition and results of operations of the Company. This discussion should be read in conjunction with the accompanying unaudited financial statements as of and for the three and nine months ended September 30, 2012 and 2011 together with the audited financial statements as of and for the year ended December 31, 2011, included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

Summary

As of September 30, 2012, the Company had $122.7 million of total assets, $106.3 million of gross loans receivable, and $109.1 million of total deposits. Total equity capital at September 30, 2012 was $11.8 million, and the Company's Tier I Leverage Capital Ratio was 9.49%.

The Company had net income for the quarter ended September 30, 2012 of $163,000 (or basic and diluted income per share of $0.06) as compared to a net loss of $251,000 (or basic and diluted loss per share of $0.09) for the third quarter of 2011. The improvement in the Company's net income was largely attributable to a decrease in the provision for loan losses to $30,000 for the three months ended September 30, 2012 compared to a provision for loan losses of $373,000 for the same period in 2011. The decrease in the provision for loan losses was primarily related to a decrease in net charge-offs during the third quarter of 2012 compared to the third quarter of 2011.

In addition to the impact of the decrease in the provision for loan losses, the Company's operating results for the third quarter of 2012, when compared to the same period of 2011, were influenced by the following factors:

Net interest income decreased by $32,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in deposit liability volumes and lower rates paid on interest bearing liabilities (as management determined to reduce deposits by offering lower rates on deposits, which could lead to an improvement in the Company's regulatory capital ratios);

Noninterest income increased by $31,000 because of increases in loan prepayment fees recognized during the three months ended September 30, 2012 with no similar income recognized in the same period of 2011, which were partially offset by a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and

Noninterest expenses decreased by $72,000 during the third quarter of 2012 compared to the same period in 2011 primarily due to a loss on the sale of other real estate owned during the third quarter of 2011 with no such loss during the corresponding period in 2012, as well as decreases in directors' fees, data processing fees and the cost of FDIC insurance, which were partially offset by increases in salaries and benefits expense and insurance expense. The decrease in directors' fees was attributable to reductions in director fees that were approved by the Company's compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during the third quarter of 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The cost of FDIC insurance was lower during the third quarter of 2012 compared to 2011 primarily due to a decline in deposit balances subject to the FDIC deposit insurance assessment. These favorable changes were partially offset by an increase in salaries and benefits expense during the third quarter of 2012, when compared to the third quarter of 2011, which was primarily due to salary and benefits expenses attributable to the hiring of a Chief Executive Officer in October 2011 to fill an open position at the Bank that existed during the third quarter of 2011. In addition, insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008.

The Company had net income for the nine months ended September 30, 2012 of $64,000 (or basic and diluted income per share of $0.02) as compared to a net loss of $711,000 (or basic and diluted loss per share of $0.26) for the nine months ended September 30, 2011. The improvement in the Company's earnings was largely attributable to a decrease in the provision for loan losses to $240,000 for the nine months ended September 30, 2012 compared to a provision for loan losses of $1,039,000 for the same period in 2011. The decrease in the provision for loan losses during the nine months ended September 30, 2012 compared to the same period in 2011 was primarily related to the 2011 provision being negatively affected by one commercial loan secured by real estate that was severely impacted by prevailing economic conditions in 2011.

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In addition to the impact of the decrease in the provision for loan losses, the Company's operating results for the nine months ended September 30, 2012, when compared to the same period of 2011, were influenced by the following factors:

Net interest income decreased by $97,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in deposit liability volumes (as management determined to reduce deposits by offering lower rates on deposits, which could lead to an improvement in the Company's regulatory capital ratios);

Noninterest income increased by $79,000 because of loan prepayment fees received during the nine months ended September 30, 2012 with no similar income recognized in the same period of 2011, as well as an increase in other noninterest income, which was partially offset by a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and

Noninterest expenses increased by $6,000 during the first nine months of 2012 compared to the same period in 2011 primarily due to increases in salaries and benefits expense, professional services fees and insurance expense, which were partially offset by a loss on the sale of other real estate owned during the nine months ended September 30, 2011 with no such loss during the corresponding period in 2012, as well as decreases in directors' fees, data processing fees and the cost of FDIC insurance. The increase in salaries and benefits expense during the first nine months of 2012 when compared to the same period in 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to salary and benefits associated with the hiring of a Chief Executive Officer in October 2011 to fill an open position at the Bank that existed during the corresponding period of 2011.The increase in professional services fees was due to increased costs for loan review, internal audit and consulting services performed during the nine months ended September 30, 2012, compared to the same period in 2011. Insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008. The decrease in directors' fees was attributable to reductions in director fees that were approved by the Company's compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during the nine months ended September 30, 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The cost of FDIC insurance was lower during the nine months ended September 30, 2012 compared to the same period in 2011 primarily due to a decline in deposit balances subject to the FDIC deposit insurance assessment. In addition the Company realized a loss on the sale of other real estate owned during the nine months ended September 30, 2011 with no similar loss in the same period of 2012.

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 of operations, 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 estimate with its audit committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the audited financial statements as of and for the year ended December 31, 2011 included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

Allowance for Loan Losses

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

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

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

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

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

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

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

Most TDRs are placed on nonaccrual status at the time of restructuring, and continue on nonaccrual status until they have performed under the revised terms of the modified loan agreement for a minimum of nine months. In certain instances, for TDRs that are on accrual status at the time the loans are restructured, the Bank may continue to classify the loans as accruing loans based upon the terms and conditions of the restructuring.

