

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

OR

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

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)

90-0115348

(I.R.S. Employer
Identification No.)

58 State House Square, Hartford, CT

(Address of principal executive offices)

06103-3902

(Zip Code)

(860) 246-5200

(Issuer's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities Registered under Section 12(b) of the Exchange Act:

Title of Each Class

Name of Each Exchange
on Which Registered

None

N/A

Securities Registered under Section 12(g) of the Exchange Act:

Common Stock, \$1.00 par value

(Title of Class)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

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

Large accelerated filer	Yes <input type="checkbox"/> No <input type="checkbox"/>	Non-accelerated filer	Yes <input type="checkbox"/> No <input type="checkbox"/>
Accelerated filer	Yes <input type="checkbox"/> No <input type="checkbox"/>	Smaller reporting company	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(Do not check if smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$17,689,195 which was computed by reference to the price at which the common equity was last sold as of June 30, 2008 the last day of the registrant's most recently completed second fiscal quarter. Solely for purposes of this calculation, the shares held by the directors and officers of the registrant are deemed to be affiliates.

As of March 2, 2009, there were 3,572,450 shares of the Registrant's Common Stock outstanding.

Portions of the registrant's Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by and information currently available to us. The words “may”, “will”, “anticipate”, “should”, “would”, “believe”, “contemplate”, “could”, “project”, “predict”, “expect”, “estimate”, “continue”, and “intend”, as well as other similar words and expressions of the future, are intended to identify forward-looking statements.

These forward-looking statements generally relate to our plans, objectives and expectations for future events and include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. These statements are based on our opinions and estimates as of the date they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements are subject to known and unknown risks and uncertainties that may be beyond our control, which could cause actual results, performance, and achievements to differ materially from results, performance and achievements projected, expected, expressed or implied by the forward-looking statements.

Examples of events that could cause actual results to differ materially from historical results or those anticipated, expressed or implied include, without limitation, changes in overall economy and the interest rate environment; the ability of customers to repay their obligations; the adequacy of the allowance for loan losses; competition; significant changes in accounting, tax, regulatory practices and requirements; changes in deposit flows, loan demand, or real estate values; legislation or regulatory changes; changes in loan delinquency rates or in our levels of nonperforming asset; changes in economic climate in market areas in which we operate; and the economic impact of any future terrorist threats or attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks. Although management has taken certain steps to mitigate any negative effect of the aforementioned items, significant unfavorable changes could severely impact the assumptions used and have an adverse effect on profitability.

Additional information concerning the factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Item 1. “Business”, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Annual Report on Form 10-K and in our other filings with the Federal Reserve Bank. We undertake no obligation to publicly revise any forward-looking statements or cautionary factors, except as required by law.

PART I

Item 1. Business.

The Connecticut Bank and Trust Company is a Connecticut state bank and trust company which commenced banking operations in March 2004. As used in this Form 10-K, the terms “we,” “us,” “our,” “CBT” and the “Bank” mean The Connecticut Bank and Trust Company (unless the context indicates another meaning). We maintain our main office at 58 State House Square in Hartford, Connecticut and full-service branch offices at 7 Sycamore Street in Glastonbury, Connecticut; 68 South Main Street in West Hartford, Connecticut; 435 Hartford Turnpike in Vernon, Connecticut; 66 Cedar Street, in Newington, Connecticut; 148 Broad Street, in Windsor, Connecticut; and 396 Cromwell Avenue, in Rocky Hill, Connecticut. CBT operates as a community-based bank serving privately-owned business customers and individuals in Greater Hartford Connecticut whom we believe are underserved as a result of bank acquisitions and a movement away from customer service by larger banks in recent years.

Who We Are

CBT is a state bank and trust company chartered under the laws of the state of Connecticut, based in Hartford, Connecticut with deposit accounts insured up to applicable limits by the FDIC. We received our Final Certificate of Authority from the State of Connecticut Department of Banking and commenced banking operations on March 12, 2004. We have varied banking products including a comprehensive set of loans, deposit services and investment management products for commercial and retail customers and cash management products for commercial customers.

Employees

As of December 31, 2008, CBT had a total number of 62 employees, which includes 59 full-time equivalent employees. Our employees are not represented by a union or other collective bargaining agreement, and we consider our relations with our employees to be excellent.

Business Strategy

CBT's philosophy is to operate as a full service commercial bank emphasizing personalized customer service to businesses and individuals located throughout Greater Hartford Connecticut a region that includes the city of Hartford and its surrounding towns. We actively seek to finance the credit needs of local businesses and actively market deposit and loan products to individuals within our geographic market. CBT capitalizes on our established business contacts within Greater Hartford Connecticut to attract small-to medium-sized business customers and individuals. We emphasize the advantages of dealing with an independent, locally managed and headquartered bank to meet the particular needs of our customers. All decisions by CBT's senior management are made in Hartford, Connecticut and, as a result, we are able to respond to credit requests quickly and maintain flexibility in approving loans based on credit quality and personal knowledge of the customer.

CBT's strategy has been to hire experienced staff with established business contacts in our market area and a reputation for excellent customer service. Each of our commercial lenders has over 10 years of experience, and senior management possesses extensive experience in the banking industry as well as substantial business contacts in our market area. For example, our President and Chief Executive Officer, David A. Lentini, has 40 years of banking experience in retail and commercial banking in Hartford County and has previously started a local de novo Connecticut commercial bank. CBT's Board of Directors consists predominately of long-time residents and business people from the Greater Hartford Connecticut area who are representative of target customers and are sensitive and responsive to the needs of the community. Our Directors, many of whom are also owners and managers of locally based businesses and organizations, have significant contacts in the community and have and are expected to continue to bring substantial business contacts to CBT.

We carry out our marketing strategy through print and broadcast media highlighting our personal approach to providing banking services. Our marketing program emphasizes our commitment to customer service and the availability of our senior officers to bank customers. We have engaged our director Mr. Geno Auriemma, a Hall of Fame Women's Basketball Coach and recognized public speaker, to support our marketing activities and to endorse our products and services.

Our strategy is to expand CBT's presence in the Greater Hartford Connecticut market. We anticipate that key components in successfully penetrating our geographic market include expanding our branch network in the communities of the Greater Hartford Connecticut market as well as providing other convenient services such as electronic banking. Although our growth strategy is not dependent on acquisitions, we may consider acquisition opportunities from time to time if useful in accelerating our business plan.

Market Focus

Our primary marketing efforts are focused on attracting privately-owned businesses and individuals, including professionals such as attorneys, accountants and physicians, manufacturing companies, service companies, and commercial real estate developers. This strategy has been successful in penetrating our target market through our ability to deliver tailored and competitive loan products, cash management products, and investment products. The experience-level of our staff and their reputation in our market area have had a positive impact on our new business efforts.

CBT's services, pricing strategies, interest rates paid and charged, and hours of operation are designed to attract customers and increase our market share. We seek to offer superior loan services to small- and medium-sized privately-owned businesses, professionals, entrepreneurs and consumers, while charging competitively for such services and using modern technology and engaging third-party service providers (especially in the technology area) to perform some functions at lower cost.

Our strategy is to operate in growing areas within Greater Hartford Connecticut in order to provide convenience to current and potential individual and commercial customers. Our main office location is visible and accessible and is located in the downtown business district of the City of Hartford near the city's cultural centers and new downtown projects. We have six additional full service branches that are located in West Hartford, Glastonbury, Vernon, Newington, Windsor and Rocky Hill. Each branch is conveniently located, highly visible and has extended service hours. All of our locations have a drive-up window and drive-up ATM, except for those in Hartford and Windsor.

Market Area

Bordered by New York State to the West, Rhode Island to the East, and Massachusetts to the North, Connecticut is an important center of the insurance and financial industries. Connecticut possesses a highly developed telecommunications, fiber optics and power infrastructure, the second largest airport in New England, and a highly educated and productive workforce.

The City of Hartford is the state capital and center to the metropolitan area. Hartford is one of the nation's leading insurance industry centers, and home to facilities of several major insurance firms, including The Hartford and Aetna. Additionally, manufacturing, aviation, and precision machining employers such as Hamilton Sundstrand, Pratt & Whitney, Otis Elevator, StanleyWorks, and Colt Firearms employ area residents. Telecommunications, health services, high technology, retail, and tourism also comprise significant business clusters in the region.

Based on 2000 U.S. Bureau of the Census Survey data, the City of Hartford is comprised of approximately 124,500 people, 50,600 households and approximately 6,600 business entities. The Greater Hartford Connecticut market has a population of approximately 591,000 people and 363,000 households with median household income of \$61,000. This market has roughly 23,300 businesses with estimated annual loan demand of approximately \$3.0 billion. As of June 2008, 29 institutions competed for \$27.6 billion in deposits through 288 branch facilities.

We believe that Greater Hartford Connecticut presents a growing and diversified economic environment that will support CBT's business plan. The continued business development and economic health of Greater Hartford Connecticut will be important to CBT's long-term success. The communities targeted by CBT within greater Hartford County represent the most attractive communities regarding economic growth development and business development opportunity.

Lending Activities

CBT offers a full range of short- to medium-term commercial, consumer and real estate loans. CBT's loan policies and procedures establish the basic guidelines governing its lending activities. CBT's lending focus is commercial loans and commercial loans secured by real estate. Generally, the guidelines address the types of loans that CBT seeks, the underwriting and collateral requirements, and the terms and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These amount limitations apply to the borrower's total outstanding indebtedness to CBT. Our loan approval process provides for various levels of officer lending authority. When a loan amount exceeds officer lending authority levels, it is reviewed by the Loan Committee. The Loan Committee meets to review loans at least monthly, and more often if necessary. CBT supplements its own supervision of the loan underwriting and approval process with periodic reviews by outside professionals with expertise in loan review work.

CBT's policy provides that all loans made by CBT to executive officers and directors be made in the ordinary course of business, on substantially the same terms, including collateral, as those prevailing at the time for comparable transactions with other persons and may not involve more than the normal risk of collectibility or present other unfavorable features.

The risk of non-payment is inherent in all loans. We carefully review all loan applicants and attempt to minimize our credit risk exposure by use of thorough loan application and approval procedures that we have established for each category of loan. In determining whether to make a loan, we consider the borrower's credit history, principals of businesses and character of individuals who seek loans from CBT, analyze the borrower's income and ability to service the loan, and evaluate the need for collateral to secure repayment in the event of default. An allowance for loan losses is maintained based upon assumptions and judgments regarding the ultimate collectibility of loans in our portfolio and a percentage of the outstanding balances of specific loans when their ultimate collectibility is considered questionable.

Our loan activities are primarily directed to businesses, professionals and other individuals in our market area whose demand for funds generally falls within our bank's legal lending limit and who are also likely deposit customers. We have the ability to make loans in excess of our lending limit when we are able to secure a commitment from another lending institution to purchase a participation in the loan which will result in our maximum loan exposure being equal to or less than our legal lending limit.

Below is a description of the major categories of loans which we grant. To date, most of our loans have been commercial or commercial real estate related loans.

Commercial Loans. This category includes loans made to business entities and individuals for a variety of business purposes. Commercial loans include both secured and unsecured loans for working capital, expansion or other business purposes. Short-term working capital loans generally are secured by accounts receivable, inventory and/or equipment. CBT also makes term commercial loans generally secured by equipment and real estate. Risks of these types of loans depend on the general business conditions of the local economy and borrowers' ability to sell their products and services in order to generate sufficient business profits to repay their loans under the agreed upon terms and conditions.

Commercial Real Estate Loans. Commercial real estate loans are made for acquisition or refinance of real estate properties that are to be used to house related business operations (owner occupied) or for investment purposes (non-owner occupied). Risks associated with commercial real estate loans include credit risk, the risk of loss of tenants and the risk of fluctuations in real estate market values. We manage credit risk associated with these loans by

actively monitoring such measures as cash flow, collateral value and other appropriate credit factors. We attempt to reduce credit risks in the commercial real estate portfolio by analyzing the strength of the borrower and tenants, by evaluating the cash flow available to service loan repayment, by limiting the loan-to-value ratio to 80% or less and typically requiring personal guarantees of the principal owners.

Consumer and Installment Loans. We offer consumer loans including lines of credit and term loans secured by residential real estate for a variety of purposes, including home improvements, education and other personal expenditures. Consumer loans also include installment loans and pre-approved lines of credit to individuals for personal, family and household purposes, including automobile loans. Consumer loans generally involve more risk than mortgage loans because the collateral for a defaulted loan may not provide an adequate source of repayment of the principal. To date, our resources committed to these loan products have been limited and we have originated only a limited number of consumer and installment loans.

Residential Real Estate Loans. We offer residential real estate loans to qualified borrowers for the purchase or refinance of single-family residences. Loans are underwritten to specific criteria established in CBT's real estate lending policy with respect to loan-to-value, debt to income and credit history of the borrower designed to minimize risk of loss. Our residential real estate loans may be sold in the secondary market. To date, our resources committed to this loan product have been limited and we have originated, and subsequently sold, only a limited number of residential real estate loans.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in dollar amounts of the respective portfolio at the dates indicated.

	December 31,	
	2008	2007
	(Dollars in Thousands)	
Mortgage loans on real estate		
Commercial - owner occupied	\$ 59,855	\$ 39,419
Commercial - non-owner occupied	36,650	31,772
Construction	16,963	11,361
Equity lines of credit	6,603	4,895
Residential	3,512	1,724
Total mortgage loans on real estate	<u>123,583</u>	<u>89,171</u>
Commercial and industrial	57,465	52,787
Consumer	918	739
Total loans	<u>181,966</u>	<u>142,697</u>
Allowance for loan losses	(2,681)	(1,693)
Net deferred loan fees	(194)	(11)
Loans, net	<u>\$ 179,091</u>	<u>\$ 140,993</u>

Loan Maturity. The following table shows the remaining contractual maturity of our loan portfolio at December 31, 2008. The table does not include prepayments or scheduled principal amortization.

