SOUTHERN CONNECTICUT BANCORP INC
Form 10-Q
May 14, 2003

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON , D.C. 20549

F O R M 10 - QSB

[x]Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2003

Commission file number 0-49784

SOUTHERN CONNECTICUT BANCORP, INC.
(Name of Small Business Issuer as Specified in Its Charter)

Connecticut	06-1594123
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
215 Church Street New Haven, Connecticut	06510
(Address of Principal Executive Offices)	(Zip Code)

(203) 782-1100

(Issuer's Telephone Number)

The number of shares of the issuer's Common Stock, par value $.01 per share, outstanding as of May 6, 2003: 966,667

Transitional Small Business Disclosure Format

Yes __ No X

Table of Contents

Part I
Financial Information

PART I
Financial Information

Item 1. Financial Statements

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2003 (unaudited) and December 31, 2002

	2003
Assets	
Cash and due from banks	$ 1,424,9
Federal funds sold	4,363,0
Short-term investments	1,440,1
Cash and cash equivalents	7,228,1
Available for sale securities	6,873,3
FHLB stock	21,5
Loans receivable (net of allowance for loan losses of $294,900 in 2003 and $232,000 in 2002)	24,212,9
Accrued interest receivable	168,3
Premises and equipment, net	3,123,0
Other assets	643,4
Total assets	42,270,7
Liabilities and Stockholders' Equity	
Liabilities	
Deposits	
Noninterest bearing deposits	$ 5,685,4
Interest bearing deposits	26,851,2
Total deposits	32,536,6
Capital lease obligation	1,191,8
Repurchase agreements	365,5
Accrued expenses and other liabilities	144,7
Deferred tax liability	1,5
Total liabilities	34,240,4
Commitments and Contingencies	
Stockholders' Equity	
Preferred stock, no par value; 500,000 shares authorized; none issued	
Common stock, par value $.01; 5,000,000, shares authorized 966,667 shares issued and outstanding	9,6
Additional paid-in capital	10,705,3
Accumulated deficit	(2,687,09
Accumulated other comprehensive income - net unrealized gain on available for sale securities	2,4
Total stockholders' equity	8,030,3
Total liabilities and stockholders' equity	$ 42,270,7

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31 , 2003 and 2002 (unaudited)

	Three Months Ended March 31, 2003	2002
Interest Income		
Interest and fees on loans	$ 436,388	$ 70,164
Interest on securities	81,929	28,610
Interest on federal funds sold and short-term investments	5,949	44,297
Total interest income	524,266	143,071
Interest Expense		
Interest on deposits	92,464	49,958
Interest on capital lease obligations	41,958	31,806
Interest on repurchase agreements	802	-
Total interest expense	135,224	81,764
Net interest income	389,042	61,307
Provision for loan losses	62,900	18,000
Net interest income after Provision for loan losses	326,142	43,307
Noninterest Income:		
Service charges and fees	18,080	3,838
Gains in sale of securities available for sale	39,505	-
Total noninterest income	57,585	3,838
Noninterest Expense		
Salaries and benefits	296,633	171,738
Professional services	65,642	64,406
Occupancy and equipment	74,585	38,095
Advertising and promotional expense	19,184	15,909
Data processing and other outside services	39,010	24,385
Forms, printing and supplies	11,818	7,484

Other operating expenses	61,038	38,726
Total noninterest expenses	567,910	360,743
Net loss	$(184,183)	$(313,598)
Basic and Diluted Loss per Share	$ (0.19)	$ (.32)
Dividends per Share	-	-

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the three Months Ended March 31, 2003 and 2002 (unaudited)

	Number Of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit
Balance December 31, 2001	966,667	$ 9,667	$ 10,705,382	$ (1,118,902)
Net Loss	-	-	-	(313,598)
Balance March 31, 2002	966,667	$ 9,667	$ 10,705,382	$ (1,432,500)
Balance December 31, 2002	966,667	$ 9,667	$ 10,705,382	$ (2,502,915)
Comprehensive Income:				
Net Loss	-	-	-	$ (184,183)
Unrealized holding loss on available for sale securities	-	-	-	-
Total comprehensive income (loss)				
Balance March 31, 2003	966,667	$ 9,667	$ 10,705,382	$ (2,687,098)

See Notes to Consolidated Financial Statements.