Impairment analysis is performed on a loan by loan basis for all modified commercial loans, residential mortgages and consumer loans that are deemed to be TDRs, and related charge-offs are recorded or specific reserves are established as appropriate. Commercial loans include loans categorized as commercial loans secured by real estate, commercial loans, and construction and land loans. Impairment is measured by the present value of expected future cash flows discounted at the loan's effective interest rate. The original contractual interest rate for the loan is used as the discount rate for fixed rate loan modifications. The current rate is used as the discount rate when the loan's interest rate floats with a specified index. A change in terms or payments would be included in the impairment calculation.

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

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

Due to the relatively small asset size and loans outstanding of the Company, the Company uses readily available data from the FDIC regarding the loss experience of national banks with assets between $100 million and $300 million and combines this data with the Company's actual loss experience to develop average loss factors by weighting the national banks' loss experience and the Company's loss experience. As both the Company's asset size and outstanding loan balance increased significantly during 2010, beginning with the quarter ended March 31, 2011, the Company determined to place greater emphasis on the Company's loss experience and to utilize the average loss experience for the prior four years instead of the prior three years used in the Company's calculations through December 31, 2010. The Company increased the weighting of its loss experience from 25% to 50%. The Company intends to weight the Company's loss experience more heavily in determining the allowance for loan loss provision as the size of the Company's loan portfolio becomes more significant. The historical loss period was extended by an additional year from the loss period utilized through December 31, 2010, which is considered more representative of average annual losses inherent in the loan portfolio.

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

Based upon this evaluation, management believes the allowance for loan losses of $2,228,000 or 2.10% of gross loans outstanding at September 30, 2012 is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2011, the allowance for loan losses was $2,300,000 or 2.02% of gross loans outstanding. The decrease in the allowance was attributable to a $72,000 decrease in the general component of the allowance. The decrease in the general component of the reserve was primarily due to a decline in loan volume during the nine months ended September 30, 2012. In addition, the Company had $420,000 in charge-offs during the nine months ended September 30, 2012, of which $387,000 was for loans that were not impaired at December 31, 2011 and $33,000 was related to a decline in collateral for a loan impaired at December 31, 2011. The charge-offs during the first nine months of 2012 primarily relate to three commercial and industrial loans and one residential loan. The Company's net loan charge-offs were adequately provided for during the nine months ended September 30, 2012.

The accrual of interest on loans is discontinued at the time loans are 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 nonaccrual 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 Nonaccrual, Past Due and Restructured Loans

The changes in the allowance for loan losses for the nine months ended September 30, 2012 and 2011 are as follows:

	2012	2011
Balance at beginning of year	$2,299,625	$2,786,641
Provision for loan losses	240,254	1,039,212
Recoveries of loans previously charged-off:		
Commercial	79,517	4,104
Commercial loans secured by real estate	29,114	
Consumer	—	2,301
Total recoveries	108,631	6,405
Loans charged-off:		
Commercial	(384,027)	(138,778)
Commercial loans secured by real estate	—	(1,344,057)

Residential mortgages	(33,192)	(40,910)
Consumer	(2,959)	(9,675)
Total charge-offs	(420,178)	(1,533,420)
Balance at end of period	$2,228,332	$2,298,838
Net charge-offs to average loans	(0.28)%	(1.24 %)

Non-Performing Assets and Potential Problem Loans

The following table represents non-performing assets and potential problem loans at September 30, 2012 and December 31, 2011:

Nonaccrual loans:	2012	2011
Commercial loans secured by real estate	$553,159	$787,311
Commercial	1,814,010	1,707,720
Construction and land	1,387,660	1,420,156
Residential mortgages	653,482	554,678
Consumer	—	1,460
Total non-accrual loans	4,408,311	4,471,325
Troubled debt restructured (TDR) loans:		
Nonaccrual TDR loans not included in Total nonaccrual loans above:		
Commercial loans secured by real estate	255,383	1,314,030
Commercial	252,233	1,899,342
Accruing TDR impaired loans:		
Commercial loans secured by real estate	1,044,481	
Commercial	1,652,422	—
Foreclosed assets:		
Commercial	474,948	374,211
Residential	156,838	—
Total non-performing assets	$8,244,616	$8,058,908
Ratio of non-performing assets to:		
Total loans and foreclosed assets	7.73 %	7.05 %
Total assets	6.72 %	5.52 %
Accruing past due loans:		
30 to 89 days past due	$3,010,371	$1,392,936
90 or more days past due	20	—
Total accruing past due loans	$3,010,391	$1,392,936
Ratio of accruing past due loans to gross loans net of unearned income:		
30 to 89 days past due	2.83 %	1.22 %

Recent Accounting Changes

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

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

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

Comparison of Financial Condition as of September 30, 2012 versus December 31, 2011

General

The Company’s total assets were $122.7 million at September 30, 2012, a decrease of $23.3 million over total assets of $146.0 million at December 31, 2011. The Bank’s net loans receivable decreased to $104.1 million at September 30, 2012 from $111.6 million at December 31, 2011, and cash and cash equivalents, including short term investments, decreased to $10.1 million as of September 30, 2012 from $24.9 million as of December 31, 2011. Total deposits decreased to $109.1 million as of September 30, 2012 from $132.6 million as of December 31, 2011. The decreases in net loans receivable and cash and cash equivalents corresponded with the decrease in deposit liabilities during the nine months ended September 30, 2012.