	CRE Owner Occupied	CRE Non Owner Occupied	Construction	Commercial	All other	Total Loans
	(Dollars in Thousands)					
Amounts Due:						
One year or less	\$ 684	\$ 744	\$ 12,631	\$ 20,961	\$ 1,687	\$ 36,707
After one year:						
More than one year to three years	148	1,287	4,033	9,550	55	15,073
More than three years to five years	517	1,340	-	15,528	328	17,713
More than five years to 10 years	7,091	3,679	-	9,382	-	20,152
More than ten years to 15 years	7,899	5,283	299	1,950	1,357	16,788
More than 15 years	43,516	24,317	-	94	7,606	75,533
Total amount due	<u>\$ 59,855</u>	<u>\$ 36,650</u>	<u>\$ 16,963</u>	<u>\$ 57,465</u>	<u>\$ 11,033</u>	<u>181,966</u>
Less:						
Net deferred loan fees						(194)
Allowance for loan losses						(2,681)
Loans, net						<u>\$ 179,091</u>

The table above includes gross loans receivable due in more than one year of \$33.3 million with fixed predetermined interest rates and \$112.0 million of floating or adjustable rates.

Loan Quality. CBT manages the risk characteristics of its loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral. However, primary reliance is placed on the cash flow of the borrower as the principal source of repayment. Although credit policies are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio as well as general and regional economic conditions. Management regularly evaluates the allowance for loan losses, and performs a formal quarterly evaluation based on a review of significant loans, with a particular emphasis on non-accruing loans, past due and other loans that management believes require special attention.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

At December 31, 2008, the Bank had nine non-accrual loans with a total outstanding balance of \$2,127,000. At December 31, 2007, the Bank had six non-accrual loans with a total outstanding balance of \$599,000. At December 31, 2008 and 2007, there were no loans contractually past due 90 days or more as to principal and interest payments and still accruing. Gross interest income of \$53,000 was reversed during 2008 and all nonaccrual loans are accounted for under the cash basis.

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 in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified 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 the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and 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.

The following table depicts activity in CBT's allowance for loan losses for the years set forth.

	December 31,	
	2008	2007
	(Dollars in Thousands)	
Balance, beginning of year	\$ 1,693	\$ 1,384
Provision for loan losses	1,662	308
Recoveries	7	1
Charge-offs	(681)	-
Balance, at end of year	<u>\$ 2,681</u>	<u>\$ 1,693</u>

The allowance for loan losses increased \$1.0 million in 2008 and stood at \$2.7 million at year-end compared to \$1.7 million at the start of the year. In 2008 the provisions increased to \$1.7 million compared to \$0.3 million in 2007. The ratio of the allowance for loan losses to total loans outstanding was 1.47% at December 31, 2008 compared to 1.19% as of December 31, 2007. CBT's Management determines the necessary level of the allowance for loan losses based upon many factors including the volume and trends in the loan portfolio, industry concentrations and national, regional, and local economic conditions. Both the dollar amount of the increase and the resulting increase in the ratio reflect, to a large degree, Management's conclusion that weakening indicators in both the national and regional economies increase the risk of loss within the portfolio.

Investment Activities

The Board of Directors establishes the investment policy and procedures of the Bank. It is the general policy of the Bank that all investment transactions be conducted in a safe and sound manner. The Bank's investment policy further provides that investment decisions be based upon a thorough analysis of each proposed investment to determine its quality, inherent risks, fit within the Bank's overall asset/liability management objectives, the effect on the Bank's risk-based capital and prospects for yield and/or appreciation. While general investment strategies are developed and authorized by the Board of Directors, the execution of specific investment actions and the day-to-day oversight of the Bank's investment portfolio primarily rests with CBT's Chief Executive Officer and Chief Financial Officer. On a quarterly basis, the Board of Directors reviews and evaluates all investment activities for safety and soundness and adherence to the Bank's investment policy.

Generally accepted accounting principles require that securities be categorized as either "held-to-maturity," "trading securities" or "available for sale," based on management's intent as to the ultimate disposition of each security. Debt securities may be classified as "held-to-maturity" and reported in financial statements at amortized cost only if the reporting entity has the positive intent and ability to hold those securities to maturity. Securities that might be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand or other similar factors cannot be classified as "held to maturity." Debt and equity securities held for current resale are classified as "trading securities." These securities are reported at fair value, and unrealized gains and losses on the securities would be included in earnings. Debt and equity securities not classified as either "held-to-maturity" or "trading securities" are classified as "available for sale." These securities are reported at fair value, and unrealized gains and losses on the securities are excluded from earnings and reported, net of deferred taxes, as a separate component of equity.

The Bank generally invests in securities with funds not employed for loan origination activity to maintain liquidity at levels deemed appropriate by management, to enhance profitability within overall asset/liability management objectives and to provide a degree of high credit quality assets to the balance sheet. The Bank has no investments classified as trading or held to maturity at December 31, 2008 or 2007. At December 31, 2008, the fair value of the Bank's available-for-sale securities portfolio totaled \$32.5 million, or 14% of assets.

Government-Sponsored Enterprises Available for Sale. At December 31, 2008, the Bank's total investment in Government-sponsored enterprises securities was \$7.2 million, consisting of bonds issued and guaranteed by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Bank ("FHLB"). All of the bonds in the portfolio are callable during the life of the investment.

Mortgage-Backed Securities Available for Sale. The Bank purchases mortgage-backed securities to (1) achieve positive interest rate spreads with minimal administrative expense and (2) lower its credit risk as a result of the guarantees provided by FHLMC, FNMA and GNMA. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although the Bank focuses its investments on mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as the Bank and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize specific liabilities and obligations of the Bank.

At December 31, 2008, mortgage-backed securities totaled \$24.8 million all of which are classified as available-for-sale. Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities.

There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Corporate Bonds.

The Bank investment in the corporate bond segment of the portfolio totaled \$482,000 as of December 31, 2008. The portfolio is comprised of one holding of a senior unsecured obligation from SLM Corp (“SLM”) and is classified as available-for-sale. The bond is a floating rate investment which resets on a monthly basis and is rated BBB- as of December 31, 2008. Management believes that the cause of the decline in market value is driven by the trading volume of this bond and the overall illiquidity in the bond market. The market value of floating rate bonds respond rapidly to changes in market rates. The steady decline in short term rates in 2008 has been the primary reason for the decrease in the bond’s value. Management believes that the variable rate bonds such as this one will respond equally quickly to rising rates.

The following table sets forth at the dates indicated information regarding the amortized cost, unrealized gains and losses and fair values of the Bank's available-for-sale investment securities.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2008</u>	(Dollars in Thousands)			
Government-sponsored enterprises	\$ 7,129	\$ 42	\$ -	\$ 7,171
Mortgage-backed securities	24,636	276	(104)	24,808
Corporate bonds	999	-	(517)	482
	<u>\$ 32,764</u>	<u>\$ 318</u>	<u>\$ (621)</u>	<u>\$ 32,461</u>
<u>December 31, 2007</u>				
Government-sponsored enterprises	\$ 13,375	\$ 74	\$ (10)	\$ 13,439
Mortgage-backed securities	5,783	12	(35)	5,760
Corporate bonds	999	-	(304)	695
	<u>\$ 20,157</u>	<u>\$ 86</u>	<u>\$ (349)</u>	<u>\$ 19,894</u>

The Bank did not have any investment that had an aggregate book value in excess of ten percent of stockholder’s equity. All investments are taxable obligations.

The following table sets forth the indicated information regarding the scheduled maturity including the weighted average yield of the Bank's available for sale investment security portfolio as of December 31, 2008.

	December 31, 2008		
	Amortized Cost	Fair Value	Weighted Avg Yield
	(Dollars in Thousands)		
Government sponsored enterprises			
Over 5 years to 10 years	\$ 1,000	\$ 1,022	5.0%
Over 10 years	6,129	6,149	5.9%
	<u>7,129</u>	<u>7,171</u>	
Mortgage-backed securities			
Over 1 year to 5 years	303	308	3.9%
Over 5 years to 10 years	479	491	4.9%
Over 10 years	23,854	24,009	5.3%
	<u>24,636</u>	<u>24,808</u>	
Corporate bond			
Over 1 year to 5 years	999	482	7.0%
	<u>999</u>	<u>482</u>	
	<u>\$ 32,764</u>	<u>\$ 32,461</u>	<u>5.4%</u>

Sources of Funds

Deposits. At December 31, 2008, CBT's total deposits amounted to \$162.9 million, or 72% of total assets. To date, deposits from our primary market have provided a relatively stable funding source for CBT's loan portfolio and other earning assets. We offer a full range of interest bearing and non-interest bearing accounts with a range of maturity date options, including commercial and retail checking accounts, money market accounts, individual retirement accounts, savings accounts, certificates of deposit and sweep accounts. We have tailored the rates and terms of our accounts and time deposits to compete in our market area.

The following table sets forth the composition of the Bank's deposits in dollar amounts and as a percentage of total deposits at the dates indicated:

	December 31,			
	2008		2007	
	(Dollars in Thousands)			
Non interest-bearing	\$ 32,498	20.0 %	\$ 26,115	19.0 %
NOW	5,399	3.3	5,138	3.7
Money market	35,508	21.8	23,307	16.9
Savings	1,360	0.8	963	0.7
	<u>74,765</u>		<u>55,523</u>	
Time deposits less than \$100,000	54,645	33.5	52,368	38.0
Time deposits of \$100,000 or greater	33,524	20.6	29,909	21.7
	<u>88,169</u>		<u>82,277</u>	
Total deposits	<u>\$ 162,934</u>	100.0 %	<u>\$ 137,800</u>	100.0 %

A summary of time deposits, by maturity, are as follows:

Year Ending	Amount
December 31,	(Dollars in Thousands)
2009	\$ 85,007
2010	2,597
2011	504
2012	32
2013	29
	<u>\$ 88,169</u>

The Bank had \$33.5 million of certificates of deposit of \$100,00 or more outstanding as of December 31, 2008 maturing as follows:

	Amount
	(Dollars in Thousands)
Maturity Period:	
Three months or less	\$ 11,068
Over three months through six months	11,350
Over six months through twelve months	9,856
Over twelve months	1,250
Total	<u>\$ 33,524</u>

Borrowings

In addition to deposits, the sources of funds available for lending and other business purposes include loan repayments, loan sales and borrowings. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows may be influenced significantly by general interest rates and money market conditions. Borrowings may be used to compensate for reductions in other sources, such as deposits at less than projected levels, and are also expected to be used to fund the origination of certain loans.

Federal Home Loan Bank Advances

The Federal Home Loan Bank of Boston (“FHLB”) provides credit for savings banks and certain other member financial institutions. As a member of the FHLB, the Bank is required to own capital stock in the FHLB and may apply for advances on the security of the capital stock and qualified collateral maintained at the FHLB. Borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 95-97% of the market value of U.S. Government and government sponsored enterprises and various percentages of the carrying value of certain commercial properties. Advances are made under several different credit programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under the lines are limited to \$1 million and the line of credit may be increased to 2% of the Bank’s total assets in accordance with the credit policy of the FHLB. At December 31, 2008, the Bank had the ability to borrow a total of approximately \$42.0 million from the FHLB. At December 31, 2008 the Bank had borrowings totaling \$35.5 million outstanding with the FHLB.

Securities Sold Under Agreements to Repurchase

Repurchase agreements represent amounts due to customers in connection with overnight sweep accounts. They represent a purchase, by customers, of a fractional portion of the Bank’s interest in certain purchased securities and are an obligation of the Bank to repurchase that portion of the securities based on terms in a Master Purchase Agreement between the Bank and the customer. The securities pledged to secure repurchase agreements are under the Bank’s control.

At December 31, 2008 the Bank had repurchase agreements totaling \$2.5 million with a weighted average rate of 1.25%. At December 31, 2007, the bank had repurchase agreements totaling \$2.3 million with a weighted average rate of 3.50%.

Other Products and Services

Third Party Services. Through contractual arrangements with third-party providers, we make available to our customers various other products and services. These products and services include trust and fiduciary services, investment management and stock brokerage services, insurance products, including commercial and personal lines, and payroll processing. These products and services are offered through established providers and expand the services that we are able to offer to our customers with resulting fee income to CBT.

Other products and services that we provide include:

- Cash management services;
- Courier service;
- Sweep accounts;
- Direct deposit of payroll and social security checks;
- Online banking;
- Wire transfers, ACH (Automated Clearinghouse) and EDI (Electronic Data Interchange) services;

- Client escrow accounts;
- Debit cards;
- Merchant credit card processing; and
- ATM access through the SUM shared network of automated teller machines.

Asset and Liability Management

Our primary assets are cash and cash equivalents, our loan portfolio and our securities portfolio. Our liabilities consist primarily of deposits. Our objective is to support asset growth primarily through the growth in core deposits, which include deposits of all categories made by individual and commercial customers. 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 securities portfolio consists primarily of marketable securities of Government-sponsored enterprises and mortgage-backed securities, generally with varied maturities.

Interest rate risk measures the impact that changing interest rates have on current and future earnings. Our goal is to optimize long-term profitability while minimizing our exposure to interest rate fluctuations. We monitor our exposure to interest rate risk through our Asset Liability Management Committee (“ALCO”), with the participation of members of CBT’s senior management personnel. 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 CBT. The table below estimates the percentage impact on net interest income based on the rising and declining 100 and 200 basis point change in interest rates.

	Base Case NII (000's)	Estimated Change in Net Interest Income				
		-200 BP	-100 BP	Stable	+100 BP	+200 BP
December 31, 2008	\$ 8,768	-6.1%	-3.3%	0.0%	-2.5%	-6.4%

Competition

The banking business is highly competitive and there are numerous banks and other financial institutions serving Greater Hartford Connecticut posing significant competition to CBT both in attracting deposits and making loans. These competitors include other commercial banks, savings and loan associations, finance companies, money market funds, credit unions and other financial institutions, a number of which are much larger than CBT. To grow, we will have to win existing customers away from existing banks and financial institutions as well as successfully compete for new customers from growth in Greater Hartford Connecticut.

