

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Washington, D.C. 20551**

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

FDIC Certificate Number 57690

THE CONNECTICUT BANK AND TRUST COMPANY

(Exact name of registrant as specified in its charter)

CONNECTICUT
(State or other jurisdiction of
incorporation or organization)

90-0115.348
(I.R.S. Employer
Identification No.)

58 STATE HOUSE SQUARE
(Address of principal executive offices)

06103
(Zip Code)

(860) 246-5200
(Registrant's telephone number, including area code)

[None]
(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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

COMMON STOCK, \$1 par value per share

3,572,450 shares at April 30, 2009

**THE CONNECTICUT BANK AND TRUST COMPANY
FORM 10-Q**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE CONNECTICUT BANK AND TRUST COMPANY

Balance Sheets

(Unaudited)

ASSETS

| | March 31, 2009 | December 31, 2008 |
|--|-------------------|----------------------|
| <i>(Dollars in thousands)</i> | | |
| Cash and due from banks | \$ 8,268 | \$ 6,774 |
| Certificates of deposit | 78 | 99 |
| Securities available for sale, at fair value | 29,024 | 32,461 |
| Federal Reserve Bank stock, at cost | 710 | 585 |
| Federal Home Loan Bank stock, at cost | 2,057 | 1,870 |
| Loans held for sale | 402 | - |
| | | |
| Loans | 181,552 | 181,772 |
| Less: allowance for loan losses | (2,739) | (2,681) |
| Loans, net | <u>178,813</u> | <u>179,091</u> |
| | | |
| Premises and equipment, net | 2,433 | 2,566 |
| Accrued interest receivable | 944 | 949 |
| Other assets | 691 | 683 |
| | <u>\$ 223,420</u> | <u>\$ 225,078</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|-----------------------|----------------|----------------|
| Deposits | \$ 164,161 | \$ 162,934 |
| Short-term borrowings | 4,667 | 7,521 |
| Long-term debt | 30,450 | 30,450 |
| Other liabilities | 722 | 634 |
| Total liabilities | <u>200,000</u> | <u>201,539</u> |

Commitments and Contingencies (Note 4)

Stockholders' equity;

Preferred stock, no par value; 1,000,000 shares authorized;
5,448 shares issued and outstanding at March 31, 2009 and
December 31, 2008; aggregate liquidation preference of
\$5,448 at March 31, 2009 and December 31, 2008

| | | |
|--|-------|-------|
| | 5,448 | 5,448 |
|--|-------|-------|

| | | |
|-----------------------------|-------|-------|
| Discount on preferred stock | (575) | (604) |
|-----------------------------|-------|-------|

Common stock, \$1.00 par value; 10,000,000 shares authorized;
3,572,450 shares issued and outstanding at March 31, 2009
and December 31, 2008

| | | |
|--|-------|-------|
| | 3,572 | 3,572 |
|--|-------|-------|

| | | |
|-----------------------|-------|-------|
| Common stock warrants | 1,405 | 1,405 |
|-----------------------|-------|-------|

| | | |
|----------------------------|--------|--------|
| Additional paid-in capital | 29,801 | 29,780 |
|----------------------------|--------|--------|

| | | |
|--|-------|-------|
| Restricted stock unearned compensation | (110) | (141) |
|--|-------|-------|

| | | |
|------------------|----------|----------|
| Retained deficit | (15,620) | (15,618) |
|------------------|----------|----------|

| | | |
|--------------------------------------|-------|-------|
| Accumulated other comprehensive loss | (501) | (303) |
|--------------------------------------|-------|-------|

| | | |
|----------------------------|---------------|---------------|
| Total stockholders' equity | <u>23,420</u> | <u>23,539</u> |
|----------------------------|---------------|---------------|

| | | |
|--|-------------------|-------------------|
| | <u>\$ 223,420</u> | <u>\$ 225,078</u> |
|--|-------------------|-------------------|

The accompanying notes are an integral part of these unaudited financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY
Statement of Operations
(Unaudited)

| | Three Months Ended | |
|---|--------------------|-----------------|
| | March 31, | |
| | <u>2009</u> | <u>2008</u> |
| <i>(Dollars in thousands; except share data)</i> | | |
| Interest and dividend income: | | |
| Loans, including fees | \$ 2,703 | \$ 2,590 |
| Debt securities | 358 | 242 |
| Dividends | 5 | 25 |
| Federal funds sold/other | 1 | 75 |
| Total interest and dividend income | <u>3,067</u> | <u>2,932</u> |
| Interest expense: | | |
| Deposits | 851 | 1,213 |
| Borrowed funds | 282 | 221 |
| Total interest expense | <u>1,133</u> | <u>1,434</u> |
| Net interest income | <u>1,934</u> | <u>1,498</u> |
| Provision for loan losses | 87 | 137 |
| Net interest income, after provision for loan losses | <u>1,847</u> | <u>1,361</u> |
| Noninterest income: | | |
| Service charges and fees | 66 | 48 |
| Brokerage commissions | 59 | 66 |
| Gains from sales of available-for-sale securities, net | 39 | 65 |
| Total noninterest income | <u>164</u> | <u>179</u> |
| Noninterest expenses: | | |
| Salaries and benefits | 1,023 | 1,058 |
| Occupancy and equipment | 468 | 434 |
| Data processing | 78 | 68 |
| Marketing | 80 | 65 |
| Professional services | 122 | 99 |
| Other general and administrative | 213 | 212 |
| Total noninterest expenses | <u>1,984</u> | <u>1,936</u> |
| Net income (loss) | <u>27</u> | <u>(396)</u> |
| Accretion of discount on preferred stock issuance | (29) | - |
| Net loss attributable to common shareholders | <u>\$ (2)</u> | <u>\$ (396)</u> |
| Per share information: | | |
| Basic | \$ (0.00) | \$ (0.11) |
| Diluted | \$ (0.00) | \$ (0.11) |
| Average common shares issued and outstanding (in thousands) | 3,572 | 3,572 |
| Average diluted common shares issued and outstanding (in thousands) | 3,572 | 3,572 |