SOUTHERN CONNECTICUT BANCORP, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three Months Ended March 31, 2003 and 2002 (unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Cash Flows From Operations		
Net Loss	$ (184,183)	$ (313,59
Adjustments to reconcile net loss to net cash used in operating activities		
Amortization and accretion of premiums and discounts on investments, net	49,377	15,81
Gains on sale of available for sale securities	(39,505)	
Provision for loan losses	62,900	18,00
Depreciation and amortization	40,651	24,29
Changes in assets and liabilities		
Increase (decrease) in deferred loan fees	8,645	(5
Decrease in accrued interest receivable	19,299	22,99
Decrease (increase) in other assets	13,475	(16,51
Decrease in accrued expenses and other liabilities	(33,710)	(92,59
Net cash used in operating activities	(63,051)	(341,65
Cash Flows From Investing Activities		
Purchases of available for sale securities	(2,524,661)	(1,497,18
Proceeds from maturities of available for sale securities	2,491,452	
Proceeds from sales of available for sale securities	2,553,000	
Purchase of FHLB stock	(21,000)	
Net increase in loans receivable	(5,235,317)	(2,800,70
Purchases of premises and equipment	(110,774)	(4,78
Net cash used in investing activities	(2,847,300)	(4,302,67
Cash Flows From Financing Activities		
Net increase in demand, savings and money market deposits	7,503,889	3,826,09
Net increase in certificates of deposit	39,874	638,01

Decrease in repurchase agreements	(456,733)	
Net cash provided by financing activities	7,087,030	4,464,11
Net increase (decrease) in cash and cash equivalents	4,176,679	(180,219
Cash and cash equivalents		
Beginning	3,051,429	10,436,33
Ending	$ 7,228,108	$ 10,256,11

Supplemental disclosures of cash flow information:	2003	200
Cash paid during the three months ended March 31, for:		
Interest	$ 131,776	$ 69,246
Income taxes	$ -	$ -

See Notes to Consolidated Financial Statements.

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

Note 1. Nature of Operations

Southern Connecticut Bancorp, Inc. (the "Company"), a Connecticut corporation, is a bank holding company incorporated on November 8, 2000 for the purpose of forming, and becoming the sole shareholder of, the Bank of Southern Connecticut (the "Bank"). The Bank provides a full range of banking services to commercial and consumer customers, primarily concentrated in the New Haven County area of Connecticut, through its main office in New Haven, Connecticut and branch offices in New Haven (Amity) and Branford, Connecticut.

Note 2. Basis of Financial Statement Presentation

The consolidated balance sheet at December 31, 2002 has been derived from the audited consolidated financial statements of Bancorp at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying consolidated unaudited financial statements as of and for the three months ended March 31, 2003 and March 31, 2002 and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements of

Bancorp and notes thereto as of December 31, 2002.

The accompanying unaudited consolidated financial information reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the interim periods presented. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results of operations that may be expected for all of 2003.

Note 3. Available Borrowings

During the quarter ended March 31, 2003 the Bank obtained secured and unsecured lines of credit with other financial institutions with total available borrowings of $4,400,000. There are no borrowings against these lines as of March 31, 2003.

Note 4. Commitments and Contingencies

The Company entered into an employment agreement (the "President Agreement") with the new President of the Bank effective in February 2003, and expiring on December 31, 2004. The President Agreement provides for a base salary and an annual bonus as determined by the Board of Directors. The President Agreement also provides for vacation and various insurance benefits and reimbursement for automobile, travel, entertainment, club dues and Bank-related education and convention expenses. Also, under the President Agreement, the Company intends to issue to the President options to purchase 20,000 shares of the Company's stock under the terms of the Company's 2002 Stock Option Plan.

Bancorp's wholly-owned subsidiary, The Bank of Southern Connecticut ("Bank"), is being sued by former President and Chief Operating officer Gary D. Mullin for breach of contract in connection with Mr. Mullin's dismissal for cause. Pursuant to Mr. Mullin's employment agreement with the Bank, the matter is in arbitration. Mr. Mullin notified the Bank of his claim in March 2003. The only parties to the dispute are the Bank and Mr. Mullin. Mr. Mullin is seeking $500,000 for alleged economic loss, plus attorney's fees. The Bank is seeking attorney's fees. The matter is currently pending.

Note 5. 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 in weighted average shares outstanding, unless the effect is antidilutive.