Certain of Greater Hartford Connecticut’s other financial institutions may be able to offer products and services which may be impracticable for CBT to provide at this time. CBT also experiences competition from out-of-state financial institutions with little or no traditional bank branches in Hartford. Many of these banks and financial institutions are well established and better capitalized than CBT, allowing them to provide a greater range of services.

In commercial transactions, CBT’s legal lending limit to a single borrower enables CBT to compete effectively for the business of smaller enterprises and individuals. However, CBT’s legal lending limit is considerably lower than that of various competing institutions, which have substantially greater capitalization. CBT

has a relatively smaller capital base than most other competing institutions which, although above regulatory minimums, may constrain CBT's effectiveness in competing for loans.

To meet its competition, CBT has placed major emphasis on prompt, personalized service and the flexibility which its size and independent status permit. Although many of our competitors are currently much larger than us, we believe that the corporate service, culture and operational infrastructure at large banks often does not provide the type of personalized service that many of our small- to medium-sized business clients desire and that we strive to provide. CBT believes that an independent bank, operated by responsive, experienced employees who are dedicated to personal service, offers an attractive and viable alternative to larger competing institutions.

Regulation and Supervision

CBT operates in a highly regulated environment, and our business activities are governed by statute, regulation and administrative policies. The following is a brief summary of certain statutes, rules and regulations which affect CBT. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations which are applicable to the business of CBT. Supervision, regulation and examination of CBT by regulatory agencies is intended primarily for the protection of depositors rather than shareholders of CBT.

General

As a Connecticut bank, CBT is supervised, regulated and regularly examined by the State of Connecticut Department of Banking ("DOB"). CBT's deposits are insured by the FDIC up to applicable limits. The operation of CBT is subject generally to state and federal statutes and regulations applicable to FDIC-insured state-chartered banks. Such statutes and regulations relate to required reserves, investments, loans, mergers and consolidations, issuances of securities, payment of dividends, establishment of branches and other aspects of a bank's operations. Connecticut banks are required to have an annual independent audit of their financial statements. CBT annually provides a copy of its audited financial statements to each shareholder.

Federal Reserve Membership

CBT is a member of the Federal Reserve System. The Board of Governors of the Federal Reserve System (the "Fed"), acting through the Federal Reserve Bank of Boston ("FRBB"), is CBT's primary Federal regulator and regularly conducts examinations of CBT.

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.

As a result of our losses in 2008 and prior years, CBT will be 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.

Capital Adequacy

Regulatory agencies measure capital adequacy within a framework that makes capital requirements sensitive to the risk profile of the individual banking institutions. The guidelines define capital as either Tier 1 capital (primarily shareholders' equity) or Tier 2 capital (certain debt instruments and a portion of the reserve for loan losses). There are two measures of capital adequacy for banks: the Tier 1 leverage ratio and the risk-based capital requirements. Most banks must maintain a minimum Tier 1 leverage ratio of 4%. In addition, Tier 1 capital must equal 4% of risk-weighted assets, and total capital (Tier 1 plus Tier 2) must equal 8% of risk-weighted assets. These are minimum requirements, however, and institutions expecting internal growth (like CBT) or making acquisitions, as well as institutions with supervisory or operational weaknesses, will be expected to maintain capital positions well above these minimum levels. At December 31, 2008, the Tier 1 leverage capital ratio stood at 11.0%.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on the taking of brokered deposits, and certain other restrictions on its business. As described below, substantial additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See "Prompt Corrective Action," below.

Prompt Corrective Action

Federal banking laws establish a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of the action will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with regulatory approval. In addition, the appropriate federal banking agency may test an undercapitalized institution in the same manner as it treats a significantly undercapitalized institution if it determines that those actions are necessary. As of December 31, 2008, CBT qualified as a well-capitalized institution.

FDIC Insurance Assessments

The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the Deposit Insurance Fund (DIF). The FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios and then on other relevant information. Within the lowest risk category, Risk Category I, rates will vary based on each institution's CAMELS component ratings, certain financial ratios (for most institutions), and long-term debt issuer ratings (for large institutions that have such a rating).

Capital ratios will be calculated quarterly in accordance with the FDIC's Rules and Regulations, using the data reported in an institution's Report of Income and Condition (Call Reports). The system assigns an institution to one of three capital categories: (i) well capitalized; (ii) adequately capitalized; and (iii) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. These groups range from Group A (highest) to Group C (lowest). The FDIC then determines an institution's insurance assessment rate based on the institution's capital category and supervisory category.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

On February 27, 2009, the FDIC issued a Final Rule modifying the risk-based assessment system. The final rule provides for adjustments to an institution's assessment rate based on applicable balance sheet criteria. In addition, the FDIC will impose a special assessment of ten basis points based on June 30, 2009 financial information to maintain public confidence in the deposit insurance fund. Based on deposits as of December 31, 2008, the special assessment would be approximately \$163,000.

Federal Reserve System

The Federal Reserve Board regulations require depository institutions to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$48.3 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3%; and for amounts greater than \$48.3 million, the reserve requirement is 10% (which may be adjusted by the Federal Reserve Board between 8% and 14%) against that portion of total transaction accounts in excess of \$48.3 million. The first \$7.8 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements.

Troubled Asset Relief Program and Capital Purchase Program

On October 14, 2008 the Secretary of the Treasury announced that the Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP"), the Treasury made \$250 billion of capital available to the U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury received, from

participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP ("TARP Covered Period").

On February 17, 2009 President Obama signed the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act") into law. The Stimulus Act modified the compensation-related limitations contained in the TARP, created additional compensation-related limitations and directed the Secretary of the Treasury to establish standards for executive compensation applicable to participants in TARP, regardless of when participation commenced. The compensation-related limitations which have been added or modified by the Stimulus Act which provisions must be included in standards established by the Treasury, are as follows:

- No severance payments. Under the Stimulus Act "golden parachutes" were redefined as any severance payment resulting from involuntary termination of employment, or from bankruptcy of the employer, except for payments for services performed or benefits accrued, during the TARP Covered Period.
- Recovery of Incentive Compensation if Based on Material Inaccuracies. The Stimulus Act contains a "clawback provision" and extends its application to any bonus awards and other incentive compensation during the TARP Covered Period that is later found to have been based on materially inaccurate financial statements or other materially inaccurate measurements of performance.
- No Compensation Arrangements That Encourage Earnings Manipulation. Under the Stimulus Act, during the TARP Covered Period, compensation arrangements that encourage manipulation of the reported earnings to enhance the compensation of any of its employees are prohibited.
- Limit on Incentive Compensation. The Stimulus Act contains a provision that prohibits the payment or accrual of any bonus, retention award, or incentive compensation during the TARP Covered Period other than awards of long-term restricted stock that (i) do not fully vest during the TARP Covered Period, (ii) has a value not greater than one-third of the total annual compensation of the awardee and (iii) is subject to such other restrictions as determined by the Secretary of the Treasury. The prohibition on bonus, incentive compensation and retention awards does not preclude payments required under written employment contracts entered into on or prior to February 11, 2009.
- Compensation Committee Functions. The Stimulus Act requires that the Compensation Committee be comprised solely of independent directors and that it meet at least semiannually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed from such compensation plans.
- Compliance Certifications. The Stimulus Act also requires a written certification by the Chief Executive Officer and Chief Financial Officer of compliance with the provisions of the Stimulus Act. These certifications must be contained in future Annual Reports on Form 10-K.
- Treasury to Review Excessive Bonuses Previously Paid. The Stimulus Act directs the Secretary of the Treasury to review all compensation paid to determine whether any such payments were inconsistent with the purposes of the Stimulus Act or were contrary to the public interest. If the Secretary of the Treasury makes such a finding, the Secretary of the Treasury is directed to negotiate with the TARP recipient and the subject employee for appropriate reimbursements to the federal government with respect to the compensation and bonuses.
- Say on Pay. Under the Stimulus Act, a non-binding say on pay proposal on executive compensation to the shareholders for an advisory vote at each annual meeting during the TARP Covered Period.

- **Limit on Federal Income Tax Deductions.** During the TARP Covered Period, federal income tax deductions for compensation paid to senior executive officers in excess of \$500,000 per year, with certain exceptions, is not allowed.

CBT Participation in TARP

CBT decided to enter into a Securities Purchase Agreement with the Treasury that provides for its participation in the TARP. On December 19, 2008, CBT issued and sold to the Treasury 5,448 shares of CBT's Fixed Rate Noncumulative Perpetual Preferred Stock, Series A, with a liquidating preference of \$1,000 per share, and a ten-year warrant to purchase up to 175,742 shares of CBT's common stock at an exercise price of \$4.65 per share. Under the terms of the TARP, the Treasury's consent will be required for any dividend paid to CBT common stockholders or CBT's redemption, purchase or acquisition of its common stock 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.

CBT may redeem the senior preferred shares three years after the date of the Treasury's investment, or earlier if it raises in an equity offering net proceeds equal to the amount of the senior preferred shares to be redeemed. It must raise proceeds equal to at least 25% of the issue price of the senior preferred shares to redeem any senior preferred shares prior to the end of the third year. Notwithstanding the foregoing limitations, under the Stimulus Act, the Treasury may, after consultation with CBT's federal regulator, permit CBT at any time to redeem the senior preferred shares. Upon such redemption, the Treasury may liquidate at the current market price the warrant that CBT issued to the Treasury.

The limitations and restrictions on compensation agreements with CBT's executive officers do not pose any additional burden as CBT did not pay incentive compensation in 2008, and does not participate in the types of compensation agreements that are prohibited under the TARP. The governance standards imposed by the Stimulus Act will be delegated to the Compensation Committee. CBT's Compensation Committee is required to meet semiannually with senior risk officers to review its executive compensation arrangements in light of CBT's risk management policies and practices. In December 2008, each of CBT's senior executive officers agreed in writing to accept the compensation standards in existence at that time under the program, thereby capping or eliminating some of their contractual or legal rights. CBT senior executive officers' written agreements include their obligation to execute whatever documents CBT may require in order to make any changes in compensation arrangements resulting from the Compensation Committee's review.

Community Reinvestment Act

CBT is subject to the provisions of the Community Reinvestment Act of 1977 (the "CRA"), which requires the bank regulators, in connection with their regular examinations of a bank, to assess the bank's record of meeting the credit needs of the communities it serves, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices.

Regulations promulgated under the CRA are intended to set distinct assessment standards for financial institutions. The regulations provide for streamlined procedures for institutions with assets of less than \$250 million. The regulations contain the following three evaluation tests:

- A lending test, which compares the institution's market share of loans in low- and moderate- income areas to its market share of loans in its entire service area;
- A service test, which evaluates the provision of services that promote the availability of credit to low- and moderate-income areas; and
- An investment test, which evaluates the institution's record of investments in organizations designed to foster community development, small- and minority-owned businesses and affordable housing lending, including state and local government housing or revenue bonds.

Institutions are required to make public disclosure of their written CRA evaluations made by regulatory agencies. This promotes enforcement of CRA requirements by providing the public with the status of a particular institution's community investment record. In addition to public disclosure of an institution's CRA assessment, regulatory authorities are required to consider an institution's CRA assessment when an institution applies for approval to establish a new branch which will accept deposits, to relocate an existing branch, or to merge with another federally regulated financial institution. CRA ratings are "outstanding," "satisfactory," and "substantial noncompliance." CBT received a satisfactory CRA rating at its most recent examination in 2006.

Safety and Soundness Standards

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

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

Monetary Policy

CBT's earnings are affected by domestic and foreign economic conditions, particularly by the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve has had, and will continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to mitigate recessionary and inflationary pressures by regulating the national money supply. The techniques used by the Federal Reserve include setting the reserve requirements of member banks and establishing the discount rate on member bank borrowings. The Federal Reserve also conducts open market transactions in United States government securities.

Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act (the "GLB Act") was enacted in November of 1999. The GLB Act addresses concerns relating to the competitiveness and the safety and soundness of the financial services industry and alters the structure, regulation, and competitive relationships of the nation's financial institutions. Among other things, the GLB Act:

- Repeals portions of the Glass-Steagall Act of 1933 that separated commercial and investment banking and eliminates the prohibition on insurance underwriting activities under the Bank Holding Company Act of 1956.

- Creates “financial holding companies” that may conduct a broad list of financial activities, including insurance and securities underwriting, and real estate development and investment.
- Allows financial holding companies to conduct activities that are “complementary” to banking.
- Allows banks to underwrite securities through direct subsidiaries and use direct subsidiaries for insurance or securities sales or other low-risk activities.
- Prohibits a bank holding company from merging with insurance or securities firms or embarking on new powers if any of its banks earned less than a “satisfactory” CRA rating on its most recent exam. A financial holding company would be barred from additional powers or acquisitions if one of its bank’s CRA rating dropped below “satisfactory” later.
- Requires financial institutions to establish privacy policies and disclose them at the start of a customer relationship and once a year thereafter.
- Requires banks to give customers a chance to block sharing of confidential information with third parties except in cases of marketing agreements between financial institutions and some other marketing agreements.
- Prohibits credit card and account numbers from being shared with third-party marketers.

Although the GLB Act is one of the most significant banking laws enacted in recent years, because of CBT’s relatively small size and recent organization, we do not expect the GLB Act to materially affect our products, services or other business activities.

The USA PATRIOT Act

The USA PATRIOT Act of 2001 is omnibus legislation that enhances the powers of domestic law enforcement organizations and makes numerous other changes aimed at countering the international terrorist threat to the security of the United States. Title III of the legislation, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the “Act”), is the portion of the legislation that most directly affects the financial services industry. It is intended to enhance the federal government’s ability to fight money laundering by monitoring currency transactions and suspicious financial activities. The Act has significant implications for depository institutions and other businesses involved in the transfer of money. A number of the important provisions of the Act are described in greater detail below.