The accompanying notes are an integral part of these unaudited financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY
Statements of Changes in Stockholders' Equity
Three Months Ended March 31, 2009 and 2008
(Unaudited)

| <i>(Dollars in thousands)</i> | Preferred Stock | Discount on Preferred Stock | Common Stock | Common Stock Warrants | Additional Paid-in Capital | Unearned Compensation | Retained Deficit | Accumulated Other Comprehensive Loss | Total |
|--|--------------------|--------------------------------|-----------------|-----------------------------|----------------------------------|--------------------------|---------------------|---|------------------|
| Balance at December 31, 2007 | \$ - | - | \$3,572 | \$ 853 | \$ 29,700 | \$ (279) | \$(13,142) | \$ (263) | <u>\$ 20,441</u> |
| Comprehensive loss: | | | | | | | | | |
| Net loss | - | - | - | - | - | - | (396) | - | (396) |
| Change in net unrealized loss on securities available for sale, net of reclassification adjustment of \$65 | - | - | - | - | - | - | - | (47) | <u>(47)</u> |
| Total comprehensive loss | | | | | | | | | <u>(443)</u> |
| Activity related to stock option grants | - | - | - | - | 17 | - | - | - | 17 |
| Activity related to restricted stock awards | - | - | - | - | - | 36 | - | - | <u>36</u> |
| Balance at March 31, 2008 | <u>\$ -</u> | <u>\$ -</u> | <u>\$3,572</u> | <u>\$ 853</u> | <u>\$ 29,717</u> | <u>\$ (243)</u> | <u>\$(13,538)</u> | <u>\$ (310)</u> | <u>\$ 20,051</u> |
| Balance at December 31, 2008 | \$ 5,448 | \$ (604) | \$3,572 | \$1,405 | \$ 29,780 | \$ (141) | \$(15,618) | \$ (303) | <u>\$ 23,539</u> |
| Comprehensive loss: | | | | | | | | | |
| Net income | - | - | - | - | - | - | 27 | - | 27 |
| Change in net unrealized loss on securities available for sale, net of reclassification adjustment of \$39 | - | - | - | - | - | - | - | (198) | <u>(198)</u> |
| Total comprehensive loss | | | | | | | | | <u>(171)</u> |
| Accretion of discount on preferred stock issuance | - | 29 | - | - | - | - | (29) | - | - |
| Activity related to stock option grants | - | - | - | - | 21 | - | - | - | 21 |
| Activity related to restricted stock awards | - | - | - | - | - | 31 | - | - | <u>31</u> |
| Balance at March 31, 2009 | <u>\$ 5,448</u> | <u>\$ (575)</u> | <u>\$3,572</u> | <u>\$1,405</u> | <u>\$ 29,801</u> | <u>\$ (110)</u> | <u>\$(15,620)</u> | <u>\$ (501)</u> | <u>\$ 23,420</u> |

The accompanying notes are an integral part of these unaudited financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY
Statements of Cash Flows
(Unaudited)

| <i>(Dollars in thousands)</i> | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 27 | \$ (396) |
| Adjustment to reconcile net income (loss) to net cash used by operating activities: | | |
| Provision for loan losses | 87 | 137 |
| Loans originated for sale | (402) | - |
| Net gains from sales of available-for-sale securities | (39) | (65) |
| Depreciation and amortization | 146 | 153 |
| Net amortization of premiums on available-for-sale securities | 38 | 2 |
| Amortization of deferred loan costs and fees | (6) | (8) |
| Share-based compensation plans | 52 | 53 |
| Decrease in accrued interest receivable | 5 | 17 |
| Increase in other assets | (8) | (106) |
| Increase in other liabilities | 88 | 106 |
| Net cash used by operating activities | (12) | (107) |
| Cash flows from investing activities: | | |
| Activity in available-for-sale securities: | | |
| Sales | 2,090 | 2,994 |
| Maturities and calls | 5,136 | 7,248 |
| Purchases | (5,433) | (14,965) |
| Principal payments | 1,447 | 469 |
| Maturity (purchases) of certificates of deposit | 21 | (340) |
| (Purchases) redemption of FRB stock | (125) | 13 |
| Purchases of FHLB stock | (187) | (532) |
| Net loan originations and purchases | 197 | (11,593) |
| Purchases of premises and equipment | (13) | (18) |
| Net cash provided (used) by investing activities | 3,133 | (16,724) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 1,227 | 7,138 |
| Net (decrease)increase in short-term borrowings | (2,854) | 470 |
| Proceeds from long-term borrowings | - | 13,000 |
| Net cash (used) provided by financing activities | (1,627) | 20,608 |
| Net change in cash and cash equivalents | 1,494 | 3,777 |
| Cash and cash equivalents at beginning of period | 6,774 | 11,491 |
| Cash and cash equivalents at end of period | \$ 8,268 | \$ 15,268 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 1,115 | \$ 1,426 |

The accompanying notes are an integral part of these unaudited financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY
Notes to Unaudited Financial Statements
March 31, 2009

(1) Organization

The Connecticut Bank and Trust Company (“CBT”) is a state chartered bank and trust company operating primarily in North Central Connecticut. CBT operates out of its main office at 58 State House Square, Hartford, Connecticut and branch offices at 7 Sycamore Street, Glastonbury, Connecticut; 66 Cedar Street, Newington, Connecticut; 435 Hartford Turnpike, Vernon, Connecticut; 68 South Main Street, West Hartford, Connecticut; 396 Cromwell Avenue, Rocky Hill, Connecticut; and 148 Broad Street Windsor, Connecticut. CBT is subject to competition from other financial institutions, including but not limited to commercial banks, savings banks, credit unions and mortgage banking companies. CBT is also subject to the regulations of, and periodic examinations by, the Connecticut Department of Banking (“DOB”) and the Board of Governors of the Federal Reserve System (“Fed”) through the Federal Reserve Bank of Boston (“FRBB”). CBT’s deposits are insured up to the limits specified by the Federal Deposit Insurance Corporation (“FDIC”).

(2) Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other than temporary impairment of investment securities and the valuation of deferred tax assets.

(3) Basis of Presentation

In the opinion of CBT’s management (“Management”), the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position, the results of operations, and changes in stockholders’ equity and cash flows as of and for the three month period ended March 31, 2009. These adjustments consist only of normal recurring adjustments. Certain amounts in prior periods have been reclassified to conform to the current presentation. The results of operations for the three month period are not necessarily indicative of the results to be expected for the full year. The statements should be read in conjunction with the financial statements and accompanying notes found on pages 49-79 of CBT’s Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Board of Governors of the Federal Reserve System on March 30, 2009.

(4) Earnings (Loss) Per Share

Basic earnings (loss) per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by CBT are primarily associated with outstanding warrants and stock options and are determined using the treasury stock method.