Short-term investments

Short-term investments, consisting of money market investments, decreased to $3.6 million at September 30, 2012 compared to $6.8 million at December 31, 2011.

Investments

Available for sale securities, which consisted of U.S. Treasury Bills, decreased $900,000 to $2.9 million at September 30, 2012 from $3.8 million at December 31, 2011. The Company uses the U.S. Treasury Bills included in its available for sale securities portfolio to meet pledge requirements for public deposits and repurchase agreements. The Company classifies its securities as “available for sale” to provide greater flexibility to respond to changes in interest rates as well as future liquidity needs.

Loans

Interest income on loans is the most important component of the Company’s net interest income. The loan portfolio is the largest component of earning assets, and it, therefore, generates the largest portion of revenues. The Company’s net loan portfolio was $104.1 million at September 30, 2012 versus $111.6 million at December 31, 2011, a decrease of $7.5 million. The Company attributes the decline in loan balances during the first nine months of 2012 to a decline in loan demand. The Bank’s loans have been made to small to medium-sized businesses, primarily in the Greater New Haven Market. There are no other significant loan concentrations in the loan portfolio.

Deposits

Total deposits were $109.1 million at September 30, 2012, a decrease of $23.5 million or 17.7% from total deposits of $132.6 million at December 31, 2011. Non-interest bearing deposits were $29.9 million at September 30, 2012, a decrease of $1.1 million or 3.7% from $31.0 million at December 31, 2011. Total interest bearing checking, money market and savings deposits decreased $8.3 million or 14.9% to $47.4 million at September 30, 2012 from $55.7 million at December 31, 2011. Time deposits decreased $14.1 million or 30.6% to $31.8 million at September 30, 2012 from $45.9 million at December 31, 2011. Included in time deposits at September 30, 2012 and December 31, 2011 were $4.5 million and $9.1 million, respectively, of brokered deposits. This included the Company’s placement of $4.0 million and $4.2 million in customer deposits as of September 30, 2012 and as of December 31, 2011, respectively; and the purchase of $300,000 and $2.1 million in brokered certificates of deposit through the CDARS program as of September 30, 2012 and December 31, 2011, respectively. As a result of the Consent Order, 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.

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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 the Bank's market.

Other

Repurchase agreement balances totaled $253,000 at September 30, 2012 as compared to less than $100 at December 31, 2011. The increase was due to normal customer activity.

Results of Operations: Comparison of Results for the three months and nine months ended September 30, 2012 and 2011

General

The Company had net income for the quarter ended September 30, 2012 of $163,000 (or basic and diluted income per share of $0.06) as compared to a net loss of $251,000 (or basic and diluted loss per share of $0.09) for the third quarter of 2011. The improvement in the Company's net income was largely attributable to a decrease in the provision for loan losses to $30,000 for the three months ended September 30, 2012 compared to a provision for loan losses of $373,000 for the same period in 2011. The decrease in the provision for loan losses was primarily related to a decrease in net charge-offs during the third quarter of 2012 compared to the third quarter of 2011.

In addition to the impact of the decrease in the provision for loan losses, the Company's operating results for the third quarter of 2012, when compared to the same period of 2011, were influenced by the following factors:

Net interest income decreased by $32,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in deposit liability volumes and lower rates paid on interest bearing liabilities (as management determined to reduce deposits by offering lower rates on deposits, which could lead to an improvement in the Company's regulatory capital ratios);

Noninterest income increased by $31,000 because of increases in loan prepayment fees recognized during the three months ended September 30, 2012 with no similar income recognized in the same period of 2011, which were partially offset by a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and

Noninterest expenses decreased by $72,000 during the third quarter of 2012 compared to the same period in 2011 primarily due to a loss on the sale of other real estate owned during the third quarter of 2011 with no such loss during the corresponding period in 2012, as well as decreases in directors' fees, data processing fees and the cost of FDIC insurance, which were partially offset by increases in salaries and benefits expense and insurance expense. The decrease in directors' fees was attributable to reductions in director fees that were approved by the Company's compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during the third quarter of 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The cost of FDIC insurance was lower during the third quarter of 2012 compared to 2011 primarily due to a decline in deposit balances subject to the FDIC deposit insurance assessment. These favorable changes were partially offset by an increase in salaries and benefits expense during the third quarter of 2012, when compared to the third quarter of 2011, which was primarily due to salary and benefits expenses attributable to the hiring of a Chief Executive Officer in October 2011 to fill an open position at the Bank that existed during the third quarter of 2011. In addition, insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008.