- A financial institution must establish due diligence policies, procedures and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts.
- No bank may establish, maintain, administer or manage a correspondent account in the United States for a foreign shell bank.
- Financial institutions must follow regulations adopted by the Treasury Department to encourage financial institutions, their regulatory authorities, and law enforcement authorities to share information about individuals, entities, and organizations engaged in or suspected of engaging in terrorist acts or money laundering activities.
- Financial institutions must follow regulations adopted by the Treasury Department setting forth minimum standards regarding customer identification. These regulations require financial institutions to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintain records of the information used to verify the person’s identity, and consult lists of known or suspected terrorists and terrorist organizations provided to the financial institution by government agencies.
- Every financial institution must establish anti-money laundering programs, including the development of internal policies and procedures, designation of a compliance officer, employee training, and an independent audit function.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the “SOX”). The stated goals of the SOX are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOX addresses, among other matters:

- the composition and activities of audit committees;
- certification of financial statements by chief executive officers and the chief financial officers;
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement;
- a prohibition on trading by insiders during pension plan black out periods;
- disclosure of off-balance sheet transactions;
- requirements for auditor independence; and
- increased criminal penalties for violations of securities laws.

Reports to Security Holders

We are obligated to file with the Board of Governors of the Federal Reserve System certain periodic reports including an annual report containing audited financial statements pursuant to Section 12(i) of the Exchange Act. We will continue to file such reports as required under the Exchange Act. Unlike the SEC, the Fed does not maintain an electronic database of reports, proxies and information statements and other information regarding issuers that file electronically. Instead, interested persons should visit our website at www.thecbt.com, where we post copies of all of our Exchange Act filings with the Fed.

Item 1A. Risk Factors

Recent negative developments in the financial services industry and U.S. and global credit markets may adversely impact our operations and results.

Negative developments in the latter half of 2007 and the year of 2008 in the capital markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing in 2009. Loan portfolio performances have deteriorated at many institutions resulting from, amongst other factors, a weak economy and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of banks, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets compared to recent years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. The Federal Deposit Insurance Corporation (“FDIC”) has notified its members of increased assessment rates for 2009 due to rapidly deteriorating conditions in the banking industry. In addition, the FDIC will impose a special assessment of ten basis points assessed as of June 30, 2009. Based on deposits as of December 31, 2008, the special assessment fee would be approximately \$163,000.

We have a limited operating history.

We have been operating since March 12, 2004. Therefore, we have a limited operating history. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by new business enterprises in early stages of development.

We do not have a history of profitability.

As of December 31, 2008, we recorded an accumulated deficit of \$15.6 million since commencing banking operations. The losses that we incurred resulted 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 non-interest expenses. Early losses are typical in new banks, and we may continue to incur losses as we grow our assets. Our operating losses have been significant and may occur for periods longer than planned, depending upon our ability to generate net interest income and non-interest income greater than operating expenses. If we do not increase revenues sufficiently to offset anticipated expense increases, we will continue to experience losses. There is no assurance that we will earn a profit in the future. Federal and state banking laws prevent us from paying dividends when we incur losses without appropriate regulatory approval.

Our strategy involves risks that may have an adverse impact on our net income, and maintaining a high rate of growth may be difficult.

Generally, our ability to continue to grow successfully will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market area and our ability to manage our growth. While we believe that we have the management resources and internal systems in place to manage our future growth successfully, there can be no assurance that growth opportunities will be available or growth will be successfully managed.

We cannot assure you that in future years we will continue to achieve results comparable to what has been accomplished to date. As our asset size and net interest income increase, it may become more difficult to achieve high rates of increase in assets and net interest income. Even if we successfully manage our continued growth, we may not be profitable.

Our new branches can be expected to have a negative impact on our earnings for some period of time until the branches reach certain economies of scale.

Our banking center offices required significant expenditures with investments in equipment, technology, and personnel resulting in increases to our noninterest expenses. The fixed costs related to operating the branches are significant and generally, new branches do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our newer branches can be expected to have a negative impact on our earnings for some period of time until the branches reach certain economies of scale.

A relatively large percentage of our total loans and our total deposits originates from a relatively small number of borrowers and deposit accounts, respectively, and the loss of any one of these borrowers or deposit accounts could have an adverse impact on our operations.

A significant portion of our loan portfolio is comprised of a relatively small number of borrowers. The loss of even a few of these borrowers could have a material adverse effect on our business or results of operations. The deposits of our business customers constitute a relatively high percentage of overall deposits. Thus, the loss of even a small number of business depositors could have a material adverse effect on our business or results of operations.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned.

We could experience credit losses which exceed our allowance for loan losses.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower, and, in the case of a collateralized loan, the value and marketability of the collateral. We maintain an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, we make various assumptions and determinations about the ultimate collectibility of our loan portfolio and provide an allowance for losses based upon a percentage of the outstanding balances and for specific loans where their collectibility is considered to be questionable.

As of December 31, 2008, our allowance for loan losses was \$2.7 million, or 1.47% of gross outstanding loans. Although we believe that this allowance is currently adequate, we cannot assure you that it will be sufficient to cover probable loan losses. Although we use the best information available to make our determinations with respect to this allowance, future adjustments may be necessary if economic conditions change substantially from the assumptions used or if negative developments occur with respect to non-performing or performing loans. If our assumptions or conclusions prove to be incorrect and the allowance for loan losses is not adequate to absorb probable losses, or if bank regulatory agencies require us to increase our allowance, our earnings, and potentially our capital, could be significantly and adversely impacted.

A relatively high percentage of our loan portfolio consists of commercial loans, primarily to privately-owned businesses, which may be impacted more severely than larger businesses during periods of economic weakness.

A substantial focus of our marketing and business strategy is to serve privately-owned businesses located in the Greater Hartford Connecticut area. During periods of economic weakness, these businesses may be impacted more severely than larger businesses, and consequently the ability of such businesses to repay their loans may deteriorate. As a result, our results of operations and financial condition may be adversely affected.

Our lending limit is lower than many of our competitors which may discourage potential customers and restrict our growth.

Our legally mandated lending limit is lower than those of many of our competitors because we have less capital than those competitors. Currently, we have a legal lending limit for unsecured loans of approximately \$5.5 million to any one borrower and affiliated entities. In the early years of our operations, our actual lending limit will depend, to a significant extent, on the amount of capital that we raise. Our lower lending limit may discourage potential borrowers who have lending needs that exceed our limits, which may restrict our ability to grow. To date, we have served the needs of these borrowers by selling loan participations to other institutions and intend to continue to do so in the future, but this strategy may not always succeed.

Our business is concentrated in Greater Hartford Connecticut and adverse economic conditions in this region may adversely affect our business.

Our primary market is Greater Hartford Connecticut, including the communities of Hartford, Glastonbury, West Hartford, East Hartford, Manchester, Windsor, South Windsor, Bloomfield, Avon, Farmington, New Britain,

Newington, Rocky Hill, Wethersfield and Vernon, Connecticut. As a result, our financial condition and results of operations may be affected by changes in the local economy. The adverse economic conditions in the State of Connecticut may result in decreases in demand for our services, increases in nonpayment of loans and decreases in the value of collateral securing loans which could have a material adverse effect on our business, future prospects, financial condition or results of operations.

We compete in our market area with a number of larger financial institutions which have greater financial resources.

We compete with numerous other lenders and deposit-takers, including other commercial banks, savings and loan associations, Internet banks, credit unions, finance companies, mortgage companies, registered investment advisors, mutual funds, insurance companies and brokerage and investment banking firms. We have to attract our customer base primarily from current customers of other existing financial institutions. All of our local competitors actively solicit business from residents and businesses in our market area. Some of these competitors are not subject to the same degree of regulation as us, and most have greater resources than are available to us.

While we believe that we can and do compete successfully with these other financial institutions in our market area, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, we can give no assurance this strategy will be successful.

Departures of our key personnel may impair our profitability.

We are a relationship-driven organization. We depend upon the skills and reputations of our executive officers, key employees and directors for our future success. Our senior management has primary contact with our customers and is extremely important in maintaining personalized relationships with our customer base and in increasing our market presence through our business strategy. The loss of any of these key persons, including, without limitation, our Chairman, President and Chief Executive Officer, and our Chief Financial Officer, or the inability to attract and retain other key personnel, could adversely affect our results of operations. The Emergency Economic Stabilization Act and the agreements between us and the Treasury related to the purchase of senior preferred stock and common stock warrants place restrictions on our ability to pay compensation to our senior officers. Our directors' community involvement, diverse backgrounds and extensive local business relationships are important to our success. Our growth could be adversely affected if the composition of our Board of Directors were to change significantly or if our directors were unable to devote sufficient time to our affairs.

Rapidly rising or falling interest rates could significantly reduce our profitability.

A rapid increase or decrease in interest rates could significantly reduce our net interest income, capital and liquidity. Our profitability depends substantially on our net interest income, which is the difference between the interest income earned on our interest-earning assets (such as loans and investment securities) and the interest expense paid on our interest-bearing liabilities (such as deposits and borrowings). To the extent that the maturities of these assets and liabilities differ, rapidly rising or falling interest rates could significantly and adversely affect our earnings and liquidity.

The price of our common stock may fluctuate.

The price of our common stock on the NASDAQ Capital Market constantly changes and recently, given the uncertainty in the financial markets, has fluctuated widely. We expect that the market price of our common stock will continue to fluctuate. Holders of our common stock will be subject to the risk of volatility and changes in prices.

Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- events negatively impacting the financial services industry which result in a general decline in the market valuation of our common stock;
- announcements of material developments affecting our operations;
- future sales of our equity securities;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles; and
- general domestic economic and market conditions.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

We are subject to liquidity risk.

Liquidity risk is the potential that we will be unable to meet our obligations as they become due, capitalize on growth opportunities as they arise, at a reasonable cost and within acceptable risk tolerances.

Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, dividends to shareholders, operating expenses and capital expenditures.

Liquidity is derived primarily from retail deposit growth and retention; principal and interest payments on loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations and access to other funding sources.

Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically, or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole and the recent turmoil faced by banking organizations as the domestic and worldwide credit markets deteriorate.

Our agreements with the Treasury impose restrictions and obligations on us that limit our ability to pay cash dividends and repurchase common stock.

On December 19, 2008, we issued senior preferred stock and a warrant to purchase our common stock to the Treasury as part of its TARP Capital Purchase Program. Prior to December 19, 2011, unless we have redeemed all of the senior preferred stock or the Treasury has transferred all of the senior preferred stock to a third party, the consent of the Treasury will be required for us to, among other things, pay cash dividends on our common stock or repurchase our common stock (with certain exceptions), including the repurchase of our common stock in connection with an employee benefit plan in the ordinary course of business and consistent with past practice.

Our preferred shares impact net income available to our common stockholders and our earnings per share.

As long as there are senior preferred shares outstanding, no dividends may be paid on our common stock unless all dividends on the senior preferred shares have been paid in full. Any dividends declared on our fixed rate non-cumulative preferred shares will reduce the net income available to common shareholders and our earnings per common share. Additionally, the warrant to purchase CBT common stock issued to the Treasury, in conjunction with the preferred shares, may be dilutive to our earnings per share. The senior preferred shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of CBT.

Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. We are not required to declare cash dividends on our common stock and have never paid a cash dividend on our common stock. Until the earlier of (i) December 19, 2011 or (ii) the Treasury no longer owns any shares of our senior preferred stock, we may not pay any dividends on our common stock without the prior consent of the Treasury.

Future offerings of debt or other securities may adversely affect the market price of our stock.

In the future, we may attempt to increase our capital resources or, if our capital ratios fall below the required minimums, we could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

There may be changes in accounting policies or accounting standards.

Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. We identified our accounting policies regarding the allowance for loan losses, other-than-temporary impairment of investment securities, and income taxes to be critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain. Under each of these policies, it is possible that materially different amounts would be reported under different conditions, using different assumptions, or as new information becomes available.

From time to time the Financial Accounting Standards Board (“FASB”) and the Securities and Exchange Commission (“SEC”) change the financial accounting and reporting standards that govern the form and content of our external financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, SEC, banking regulators and our external auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and

reporting standards and changes in current interpretations may be beyond our control. These changes can be hard to predict and could materially impact how we report our financial results and condition. In certain cases, we could be required to apply a new or revised standard retroactively or apply an existing standard differently (also retroactively), which may result in us restating prior period financial statements in material amounts.

We are subject to extensive regulation and supervision.

We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole. Such laws are not designed to protect our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. We are also subject to a number of federal laws, which, among other things, require us to lend to various sectors of the economy and population, and establish and maintain comprehensive programs relating to anti-money laundering and customer identification. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. These changes to statutes or regulatory policies, including changes in interpretation or implementation of these statutes, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

The documents that we executed with the Treasury when we issued the senior preferred stock allow the Treasury to unilaterally change the terms of the senior preferred stock or impose additional requirements on the Bank if there is a change in law. These changes or additional requirements could restrict the Bank's ability to conduct its business, could subject the Bank to additional cost and expense or could change the terms of the senior preferred stock to the detriment of the bank's common shareholders. While it may be possible for the Bank to redeem the senior preferred stock in the event the Treasury imposes any changes or additional requirements that the Bank believes are detrimental, there can be no assurances that the bank's federal regulator will approve such redemption (as is required by law) or that the Bank will have the ability to implement such redemption.

We encounter continuous technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business, and in turn, our financial condition and results of operations.

We are subject to operational risk.

We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not

absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

We may also be subject to disruptions of our systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

There may be claims and litigation pertaining to fiduciary responsibility.

From time to time as part of our normal course of business, customers make claims and take legal action against us based on our actions or inactions. If such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect the market perception of us and our products and services. This may also impact customer demand for our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties.

We conduct business from our main office located at 58 State House Square, Hartford, Connecticut; our West Hartford Office at 68 South Main Street, West Hartford, Connecticut; our Glastonbury Office at 7 Sycamore Street in Glastonbury, Connecticut; our Vernon Office at 435 Hartford Turnpike, Vernon, Connecticut; our Newington Office at 66 Cedar Street, Newington, Connecticut; our Windsor Office at 148 Broad Street, Windsor, Connecticut; and our Rocky Hill Office at 396 Cromwell Avenue, Rocky Hill, Connecticut. All of these facilities have been renovated within the past five years and, as such, are in excellent condition.

In addition to developing the main office and branches described below, we anticipate that additional branching may continue to be a component of our growth strategy for the foreseeable future.