Earnings (loss) per common share for the three months ended March 31, 2009 and 2008 have been computed based upon the following (dollars in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|--|-------------------------------------|------------------|
| | <u>2009</u> | <u>2008</u> |
| Net income (loss) | \$ 27 | \$ (396) |
| Accretion of discount on preferred stock issuance | <u>(29)</u> | <u>-</u> |
| Net loss available to common shareholders | <u>(2)</u> | <u>(396)</u> |
| Average number of common shares outstanding | <u>3,572</u> | <u>3,572</u> |
| Average number of common shares outstanding used to calculate diluted loss per common share | <u>3,572</u> | <u>3,572</u> |
| Basic loss per share | <u>\$ (0.00)</u> | <u>\$ (0.11)</u> |
| Diluted loss per share | <u>\$ (0.00)</u> | <u>\$ (0.11)</u> |

For the three month period ending March 31, 2009, the Bank recognized \$29,000 on the discount accretion on the preferred stock issued to the United States Treasury under the Capital Purchase Program.

For the three months ended March 31, 2009 and 2008, 346,242 and 170,500 respectively of common stock warrants, and 141,900 and 143,500 respectively, of stock options were anti-dilutive and therefore not included in the diluted earnings (loss) per share calculation.

(5) Loan Commitments

CBT is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. CBT's commitments to extend credit include unfunded loans as well as unused lines of credit. CBT has commitments to originate loans totaling \$14.6 million at March 31, 2009 compared to \$12.4 million at December 31, 2008. CBT also has unfunded commitments under existing lines of credit aggregating \$39.9 million at March 31, 2009, and \$38.9 million at December 31, 2008.

(6) Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged to expense. Loans are charged against the allowance for loan losses when Management believes that the uncollectibility of a loan balance is confirmed. The allowance is an amount that CBT's Management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of collectibility and historical loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall credit quality, industry concentrations, specific problem loans, commitments, current economic conditions that may affect the borrowers' ability to pay, and other economic factors related to the collectibility of loans in CBT's portfolio. Although Management reevaluates the allowance periodically, formal evaluations occur on a quarterly basis.

(7) Fair Value of Assets and Liabilities

Effective January 1, 2008, CBT adopted Statement of Financial Accounting Standard No.157 ("SFAS 157") "*Fair Value Measurements*", which provides a framework for measuring fair value under generally accepted accounting principles ("GAAP"). In October 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate the key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

FSP 157-3 was effective immediately upon issuance, and includes prior periods for which financial statements have not been issued. FSP 157-3 did not have a material impact on the Bank's financial statements.

In accordance with SFAS 157, CBT groups its financial assets and financial liabilities measured at fair value in three levels, based on markets in which the assets and liabilities are traded and reliability of the assumptions used to determine fair value.

Level 1. Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded on an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets measured at fair value on a recurring basis are summarized as follows:

| | | March 31, 2009 | | | |
|-------------------------------|----|----------------|------------------|-------------|-------------------------------------|
| <i>(Dollars in Thousands)</i> | | Level 1 | Level 2 | Level 3 | Assets/Liabilities at Fair Value |
| Securities available for sale | \$ | <u>-</u> | <u>\$ 29,024</u> | <u>\$ -</u> | <u>\$ 29,024</u> |

| | | December 31, 2008 | | | |
|-------------------------------|----|-------------------|------------------|-------------|-------------------------------------|
| <i>(Dollars in Thousands)</i> | | Level 1 | Level 2 | Level 3 | Assets/Liabilities at Fair Value |
| Securities available for sale | \$ | <u>-</u> | <u>\$ 32,461</u> | <u>\$ -</u> | <u>\$ 32,461</u> |

The Bank may also be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets at the dates indicated.

Assets measured at fair value on a nonrecurring basis are summarized as follows:

| <i>(Dollars in Thousands)</i> | March 31, 2009 | | | Quarter ended March 31, 2009 |
|-------------------------------|----------------|-------------|-----------------|---------------------------------|
| | Level 1 | Level 2 | Level 3 | Gains/(Losses) |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,225</u> | <u>\$ (47)</u> |
| Loans | | | | |

| | March 31, 2008 | | | Quarter ended March 31, 2008 |
|-------|----------------|-------------|-----------------|---------------------------------|
| | Level 1 | Level 2 | Level 3 | Gains/(Losses) |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,525</u> | <u>\$ (17)</u> |
| Loans | | | | |

Losses applicable to write-downs of impaired loans are based on appraised values of underlying collateral adjusted for management's assumptions of fair value given current market conditions and portions of loans not guaranteed by the U.S. Government and are recognized in earnings through the provision for loan losses. The Bank does not measure liabilities at fair value on a recurring or nonrecurring basis on the balance sheet.

(8) Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised 2007), "Business Combinations", ("SFAS 141 (R)"). SFAS 141 establishes principles and requirements for how the acquirer in a business combination recognizes and measures identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree. SFAS 141 (R) further addresses how goodwill acquired or a gain from a bargain purchase is to be recognized and measured and determines what disclosures are needed to enable users of financial statements to evaluate the effects of the business combination. SFAS 141 (R) was effective as of January 1, 2009 and did not have a material impact on the Bank's interim financial statements.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" ("FSP 03-6-1"), which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, "*Earnings Per Share*". FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period earnings per share data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform with the provisions of FSP 03-6-1. Early application is not permitted. The Company does not expect the adoption of this pronouncement to have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. 115-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" (FSP 115-2). FSP 115-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP 115-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

In April 2009, the FASB issued FASB Staff Position No. 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157,

Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively.

In April 2009, the FASB issued FASB Staff Position No. 107-1, “*Interim Disclosures about Fair Value of Financial Instruments*” (FSP 107-1). This FASB Staff Position (FSP) amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

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

The following discussion and analysis is designed to assist you in better understanding the financial condition, results of operations, liquidity and capital resources of CBT, as well as any significant changes and trends related thereto. This discussion should be read in conjunction with the accompanying unaudited financial statements and the notes appearing in Part I of this Form 10-Q and the financial statements and accompanying notes found on pages 49 through 79 of CBT's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Board of Governors of the Federal Reserve System on March 30, 2009.

General

CBT provides a broad range of banking services to business enterprises and business sponsors as well as individual consumers in its market areas from its six banking centers and through its website, www.thecbt.com. CBT is a full service commercial bank providing a comprehensive set of loans and deposit services to local businesses, business owners, professionals, and other individuals. CBT actively seeks to finance the credit needs of local businesses and actively markets deposit and loan products to businesses and individuals. CBT also offers certain investment management products to its customers. An important dimension of CBT's strategy is to provide customers with access to well-trained, experienced bank personnel, including the senior management team.