For the three month periods ended March 31, 2003 and 2002, common stock equivalents have been excluded from the computation of the net loss per share because the inclusion of such equivalents is antidilutive. Weighted average shares outstanding for the periods presented follow:

	March 31	
	2003	2002
Three month period ended	966,667	966,667

Note 6. Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available for sale securities, is as follows:

	March 31	
	Before-Tax Amount	
Unrealized holding losses arising during the period	$ (58,961)	$ 22
Less: Reclassification adjustment for gains recognized in net income	(39,505)	15
Unrealized holding loss on available for sale securities, net of taxes	$ (98,466)	$ 38

There were no elements of comprehensive income during the three months ended March 31, 2002.

Note 7. Stock Options

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued to employees and directors under the Company's stock option and warrant plans have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. During 2002, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123." The Company has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, has provided pro forma disclosures of net loss and earnings per share and other disclosures, as if the fair value based method of accounting had been applied.

Had compensation cost for issuance of such options and warrants been recognized based on the fair values of awards on the grant dates, in accordance with the method described in SFAS No. 123, reported net loss and per share amounts for the quarter ended March 31, 2003 would have been increased to the pro forma amounts shown below:

For the quarter ended March 31, 2003

		2003
Net loss, as reported	$	(184,18
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(32,96
Pro forma net loss	$	(217,15
Basic and diluted loss per share:		
As reported	$	(.1
Pro forma	$	(.2

Item 2. Management's Discussion and Analysis or Plan of Operation

(a) Plan of Operation

Southern Connecticut Bancorp, Inc. ("Bancorp"), a Connecticut corporation, was incorporated on November 8, 2000 to serve as a bank holding company. Bancorp owns one hundred percent of the capital stock of The Bank of Southern Connecticut ("Bank"), a state chartered bank in New Haven, Connecticut, which commenced operations on October 1, 2001 after receiving its Final Certificate of Authority from the Connecticut Banking Commissioner and its deposit insurance from the Federal Deposit Insurance Corporation ("FDIC"). Bancorp invested $10,000,000 of the net proceeds of its July 26, 2001 stock offering to purchase the capital stock of the Bank and an additional $360,000 to cover the Bank's pre-opening deficit. The $10,000,000 of initial equity capital for the Bank required under the Bank's Temporary Certificate of Authority substantially exceeded the statutory minimum equity capital for a new Connecticut bank of $5,000,000. Bancorp chose a holding company structure because it provides flexibility that would not otherwise be available. For example, Bancorp could acquire additional banks, establish de novo banks and other businesses, including mortgage companies, leasing companies, insurance agencies and small business investment companies. Bancorp may in the future decide to engage in additional businesses permitted to bank holding companies or financial holding companies. Before Bancorp could acquire interests in other banks, establish de novo banks or expand into other businesses, it may need to obtain regulatory approvals and might need additional capital.

Bancorp has leased a free-standing building located at 215 Church Street, New Haven, Connecticut, located in the central business and financial district of New Haven. It has assigned this lease to the Bank, and the Bank has assumed all rights and obligations under this lease. Both Bancorp and the Bank operate from this facility. On October 7, 2002 the Bank opened a new branch office in Branford, Connecticut at West Main Street and Summit Place. On August 15, 2002 the Bank also purchased a building at 1475 Whalley Avenue in the Westville section of New Haven for a branch office site which was opened on March 24, 2003.

The following table sets forth the location of the Bank's branch offices and other related information:

Office	Location	Status
Main Office	215 Church Street, New Haven, Connecticut	Leased
Branford Office	445 West Main Street, Branford, Connecticut	Leased
Amity Office	1475 Whalley Avenue, New Haven, Connecticut	Owned

Management believes that Bancorp's short-term assets have sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash requirements. For a more detailed discussion of Bancorp's liquidity, see Liquidity on page 16 of this Form 10-QSB. Currently, there are no plans involving the significant purchase or sale of property or equipment in the next twelve months. Outside of staffing the new branches, Bancorp does not anticipate a significant change in the number of its employees.

The Bank does not expect to compete with large institutions for the primary banking relationships of large corporations, but it competes for niches in this business segment and for the consumer business of employees of such entities. The Bank focuses on small to medium-sized businesses, professionals and individuals and their employees. This focus includes retail, service, wholesale distribution, manufacturing and international businesses. The Bank attracts these customers based on relationships and contacts which the Bank's directors and management have within and beyond the Bank's primary service area.

-10-

Greater New Haven is currently served by approximately 70 offices of commercial banks, none of which is headquartered in New Haven. In addition, New Haven Savings Bank, a mutual savings bank, has 16 branches in the New Haven market. All of these banks are substantially larger than the Bank expects to be in the near future and are able to offer products and services which may be impracticable for the Bank to provide at this time.