Main Office. CBT's main office is located at 58 State House Square, Hartford, Connecticut. CBT leases approximately 15,000 square feet on the street level and mezzanine level floors of a multistory office building at that location. The lease expires on January 31, 2014 and has three independent five-year options to extend the term. CBT operates automated teller machines (ATM) at this location. The executive offices, operations and staff departments are housed at this location. The property previously housed the main office of a bank and was easily adapted to meet the needs of CBT in providing services to its customers.

West Hartford Office. CBT leases a 3,400 square foot building located at 68 South Main Street in West Hartford, Connecticut as the location for its West Hartford Office. The lease expires on November 1, 2013 and contains one independent five-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Glastonbury Office. CBT leases a 4,600 square foot building located at 7 Sycamore Street in Glastonbury, Connecticut as the location for its Glastonbury office. The lease expires on September 30, 2009 and contains one five-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Vernon Office. CBT leases a 4,000 square foot building located at 435 Hartford Turnpike, in Vernon, Connecticut as its location for its Vernon Office. The lease expires on November 15, 2015 and contains one seven-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Newington Office. CBT leases a 3,200 square foot building located at 66 Cedar Street, in Newington, Connecticut as its location for its Newington Office. The lease expires on March 31, 2012 and contains a four-year option and an additional five-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Windsor Office. CBT leases a 4,700 square foot building located at 148 Broad Street, in Windsor, Connecticut as its location for its Windsor Office. The lease expires on April 30, 2011 and contains a five-year option to extend the term. This location provides ATM access and safe deposit boxes.

Rocky Hill Office. CBT leases a 3,000 square foot building located at 396 Cromwell Avenue, in Rocky Hill, Connecticut as its location for its Rocky Hill Office. The lease expires on November 1, 2012 and contains a five-year option to extend the term. This location provides drive-through banking service, ATM access, and safe-deposit boxes.

We paid an aggregate of \$814,000 in rental payments for the year ended December 31, 2008.

Item 3. 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 the Bank.

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

At a special meeting of shareholders held on December 16, 2008 at the main office of The Connecticut Bank and Trust Company, a proposal for an amendment to the Bank's Certificate of Incorporation was approved to authorize a class of 1,000,000 shares of preferred stock, each without par value. The following table summarizes the voting for the proposal at the special meeting of the shareholders.

Proposal 1. To approve amendment to Certificate of Incorporation

<u>For</u>	<u>Against</u>	<u>Abstain</u>
2,109,477	41,709	2,701
59.0%	1.2%	0.1%

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The common stock of the Bank trades on the NASDAQ capital market under the trading symbol “CTBC”. The following table sets forth the range of high and low per share sales prices as reported on the NASDAQ for each fiscal quarter of 2008 and 2007.

<u>2008</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 7.10	\$ 4.57
Second Quarter	6.30	5.40
Third Quarter	5.74	4.50
Fourth Quarter	6.18	3.28
<u>2007</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 8.04	\$ 7.35
Second Quarter	8.99	7.46
Third Quarter	8.15	6.20
Fourth Quarter	7.76	5.49

As of March 2, 2009, CBT had approximately 243 holders of record of its common stock.

The Bank paid no dividends during these periods. For information relating to restrictions on the Bank’s declaration of dividends, see “Item 1 Business – Regulation and Supervision.”

As a result of the Bank’s issuance on December 19, 2008 of senior preferred stock and a warrant to purchase common stock to the Treasury as part of the TARP Capital Purchase Program, until the earlier of (i) December 19, 2011 or (ii) the date the Treasury no longer owns any shares of the Bank’s senior preferred stock, the Bank may not repurchase its common stock or other equity securities except under certain limited circumstances, including the repurchase of common stock in connection with an employee benefit plan in the ordinary course of business and consistent with past practice, the acquisition by the bank of record ownership of common stock for the beneficial ownership of any other person, including as trustees or custodians, and the redemption or repurchase of rights pursuant to a stockholders’ rights plan.

The following table sets forth information as of December 31, 2008, about CBT common stock that may be issued upon exercise of options under The Connecticut Bank and Trust Company 2005 Stock Option and Award Plan. The Bank’s stockholders approved the Plan.

Plan Category	Number of Securities to be issued upon exercise of outstanding options warrants and rights	Weighted average exercise price of options warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plans approved by security holders	141,900	\$ 8.46	24,000
Equity Compensation Plans not approved by security holders	-	-	-
Total	141,900	\$ 8.46	24,000

Item 6. Selected Financial Data

Not required.

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

The following discussion and analysis of our financial condition and results of operations is designed to assist you in better understanding the financial condition, results of operations, liquidity and capital resources of CBT, and should be read in conjunction with the financial statements and the related notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about the Bank and its industry. Our results could differ materially from those anticipated in these forward-looking statements. The results shown in this Form 10-K are not necessarily indicative of the results to be expected in any future periods. We do not undertake to update our forward looking statements.

Selected Performance Data		
Dollar values in thousands; except per share data	At or for the year ended December 31,	
	2008	2007
Total assets	\$ 225,078	\$ 178,739
Net loss	\$ (2,476)	\$ (2,148)
Net interest margin	3.41%	3.59%
Net interest spread	2.73%	2.53%
Ratio of total stockholders' equity to total assets	10.46%	11.44%
Weighted Avg shrs outstanding	3,551	3,537
Loss per share	\$ (0.70)	\$ (0.61)
Book value per share	\$ 5.23	\$ 5.72
Performance Ratios		
Return on average assets	-1.22%	-1.33%
Return on average equity	-12.68%	-10.18%
Efficiency ratio	112.45%	130.10%
Regulatory Capital		
Total risk based capital ratio	13.92%	14.78%
Tier 1 risk based capital ratio	12.66%	13.66%
Tier 1 capital ratio	11.01%	11.85%
Asset Quality		
Allowance for loan losses as a percent of total loans	1.47%	1.19%
Nonperforming loans as a percent of total loans	1.17%	0.42%

Overview

CBT provides a broad range of banking services to both consumers and businesses in its market area from its seven 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 individuals. An important dimension of CBT's strategy is to provide our customers with access to well-trained, experienced bank personnel, including our senior management team.

CBT derives revenues principally from interest earned on loans and securities, and, to a lesser extent, fees from deposits and other banking-related services. The operations of CBT are influenced significantly by general economic conditions and by policies of financial institution regulatory agencies, primarily the Connecticut Department of Banking, the Federal Reserve Bank of Boston and the FDIC. CBT's cost of funds is influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for financing of business and personal loans, which in turn is affected by the interest rates at which such financings may be offered.

CBT operates from its main office branch at 58 State House Square, Hartford, Connecticut and six full service branches, at 68 South Main Street in West Hartford, Connecticut; at 7 Sycamore Street in Glastonbury, Connecticut; at 435 Hartford Turnpike, Vernon, Connecticut; at 66 Cedar Street, Newington, Connecticut; at 148 Broad Street, Windsor, Connecticut; and at 396 Cromwell Avenue, Rocky Hill, Connecticut. CBT provides a wide range of retail and commercial banking products and services to its customers, including checking and savings accounts, money market accounts, certificates of deposit and commercial, consumer, and real estate loans to customers located in our primary market area, the communities of Hartford, Glastonbury, West Hartford, East Hartford, Manchester, Windsor, South Windsor, Bloomfield, Avon, Farmington, New Britain, Newington, Rocky Hill, Wethersfield and Vernon, Connecticut.

CBT relies mainly on local advertising and promotional activities, personal contacts by its directors, officers and shareholders and word of mouth from existing customers to attract business and to acquaint potential customers with CBT's personalized services. This referral concept is key to our ongoing business strategy and community success. We believe our investment in the high-touch approach and the resulting satisfaction of our customers has created relationship-based "soft marketing" that benefits CBT and business is generated through the referrals of our satisfied customers to their business and personal contacts. We believe that it is incumbent upon our management and Board of Directors to ensure that the name "CBT" is, and continues to be, identified with the highest levels of service and customer satisfaction. CBT emphasizes a high degree of personalized service in order to serve each customer's banking needs. CBT's marketing approach emphasizes the advantages of dealing with an independent, locally managed and headquartered commercial bank to meet the particular needs of small- to medium-sized businesses, professionals and other individuals.

Application of Critical Accounting Policies

In the ordinary course of business, CBT has made 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. CBT believes that three of its critical accounting policies rely on material estimates that are susceptible to significant differences between actual results and estimates - determination of allowance for loan losses, other-than-temporary impairment of investment securities, and valuation of deferred tax assets.

CBT believes the following discussion of its accounting policy and estimates relating to the provision and allowance for loan losses addresses the policy that is most important to the portrayal of CBT'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. CBT has reviewed this policy with its Audit Committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the accompanying financial statements for a detailed description of our estimation process and methodology relating to the allowance for loan losses.

CBT periodically reviews all investments securities with significant declines in fair value for other-than-temporary impairment. Generally, a debt security is considered other-than-temporarily impaired if it is probable that the bank will be unable to collect all amounts due under the contractual terms of the security. An other-than-temporary assessment is inherently judgmental and dependent on several factors. Management determined there were no other-than-temporarily impaired investments as of December 31, 2008. CBT has reviewed this policy with its Audit Committee. Refer to the discussion in Note 1 to the accompanying financial statements for a detailed description of our estimation process and methodology relating to other-than-temporary impairment of investment securities.

Deferred tax assets result from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are subject to significant uncertainty. A 100% valuation allowance has been applied to the net deferred state and Federal tax assets due to the uncertainties of realization. CBT has reviewed this policy with its Audit Committee. Refer to Note 8 to the accompanying financial statements for a detailed discussion of the components of the net deferred tax assets.

Results of Operations for the Year Ended December 31, 2008 Compared to December 31, 2007

Net Loss. CBT had a net loss of \$2.5 million (or basic and diluted loss per share of \$0.70) for the year ended December 31, 2008, compared to a net loss of \$2.1 million (or basic and diluted loss per share of \$0.61) for the year ended December 31, 2007. Net interest income totaled \$6.7 million for the year ended December 31, 2008, an increase of \$1.2 million, or 20%, from the prior year. Total interest income grew \$1.2 million for the year ended December 31, 2008 compared to the prior year, while the interest expenses associated with deposits and other borrowings increased only \$83,000 from the same period in the prior year.

Net Interest Income. The largest component of CBT's revenue is net interest income, which is the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

Average Balance Sheet. 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 years ended December 31, 2008 and 2007. 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 by 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, which for the Bank has no impact under the tax loss position.

	Years Ended December 31,					
	2008			2007		
	(Dollars in Thousands)					
	Average Balance	Interest Income/ Expense	Average Yield Rate	Average Balance	Interest Income/ Expense	Average Yield Rate
Interest-earning assets:						
Loans	\$ 160,260	\$ 10,473	6.54%	\$ 123,598	\$ 9,292	7.52%
Investment securities	26,483	1,346	5.08%	20,656	1,006	4.87%
Other	8,894	219	2.45%	10,086	525	5.21%
Total interest-earning assets	195,637	12,038	6.15%	154,340	10,823	7.01%
Allowance for loan losses	(2,045)			(1,535)		
Cash and due from banks	4,650			4,158		
Other assets	4,540			4,078		
Total assets	<u>\$ 202,782</u>			<u>\$ 161,041</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 36,846	806	2.19%	\$ 28,490	971	3.41%
Time deposits	89,434	3,490	3.90%	72,461	3,570	4.93%
Borrowed funds	30,422	1,070	3.52%	16,837	742	4.41%
Total interest-bearing liabilities	156,702	5,366	3.42%	117,788	5,283	4.49%
Demand deposits	25,495			21,242		
Total deposits and borrowed funds	182,197			139,030		
Other liabilities	1,058			917		
Stockholders' equity	19,527			21,094		
Total liabilities and stockholders' equity	<u>\$ 202,782</u>			<u>\$ 161,041</u>		
Net interest income		<u>\$ 6,672</u>			<u>\$ 5,540</u>	
Interest rate spread			<u>2.73%</u>			<u>2.53%</u>
Net interest margin			<u>3.41%</u>			<u>3.59%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>124.85%</u>			<u>131.03%</u>

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 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.

	Years Ended December 31, 2008 compared to 2007		
	Increase (Decrease) Due to		Net
	Volume	Rate	
(Dollars in Thousands)			
Interest-earning assets:			
Loans	\$ 2,506	\$ (1,325)	\$ 1,181
Investments securities	294	46	340
Other	(56)	(250)	(306)
Total interest earning assets	<u>2,744</u>	<u>(1,529)</u>	<u>1,215</u>
Interest-bearing liabilities:			
Savings, NOW and money market deposits	239	(404)	(165)
Time deposits	744	(824)	(80)
Borrowed funds	<u>502</u>	<u>(174)</u>	<u>328</u>
Total interest-bearing liabilities	1,485	(1,402)	83
Increase (decrease) in net interest income	<u><u>\$ 1,259</u></u>	<u><u>\$ (127)</u></u>	<u><u>\$ 1,132</u></u>

Net interest income increased \$1.2 million to \$6.7 million for the year ended December 31, 2008 compared to \$5.5 million in the comparable period in 2007, mainly driven by sustained growth in average interest-earning assets. Total average interest-earning assets increased \$41.3 million to \$195.6 million for the year ended December 31, 2008 reflecting growth in our core average commercial and commercial real estate lending portfolios and an increase in average investments, lessened by a decline in average overall cash equivalent balances. Compared to the prior period, average loans increased \$36.7 million principally due to new originations and increases on lines of credit, less cash flow due to amortization on the portfolio of existing loans. Average loan volume exceeded the decline in loan yields as the yield on loans dropped 98 basis points to 6.54% at December 31, 2008 compared to 7.52% for the same period in the prior year. Average investments increased \$5.8 million and the average yield on the portfolio increased 21 basis points to allow for cash flow, liquidity, and increased borrowing capacity from the FHLB. Average Federal funds sold declined throughout the year and Management completed the year with no Federal funds on the balance sheet due to the offering rate for overnight liquidity trading in the single basis points. Average interest bearing liabilities rose \$38.9 million, while the rate paid dropped 107 basis points across virtually all deposit and borrowing products. The resulting net interest margin declined 18 basis points to 3.41% for the year ended December 31, 2008 from 3.59% in 2007 primarily resulting from the continued compression in rates for both assets and liabilities.