The Company had net income for the nine months ended September 30, 2012 of $64,000 (or basic and diluted income per share of $0.02) as compared to a net loss of $711,000 (or basic and diluted loss per share of $0.26) for the nine months ended September 30, 2011. The improvement in the Company's earnings was largely attributable to a decrease in the provision for loan losses to $240,000 for the nine months ended September 30, 2012 compared to a provision for loan losses of $1,039,000 for the same period in 2011. The decrease in the provision for loan losses during the nine months ended September 30, 2012 compared to the same period in 2011 was primarily related to the 2011 provision being negatively affected by one commercial loan secured by real estate that was severely impacted by prevailing economic conditions in 2011.

In addition to the impact of the decrease in the provision for loan losses, the Company's operating results for the nine months ended September 30, 2012, when compared to the same period of 2011, were influenced by the following factors:

Net interest income decreased by $97,000 due to the combined effects of decreases in loan volume and lower yields on interest earning assets (primarily attributable to a decline in yields in the loan portfolio), which were partially offset by decreases in deposit liability volumes and lower rates paid on interest bearing liabilities (as management determined to reduce deposits by offering lower rates on deposits, which could lead to an improvement in the Company's regulatory capital ratios);

Noninterest income increased by $79,000 because of loan prepayment fees received during the nine months ended September 30, 2012 with no similar income recognized in the same period of 2011, as well as an increase in other noninterest income, which was partially offset by a decrease in service charges and fees resulting from changes in the business practices of customers of the Bank; and

Noninterest expenses increased by $6,000 during the first nine months of 2012 compared to the same period in 2011 primarily due to increases in salaries and benefits expense, professional services fees and insurance expense, which were partially offset by a loss on the sale of other real estate owned during the nine months ended September 30, 2011 with no such loss during the corresponding period in 2012, as well as decreases in directors' fees, data processing fees and the cost of FDIC insurance. The increase in salaries and benefits expense during the first nine months of 2012 when compared to the same period in 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to salary and benefits associated with the hiring of a Chief Executive Officer in October 2011 to fill an open position at the Bank that existed during the corresponding period of 2011.The increase in professional services fees was due to increased costs for loan review, internal audit and consulting services performed during the nine months ended September 30, 2012, compared to the same period in 2011. Insurance expense increased due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008. The decrease in directors' fees was attributable to reductions in director fees that were approved by the Company's compensation committee effective January 1, 2012. The decrease in data processing fees resulted from benefits the Company continued to realize during the nine months ended September 30, 2012 related to the renewal of certain data processing service contracts on more favorable terms during the fourth quarter of 2011. The cost of FDIC insurance was lower during the nine months ended September 30, 2012 compared to the same period in 2011 primarily due to a decline in deposit balances subject to the FDIC deposit insurance assessment. In addition the Company realized a loss on the sale of other real estate owned during the nine months ended September 30, 2011 with no similar loss in the same period of 2012.

Net Interest Income

The principal source of revenue for the Bank is net interest income. The Bank's net interest income is dependent primarily upon the difference or spread between the average yield earned on loans receivable and securities and the average rate paid on deposits and borrowings, as well as the relative amounts of such assets and liabilities. The Bank, like other banking institutions, is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different times, or on a different basis, than its interest-earning assets.

For the quarter ended September 30, 2012, net interest income was $1,244,000 versus $1,276,000 for the same period in 2011. The $32,000 or 2.5% decrease was the result of a $295,000 decrease in interest income partially offset by a $263,000 decrease in interest expense. This net decrease was primarily the result of decreased asset volumes and lower yields on interest earning assets, which were partially offset by decreases in average balances on interest bearing liabilities and lower rates on interest bearing liabilities.

The Company's average total interest earning assets were $113.5 million during the quarter ended September 30, 2012 compared to $131.6 million for the same period in 2011, a decrease of $18.1 million or 13.8%. The decrease in average interest earning assets of $18.1 million during the quarter ended September 30, 2012 was comprised of decreases in average balances of loans of $14.5 million, decreases in average balances of short-term and other investments of $3.6 million and a $51,000 decrease in average balance of investments.

The yield on average interest earning assets for the quarter ended September 30, 2012 was 5.22% compared to 5.38% for the same period in 2011, a decrease of 16 basis points. The decrease in the yield on average interest earning assets was primarily attributable to lower yields on the Bank's loan portfolio because of the lower interest rate environment as well as an increase in non-performing loans.

The combined effects of the $18.1 million decrease in average balances of interest earning assets and the 16 basis point decrease in yield on average interest earning assets resulted in the $295,000 decline in interest income for the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011.

The average balance of the Company's interest bearing liabilities was $82.7 million during the quarter ended September 30, 2012 compared to $116.9 million for the quarter ended September 30, 2011, a decrease of $34.2 million or 29.3%. The cost of average interest bearing liabilities decreased 55 basis points to 1.18% for the quarter ended September 30, 2012 compared to 1.73% for the same period in 2011 due to maturities of higher priced time deposits as well as a general decrease in market interest rates.

The combined effect of the 55 basis point decrease in cost of average interest bearing liabilities and the $34.2 million decrease in average balances of interest bearing liabilities resulted in the $263,000 decrease in interest expense for the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011.

For the nine months ended September 30, 2012, net interest income was $3,819,000 versus $3,916,000 for the same period in 2011. The $97,000 or 2.5% decrease was the result of a $787,000 decrease in interest income partially offset by a $690,000 decrease in interest expense. This net decrease was primarily the result of decreased asset volumes, as well as lower yields on interest earning assets, which were partially offset by decreases in average balances on interest bearing liabilities and favorable decreases in rates on interest bearing liabilities.