There are numerous banks and other financial institutions serving the communities surrounding New Haven which also draw customers from New Haven, posing significant competition for the Bank to attract deposits and loans. The Bank also experiences competition from out-of-state financial institutions. Bancorp will have to obtain customers from the customer base of such existing banks and financial institutions and from growth in New Haven and the surrounding area. Many of such banks and financial institutions are well established and well capitalized, allowing them to provide a greater range of services (including trust services) than the Bank will be able to offer in the near future.

Intense market demands, economic pressures and significant legislative and regulatory actions have eroded banking industry classifications which were once clearly defined and have increased competition among banks and other financial institutions. Market dynamics and legislative and regulatory changes impacting banks and other financial institutions have resulted in a number of new competitors offering services historically offered only by commercial banks; non-bank corporations offering services traditionally offered only by banks; increased customer awareness of product and service differences among competitors; and increased merger activity.

Additional legislative and regulatory changes may affect the bank in the future; however, the nature of such changes and the effect of their implementation cannot be assessed. New rules and regulations may, among other things, revise limits on interest rates on various categories of deposits and may limit or influence interest rates on loans. Monetary and fiscal policies of the United States government and its instrumentalities, including the Federal Reserve, significantly influence the growth of loans, investments and deposits. The present bank regulatory scheme is undergoing significant change both as it affects the banking industry itself and as it affects competition between banks and non-bank financial institutions.

The Bank currently offers products and services described as "core" products and services which are more completely described below. Through correspondent and other relationships, it is expected that the Bank will be able to help our customers meet all of their banking needs, including obtaining services which the Bank may not offer directly.

The Bank is seeking to establish a sound base of core deposits, including checking accounts, money market accounts, savings accounts, sweep accounts, NOW accounts and a variety of certificates of deposits and IRA accounts. To attract deposits, the Bank is employing an aggressive marketing plan in its service area and features a broad product line and rates and services competitive with those offered in the New Haven market. The primary sources of deposits have been and are expected to be, residents of, and businesses and their employees located in, New Haven and the surrounding communities. The Bank is obtaining these deposits through personal solicitation by its officers and directors, outside programs and advertisements published and / or broadcasted in the local media.

Deposits and the Bank's equity capital are the sources of funds for lending and investment activities. Repayments on loans, investment income and proceeds from the sale and maturity of investment securities will also provide additional funds for these purposes. While scheduled principal repayments on loans and investment securities are a relatively predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Bank expects to manage the pricing of deposits to maintain a desired deposit balance. The Bank offers drive-in teller services, wire transfers and safe deposit services.

The Bank's loan strategy is to offer a broad range of loans to businesses and individuals in its service area, including commercial and business loans, personal loans, mortgage loans, home equity loans, automobile loans and education loans. The Bank has received lending approval status from the Small Business Administration ("SBA") to enable it to make SBA loans to both the Greater New Haven business community and companies throughout the State of Connecticut. Our marketing focus on small to medium-size businesses and professionals may result in an assumption of certain lending risks that are different from or greater than those which would apply to loans made to larger companies or consumers. Commercial loans generally entail certain additional risks because repayment is usually dependent on the success of the enterprise. The Bank seeks to manage the credit risk inherent in its loan portfolio through credit controls and loan diversification. Prior to approving a loan the Bank evaluates: the credit histories of potential borrowers; the value and liquidity of available collateral; the purpose of the loan; the source and reliability of funds for repayment and other factors considered relevant in the circumstances.

Loans are made on a variable or fixed rate basis with fixed rate loans limited to five year terms. All loans are approved by the Bank's management and the Loan Committee of the Bank's Board of Directors. At the present time, the Bank is not purchasing participation in loans nor is it syndicating or securitizing loans. The Bank may consider participation in multi-bank loans for companies in its service area. Commercial loans and commercial real estate loans may be written for terms of up to twenty years. Loans to purchase or refinance commercial real estate are collateralized by the subject real estate. Loans to local businesses are generally supported by the personal guarantees of the principal owners and are carefully underwritten to determine appropriate collateral and covenant requirements.

Other services provided currently or to be provided include, cashier's checks, money orders, travelers checks, bank by mail, direct deposit and U. S. Savings Bonds. The Bank is associated with a shared network of automated teller machines that its customers are able to use throughout Connecticut and other regions. The Bank does not currently expect to offer trust services but may offer trust services through a joint venture with a larger institution. To offer trust services in the future, the Bank would need the approval of the Connecticut Banking Commissioner.