Provision for Loan Losses. CBT's provision for loan losses was \$1.7 million compared to \$308,000 for the comparable period in 2007, increasing the allowance to \$2.7 million for the year ended December 31, 2008. The ratio of the allowance for loan losses compared to total loans outstanding was 1.47% at December 31, 2008 compared to 1.19% as of December 31, 2007. The loan loss allowance increased in 2008 primarily as result of economic conditions and trends affecting the local economy. CBT's Management determines the necessary level of the allowance for loan losses based upon many factors including the volume and trends in the loan portfolio, industry concentrations and national, regional, and local economic conditions.

Non-Interest Income. Total non-interest income increased \$201,000 or 51%, to \$596,000 for the year ended December 31, 2008 compared to \$395,000 for the same period in 2007. Service charges and fees rose \$57,000 or 33%, to \$231,000 compared to \$174,000 in the prior period chiefly due to the expanded number of deposit accounts. Brokerage commissions increased \$26,000 or 8%, to \$284,000 for the year ended December 31, 2008 compared to \$262,000 for the comparable period a year earlier. Gains on sales of investment securities totaled \$81,000 for the year ended December 31, 2008 compared to losses on the sales of investment securities of \$41,000 in the prior period.

Non-Interest Expense. Non-interest expenses totaled \$8.1 million, increasing \$307,000, or 4%, for the year ended December 31, 2008 compared to the prior period in 2007. Compensation costs totaled \$4.3 million but declined \$41,000 from the prior period as staff positions went unfilled and salary increases were deferred for a portion of the year without a measurable change in the way we provide services to our customers. Management continued its efforts to control costs by decreasing marketing expense by \$113,000 and decreasing the professional services by \$53,000 for the year ended December 31, 2008 compared to the prior year. Occupancy and equipment expenses were \$1.8 million compared to \$1.5 million in the prior year as all seven business center locations were operational for a full year and includes the costs of leases, maintenance and utilities. The costs associated with processing for the Bank's core system rose \$51,000 from the prior year. Other general and administrative costs increased \$162,000 attributable to FDIC insurance costs, costs associated with nonaccrual loans, and general cost increases on goods and services.

Income Taxes. At December 31, 2008, CBT had approximately \$12 million in net operating loss carry forwards available to offset future taxable earnings, if any, under current federal and state tax laws. At December 31, 2008, CBT's deferred tax asset was offset with a full valuation allowance. A deferred tax asset valuation allowance is required to reduce the potential tax benefit when it is more likely than not that all or some portion of the potential benefit will not be realized due to the lack of sufficient taxable income in the carry forward period. As CBT generates taxable income in the future, it will realize the benefit of the net operating loss carry forwards at that time. Net operating loss carry forwards are available for a period of up to 20 years to offset taxable income in those years. CBT's net operating loss carry forwards could reduce taxes in the initial years of profitability.

Financial Condition

CBT's total assets increased \$46.3 million, or 26%, to \$225.1 million at December 31, 2008 from \$178.7 million at December 31, 2007. Loans grew \$39.1 million led by strong growth in our core commercial and commercial real estate lending portfolios. Investment securities grew \$12.6 million as Management expanded the portfolio to allow for increased cash flow and increased collateral for borrowing capacity. Cash and cash equivalents declined \$4.7 million as Management eliminated its Fed funds position to support balance sheet growth.

Deposit balances increased \$25.1 million to \$162.9 million at December 31, 2008 from \$137.8 million at December 31, 2007. Short term and long term advances from the FHLB Boston grew \$5 million and \$13 million respectively, to \$5 million and \$30.5 million at December 31, 2008. There were no short term advances and \$17.5 million long term advances at December 31, 2007. Advances from the FHLB Boston provided funds necessary to support asset growth.

Total stockholders' equity was \$23.5 million at December 31, 2008, a net increase of \$3.1 million from \$20.4 million at December 31, 2007. Growth in stockholders equity reflects the issuance of \$5.4 million in preferred stock obtained through the U.S. Department of Treasury Troubled Asset Relief Program ("TARP") and Capital Purchase Program. Net losses of \$2.5 million for the year ended December 31, 2008 million reduced stockholders' equity and brought the accumulated deficit to \$15.6 million. Accumulated other comprehensive income consists of a net unrealized loss of \$40,000 in the market value of the investment portfolio.

Liquidity

Liquidity and funding strategies are the responsibility of CBT's Asset Liability Management Committee (ALCO). The ALCO is responsible for establishing liquidity targets and implementing strategies to meet desired goals. Liquidity management refers to CBT's ability to meet current and future financial cash requirements on an ongoing basis to satisfy fluctuations in deposit levels, other maturing financial obligations and loan commitments.

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages, and, to a lesser extent, 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 enterprises. During the year ended December 31, 2008, CBT's gross loan originations of new loans and advances on unused lines of credit, before participations, aggregated \$69.3 million. At December 31, 2008, CBT's investments in Government-sponsored enterprises, mortgage-backed securities, and other corporate debt obligations totaled \$32.5 million.

These activities are funded primarily through deposit growth, short-term overnight Federal funds, cash flows on loans and investment securities and, when necessary, borrowing capacity with the FHLB. At December 31, 2008 CBT had \$6.8 million in cash balances. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. CBT experienced a \$25.1 million net increase in total deposits during the year ended December 31, 2008. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by CBT and its local competitors and other factors. CBT closely monitors its liquidity position on a daily basis. If 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. CBT has the ability to borrow \$42.0 million from the FHLB Boston and as of December 31, 2008 has current advances outstanding of \$35.5 million.

CBT has commitments to originate loans totaling \$12.4 million and has unfunded commitments under existing lines of credit aggregating \$38.9 million at December 31, 2008. These commitments relate primarily to commercial and commercial real estate loans, including construction lines of credit. Management of CBT anticipates that it will have sufficient funds available to meet its current loan commitments. CBT relies primarily on competitive rates, customer service and customer relationships to retain deposits. Management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with CBT. Management believes that CBT's short-term assets provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

Regulatory Capital

Total equity capital was \$23.5 million at December 31, 2008. This level of capital does not include the favorable impact of tax loss carry-forwards that may become available to CBT in future periods. A strong capital position, which is vital to CBT's continued operation, also promotes depositor and investor confidence and provides a solid foundation for future growth. Federal banking regulators establish minimum capital levels.

At December 31, 2008, the Bank exceeded all of the regulatory capital requirements to be considered well capitalized, with a Tier 1 risk-based capital level of \$23.8 million, or 12.7% of risk-weighted assets, which is above the required level of \$7.5 million, or 4.0%, and total risk-based capital of \$26.1 million, or 13.9% of risk-weighted assets, which is above the required level of \$15.0 million, or 8.0%. There are no conditions that Management believes have changed CBT's category since its December 31, 2008 notification from regulators that it is "well capitalized."

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.

Duration measures the price sensitivity of financial instruments for small changes in interest rates. For fixed rate instruments, duration is the weighted average expected time to receive future cash flows. For floating rate instruments, duration is the weighted average expected time until the next rate reset. The longer the duration, the greater the price sensitivity for given changes in interest rates. Decreases in interest rates typically increase the value of fixed rate assets as future discounted cash flows are worth more at lower discount rates. A liability's value increases for the same reason in an environment of falling rates. However, an increase in the value of a liability is an adverse affect since this is CBT's obligation.

Duration gap – the difference between the duration of assets and the duration of liabilities – can be used to measure the earnings' sensitivity to interest rate fluctuations. A duration gap near zero implies that the balance sheet is matched and would exhibit no change in estimated NII for a small change in interest rates. CBT's duration gap was positive 0.73 at the end of 2008. A positive duration gap implies that assets are longer than liabilities and, therefore, they have more price sensitivity than liabilities do. Positive duration gap also implies that assets will take longer than liabilities to adjust to a new interest rate level.

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.

Interest-sensitive assets and liabilities are those that are subject to maturity or repricing within a given time period. Management attempts to administer this sensitivity through the development and implementation of investment, lending, funding and pricing strategies designed to achieve NII performance goals while minimizing the potential negative variations in NII under different interest rate scenarios. Loan and deposit pricing are reviewed weekly to reflect current interest rate and competitive market environments. The table below summarizes the sensitivity of CBT's total assets and total liabilities to interest rate fluctuations for the period ending December 31, 2008.

	Base Case Market Value	Estimated Change in Market Value		
		-100 BP	Stable	+100 BP
		December 31, 2008		
Assets	\$ 228,740	1.3%	0.0%	-2.0%
Liabilities	\$ 200,980	1.0%	0.0%	-0.8%

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 December 31, 2008. Interest rates are assumed to change in parallel fashion and NII results are compared to the flat rate scenario as a base.

	Base Case NII (000's)	Estimated Change in Net Interest Income				
		-200 BP	-100 BP	Stable	+100 BP	+200 BP
		December 31, 2008				
	\$ 8,768	-6.1%	-3.3%	0.0%	-2.5%	-6.4%

ALM presents a measure of the long-term IRR to future earning streams embedded in the current balance sheet. It assumes that Management will take no further action to mitigate any positive or negative effects from changing interest rates. Management believes that CBT's interest rate risk position at December 31, 2008 represents a reasonable level of risk given the current interest rate outlook. However, Management is continuously monitoring the composition of the balance sheet and expectations for rate movements to maximize the Bank's NII over time.

Off-balance sheet arrangements

Information relating to our off-balance arrangements is provided in the notes to the financial statements that accompany this annual report, including Note 9 (Off-Balance Sheet Activities).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
The Connecticut Bank and Trust Company
Hartford, Connecticut

We have audited the accompanying balance sheets of The Connecticut Bank and Trust Company (the “Bank”) as of December 31, 2008 and 2007, and the related statements of loss, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Bank and Trust Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Boston, Massachusetts
March 16, 2009

THE CONNECTICUT BANK AND TRUST COMPANY

BALANCE SHEETS

December 31, 2008 and 2007

(DOLLARS IN THOUSANDS)

ASSETS		
	<u>2008</u>	<u>2007</u>
Cash and due from banks	\$ 6,774	\$ 3,411
Federal funds sold	-	8,080
Cash and cash equivalents	<u>6,774</u>	<u>11,491</u>
Certificates of deposit	99	76
Securities available for sale, at fair value	32,461	19,894
Federal Reserve Bank stock, at cost	585	635
Federal Home Loan Bank stock, at cost	1,870	945
Loans	181,772	142,686
Allowance for loan losses	<u>(2,681)</u>	<u>(1,693)</u>
Loans, net	179,091	140,993
Premises and equipment, net	2,566	3,053
Accrued interest receivable	949	830
Other assets	<u>683</u>	<u>822</u>
	<u>\$ 225,078</u>	<u>\$ 178,739</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 162,934	\$ 137,800
Short-term borrowings	7,521	2,255
Long-term debt	30,450	17,450
Other liabilities	634	793
Total liabilities	<u>201,539</u>	<u>158,298</u>
Commitments and Contingencies (notes 4,9,10 and 17)		
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; shares issued and outstanding: 5,448 shares at December 31, 2008 and none at December 31, 2007; aggregate liquidation preference of \$5,448 at December 31, 2008	5,448	-
Discount preferred stock	(604)	-
Common stock, \$1.00 par value; 10,000,000 shares authorized; shares issued and outstanding: 3,572,450 at December 31, 2008 and December 31, 2007	3,572	3,572
Common stock warrants	1,405	853
Additional paid-in capital	29,780	29,700
Restricted stock unearned compensation	(141)	(279)
Accumulated deficit	(15,618)	(13,142)
Accumulated other comprehensive loss	(303)	(263)
Total stockholders' equity	<u>23,539</u>	<u>20,441</u>
	<u>\$ 225,078</u>	<u>\$ 178,739</u>

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

THE CONNECTICUT BANK AND TRUST COMPANY

STATEMENTS OF LOSS

Years Ended December 31, 2008 and 2007

(DOLLARS IN THOUSANDS; except per share data)

	<u>2008</u>	<u>2007</u>
Interest and dividend income:		
Loans, including fees	\$ 10,473	\$ 9,292
Debt securities	1,346	1,006
Other	219	525
Total interest and dividend income	<u>12,038</u>	<u>10,823</u>
Interest expense:		
Deposits	4,296	4,541
Other borrowings	1,070	742
Total interest expense	<u>5,366</u>	<u>5,283</u>
Net interest income	6,672	5,540
Provision for loan losses	1,662	308
Net interest income, after provision for loan losses	<u>5,010</u>	<u>5,232</u>
Non-interest income:		
Service charge and fee income	231	174
Brokerage fee income	284	262
Net gains (losses) on available for sale securities	81	(41)
Total non-interest income	<u>596</u>	<u>395</u>
Non-interest expense:		
Salaries and benefits	4,301	4,342
Occupancy and equipment	1,794	1,493
Data processing	285	234
Marketing	327	440
Professional services	471	524
Other general and administrative	904	742
Total non-interest expense	<u>8,082</u>	<u>7,775</u>
Net loss	<u>\$ (2,476)</u>	<u>\$ (2,148)</u>
Loss per share:		
Basic	<u>\$ (0.70)</u>	<u>\$ (0.61)</u>
Diluted	<u>\$ (0.70)</u>	<u>\$ (0.61)</u>
Weighted Average Shares Outstanding	<u>3,550,894</u>	<u>3,537,481</u>

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

THE CONNECTICUT BANK AND TRUST COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007
(DOLLARS IN THOUSANDS)