The Company's average total interest earning assets were $118.3 million during the nine months ended September 30, 2012 compared to $134.9 million for the same period in 2011, a decrease of $16.6 million or 12.3%. The decrease in average interest earning assets of $16.6 million during the nine months ended September 30, 2012 was comprised of decreases in average balances of loans of $14.8 million as well as decreases in average balances of short-term and other investments of $2.2 million, which were partially offset by increases in average balance of investments of $422,000.

The yield on average interest earning assets for the nine months ended September 30, 2012 was 5.27% compared to 5.40% for the same period in 2011, a decrease of 13 basis points. The decrease in the yield on average interest earning assets was attributable to lower yields on the Bank's loan portfolio due to the lower interest rate environment as well as an increase in non-performing loans.

The combined effects of the $16.6 million decrease in average balances of interest earning assets and the 13 basis point decrease in yield on average interest earning assets resulted in the $787,000 decline in interest income for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

The average balance of the Company's interest bearing liabilities was $89.4 million during the nine months ended September 30, 2012 compared to $115.8 million for the nine months ended September 30, 2011, a decrease of $26.4 million or 22.8%. The cost of average interest bearing liabilities decreased 51 basis points to 1.26% for the nine months ended September 30, 2012 compared to 1.77% for the same period in 2011 due to maturities of higher priced time deposits as well as a general decrease in market interest rates.

The combined effect of the 51 basis point decrease in cost of average interest bearing liabilities and the $26.4 million decrease in average balances of interest bearing liabilities resulted in the $690,000 decrease in interest expense for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011.

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on interest earning assets and rates paid on interest bearing liabilities for the three months ended September 30, 2012 and 2011:

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

	2012			2011				
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Change in Interest Income/Expense	Change in Average Balance
Interest earning assets								
Loans (1)	$105,537	$1,477	5.57 %	$120,017	$1,761	5.82 %	$ (284)	$(14,480)
	5,135	12	0.93 %	8,706	24	1.09 %	(12)	(3,571)

Short-term and other investments								
Investments	2,877	1	0.14 %	2,928	—	0.00 %	1	(51)
Total interest earning assets	113,549	1,490	5.22 %	131,651	1,785	5.38 %	(295)	(18,102)
Cash and due from banks	7,892			24,070				(16,178)
Premises and equipment, net	1,945			2,065				(120)
Allowance for loan losses	(2,367)			(2,222)				(145)
Other	2,961			3,672				(711)
Total assets	$123,980			$159,236				$(35,256)
Interest bearing liabilities								
Time certificates	$32,721	127	1.54 %	$62,576	334	2.12 %	(207)	$(29,855)
Savings deposits	3,089	1	0.13 %	2,560	4	0.62 %	(3)	529
Money market / checking deposits	45,577	77	0.67 %	49,728	128	1.02 %	(51)	(4,151)
Capital lease obligations	1,157	41	14.10 %	1,165	43	14.64 %	(2)	(8)
Repurchase agreements	199	—	0.00 %	895	—	0.00 %	—	(696)
Total interest bearing liabilities	82,743	246	1.18 %	116,924	509	1.73 %	(263)	(34,181)
Non-interest bearing deposits	29,039			27,602				1,437
Accrued expenses and other liabilities	381			729				(348)
Shareholder's equity	11,817			13,981				(2,164)
Total liabilities and equity	$123,980			$159,236				$(35,256)
Net interest income		$1,244			$1,276		$ (32)	
Interest spread			4.04 %			3.65 %		
Interest margin			4.36 %			3.85 %		

(1) Includes nonaccruing loans.
(2) Interest income includes loan fees, which are not material.

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Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the three months ended September 30, 2012 and 2011 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis:

	Three Months Ended September 30, 2012 vs 2011		
	Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	(208)	(77)	(285)
Short-term and other investments	(10)	(1)	(11)
Investments	—	1	1
Total interest earning assets	(218)	(77)	(295)
Interest bearing liabilities			
Time certificates	(131)	(76)	(207)
Savings deposits	1	(4)	(3)
Money market / checking deposits	(10)	(41)	(51)
Capital lease obligations	—	(2)	(2)
Total interest bearing liabilities	(140)	(123)	(263)
Net interest income	$(78)	$46	$ (32)

The decrease in net interest income during the third quarter of 2012 reflected a $18.1 million decrease in total average interest earning assets to $113.5 million in the third quarter of 2012 from $131.6 million in the third quarter of 2011 and a decrease in the yields on interest earning assets to 5.22% for the three months ended September 30, 2012 from 5.38% in the same period of 2011. The combined effects of these changes were partially offset by a $34.2 million decrease in average interest bearing liabilities to $82.7 million for the three months ended September 30, 2012 from $116.9 million for the same period of 2011 as well as decreases in rates on interest bearing liabilities to 1.18% for the three months ended September 30, 2012 from 1.73% for the same period in 2011. Interest income from interest earning assets in the third quarter of 2012, when compared to the same period in 2011, decreased by $295,000 because of a $218,000 decrease due to volume considerations and a $77,000 decrease due to a decline in interest rates. Variances in the cost of interest bearing liabilities during the three months ended September 30, 2012 in comparison to the same period in 2011 were due to decreased rate considerations of $123,000 and decreased volume considerations of $140,000.