Another significant activity for the Bank is maintaining an investment portfolio. Although granting a variety of loans to generate interest income and loan fees is an important aspect of the Bank's business plan, the aggregate amount of loans will be subject to maintaining a satisfactory loan-to-deposit ratio. The Bank's overall portfolio objective is to maximize the long-term total rate of return through active management of portfolio holdings taking into consideration estimated asset/liability and liquidity needs, tax equivalent yields and maturities. Permissible investments include debt securities such as U. S. Government securities, government sponsored agency securities, municipal bonds, domestic certificates of deposit that are insured by the FDIC, mortgage-backed securities and collateralized mortgage obligations. The Bank expects that investments in equity securities will be very limited. The Bank's current investment portfolio is limited to U. S. government obligations which have been classified as available for sale. Accordingly, the principal risk associated with the Banks current investing activities is market risk (variations in value resulting from general changes in interest rates) rather than credit risk.

Overall, the Bank's plan of operation is focused on responsible growth and pricing of deposits and loans, and investment in high quality U. S. government securities to achieve a net interest margin sufficient to cover operating expenses, achieve profitable operations and maintain liquidity.

Currently, the Bank has 22 full-time and one part-time employees. Most routine day-to-day banking transactions are performed at the Bank by its employees. However, the Bank has entered into a number of arrangements for banking services such as correspondent banking, data processing and armored carriers.

(b) Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Bancorp had a net loss of $184,183 (or a loss per share of $0.19) for the quarter ended March 31, 2003, compared to a net loss of $313,598 (or a loss per share of $0.32) for the quarter ended March 31, 2002.

Financial Condition

Assets

Since commencing operations on October 1, 2001, Bancorp has reached total assets of $42.3 million at March 31, 2003, an increase of $6.8 million (19%) from $35.5 million in assets as of December 31, 2002. Earning assets reached $37.2 million, increasing $6.6 million (22%) during the first three months of 2003.

Bancorp has maintained liquidity by maintaining balances in overnight Federal Funds and Money Market Mutual Funds to provide funding for higher yielding loans as they are approved and closed. As of March 31, 2003, Federal funds sold were $4.4 million and money market mutual fund balances were $1.4 million. In addition, Bancorp has invested $6.9 million in U.S Government Agency securities classified as available for sale with maturities ranging from three months to 19 years.

Investments

The $2.6 million decrease in available for sale securities from December 31, 2002 was the result of sales of securities that generated realized gains of $39,905. In addition, the sale allowed the Bank to increase liquidity in anticipation of a seasonal decline in deposits as customers make their State and Federal income tax payments, and anticipated loan growth.

Loans

The net loan portfolio increased $5.2 million (27%) from $19.0 million at December 31, 2002 to $24.2 million at March 31, 2003. The loan to deposit ratio as of March 31, 2003 was 75%. As this ratio increases toward the targeted 80% to 85% range, it is expected that the higher yielding loans versus Federal Funds Sold, money market funds and investments will produce an increasingly positive impact on net interest spread. No significant loan concentrations have developed during this early stage of building the loan portfolio.

Critical Accounting Policy

In the ordinary course of business, Bancorp has made a number of estimates and assumptions relating to the reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principals generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Bancorp believes the following discussion addresses Bancorp's only critical accounting policy, which is the policy that is most important to the portrayal of Bancorp's financial condition and results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain

Allowance for Loan Losses

The allowance for loan losses, a material estimate susceptible to significant change in the near-term, is established as losses are estimated to have occurred through a provision for losses charged against operations, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Management's judgment in determining the adequacy of the allowance is inherently subjective and is based on the evaluation of individual loans, pools of homogeneous loans, the known and inherent risk characteristics and size of the loan portfolios, the assessment of current economic and real estate market conditions, estimates of the current value of underlying collateral, past loan loss

experience, review of regulatory authority examination reports and evaluations of specific loans and other relevant factors. Loans, including impaired loans, are charged against the allowance for loan losses when management believes that the uncollectibility of principal is confirmed. Any subsequent recoveries are credited to the allowance for loan losses when received. In connection with the determination of the allowance for loan losses, management obtains appraisals for significant properties, when considered necessary.

Based on this evaluation, management believes the allowance for loan losses of $294,900 at March 31, 2003, which represents 1.20% of gross loans outstanding, is adequate, under prevailing economic conditions, to absorb losses on existing loans. At December 31, 2002, the allowance for loan losses was $232,000 or 1.20% of gross loans outstanding.