Forward-Looking Statements Safe-harbor Statement

This report may contain forward-looking statements that are subject to numerous assumptions, risks and uncertainties. Statements pertaining to future periods are subject to numerous uncertainties because of the possibility of changes in underlying factors and assumptions. Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including: sharp and rapid changes in interest rates; significant changes in the economic scenario from the current anticipated scenario which could materially change anticipated credit quality trends and the ability to generate loans; significant delay in or inability to execute strategic initiatives designed to grow revenues and/or control expenses; and significant changes in accounting, tax or regulatory practices or requirements. Because of the risks and uncertainties inherent in forward-looking statements, readers are cautioned not to place undue reliance on them, whether included in this report or made elsewhere from time to time by CBT or on its behalf. CBT does not undertake to update any forward-looking statements.

Critical Accounting Policies

In the ordinary course of business, Management makes a number of estimates and assumptions relating to reporting 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. Management believes that the critical accounting policies which rely on material estimates that are susceptible to significant differences between actual results and estimates are the determination of allowance for loan losses, other-than-temporary impairment of investments, and valuation of deferred tax assets. Management believes its accounting policy and estimates relating to the provision and allowance for loan losses is very important to the portrayal of CBT's financial condition and results and requires its 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. A detailed description of the estimation processes and methodology related to the allowance for loan losses is included in CBT's notes to the unaudited interim financial statements appearing in Part I of this Form 10-Q. A description of the estimation process and methodology related to the allowance for loan and lease losses, other-than-temporary impairment of investments and the valuation of deferred tax assets is included in CBT's financial statements and accompanying notes included in CBT's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Board of Governors of the Federal Reserve on March 30, 2009.

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

Total assets were \$223.4 million at March 31, 2009, a decrease of \$1.7 million, or 1%, compared to \$225.1 million at December 31, 2008. Total loans experienced a decline of \$256,000 at March 31, 2009 and totaled \$181.6 million compared to \$181.8 at December 31, 2008 continuing to reflect our primary strategy of lending to commercial and commercial real estate ventures in the North-Central Connecticut market. New loan originations during the quarter amounted to \$10 million, however, payoffs and amortization in the portfolio reduced the effects of the new production. CBT's pipeline of new loan activity remains strong.

The investment portfolio totaled \$29.0 million at March 31, 2009 compared to \$32.5 million at December 31, 2008. During the three month period ended March 31, 2009, investment securities sold totaled \$2.1 million and callable investments of \$5.1 million were redeemed by the issuer due to the low interest rate environment. Purchases of \$5.4 million of mortgage backed securities were acquired to replace a portion of the portfolio. Cash and cash equivalents rose \$1.5 million from \$6.8 million at December 31, 2008 to \$8.3 million at March 31, 2009.

Total deposit balances grew \$1.2 million to \$164.2 million at March 31, 2009. FHLB advances were \$30.5 million at March 31, 2009 unchanged from December 31, 2008.

Investment securities

At March 31, 2009, CBT's investment securities portfolio, all of which were classified as available for sale, amounted to \$29.0 million, or 13.0% of assets. The following table sets forth at the dates indicated information regarding the amortized cost and market values of CBT's investment securities.

| <i>Dollars in Thousands</i> | Amortized | Gross | Gross | Fair |
|----------------------------------|------------------|-------------------|-------------------|------------------|
| <u>March 31, 2009</u> | <u>Cost</u> | <u>Unrealized</u> | <u>Unrealized</u> | <u>Value</u> |
| | | <u>Gains</u> | <u>Losses</u> | |
| Government-sponsored enterprises | \$ 1,993 | \$ 12 | \$ (8) | \$ 1,997 |
| Mortgage-backed securities | 26,533 | 331 | (192) | 26,672 |
| Other bonds | 999 | - | (644) | 355 |
| | <u>\$ 29,525</u> | <u>\$ 343</u> | <u>\$ (844)</u> | <u>\$ 29,024</u> |
| | | | | |
| <u>December 31, 2008</u> | <u>Cost</u> | <u>Gross</u> | <u>Gross</u> | <u>Fair</u> |
| | | <u>Unrealized</u> | <u>Unrealized</u> | <u>Value</u> |
| | | <u>Gains</u> | <u>Losses</u> | |
| Government-sponsored enterprises | \$ 7,129 | \$ 42 | \$ - | \$ 7,171 |
| Mortgage-backed securities | 24,636 | 276 | (104) | 24,808 |
| Other bonds | 999 | - | (517) | 482 |
| | <u>\$ 32,764</u> | <u>\$ 318</u> | <u>\$ (621)</u> | <u>\$ 32,461</u> |

The fair value of securities available-for-sale decreased \$3.4 million from December 31, 2008. The decrease resulted from the sale of investments and redemption of callable bonds by the issuer. Also, principal paydowns on mortgage backed securities have increased primarily due to the low interest rate environment. The net unrealized loss on the portfolio was \$501,000 as of March 31, 2009, an increase of \$198,000 in the net unrealized loss from December 31, 2008. Management considers the net unrealized loss to be temporary due to the historical low interest rate environment and

downturn in the financial markets. For the period ending March 31, 2009, CBT realized a gain of \$39,000 on the sale of available for sale securities.

Loans

Because loans generally produce higher yields than investment securities and other interest-earning assets, it is CBT's strategy to use deposit balances to fund loans within its market area as soon as practicable. CBT has continued to grow its commercial and commercial real estate (CRE) loan portfolios. At March 31, 2009, CBT's loan portfolio totaled \$181.6 million, or 81% of total assets.

The following table sets forth the composition of CBT's loan portfolio in dollar amounts and as a percentage of the respective portfolio at the dates indicated.

| <i>Dollars in Thousands</i> | March 31, 2009 | | December 31, 2008 | |
|-------------------------------------|-------------------|------------------|-------------------|------------------|
| | Balance | Percent of Total | Balance | Percent of Total |
| Mortgage loans on real estate | | | | |
| Commercial - owner occupied | \$ 57,377 | 31.6 % | \$ 59,855 | 32.9 % |
| Commercial - non-owner occupied | 39,399 | 21.7 | 36,650 | 20.1 |
| Construction | 18,887 | 10.4 | 16,963 | 9.3 |
| Equity lines of credit | 6,927 | 3.8 | 6,603 | 3.6 |
| Residential | 3,561 | 2.0 | 3,512 | 1.9 |
| Total mortgage loans on real estate | 126,151 | 69.5 % | 123,583 | 68.0 % |
| Commercial | \$ 54,634 | 30.0 % | \$ 57,465 | 31.5 % |
| Consumer | 925 | 0.5 | 918 | 0.5 |
| Total loans | <u>\$ 181,710</u> | <u>100.0 %</u> | <u>\$ 181,966</u> | <u>100.0 %</u> |
| Allowance for Loan and Lease Losses | (2,739) | | (2,681) | |
| Net deferred loan fees | (158) | | (194) | |
| Loans, net | <u>\$ 178,813</u> | | <u>\$ 179,091</u> | |