Average Balances, Yields, and Rates

The following table presents average balance sheets (daily averages), interest income, interest expense, and the corresponding annualized rates on interest earning assets and rates paid on interest bearing liabilities for the nine months ended September 30, 2012 and 2011.

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

	2012			2011				
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Change in Interest Income/ Expense	Change in Average Balance
Interest earning assets								
Loans (1)(2)	$108,474	$4,626	5.70 %	$123,263	$5,384	5.84 %	$(758)	$(14,789)
Short-term and other investments	6,639	39	0.78 %	8,850	69	1.04 %	(30)	(2,211)
Investments	3,177	1	0.04 %	2,755	—	0.00 %	1	422
Total interest earning assets	118,290	4,666	5.27 %	134,868	5,453	5.40 %	(787)	(16,578)
Cash and due from banks	10,608			22,388				(11,780)
Premises and equipment, net	1,964			2,125				(161)
Allowance for loan losses	(2,378)			(2,669)				291
Other	2,990			3,029				(39)
Total assets	$131,474			$159,741				$(28,267)
Interest bearing liabilities								
Time certificates	$36,958	474	1.71 %	$64,218	1,016	2.12 %	(542)	$(27,260)
Savings deposits	2,955	3	0.14 %	2,660	13	0.65 %	(10)	295
Money market / checking	48,051	245	0.68 %	46,628	378	1.08 %	(133)	1,423

deposits									
Capital lease obligations	1,159	125	14.41 %	1,167	129	14.78 %	(4)	(8)
Repurchase agreements	327	—	0.00 %	1,120	1	0.12 %	(1)	(793)
Total interest bearing liabilities	89,450	847	1.26 %	115,793	1,537	1.77 %	(690)	(26,343)
Non-interest bearing deposits	29,777			29,096				681
Accrued expenses and other liabilities	460			726				(266)
Shareholder’s equity	11,787			14,126				(2,339)
Total liabilities and equity	$131,474			$159,741				$(28,267)
Net interest income		$3,819			$3,916		$(97)	
Interest spread			4.01 %			3.63 %		
Interest margin			4.31 %			3.88 %		

(1) Average balance includes nonaccruing loans.

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

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Changes in Assets and Liabilities and Fluctuations in Interest Rates

The following table summarizes the variance in interest income and interest expense for the nine months ended September 30, 2012 and 2011 resulting from changes in assets and liabilities and fluctuations in interest rates earned and paid. The changes in interest attributable to both rate and volume have been allocated to both rate and volume on a pro rata basis:

	2012 vs 2011 Due to Change in Average		(Decrease)
(Dollars in thousands)	Volume	Rate	Increase
Interest earning assets			
Loans	$(632)	$(126)	$ (758)
Short-term and other investments	(15)	(15)	(30)
Investments	—	1	1
Total interest earning assets	(647)	(140)	(787)
Interest bearing liabilities			
Time certificates	(373)	(169)	(542)
Savings deposits	1	(11)	(10)
Money market / checking deposits	12	(145)	(133)
Capital lease obligations	(1)	(3)	(4)
Repurchase agreements	(1)	—	(1)
Total interest bearing liabilities	(362)	(328)	(690)
Net interest income	$(285)	$188	$ (97)

The decrease in net interest income during the first nine months of 2012 reflected a $16.6 million decrease in total average interest earning assets to $118.3 million for the nine months ended September 30, 2012 compared to $134.9 million for the same period of 2011 and a decrease in the yields on interest earning assets to 5.27% for the nine months ended September 30, 2012 from 5.40% in the same period of 2011. The combined effects of these unfavorable changes were partially offset by favorable decreases in rates on interest bearing liabilities to 1.26% for the nine months ended September 30, 2012 from 1.77% for the same period in 2011 as well as a $26.3 million decrease in average interest bearing liabilities to $89.4 million for the first nine months of 2012 from $115.8 million for the first nine months of 2011. Overall, the decrease in net interest income attributed to volume changes was $285,000, which was partially offset by a net increase attributed to interest rate changes of $188,000. Interest income from interest earning assets in the first nine months of 2012, when compared to the same period in 2011, decreased by $787,000 because of the combined effects of a $140,000 decrease due to a decline in interest rates and a $647,000 decrease due to volume considerations. Variances in the cost of interest bearing liabilities during the nine months ended September 30, 2012 in comparison to the same period in 2011 were due to decreased rate considerations of $328,000 and decreased volume considerations of $362,000.

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.

Provision for Loan Losses

The Bank's provision for loan losses was $30,000 and $240,000 for the three months and nine months ended September 30, 2012, respectively, as compared to a provision for loan losses of $373,000 and $1,039,000, respectively, for the same periods in 2011. The decrease in the provision for loan losses during the third quarter of 2012 compared to the third quarter of 2011 was primarily related to a decrease in net charge-offs. The decrease in the provision for loan losses during the nine months ended September 30, 2012 when compared to the same period in the prior year was primarily related to the 2011 provision being negatively affected by one commercial loan secured by real estate that was severely impacted by prevailing economic conditions in 2011.