Analysis of Allowance for Loan Losses

	2003	2002
Balance at beginning of period	$232,000	$ 12,000
Charge-offs	-	-
Recoveries	-	-
Provision charged to operations	62,900	120,000
Balance at end of period	$294,900	$232,000

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing and past due loans:

(Thousands of dollars)	March 31, 2003	December 31, 2002
Loans delinquent over 90 days still accruing	$ -	$ -
Non-accruing loans	16,000	-
Total	$ 16,000	$ -
% of Total Loans	0.07%	0.00%
% of Total Assets	0.04%	0.00%

Potential Problem Loans

At March 31, 2003, the Bank had no loans, other than disclosed in the table above, as to which management has significant doubts as to the ability of the borrower to comply with the present repayment terms.

Deposits

The earning asset growth in the quarter ended March 31, 2003 has been funded primarily by deposit growth within Bancorp's market area. Deposits reached $32.5 million at March 31, 2003, an increase of $7.5 million (30%) from $25.0 million as of December 31, 2002. The mix of deposits as of March 31, 2003 and December 31, 2002 appears in the table below. Bancorp does not have any brokered deposits.

	March 31, 2003		December 31, 2002	
	Balance	Mix	Balance	Mix
Noninterest bearing deposits:	$ 5,685,492	17.5%	$ 6,401,759	25.6%
Interest bearing deposits:				
Checking	2,800,433	8.6%	2,351,847	9.4%
Money Market	15,299,396	47.0%	8,858,585	35.5%
Savings	2,360,192	7.3%	1,029,433	4.1%
Checking, money market & savings	20,460,021	62.9%	12,239,931	49.0%
CD'S under $100,000	2,732,295	8.4%	2,610,756	10.4%
CD'S of $100,000 or more	3,658,886	11.2%	3,740,551	15.0%
Time deposits	6,391,181	19.6%	6,351,307	25.4%
Interest bearing deposits	26,851,202	82.5%	18,591,172	74.4%
Total deposits	$32,536,694	100.0%	$24,992,931	100.0%

Other

The $70,000 increase in premises and equipment, net, primarily reflects the purchase of furniture and equipment for the Amity branch which opened in March 2003.

The decrease in accrued interest receivable is due to the decrease in volume of investment securities and to the timing of interest received on such securities, which have quarterly or semi annual payments of interest. These decreases were partially offset by increases in accrued interest receivable on loans due to increased loan volume.

Repurchase agreements decreased due to the volatile nature of these accounts.

Results of Operations

De Novo banks in Connecticut have reached profitability on average within three to four years after commencement of operations. The Company anticipates that the Bank will reach profitability within that time frame.

Net Interest Income

For the quarter ended March 31, 2003, net interest income was $389,000 versus $61,000 for the same period in 2002, a $328,000 or 85% increase. This was the result of a $15.5 million increase in average earning assets, primarily loans of $19.3 million and investments of $4.1 million, partially offset by a decrease in lower yielding short term investments of $4.9 million and federal funds sold of $3.0 million.

Total average interest earning assets for the quarter ended March 31, 2003 had an annualized weighted-average yield of 6.36% versus 3.28% for the quarter ended March 31, 2002. The annualized interest rate on total interest bearing liabilities was 2.34% for the first quarter of 2003 versus 3.65% for the same period in 2002.

-15-

Provision for Loan Losses

The $44,900 increase in the provision for loan loss from $18,000 for the three months ended March 31, 2002 to $62,900 for the three months ended March 31, 2003 is primarily the result of the $20.5 million increase in loans.

Noninterest Income

The $54,000 increase in noninterest income is the result of increased deposit volume and activity and gains on the sales of available for sale securities.

Noninterest Expense

Total noninterest expense was $568,000 for the first quarter of 2003 versus $361,000 for the same period in 2002, an increase of $207,000 or 57%. The increase in expense is due to the growth in the Bancorp's loan and deposit volume as well as the addition of the Branford office in late 2002 and Amity office in March of 2003, requiring additional staffing and other operating expenses.

Liquidity

Bancorp's liquidity position as of March 31, 2003 and December 31, 2002 consisted of liquid assets totaling $14.1 million and $12.6 million, respectively. This represents 33.4% and 35.4% of total assets at March 31, 2003 and December 31, 2002, respectively. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets as described in the accompanying balance sheet are considered liquid assets: Cash and due from banks, federal funds sold, short-term investments, held to maturity securities maturing in one year or less and securities available for sale. Liquidity is a measure of Bancorp'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.