	Preferred Stock	Discount on Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Restricted Stock Unearned Compensation	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2006	\$ -	\$ -	\$ 3,567	\$ 853	\$ 29,582	\$ (426)	\$ (10,994)	\$ (497)	\$ 22,085
Comprehensive loss:									
Net loss							(2,148)		(2,148)
Change in net unrealized gains/losses on securities available for sale, net of reclassification adjustment of \$41 for losses included in net income								234	234
Total comprehensive loss									(1,914)
Activity related to restricted stock awards	-		5		34	147			186
Activity related to stock option grants					84				84
Balance at December 31, 2007	-	-	3,572	853	29,700	(279)	(13,142)	(263)	20,441
Comprehensive loss:									
Net loss							(2,476)		(2,476)
Change in net unrealized gains/losses on securities available for sale, net of reclassification adjustment of \$81 for gains included in net income								(40)	(40)
Total comprehensive loss									(2,516)
Issuance of preferred stock	5,448								5,448
Issuance of common stock warrants, net of issuance costs		(604)		552					(52)
Activity related to restricted stock awards						138			138
Activity related to stock option grants					80				80
Balance at December 31, 2008	<u>\$ 5,448</u>	<u>\$ (604)</u>	<u>\$ 3,572</u>	<u>\$ 1,405</u>	<u>\$ 29,780</u>	<u>\$ (141)</u>	<u>\$ (15,618)</u>	<u>\$ (303)</u>	<u>\$ 23,539</u>

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

THE CONNECTICUT BANK AND TRUST COMPANY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

(Dollars in Thousands)

	2008	2007
Cash flows from operating activities:		
Net loss	\$ (2,476)	\$ (2,148)
Adjustment to reconcile net loss to net cash used by operating activities:		
Provision for loan losses	1,662	308
Net (gains) losses from sales of available-for-sale securities	(81)	41
Depreciation and amortization	618	527
Net amortization of premiums on available-for-sale securities	55	126
Amortization of deferred loan costs and fees	19	48
Share based compensation	218	270
Increase in accrued interest receivable	(119)	(217)
Decrease (increase) in other assets	139	(43)
(Decrease) increase in other liabilities	(159)	92
Net cash used in operating activities	(124)	(996)
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Sales	11,653	3,330
Maturities and calls	7,246	1,999
Purchases	(34,443)	(6,105)
Principal payments	2,963	1,687
Purchase of certificates of deposit	(23)	-
Redemption of FRB stock	50	58
Purchases of FHLB stock	(925)	(217)
Net loan originations	(39,779)	(35,823)
Purchase of premises and equipment	(131)	(1,363)
Net cash used in investing activities	(53,389)	(36,434)
Cash flows from financing activities:		
Net increase in deposits	25,134	38,055
Net increase in short term borrowings	5,266	802
Proceeds from long-term borrowings	13,000	5,000
Proceeds from issuance of preferred stock	5,448	-
Issuance of common stock warrants	(52)	-
Net cash provided by financing activities	48,796	43,857
Net change in cash and cash equivalents	(4,717)	6,427
Cash and cash equivalents at beginning of year	11,491	5,064
Cash and cash equivalents at end of year	<u>\$ 6,774</u>	<u>\$11,491</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 5,389	\$ 5,228

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Connecticut Bank and Trust Company (the “Bank” or “CBT”) provides a variety of financial services to individuals and small businesses through its offices in Connecticut. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are commercial, commercial real estate, consumer and mortgage loans.

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.

Reclassification

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

Significant Group Concentrations of Credit Risk

Most of the Bank’s activities are with customers located within Connecticut. Note 2 describes the investment securities of the Bank. Note 3 describes the lending activities of the Bank. As of December 31, 2008 and 2007 the Bank had municipal deposits totaling \$16,483 and \$10,706 respectively.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash balances due from banks and overnight federal funds sold.

Advertising

Advertising costs are expensed as incurred.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities

Debt securities are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank (“FHLB”) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2008, no impairment has been recognized.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial mortgage loans throughout Greater Hartford Connecticut. The ability of the Bank’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified 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 the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and 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.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Premises and Equipment

Leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization calculated principally on the straight-line method over the estimated useful lives of the assets or terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Other Intangibles

Other intangibles, which are included in other assets, include a trademark for the Bank's name. The trademark is deemed to have an indefinite useful life because it is expected to generate cash flows indefinitely.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Bank accounts for interest and penalties on uncertain tax positions as part of its provision for federal and state taxes.

Stock Compensation Plans

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings (Loss) Per Common Share

Basic earnings (loss) per share represents income (loss) available (attributable) 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 the Bank relate to outstanding common stock warrants and options, and are determined using the treasury stock method. Earnings (Loss) per common share has been computed based on the following:

	Years Ended December 31,	
	2008	2007
Net loss (in thousands)	<u>\$ (2,476)</u>	<u>\$ (2,148)</u>
Average number of common shares issued	3,572,450	3,572,450
Less: nonvested restricted stock awards	<u>21,556</u>	<u>34,969</u>
Average number of common shares outstanding used to calculate basic loss per share	3,550,894	3,537,481
Effect of dilutive stock warrants, options and unvested restricted stock awards on diluted loss per share	<u>-</u>	<u>-</u>
Average number of common shares outstanding used to calculate diluted loss per common share	<u>3,550,894</u>	<u>3,537,481</u>
Basic loss per share	<u>\$ (0.70)</u>	<u>\$ (0.61)</u>
Diluted loss per share	<u>\$ (0.70)</u>	<u>\$ (0.61)</u>

For the years ended December 31, 2008 and 2007, 346,242 and 170,500, respectively, of common stock warrants and 141,900 and 143,500, respectively, of common stock options, and 16,333 and 27,833, respectively, of restricted stock awards, were anti-dilutive and therefore not included in the earnings (loss) per share common calculation.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Segments

An operating segment is a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and evaluate performance. The Bank's operations are limited to financial services provided within the framework of a community bank, and decisions are based generally on specific market areas and or product offerings. Accordingly, based on financial information which is presently evaluated by the Bank's chief operating decision maker, the Bank operates in a single business segment.

Comprehensive Income/Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income/loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income/loss.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, "Fair Value Measurements", ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued a Staff Position which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Bank adopted this statement, except for items covered by the Staff Position, as of January 1, 2008 and the adoption did not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). This Statement provides companies with an option to report selected financial assets and liabilities at fair value. The Standard's objective is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of the entity's fiscal year beginning after November 15, 2007. This statement was adopted by the bank on January 1, 2008. The Bank did not elect to report assets and liabilities at fair value, and therefore, SFAS No. 159 did not have a material impact on the Bank's consolidated financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

In October 2008, the 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 No. 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 December 2007, the FASB issued Statement No. 141 (revised 2007), “Business Combinations”, (SFAS No. 141 (R)). SFAS No. 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 No. 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 No. 141 (R) is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2008. Earlier application is not permitted.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (“FSP 99-20-1”). FSP 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of another-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. FSP 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008. The Company adopted FSP 99-20-1 as of December 31, 2008 and the adoption did not have a material impact on the consolidated financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

2. SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2008</u>				
Government-sponsored enterprises	\$ 7,129	\$ 42	\$ -	\$ 7,171
Mortgage-backed securities	24,636	276	(104)	24,808
Corporate bonds	999	-	(517)	482
	<u>\$ 32,764</u>	<u>\$ 318</u>	<u>\$ (621)</u>	<u>\$ 32,461</u>
<u>December 31, 2007</u>				
Government-sponsored enterprises	\$ 13,375	\$ 74	\$ (10)	\$ 13,439
Mortgage-backed securities	5,783	12	(35)	5,760
Corporate bonds	999	-	(304)	695
	<u>\$ 20,157</u>	<u>\$ 86</u>	<u>\$ (349)</u>	<u>\$ 19,894</u>

The amortized cost and fair value of debt securities by contractual maturity follows:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Over 1 year to 5 years	\$ -	\$ -	\$ 2,999	\$ 3,005
Over 5 years to 10 years	1,999	1,504	6,841	6,577
Over 10 years	6,129	6,149	4,534	4,552
	<u>8,128</u>	<u>7,653</u>	<u>14,374</u>	<u>14,134</u>
Mortgage-backed securities	<u>24,636</u>	<u>24,808</u>	<u>5,783</u>	<u>5,760</u>
	<u>\$ 32,764</u>	<u>\$ 32,461</u>	<u>\$ 20,157</u>	<u>\$ 19,894</u>

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SECURITIES AVAILABLE FOR SALE (continued)

For the years ended December 31, 2008 and 2007, proceeds from sales of securities available for sale amounted to \$11,700 and \$3,300, respectively. Gross realized gain for the year ended December 31, 2008 amounted to \$81. Gross realized loss for the year ended December 31, 2007 amounted to \$41.

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2008 and 2007, aggregated by investment category and length of time that individual securities have been in a loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>December 31, 2008</u>				
Mortgage-backed securities	\$ (104)	\$ 5,971	\$ -	\$ -
Corporate bonds	-	-	(517)	482
	\$ (104)	\$ 5,971	\$ (517)	\$ 482
<u>December 31, 2007</u>				
Government-sponsored enterprises	\$ -	\$ -	\$ (10)	\$ 4,397
Mortgage-backed securities	(4)	560	(31)	3,681
Corporate bonds	-	-	(304)	695
	\$ (4)	\$ 560	\$ (345)	\$ 8,773

At December 31, 2008, the Bank has two investments in mortgage backed securities guaranteed by the U.S. Government or an agency thereof, with unrealized losses totaling \$104. These two investments have depreciation totaling 1.7% compared to the Bank's amortized cost basis. The depreciation is primarily due to changes in interest rates. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in the market value is attributable to changes in interest rates and not to credit quality, and because the Bank has the ability and intent to hold these investments until a recovery of fair value, which may be the maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

The Bank's unrealized loss on the corporate bond segment of the portfolio relates to a senior unsecured obligation from SLM Corp ("SLM"). At December 31, 2008, the SLM bond has depreciation totaling 51.8% of its amortized cost. Management believes that the cause of such a decline is driven by the trading

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

SECURITIES AVAILABLE FOR SALE (concluded)

volume of this bond and the overall illiquidity in the bond market. SLM has continued to pay contractual interest on the bond and all payments are current. Because the Bank has the ability to hold this investment until maturity (approximately six years), it does not consider this investment to be other than temporarily impaired at December 31, 2008.

3. LOANS

A summary of the balances of loans follows:

	December 31,	
	2008	2007
	(Dollars in Thousands)	
Mortgage loans on real estate		
Commercial - owner occupied	\$ 59,855	\$ 39,419
Commercial - non-owner occupied	36,650	31,772
Construction	16,963	11,361
Equity lines of credit	6,603	4,895
Residential	3,512	1,724
Total mortgage loans on real estate	123,583	89,171
Commercial and industrial	57,465	52,787
Consumer	918	739
Total loans	181,966	142,697
Allowance for loan losses	(2,681)	(1,693)
Net deferred loan fees	(194)	(11)
Loans, net	\$ 179,091	\$ 140,993

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

LOANS (concluded)

An analysis of the allowance for loan losses follows:

	December 31,	
	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 1,693	\$ 1,384
Provision for loan losses	1,662	308
Recoveries	7	1
Charge-offs	(681)	-
Balance, at end of year	<u>\$ 2,681</u>	<u>\$ 1,693</u>

The following is a summary of information pertaining to impaired and nonaccrual loans:

	December 31,	
	<u>2008</u>	<u>2007</u>
Impaired loans without a valuation allowance	\$ 6,040	\$ 1,077
Impaired loans with a valuation allowance	<u>1,468</u>	<u>1,263</u>
Total impaired loans	<u>\$ 7,508</u>	<u>\$ 2,340</u>
Valuation allowance related to impaired loans	<u>\$ 441</u>	<u>\$ 91</u>
Total nonaccrual loans	<u>\$ 2,127</u>	<u>\$ 599</u>

	December 31,	
	<u>2008</u>	<u>2007</u>
Average investment in impaired loans	<u>\$ 8,146</u>	<u>\$ 2,489</u>
Interest income recognized on impaired loans	<u>\$ 382</u>	<u>\$ 156</u>

At December 31, 2008 and 2007, there were no loans greater than 90 days delinquent and still accruing interest. No additional funds are committed to be advanced in connection with impaired loans. Interest income of \$53 was reversed during 2008 and all nonaccrual loans are accounted for under the cash basis.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

4. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	<u>December 31,</u> <u>2008</u>	<u>2007</u>	<u>Estimated</u> <u>Useful Lives</u>
Leasehold improvements	\$ 2,112	\$ 2,112	5- 10 years
Furniture and equipment	<u>2,574</u>	<u>2,443</u>	3-7 years
	4,686	4,555	
Accumulated depreciation and amortization	<u>(2,120)</u>	<u>(1,502)</u>	
	<u>\$2,566</u>	<u>\$3,053</u>	

Depreciation and amortization expense for the years ended December 31, 2008 and 2007 amounted to \$618 and \$527, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2008, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

<u>Years Ending</u> <u>December 31,</u>	<u>Amount</u>
2009	\$ 683
2010	699
2011	688
2012	658
2013	609
Thereafter	<u>544</u>
	<u>\$3,881</u>

The leases contain options to extend for periods up to ten years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2008 and 2007 amounted to \$814 and \$629, respectively.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

5. DEPOSITS

A summary of deposit accounts by type are as follows:

	December 31,	
	2008	2007
Non interest-bearing	\$ 32,498	\$ 26,115
NOW	5,399	5,138
Money market	35,508	23,307
Savings	1,360	963
	74,765	55,523
Time deposits less than \$100,000	54,645	52,368
Time deposits of \$100,000 or greater	33,524	29,909
	88,169	82,277
Total deposits	\$ 162,934	\$ 137,800

A summary of time deposits, by scheduled maturity, are as follows:

Years Ending December 31,	Amount
2009	\$ 85,007
2010	2,597
2011	504
2012	32
2013	29
	\$ 88,169

Included in time deposits maturing within one year are brokered deposits in the amount of \$26,346 and \$20,000 with a weighted average rate of 3.45% and 4.83% at December 31, 2008 and 2007, respectively.