Noninterest Income

Total noninterest income increased $31,000 to $182,000 for the three months ended September 30, 2012 from $151,000 for the same period in 2011. This increase was primarily due to loan prepayment fees of $46,000 recognized in the three months ended September 30, 2012 with no such revenue in the same period in 2011. The increase in loan prepayment fees was partially offset by a $15,000 decrease in service charges and fees due to changes in business practices of customers of the Bank during the third quarter of 2012 as compared to the same period in 2011.

Total noninterest income increased $79,000 to $501,000 for the nine months ended September 30, 2012 from $422,000 for the same period in 2011. This increase was primarily due to loan prepayment fees of $92,000 and a $10,000 increase in fair value of a derivative financial instrument recognized during the nine months ended September 30, 2012, with no such revenue in the same period in 2011, as well as a $30,000 increase in other noninterest income for the nine months ended September 30, 2012 compared to the same period of 2011. The combined effect of these favorable changes were partially offset by a $53,000 decrease in service charges and fees due to changes in business practices of customers of the Bank during the nine months ended September 30, 2012 as compared to the same period in 2011.

Noninterest Expense

Total noninterest expense was $1,233,000 for the three months ended September 30, 2012 compared to $1,305,000 for the same period in 2011, an increase of $72,000 or 5.5%.

Salaries and benefits expense increased $75,000 to $672,000 for the three months ended September 30, 2012 from $597,000 for the same period in 2011. The increase in salaries and benefits expense during the third quarter of 2012 when compared to the third quarter of 2011 was primarily due to salary and expenses attributable to the hiring of a Chief Executive Officer in October 2011 to fill an open position at the Bank that existed during the third quarter of 2011.

Occupancy and equipment expense of $162,000 for the three months ended September 30, 2012 was relatively unchanged from $159,000 for the same period in 2011.

Professional services expense decreased by $15,000 to $93,000 for the three months ended September 30, 2012 from $108,000 for the same period in 2011 due to decreased costs for internal auditing and consulting services performed during the quarter ended September 30, 2012 compared to the same period in 2011.

Fees for data processing and other outside services declined $29,000 to $69,000 for the quarter ended September 30, 2012 from $98,000 for the same period in 2011. The decrease was primarily due to benefits the Company continued to realize on the renewal of certain related service contracts on more favorable terms during the fourth quarter of 2011.

Insurance expense increased by $21,000 to $32,000 for the three months ended September 30, 2012 from $11,000 for the same period in 2011 primarily due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008.

Directors' fees decreased by $32,000 to $43,000 for the three months ended September 30, 2012 from $75,000 for the same period in 2011. The decrease was attributable to a reduction in fees paid to directors effective January 1, 2012 that was approved by the Company's compensation committee.

The Company realized a $51,000 loss on the sale of other real estate owned during the third quarter of 2011 with no such loss during the corresponding period in 2012.

FDIC insurance expense decreased by $15,000 to $51,000 for the three months ended September 30, 2012 from $66,000 for the same period in 2011. The decrease was attributable to a decline in deposit balances subject to the FDIC deposit insurance assessment, partially offset by an increase in FDIC assessment rates paid by the Bank.

Other operating expenses decreased by $30,000 to $110,000 for the three months ended September 30, 2012 when compared to the same period in 2011.

Total noninterest expense was $4,016,000 for the nine months ended September 30, 2012 compared to $4,010,000 for the same period in 2011, an increase of $6,000 or 0.2%.

Salaries and benefits expense increased $222,000 to $2,199,000 for the nine months ended September 30, 2012 from $1,977,000 for the same period in 2011. The increase in salaries and benefits expense during the nine months of 2012 when compared to same period in 2011 was primarily attributable to restricted stock compensation expense recorded by the Company based upon the vesting schedule for restricted stock granted to the Chief Executive Officer under his employment agreement and restricted stock agreement executed on February 28, 2012 and to salary and benefits associated with the hiring of a Chief Executive Officer in October 2011 to fill an open position that existed during the corresponding period of 2011.

Occupancy and equipment expense decreased by $43,000 to $458,000 for the nine months ended September 30, 2012 from $501,000 for the same period in 2011 primarily due to declines in asset depreciation expense and lower repairs and maintenance expenditures.

Professional services expense increased by $88,000 to $370,000 for the nine months ended September 30, 2012 from $282,000 for the same period in 2011 due to increased expenditures for loan review and internal auditing and consulting services performed during the nine months ended September 30, 2012 compared to the same period in 2011.

Fees for data processing and other outside services declined $98,000 to $206,000 for the nine months ended September 30, 2012 from $304,000 for the same period in 2011. The decrease was primarily due to benefits the Company continued to realize on the renewal of certain related service contracts on more favorable terms during the fourth quarter of 2011.

Insurance expense increased by $58,000 to $97,000 for the nine months ended September 30, 2012 from $39,000 for the same period in 2011 primarily due to increased costs in 2012 associated with insurance policies that the Company had entered into during a more favorable environment in July 2008.

Directors' fees decreased by $114,000 to $122,000 for the nine months ended September 30, 2012 from $236,000 for the same period in 2011. The decrease was attributable to a reduction in fees paid to directors effective January 1, 2012 that was approved by the Company's compensation committee.