Capital

The following table illustrates the Bank's regulatory capital ratios at:

	March 31, 2003	December 31, 2002
Leverage Ratio	20.77%	23.76%
Tire 1 Risk - Based Capital Ratio	25.04%	31.52%
Total Risk - Based Capital Ratio	25.97%	32.43%

Capital adequacy is one of the most important factors used to determine the safety and soundness of individual banks and the banking system. Based on the above ratios, the Bank is considered to be "well capitalized" under applicable regulations. To be considered "well capitalized" an institution must generally have a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%.

Bancorp is also considered to be well capitalized under the regulatory framework specified by the Federal Reserve Bank ("FRB"). Bancorp's actual and required ratios are not substantially different from those shown above.

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 on the nature of the Company's business, market risk is primarily limited to interest rate risk, which is the impact that changing interest rates have on current and future earnings.

Bancorp's goal is to maximize long-term profitability, while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price Bancorp'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, Bancorp 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 the Asset and Liability Management Committee ("ALCO") consisting of senior management personnel and selected members of the Board of Directors. ALCO reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. ALCO reports to the Board of Directors on a quarterly basis regarding the status of ALCO activities within the Company.

Impact of Inflation and Changing Prices

Bancorp's 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 Bancorp's earnings in future periods.

"Safe Harbor" Statement Under Private Securities Litigation Reform Act of 1995

Certain statements contained in Bancorp's public reports, including this report, and in particular in this "Management's Discussion and Analysis or Plan of Operation", may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to, (1) changes in prevailing interest rates which would affect the interest earned on Bancorp's interest earning assets and the interest paid on its bearing liabilities, (2) the timing of re-pricing of Bancorp's interest earning assets and interest bearing liabilities, (3) the effect of changes in governmental monetary policy, (4) the effect of changes in regulations applicable to Bancorp and the conduct of its business, (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks and the impact of recently enacted federal legislation, (6) the ability of competitors which are larger than Bancorp to provide products and services which it is impracticable for Bancorp to provide, (7) the effect of Bancorp's opening of branches, (8) the effect of any decision by Bancorp to engage in any business not historically permitted to it. Other such factors may be described in Bancorp's filings with the SEC.

Although Bancorp believes that it offers the loan and deposit products and has the resources needed for success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause Bancorp 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.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, President and Chief Operating Officer, and Controller, the effectiveness of the design and operation of Bancorp's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report has been evaluated. Based upon that evaluation, the Chairman and Chief Executive Officer, President and Chief Operating Officer, and Controller concluded that, as of the Evaluation Date, Bancorp's disclosure controls and procedures are effective.

(b) Changes in Internal Controls

There have not been any significant changes in Bancorp's internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date referenced in paragraph (a) above.

PART II
Other Information

Item 1. Legal Proceedings

Bancorp's wholly-owned subsidiary, The Bank of Southern Connecticut ("Bank"), is being sued by former President and Chief Operating officer Gary D. Mullin for breach of contract in connection with Mr. Mullin's dismissal for cause. Pursuant to Mr. Mullin's employment agreement with the Bank, the matter is in arbitration. Mr. Mullin notified the Bank of his claim in March 2003. The only parties to the dispute are the Bank and Mr. Mullin. Mr. Mullin is seeking $500,000 for alleged economic loss, plus attorney's fees. The Bank is seeking attorney's fees. The matter is currently pending.

Item 2. Changes in Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Effective April 1, 2003, Anthony M. Avellani was appointed the controller of Bancorp. Mr. Avellani had been serving as Bancorp's Interim Controller following the departure of Bancorp's former Chief Financial Officer, Paul V. Erwin.