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 collectibility of the loans. Factors considered in this review include historical loss 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 individually assessed for impairment based on probable or observed credit weaknesses. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that CBT will be unable to collect the scheduled payments of principal or interest when due according to the 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 construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Charged-off loans totaled \$29,000 for the three month period ending March 31, 2009 and there were no charge offs in the comparable period a year earlier. The balance of the allowance for loan and lease losses was \$2.7 million as of March 31, 2009 compared to \$2.7 million as of December 31, 2008. The allowance for loan and lease losses compared to total loans was 1.50% and 1.47% respectively. The following is a summary of impaired loans and nonaccrual loans as of the dates indicated:

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|----------------------|
| Impaired loans without a valuation allowance | \$ 7,430 | \$ 6,040 |
| Impaired loans with a valuation allowance | <u>1,713</u> | <u>1,468</u> |
| Total impaired loans | <u>\$ 9,143</u> | <u>\$ 7,508</u> |
| Valuation allowance related to impaired loans | <u>\$ 488</u> | <u>\$ 441</u> |
| Total nonaccrual loans | <u>\$ 1,578</u> | <u>\$ 2,127</u> |

In addition to the valuation allowance set aside for impaired loans, the Bank has government guarantees from the Small Business Association and the United States Department of Agriculture in the amount of \$2.5 million as of March 31, 2009.

Deposits

Deposits from our primary market have provided a relatively stable funding source for CBT's loan portfolio and other earning assets. In addition, CBT is a well-capitalized institution and can accept brokered deposits without limitation. CBT offers a full range of interest bearing and non-interest bearing accounts with a range of maturity date options. The sources of deposits are local businesses, including owners and employees of businesses and consumers of the North-Central Connecticut market area. The following table sets forth the composition of CBT's deposits in dollar amounts and as a percentage of total deposits at the dates indicated.

| <i>(Dollars in thousands)</i> | March 31, 2009 | | December 31, 2008 | |
|--|-------------------|------------------|-------------------|------------------|
| | Balance | Percent of Total | Balance | Percent of Total |
| Demand deposits | \$ 27,109 | 16.5 % | \$ 32,498 | 20.0 % |
| NOW deposits | 7,887 | 4.8 | 5,399 | 3.3 |
| Money market deposits | 42,530 | 25.9 | 35,508 | 21.8 |
| Savings deposits | 1,444 | 0.9 | 1,360 | 0.8 |
| | <u>78,970</u> | | <u>74,765</u> | |
| Certificates of deposit less than \$100,000 | 47,714 | 29.1 | 54,645 | 33.5 |
| Certificates of deposit greater than \$100,000 | 37,477 | 22.8 | 33,524 | 20.6 |
| Total deposits | <u>\$ 164,161</u> | <u>100.0 %</u> | <u>\$ 162,934</u> | <u>100.0 %</u> |

Total deposits increased by \$1.2 million, or 1%, to \$164.2 million at March 31, 2009 from \$162.9 million at December 31, 2008. Demand balances declined \$5.4 million primarily resulting from the inherent volatility in these deposit characteristics. Money market deposits increased \$7.0 million on expanded balances from existing relationship customers. Certificates of deposit declined \$3.0 million to \$85.1 million, as Management has allowed brokered certificates of deposit to mature without renewing. Certificates of deposit less than \$100,000 include \$14.3 million and \$26.3 million in brokered certificates of deposit for March 31, 2009 and December 31, 2008, respectively.

Contractual Obligations

CBT is required to pay certain obligations under various contracts. Listed in the table below are the obligations for payments in the time frame specified as of March 31, 2009.

| | Total | Less Than 1 year | 1-3 Years | 3-5 Years | More than 5 Years |
|----------------------------|------------------|---------------------|-----------------|-----------------|----------------------|
| Long term debt obligations | \$ 30,450 | \$ - | \$ 1,000 | \$ 5,000 | \$ 24,450 |
| Lease obligations | 3,881 | 683 | 1,387 | 1,267 | 544 |
| Repurchase agreements | 4,667 | 4,667 | - | - | - |
| Total | <u>\$ 38,998</u> | <u>\$ 5,350</u> | <u>\$ 2,387</u> | <u>\$ 6,267</u> | <u>\$ 24,994</u> |

Comparison of Operating Results for the Three Months Ended March 31, 2009 and 2008

General

CBT reported net operating income of \$27,000 in the first quarter of 2009, compared to a loss of \$396,000 or \$0.11 per share for the same period in the prior year. Net interest income increased \$436,000 primarily as a result of the \$33.9 million increase in average earning assets and a softening of interest rates on the Bank's interest-bearing liabilities. Interest income on earning assets rose \$135,000 to \$3.1 million for the period ending March 31, 2009 compared to the same period a year earlier. Interest expense was \$1.1 million for the three month period ending March 31, 2009, a decrease of \$301,000 from \$1.4 million for comparable period a year earlier.

Net Interest Income

Net interest income is the difference between income on interest-earning assets and expense on interest-bearing liabilities.

The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the three month periods ending March 31, 2009 and 2008. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided into the average balance of interest-earning assets to arrive at the net interest margin. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis.