All other operating expenses decreased by $27,000 to an aggregate amount of $409,000 for the nine months ended September 30, 2012 compared to $436,000 for the same period in 2011.

Off-Balance Sheet Arrangements

See Note 8 to the Financial Statements for information regarding the Company's off-balance sheet arrangements.

Provision for Income Taxes

The Company did not record a provision or benefit for income taxes for the three months or nine months ended September 30, 2012 and 2011. In future periods, the Company anticipates that it will have a minimal tax provision or benefit until such time as it is able to reverse the deferred tax asset valuation allowance.

Liquidity

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.

The Company's liquidity position consisted of liquid assets totaling $13.6 million and $28.9 million, as of September 30, 2012 and December 31, 2011, respectively. This represented 11.1% and 19.8%, respectively, of total assets at September 30, 2012 and December 31, 2011. 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.

In addition to the foregoing sources of liquidity, the Bank maintains a relationship with the Federal Home Loan Bank of Boston and has the ability to pledge certain of the Bank's assets as collateral for borrowings from that institution.

Capital

The Company's and Bank's actual capital amounts and ratios at September 30, 2012 and December 31, 2011 were as follows:

The Company's actual capital amounts and ratios at September 30, 2012 and December 31, 2011 were:

(Dollars in thousands)

September 30, 2012	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$13,091	12.47%	$8,400	8.00 %	N/A	N/A
Tier 1 Capital to Risk-Weighted Assets	11,767	11.21%	4,200	4.00 %	N/A	N/A
Tier 1 (Leverage) Capital to Average Assets	11,767	9.49 %	4,959	4.00 %	N/A	N/A

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

The Bank's actual capital amounts and ratios at September 30, 2012 and December 31, 2011 were:

(Dollars in thousands)						
September 30, 2012	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$12,273	11.73%	$8,373	8.00 %	$10,467	10.00%
Tier 1 Capital to Risk-Weighted Assets	10,953	10.46%	4,187	4.00 %	6,280	6.00 %
Tier 1 (Leverage) Capital to Average Assets	10,953	8.88 %	4,936	4.00 %	6,169	5.00 %

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

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. To be considered "well capitalized," an institution must generally have a Tier 1 leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. Based on the above ratios, the Bank is considered to be "well capitalized" under applicable regulations. As of September 30, 2012, the Bank's Tier I leverage ratio, Tier I risk-based capital ratio and total risk-based capital ratios were above such minimums. However, in July 2012, the Bank entered into a Consent Order with the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking which, among other things, require it to maintain a minimum Tier 1 leverage ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 9% and a total risk-based capital ratio of at least 10%. At September 30, 2012, the Bank's capital ratios exceeded such minimums set forth in the Consent Order. In June 2012, the Bank also submitted a revised capital plan outlining its strategy for increasing its capital amounts and ratios to the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking for their approval. In October 2012 the Bank received regulatory approval for its revised capital plan. The Company and the Bank will seek to implement the plan to increase capital as soon as practicable. Further regulatory action is possible if the Bank does not maintain the minimum capital ratios set forth in the Consent Order.

Market Risk

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

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

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

Impact of Inflation and Changing Prices

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

Factors Affecting Future Results

Some of the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report on Form 10-Q 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 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of the Company's disclosure controls and procedures performed by the Company's management, with participation of the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer as of the end of the period covered by this report, the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the Company's disclosure controls and procedures have been effective in ensuring that material information relating to the Company, including its consolidated subsidiary, is made known to the certifying officers by others within the Company and the Bank during the period covered by this report.

As used herein, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange 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 of 1934, as amended, 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) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not required.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
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 November 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)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification by Senior Vice President and Chief Financial Officer (filed herewith)
31.3	Rule 13a-14(a)/15d-14(a) Certification by Vice President and Chief Accounting Officer (filed herewith)
32.1	Section 1350 Certification by Chief Executive Officer (filed herewith)

32.2	Section 1350 Certification by Senior Vice President and Chief Financial Officer (filed herewith)
32.3	Section 1350 Certification by Vice President and Chief Accounting Officer (filed herewith)
99.1	Consent Order, dated July 3, 2012 (incorporated by reference to the Registrant's Current report on Form 8-K filed on July 6, 2012)
99.2	Stipulation and Consent to the Issuance of a Consent Order, dated July 2, 2012 (incorporated by reference to the Registrant's Current report on Form 8-K filed on July 6, 2012)
101.INS	XBRL Instance Document* (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document* (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document* (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document* (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document* (filed herewith)
101.DEF	Taxonomy Extension Definitions Linkbase Document* (filed herewith)

* As provided in Rule 406T of Regulation S-T, this information is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SOUTHERN CONNECTICUT BANCORP, INC.	
	By:	/s/ Joseph J. Greco
	Name:	Joseph J. Greco
Date: November 14, 2012	Title:	Chief Executive Officer
	By:	/s/ Stephen V. Ciancarelli
	Name:	Stephen V. Ciancarelli
Date: November 14, 2012	Title:	Senior Vice President & Chief Financial Officer
	By:	/s/ Anthony M. Avellani
	Name:	Anthony M. Avellani
Date: November 14, 2012	Title:	Vice President & Chief Accounting Officer

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