Effective February 11, 2003, Michael M. Ciaburri was elected a Director of Bancorp.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

No.	Description

3(i)	Amended and Restated Certificate of Incorporation of the Issuer (incorporated by reference to Exhibit 3(i) to Issuer's Quarterly Report on Form 10-QSB dated June 30, 2002)
3(ii)	By-Laws of the Issuer (incorporated by reference to Exhibit 3(ii) to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.1	Lease, dated as of August 17, 2000, between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.1 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.2	Letter agreement dated January 3, 2001 amending the Lease between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.2 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.3	First Amendment to Lease dated March 30, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.3 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.4	Second Amendment to Lease dated March 31, 2001 between 215 Church Street, LLC and the Issuer (incorporated by reference to Exhibit 10.4 to the Issuer's Registration Statement Form SB-2 (No. 333-59824))
10.5	Assignment of Lease dated April 11, 2001 between the Issuer and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.5 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.6	Employment Agreement dated as of January 23, 2001, between The Bank of Southern Connecticut, the Issuer and Joseph V. Ciaburri (incorporated by reference to Exhibit 10.6 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.7	Employment Agreement dated as of March 29, 2001 between The Bank of Southern Connecticut, and Gary D. Mullin (incorporated by reference to Exhibit 10.7 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.8	Issuer's 2001 Stock Option Plan (incorporated by reference to Exhibit 10.8 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.9	Issuer's 2001 Warrant Plan (incorporated by reference to Exhibit 10.9 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.10	Sublease dated January 1, 2001 between Michael Ciaburri, d/b/a Ciaburri Bank Strategies and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.10 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.11	Sublease dated January 1, 2001 between Laydon and Company, LLC and The Bank of Southern Connecticut (incorporated by reference to Exhibit 10.11 to the Issuer's Registration Statement on Form SB-2 (No. 333-59824))
10.12	Issuer's 2001 Supplemental Warrant Plan (incorporated by reference to Exhibit 10.12 to Issuer's Annual Report on Form 10-KSB dated March 29, 2002)
10.13	Issuer's 2002 Stock Option Plan (incorporated by reference to Appendix B to Issuer's Definitive Proxy Statement dated April 18, 2002).

10.14 Employment Agreement dated as of February 12, 2003, between The Bank of Southern Connecticut and Michael M. Ciaburri.

(b) Reports on Form 8-K

The issuer filed three reports on Form 8-K during the first quarter of 2003:

Dated January 10, 2003, disclosing the departure of Gary D. Mullin as President and Chief Operating Officer of The Bank of Southern Connecticut.

Dated January 28, 2003, disclosing the appointment of Joseph V. Ciaburri as President of The Bank of Southern Connecticut.

Dated March 10, 2003, disclosing the appointment of Michael M. Ciaburri as President and Chief Operating Officer and a director of The Bank of Southern Connecticut.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CONNECTICUT BANCORP, INC.

By: /S/ Joseph V. Ciaburri
Name: Joseph V. Ciaburri
Title: Chairman & Chief Executive Officer

Date: May 14, 2003

CERTIFICATION

I, Joseph V. Ciaburri, Chairman and Chief Executive Officer of Southern Connecticut Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Southern Connecticut Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /S/ Joseph V. Ciaburri

Joseph V. Ciaburri
Chairman and Chief Executive Officer

CERTIFICATION

I, Michael M. Ciaburri, President and Chief Operating Officer of The Bank of Southern Connecticut, a wholly-owned subsidiary of Southern Connecticut Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Southern Connecticut Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /S/ Michael M. Ciaburri

Michael M. Ciaburri
President & Chief Operating Officer

-23-

CERTIFICATION

I, Anthony M. Avellani, Controller of Southern Connecticut Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Southern Connecticut Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed,

based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /S/ Anthony M. Avellani

Anthony M. Avellani
Controller

CERTIFICATION

I, Joseph V. Ciaburri, the Chairman and Chief Executive Officer of Southern Connecticut Bancorp, Inc. (the "Company") certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) the quarterly report on Form 10-QSB of the Company for the period ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(ii) the information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2003

By: /S/ JOSEPH V. CIABURRI

Joseph V. Ciaburri
Chairman & Chief Executive Officer

-25-

CERTIFICATION

I, Michael M. Ciaburri, President and Chief Operating Officer of The Bank of Southern Connecticut, a wholly-owned subsidiary of Southern Connecticut Bancorp, Inc. (the "Company") certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) the quarterly report on Form 10-QSB of the Company for the period ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(ii) the information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2003

By: /S/ Michael M. Ciaburri

Michael M. Ciaburri
President & Chief Operating Officer

-26-

CERTIFICATION

I, Anthony M. Avellani, Controller of Southern Connecticut Bancorp, Inc. (the "Company") certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) the quarterly report on Form 10-QSB of the Company for the period ended March 31, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(ii) the information contained in such annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2003

By: /S/ Anthony M. Avellani

Anthony M. Avellani
Interim Controller

Exhibit and Index

No.	Description	Referral
10.14	Employment Agreement	Attached Hereto