| | Three Months Ended March 31, | | | | | |
|---|-------------------------------------|---|-----------------------------------|----------------------------|---|-----------------------------------|
| | 2009 | | | 2008 | | |
| | (Dollars in Thousands) | | | | | |
| | Average Balance | Interest Income/ Expense | Average Yield Rate | Average Balance | Interest Income/ Expense | Average Yield Rate |
| Interest-earning assets: | | | | | | |
| Loans | \$ 180,235 | \$ 2,703 | 6.08% | \$ 148,409 | \$ 2,590 | 7.02% |
| Investment securities | 29,614 | 358 | 4.90% | 18,955 | 242 | 5.13% |
| Federal funds sold/other | 2,612 | 6 | 0.93% | 11,206 | 100 | 3.59% |
| Total interest-earning assets | 212,461 | 3,067 | 5.85% | 178,570 | 2,932 | 6.60% |
| Allowance for loan losses | (2,682) | | | (1,736) | | |
| Cash and due from banks | 7,937 | | | 3,860 | | |
| Other assets | 4,247 | | | 4,708 | | |
| Total assets | <u>\$ 221,963</u> | | | <u>\$ 185,402</u> | | |
| Interest-bearing liabilities: | | | | | | |
| Savings, NOW and money market deposits | \$ 46,400 | 206 | 1.80% | \$ 31,247 | 213 | 2.74% |
| Time deposits | 83,359 | 645 | 3.14% | 84,927 | 1,000 | 4.74% |
| Borrowed funds | 40,248 | 282 | 2.84% | 22,695 | 221 | 3.92% |
| Total interest-bearing liabilities | 170,007 | 1,133 | 2.70% | 138,869 | 1,434 | 4.15% |
| Demand deposits | 27,021 | | | 25,095 | | |
| Total deposits and borrowed funds | 197,028 | | | 163,964 | | |
| Other liabilities | 1,372 | | | 1,154 | | |
| Stockholders' equity | 23,563 | | | 20,284 | | |
| Total liabilities and stockholders' equity | <u>\$ 221,963</u> | | | <u>\$ 185,402</u> | | |
| Net interest income | | <u>\$ 1,934</u> | | | <u>\$ 1,498</u> | |
| Interest rate spread | | | 3.15% | | | 2.45% |
| Net interest margin | | | 3.69% | | | 3.37% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 124.97% | | | 128.59% |

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected CBT's tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

| | Three Months Ended March 31, 2009 compared to 2008 | | |
|--|---|---------------------|----------------------|
| | Increase (Decrease) Due to | | Net |
| | Volume | Rate | |
| (In Thousands) | | | |
| Interest-earning assets: | | | |
| Loans | \$ 492 | \$ (379) | \$ 113 |
| Investments securities | 148 | (32) | 116 |
| Federal funds sold | (48) | (46) | (94) |
| Total interest earning assets | <u>592</u> | <u>(457)</u> | <u>135</u> |
| Interest-bearing liabilities: | | | |
| Savings, NOW and money market deposits | \$ 81 | \$ (88) | \$ (7) |
| Time deposits | (18) | (337) | (355) |
| Borrowed funds | 134 | (73) | 61 |
| Total interest-bearing liabilities | <u>197</u> | <u>(498)</u> | <u>(301)</u> |
| Increase in net interest income | <u><u>\$ 395</u></u> | <u><u>\$ 41</u></u> | <u><u>\$ 436</u></u> |

Total average earning assets increased \$33.9 million to \$212.5 million for the quarter ended March 31, 2009 compared to the same period in the preceding year. Average loan balances increased \$31.8 million as CBT continues to concentrate on commercial lending, with both new originations and advances on existing lines of credit. Average investments increased \$10.7 million as Management increased its available-for-sale investment portfolio to provide current liquidity and provide collateral for additional borrowing capacity. Average Federal funds declined \$8.6 million as Management has reduced its holdings in the overnight market due to the historical low interest rate environment.

The net interest margin expanded 32 basis points to 3.69% for the three months ended March 31, 2009 from 3.37% in 2008 primarily resulting from the effect of the low interest rate environment on our deposits and borrowed funds. Interest-bearing liability balances rose \$31.1 million and the average rate paid on these liabilities dropped from 4.15% for the period ending March 31, 2008 to 2.70% for the period ending March 31, 2009.

Provision for Loan Losses

Provisions are added to the allowance for loan and lease losses for loan growth as well as for Management's evaluation of risk including the qualitative factors affecting the composition of the loan portfolio. New loan originations totaled \$10 million for the quarter ending March 31, 2009; however, loan payoffs and regular portfolio amortization were comparable and the portfolio did not expand from year end balances. Qualitative factors affecting Management's analysis of the adequacy of the loan loss reserve include but are not limited to individual loans, industry trends and concentrations, and

national and local economic conditions. Based upon Management's analysis of the qualitative and quantitative factors, CBT's provision for loan losses was \$87,000 for the three month period ending March 31, 2009, compared to \$137,000 for the comparable period in the prior year.

Noninterest Income

Total noninterest income for the quarter ending March 31, 2009 was \$164,000 compared to \$179,000 in the preceding year. Fees and charges on deposit accounts totaled \$66,000 for the quarter ending March 31, 2009, compared to \$48,000 for the comparable period a year earlier. Brokerage commissions from our relationship with Raymond James Financial Services declined \$7,000 to \$59,000 for the three month period ending March 31, 2009 compared to the prior year. The decline in brokerage commissions is attributable to lower volume of transactions due to the market volatility. Gains on sales of investment securities available-for-sale totaled \$39,000 for the quarter ended March 31, 2009 compared to gains of 65,000 in the same period a year prior.

Noninterest Expenses

Noninterest expenses increased \$48,000, or 2.5%, to \$2.0 million for the first quarter of 2009 compared to \$1.9 million for the same period in 2008. Compensation costs for the three month period ending March 31, 2009 were \$1.0 million, or \$35,000 lower than the comparable period a year earlier. The reduction in compensation costs was due in part to the elimination of the incentive compensation plan, and a reduction in the employee benefit plans. The remaining expenses rose modestly across all categories as a result of general price increases for goods and services purchased.

Liquidity

CBT closely monitors its liquidity position. Consistent with the requirements of prudent banking practices necessary to maintain liquidity, we seek to match maturities and rates of loans and the securities portfolio with those of deposits, although exact matching is not always possible. Our primary sources of liquidity are cash and cash equivalents and our securities portfolio. Our securities portfolio consists primarily of marketable securities of Government-sponsored enterprises and mortgage-backed securities, generally with varied maturities. Additional liquidity is provided by a Federal Funds line of credit, the authority to borrow from the Federal Home Loan Bank of Boston ("FHLB"), and the Discount window of the Federal Reserve.

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages. To a lesser extent, CBT invests in the origination of consumer loans, primarily home equity loans and lines of credit, and other types of loans, and investments in mortgage-backed and government-sponsored enterprise securities. To support the growth in lending and investment activities, CBT uses deposit balances and additional funding sources as well as principal and interest payments on outstanding loans and investment securities. CBT experienced a \$1.2 million increase in total deposits during the three months ended March 31, 2009. Deposit flows are affected by the overall level of interest rates and products offered by CBT and its local competitors and other factors. CBT utilizes these cash flows to fund a large portion of its balance sheet growth.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by market interest rates and general economic conditions. When CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and a \$2.0 million Federal funds borrowing line of credit from Bankers' Bank Northeast. At March 31, 2009, CBT had \$30.5 million of borrowings outstanding with the FHLB and had not drawn on the Federal funds line of credit.

The table below indicates the various types of commitments outstanding for each of the respective dates.

| | <u>31-Mar</u> <u>2009</u> | <u>31-Mar</u> <u>2008</u> |
|--|------------------------------|------------------------------|
| Commitments to originate and purchase loans | \$ 14,554 | \$ 10,987 |
| Unfunded commitments under home equity lines of credit | 4,812 | 4,973 |
| Unfunded commitments under commercial construction loans | 2,558 | 8,041 |
| Unfunded commitments under commercial lines of credit | 32,543 | 31,204 |
| Commercial letter of credit | 1,102 | 561 |

Management of CBT anticipates that it will have sufficient funds available to meet its current loan commitments. Management believes that, although it is not possible to predict future offering terms and conditions, a significant portion of its deposits will remain with CBT. Management believes that CBT's short-term assets, combined with access to alternative funding sources such as the FHLB and other short-term borrowing lines, provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

Interest Rate Sensitivity Management

Interest rate risk ("IRR") represents CBT's primary market risk exposure. Since the Bank's earnings are to a great extent dependent on its net interest income ("NII"), IRR can adversely affect the Bank's earnings. To manage interest rate risk, the Bank has an Asset/Liability Committee ("ALCO"), whose goal is to mitigate interest rate risk to maximize net interest income under changing interest rate environments. To serve its purpose, ALCO utilizes an Asset/Liability Management ("ALM") process. ALM employs techniques to quantify, analyze, and control interest rate risk. The principal objective of ALM is to maximize NII while operating within acceptable limits established for interest rate risk and maintaining adequate levels of liquidity.

Net interest income is susceptible to IRR to the degree that interest-earning assets mature or reprice on a different basis and timing than interest-bearing liabilities. This timing difference represents a potential risk to CBT's future earnings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect CBT's NII. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in CBT's NII. Hence, interest rate fluctuations can put the Bank's future earnings at risk.

Management and the ALCO direct CBT's management to produce a stable net interest margin ("NIM") in periods of interest rate fluctuations. With the consent from the Board of Directors, ALCO sets a range of guidelines to ensure a balance sheet composition that enhances both long-term and short-term performance of the Bank. By adjusting the asset/liability position, the Board and Management attempt to minimize the adverse effects of interest rate fluctuation while maximizing NIM. At times, depending on the general level of interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, CBT's Board of Directors and Management may establish and implement strategies that could add to the level of IRR in order to increase the Bank's NIM. Notwithstanding CBT's IRR management activities, the potential for rising or falling interest rates is an uncertainty that can have an adverse effect on net earnings.

To better mitigate IRR, Management and ALCO adopted ALM processes. Through the use of discounted cash flow technique, ALM predicts the Bank's performance under various interest rate levels. Management makes a range of assumptions that include behavior of the Bank's interest-earning assets and interest-bearing liabilities during periods of rising and declining interest rates. It is also assumed that the interest rate movements will be parallel – both short-term and long-term rates will change by the same number of basis points. ALM allows Management to analyze the behavior of

CBT's balance sheet components under various rate levels and compare it to the base case – the scenario in which interest rates are assumed to remain unchanged.

NII at-risk measures the risk of a decline in earnings due to potential short-term and long-term changes in interest rates. The following table summarizes the gradual 100 and 200 basis point changes in interest rates and the estimated impact on net interest income over a twelve month period commencing March 31, 2009. Interest rates are assumed to change in parallel fashion and NII results are compared to the flat rate scenario as a base.

Net Interest Income At-Risk

| | Base Case NII (000's) | Estimated Change in Net Interest Income | | | | |
|----------------|-----------------------------|--|---------|--------|---------|---------|
| | | -200 BP | -100 BP | Stable | +100 BP | +200 BP |
| March 31, 2009 | \$ 8,977 | -2.9% | 0.4% | 0.0% | -1.9% | -5.1% |

Off-Balance Sheet Arrangements

Information relating to Off-Balance Sheet Arrangements is presented in CBT's Annual Report on Form 10-K for the year ended December 31, 2008 (see Notes 4, 9, 10 and 17 to the Financial Statements). There have been no material changes in CBT's off-balance sheet arrangements since December 31, 2008.

Regulatory Capital

Federal law defines specific capital categories for depository institutions. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. To be considered "well capitalized," an institution must generally have a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 6% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 10%. As of March 31, 2009, the most recent notification from the FDIC categorized CBT as "well capitalized." To be categorized as "well capitalized," CBT must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

As indicated in the following table, the actual regulatory capital ratios of CBT at March 31, 2009 exceeded the minimum required ratios. There are no conditions that Management believes have changed CBT's category since its March 31, 2009 notification from regulators that it is "well capitalized." CBT's actual capital amounts and ratios as of March 31, 2009 and December 31, 2008 are presented in the table.

| | Actual | | Minimum Capital Requirement | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|-------|-----------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (Dollars in Thousands) | | | | | | |
| March 31, 2009 | | | | | | |
| Total capital (to risk weighted assets) | \$ 26,225 | 13.9% | \$ 15,065 | 8.0% | \$ 18,831 | 10.0% |
| Tier 1 capital (to risk weighted assets) | 23,871 | 12.7% | 7,532 | 4.0% | 11,298 | 6.0% |
| Tier 1 capital (to average assets) | 23,871 | 10.7% | 8,898 | 4.0% | 11,122 | 5.0% |
| December 31, 2008 | | | | | | |
| Total capital (to risk weighted assets) | \$ 26,142 | 13.9% | \$ 15,031 | 8.0% | \$ 18,789 | 10.0% |
| Tier 1 capital (to risk weighted assets) | 23,792 | 12.7% | 7,516 | 4.0% | 11,273 | 6.0% |
| Tier 1 capital (to average assets) | 23,792 | 11.0% | 8,648 | 4.0% | 10,810 | 5.0% |

A reconciliation of total Bank capital to total regulatory capital is as follows:

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|----------------------|
| Total capital per financial statements | \$ 23,420 | \$ 23,539 |
| Accumulated losses on available for sale securities | 501 | 303 |
| Intangible assets | (50) | (50) |
| Total Tier 1 capital | 23,871 | 23,792 |
| <i>Adjustments for total capital</i> | | |
| Allowance for loan losses includible in Tier 2 Cap | 2,354 | 2,350 |
| Total capital per regulatory reporting | \$ 26,225 | \$ 26,142 |

Payment of Dividends

State and federal statutory and regulatory limitations apply to CBT's payment of dividends to shareholders. The prior approval of the DOB is required if the total of all dividends declared by a bank in any calendar year exceeds the bank's net profits, as defined, for that year combined with its retained net profits for the preceding two calendar years. The payment of dividends by CBT may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

If, in the opinion of the FRBB, CBT was engaged in or about to engage in an unsafe or unsound practice, the FRBB could require, after notice and a hearing, CBT to cease and desist from the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Reserve's Regulation H, CBT must obtain prior approval of the FRBB in order to declare and pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and its retained net income of the prior two calendar years. Furthermore, Regulation H prohibits CBT from declaring or paying a dividend if the dividend would exceed the Bank's undivided profits, unless the FRBB and the holders of two-thirds of shareholders of each class of the Bank's outstanding stock have approved the dividend.

CBT is required to obtain approval of the DOB, the FRBB and two-thirds of the holders of its common stock in order to pay dividends on the senior preferred shares that were issued to the Treasury on December 19, 2008. In addition, under the terms and conditions of our Letter Agreement with the Treasury, CBT may not pay any dividends on its common stock without obtaining the prior consent of the Treasury until the earlier of (i) December 19, 2011 or (ii) the date the Treasury no longer owns any shares of CBT's senior preferred stock.

Since it commenced operations in March 2004, the Bank has posted net losses that result from anticipated start-up costs associated with developing our operating infrastructure, an initially low volume of earning assets, increasing provisions for loan losses, and other noninterest expenses. These early losses are typical in a new bank. As a result, the Bank has no undivided profits or net profits (i.e. negative retained earnings) and any dividend payment would be considered a reduction of permanent capital. Accordingly, the Bank would need the approval of at least two-thirds of the stockholders of the common stock, the FRB and the DOB in order to declare and pay dividends on its Preferred Stock. Under current Connecticut law, the DOB has no authority to approve a dividend unless a bank has net profits. A bill pending in the Connecticut legislature would, if enacted, permit the Connecticut Banking Commissioner to approve a dividend even absent any net profits.

Following discussions between the Bank and Treasury in February 2009, the Board of Directors of the Bank agreed to seek stockholder approval to allow the Board of Directors to declare and pay dividends on the Preferred Stock to the Treasury for as long as the Treasury is the holder of the Preferred Stock. The Board of Directors agreed to seek stockholder approval since it has contemplated the payment of dividends on the Preferred Stock and had budgeted for the dividend payments when the Board of Directors was considering whether the bank should participate in the TARP Capital Purchase Program in late 2008. If the stockholders approve the declaration and payment of dividends on Preferred Stock, the Bank would still need to obtain the approval of the FRB and the DOB, assuming passage of the legislation described above, and comply with applicable Connecticut State and Federal law before it could pay any dividend to the Treasury.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4T. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

CBT's Management, including CBT's principal executive officer and principal financial officer, have evaluated the effectiveness of CBT's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, CBT's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that CBT files or submits under the Exchange Act with the FRBB (1) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to CBT's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

As used herein, "disclosure controls and procedures" means controls and other procedures of CBT that are designed to ensure that information required to be disclosed by CBT in the reports that it files or submits pursuant to the Exchange Act is recorded, processed, summarized and reported, within the relevant time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by CBT in the reports that it files or submits under the Exchange Act is accumulated and communicated to CBT's Management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decision regarding required disclosures.

(b) Changes in Internal Controls

There have been no significant changes in CBT's internal controls over financial reporting or in other factors identified in connection with the evaluation required by Rule 13a-15 that occurred during CBT's quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

CBT is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by Management to be immaterial to the financial condition and results of operations of CBT.

Item 1A. Risk Factors.

Not required.

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

None.

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.

Not applicable.

Item 6. Exhibits.

| <u>No.</u> | <u>Description</u> |
|------------|---|
| 3(i) | Restated and amended Certificate of Incorporation of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.(i) to The Connecticut Bank and Trust Company's Registration Statement on Form S-3 dated January 9, 2009) |
| 3(ii) | Amended Bylaws of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005) |
| 11.1 | Statement Re: Computation of Per Share Earnings (incorporated by reference to Part 1 of this Quarterly Statement on Form 10-Q – Earnings Per Share) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Chairman and Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Secretary and Chief Financial Officer |
| 32.1 | Section 1350 Certification by Chairman and Chief Executive Officer |
| 32.2 | Section 1350 Certification by Secretary and Chief Financial Officer |

SIGNATURES

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

THE CONNECTICUT BANK AND TRUST COMPANY

Dated: May 14, 2009

By: /s/ David A. Lentini
David A. Lentini
Chairman of the Board, President and
Chief Executive Officer

Dated: May 14, 2009

By: /s/ Anson C. Hall
Anson C. Hall
Treasurer, Secretary and
Chief Financial Officer

EXHIBIT INDEX

| <u>No.</u> | <u>Description</u> |
|------------|---|
| 3(i) | Restated and amended Certificate of Incorporation of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.(i)1 to The Connecticut Bank and Trust Company's Registration Statement on Form S-3 dated January 15, 2009) |
| 3(ii) | Amended Bylaws of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005) |
| 11.1 | Statement Re: Computation of Per Share Earnings (incorporated by reference to Part 1 of this Quarterly Statement on Form 10-Q – Earnings Per Share) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Chairman and Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Secretary and Chief Financial Officer |
| 32.1 | Section 1350 Certification by Chairman and Chief Executive Officer |
| 32.2 | Section 1350 Certification by Secretary and Chief Financial Officer |

EXHIBIT 31.1

CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a)

CERTIFICATION

I, David A. Lentini, Chairman of the Board, President and Chief Executive Officer of The Connecticut Bank and Trust Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Connecticut Bank and Trust Company for the period ended March 31, 2009;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 14, 2009

/s/ David A. Lentini
David A. Lentini
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Anson C. Hall, Treasurer, Secretary and Chief Financial Officer of The Connecticut Bank and Trust Company, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Connecticut Bank and Trust Company for the period ended March 31, 2009;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 14, 2009

/s/ Anson C. Hall
Anson C. Hall
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2004**

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ending March 31, 2009 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CBT as of and for the period covered by the Report.

/s/ David A. Lentini
David A. Lentini
Chief Executive Officer
May 14, 2009

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2004**

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ending March 31, 2009 as filed with the Federal Reserve Bank of Boston (the “Report”), I, Anson C. Hall, Chief Financial Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CBT as of and for the period covered by the Report.

/s/ Anson C. Hall
Anson C. Hall
Chief Financial Officer
May 14, 2009