The Bank is required to collateralize 10% of the outstanding balance of municipal deposits. At December 31, 2008, the carrying amount and fair value of securities pledged to secure municipal deposits was \$1,999 and \$2,027, respectively. At December 31, 2007, the carrying amount and fair value of securities pledged to secure municipal deposits was \$1,986 and \$2,018, respectively.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

6. SHORT-TERM BORROWINGS

Federal Home Loan Bank Balances

FHLB advances with an original maturity of less than one year amounted to \$5,000 at December 31, 2008 with a weighted average rate of 0.46%. At December 31, 2007, there were no advances outstanding with an original maturity of less than one year.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to \$2,521 at December 31, 2008 and \$2,255 at December 31, 2007. These agreements mature on a daily basis and are secured by Government-sponsored enterprise securities with a carrying value of \$2,789 at December 31, 2008 and \$2,601 at December 31, 2007. The weighted average interest rate on these agreements was 1.25% at December 31, 2008 and 3.50% at December 31, 2007.

Other Borrowing Facilities

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under the lines are limited to \$1,000 and the line of credit may be increased to 2% of the Bank's total assets in accordance with the credit policy of the FHLB. The Bank has an unsecured Federal Funds borrowing line of credit from Bankers' Bank Northeast in the amount of \$2,000.

7. LONG-TERM DEBT

The FHLB provides credit for savings banks and certain other member financial institutions. As a member of the FHLB, the Bank is required to own capital stock in the FHLB and may apply for advances on the security of the capital stock and qualified collateral maintained at the FHLB. Borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 90% of the market value of U.S. Government and government sponsored enterprise securities and 50% of the carrying value of certain eligible loans on owner and non-owner occupied commercial property.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

LONG-TERM DEBT (concluded)

Long-term debt at December 31, 2008 and 2007 consists of the following FHLB advances:

	Amount		Weighted Average	
	2008	2007	2008	2007
Fixed rate advances maturing:				
2011	\$ 1,000 *	\$ 1,000	5.10 %	5.10 %
2012	5,000 *	5,000	4.15	4.15
2016	11,450 *	11,450	4.32	4.32
2018	13,000 *	-	2.36	-
	<u>\$ 30,450</u>	<u>\$ 17,450</u>	<u>3.48 %</u>	<u>4.32 %</u>

*Includes advances callable in 2009 and 2011 in the amount of \$23,000 and \$5,000, respectively, at a weighted average rate of 3.46% and 2.77%, respectively.

8. INCOME TAXES

There is no current tax expense or benefit. Allocation of federal and state income taxes within the deferred portion is as follows:

	Years Ended December 31,	
	2008	2007
Deferred tax benefit:		
Federal	\$ (668)	\$ (573)
State	(160)	(136)
	<u>(828)</u>	<u>(709)</u>
Change in valuation reserve	828	709
	<u>\$ -</u>	<u>\$ -</u>

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

INCOME TAXES (continued)

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized in the following table for both the tax rate in effect as well as the applicable dollar impact:

	Years Ended December 31,	
	2008	2007
Statutory tax rate	34.0 %	34.0 %
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	4.3	4.2
Change in valuation allowance	(33.4)	(33.0)
Stock-based compensation	(2.1)	(2.9)
Other, net	(2.8)	(2.3)
Effective tax rates	- %	- %

The components of the net deferred tax asset are as follows:

	December 31,	
	2008	2007
Deferred tax asset:		
Federal	\$(4,728)	\$(4,169)
State	(1,128)	(994)
	(5,856)	(5,163)
Valuation reserve on deferred tax asset	5,695	4,867
	(161)	(296)
Deferred tax liability:		
Federal	130	239
State	31	57
	161	296
Net deferred tax asset	\$ -	\$ -

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

INCOME TAXES (concluded)

The tax effects of each item that gives rise to deferred taxes are as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Organization and start-up costs	\$ 12	\$ 87
Allowance for loan losses	1,044	660
Federal and state operating losses	4,614	4,232
Other	25	(112)
	<u>5,695</u>	<u>4,867</u>
Valuation reserve	<u>(5,695)</u>	<u>(4,867)</u>
Net deferred taxes	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2008, the Bank has Federal and Connecticut net operating loss carry forwards that begin expiring in 2024. The following table identifies the net operating loss carry forwards.

<u>Federal</u>	<u>State</u>	<u>Expiration Date</u>
\$ 3,404	\$ 2,944	2024
3,004	3,004	2025
2,689	2,689	2026
1,784	1,784	2027
1,153	1,153	2028
<u>\$ 12,034</u>	<u>\$ 11,574</u>	

A summary of the change in the valuation reserve is as follows:

	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 4,867	\$ 4,158
Benefits generated by current year's operations	<u>828</u>	<u>709</u>
Balance at end of year	<u>\$ 5,695</u>	<u>\$ 4,867</u>

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

9. OFF-BALANCE SHEET ACTIVITIES

The Bank 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 sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2008	2007
Unfunded commitments under commercial lines of credit	\$ 31,365	\$ 27,138
Unfunded commitments under commercial construction loans	2,660	9,898
Unfunded commitments under home equity lines of credit	4,924	4,893
Commitments to originate loans	12,422	17,014
Commercial letter of credit	1,102	553

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for home equity lines and commercial lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

The commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The letters of credit issued have an expiration date within one year.

10. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business. As of December 31, 2008 there are no legal claims which management believes will have a material effect on the Bank's financial statements.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2008 and 2007 are also presented in the table.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<u>December 31, 2008:</u>					
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	11,274	6.0
Tier 1 capital (to average assets)	23,792	11.0	8,648	4.0	10,810	5.0
<u>December 31, 2007:</u>						
Total capital (to risk weighted assets)	\$ 22,347	14.8%	\$ 12,097	8.0%	\$ 15,121	10.0%
Tier 1 capital (to risk weighted assets)	20,654	13.7	6,049	4.0	9,073	6.0
Tier 1 capital (to average assets)	20,654	11.9	6,971	4.0	8,714	5.0

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

	December 31,	
	2008	2007
Total capital per financial statements at December 31, 2008	\$ 23,539	\$ 20,441
Accumulated losses on available for sale securities	303	263
Intangible assets	(50)	(50)
Total Tier 1 capital	<u>23,792</u>	<u>20,654</u>
<i>Adjustments for total capital</i>		
Allowance for loan losses	2,681	1,693
Disallowed portion of allowance for loan losses	(331)	-
Total capital per regulatory reporting	<u>\$ 26,142</u>	<u>\$ 22,347</u>

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

12. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) Plan in which substantially all employees participate. Employees may contribute up to 80 percent of their compensation subject to certain limits based on federal tax laws. The Bank makes discretionary matching contributions. Matching contributions are 100% vested at all times. For the years ended December 31, 2008 and 2007, expense attributable to the Plan amounted to \$35 and \$36, respectively.

13. PREFERRED STOCK (DOLLARS IN THOUSANDS; EXCEPT PER SHARE DATA)

On December 19, 2008, the Bank issued and sold (i) 5,448 shares of noncumulative perpetual preferred stock ("Perpetual Preferred"), with a liquidation preference of \$1,000 per share and (ii) a ten year warrant to purchase up to 175,742 shares of the Bank's common stock at an exercise price of \$4.65 per share, to the U.S. Department of Treasury as part of the Troubled Asset Relief Programs ("TARP") and Capital Purchase Program ("CPP"), for an aggregate purchase price of \$5,448.

The Bank accounted for this transaction in accordance with Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants* ("APB 14"). APB 14 requires the proceeds from the issuance to be allocated between the Perpetual Preferred and the warrants based on relative fair value. Accordingly, the fair value of the warrants, net of issuance costs in the amount of \$52, was recorded. A discount in the amount of \$604 was recorded on the Perpetual Preferred and is being accreted over an estimated period of five years using the effective interest method. The accretion of the discount on the Perpetual Preferred is treated as a deemed dividend and is a reduction to net income available to common stockholders.

The fair value of the warrants was calculated based on the Black-Scholes valuation model. Significant inputs to the model are as follows:

Grant Date	December 19, 2008
Stock Price on Grant Date (per share)	\$ 4.60
Options Outstanding	175,742
Exercise Price (per share)	\$ 4.65
Term	10 years
Volatility	20.00%
Discount Rate - Bond Equivalent Yield	2.13%

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

PREFERRED STOCK (DOLLARS IN THOUSANDS; EXCEPT PER SHARE DATA) (continued)

Perpetual Preferred Terms

The Perpetual Preferred has no maturity date and is ranked senior to the common stock with respect to the payment of dividends, distributions and amounts payable upon liquidation, dissolution and winding up of the Bank. Non-cumulative dividends on the Perpetual Preferred are payable at an annual rate of 5% per year for the first five years and at an annual rate of 9% thereafter. Dividends are payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. After December 19, 2011, the Bank may redeem the Perpetual Preferred in whole or in part at any time at 100% of its issue price, or \$1,000 per share. Prior to this date, the Bank may redeem the Perpetual Preferred only if (i) the Company has raised aggregate proceeds in one or more Qualified Equity Offerings in excess of \$1,362 and (ii) the aggregate redemption price does not exceed the aggregate net proceeds from such Qualified Equity Offerings. Any redemption is subject to the approval of the Bank's federal banking regulator. A "Qualified Equity Offering" is defined as a sale and issuance for cash by the Bank, to persons other than the Bank or any Bank subsidiary after the closing, of shares of Perpetual Preferred Stock, Common Stock or any combination of such stock, that, in each case, qualify as and may be included in Tier 1 capital of the Bank under the risk-based capital guidelines of the Bank's federal banking regulator.

The Perpetual Preferred is non-voting. However, if dividends on the Perpetual Preferred are not paid in full for six dividend periods, whether or not consecutive, the Perpetual Preferred will have the right to elect two directors. The right to elect directors will end when full dividends have been paid for four consecutive periods. The Bank has not paid dividends to date.

Warrant Terms

The warrant is exercisable immediately. The Treasury may only transfer or exercise an aggregate of one-half of the shares under the warrant prior to the earlier of (i) December 19, 2009 or (ii) the date on which the Perpetual Preferred has been redeemed in whole or the Treasury has transferred all of its Perpetual Preferred to third parties. In the event the Bank completes one or more Qualified Equity Offerings on or prior to December 31, 2009, that result in the Bank receiving aggregate proceeds of not less than \$5,448 the number of shares of common stock underlying the portion of the warrant then held by the Treasury Department will be reduced by one-half of the shares of common stock originally covered by the warrant.

Dividend and Repurchase Restrictions

Prior to December 19, 2011, unless the Bank has redeemed the Perpetual Preferred or the Treasury has transferred the Perpetual Preferred to a third party, the consent of the Treasury will be required for the Bank to (i) declare or pay any dividend or make any distribution on common stock or (ii) redeem,

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

PREFERRED STOCK (DOLLARS IN THOUSANDS;EXCEPT PER SHARE DATA) (concluded)

purchase or acquire any shares of the Bank's common stock, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the CPP. The Bank is currently prohibited from paying dividends on common stock at this time due to operating losses since the commencement of operations.

14. STOCK WARRANTS (DOLLARS IN THOUSANDS;EXCEPT PER SHARE DATA)

At December 31, 2008 and 2007, total outstanding stock warrants amounted to 346,242 and 170,500, respectively. No stock warrants were exercised during the years ended December 31, 2008 or 2007.

Stock warrants were granted to each Founder based on the number of common stock shares purchased in the Bank's initial offering not to exceed 5,000 shares for warrants issued per Founder and an aggregate of 180,500 shares. Stock warrants have an exercise price of \$10 per share and will expire in ten years from the grant date. Each stock warrant was fully exercisable on the date awarded.

As described in Note 13, on December 19, 2008, the Bank issued a ten year warrant to purchase up to 175,742 shares of the Bank's common stock at an exercise price of \$4.65 per share and will expire ten years from the grant date.

15. STOCK COMPENSATION PLANS (DOLLARS IN THOUSANDS;EXCEPT PER SHARE DATA)

Stock Options

The Bank's 2005 Stock Option and Award Plan (the "2005 Plan") authorizes the granting of up to 225,000 shares of incentive stock options, non-qualified stock options and awards of shares of the Bank's common stock to its employees, officers and directors. The Plan is administrated by the Compensation Committee of the Board of Directors. The authorization of grants, the determination of number of shares to be granted, the exercise date, vesting schedule and the option price of each award is determined by the Compensation Committee on the date of grant.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

STOCK COMPENSATION PLANS (DOLLARS IN THOUSANDS; EXCEPT PER SHARE DATA)
(continued)

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Assumptions used to determine fair values of stock options granted during 2007 are noted in the following table:

	<u>2007 Grant</u>
Expected term (in years)	6.5
Volatility	20.00%
Expected dividend yield	0.00%
Risk-free interest rate	4.79%
Fair Value of options	\$ 2.59

The Bank granted no options during 2008.

The expected term is based on the simplified method calculation allowed for share options. The options granted under this plan are not transferable, normally resulting in option exercises occurring prior to the expiration date. Since options are typically most valuable at the expiration date, an early exercise would reduce the value to the option holder. Volatility is based on the historical volatility of the Bank's stock adjusted for certain anomalies, the historical volatility of peer banks with similar operating histories and other factors. The Bank does not anticipate payment of dividends during the option period. The risk-free interest rate is the comparable interest rate on the United States Treasury Bill for periods within the contractual life of the stock options in effect at the time of the stock option grants.

A summary of option activity under the Plan as of December 31, 2008 is presented in the following table:

	<u>Shares</u>	<u>Weighted Avg Exercise Price</u>	<u>Weighted Avg Remaining Contractual Term (in yrs)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	143,500	\$ 8.46		\$ -
Forefeited	<u>(1,600)</u>	8.28		-
Outstanding at end of year	<u>141,900</u>	8.46	<u>7.7</u>	<u>-</u>
Exercisable at end of year	<u>54,403</u>	\$ 8.83	<u>7.3</u>	<u>\$ -</u>

There were no options granted or exercised during the year ended December 31, 2008.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

STOCK COMPENSATION PLANS (DOLLARS IN THOUSANDS; EXCEPT PER SHARE DATA) (concluded)

The Bank recognized compensation cost applicable to stock options granted of \$80 and \$84 for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, the market value of the stock price is below that of the exercise prices for all outstanding options which results in an intrinsic value of \$0. As of December 31, 2008, unrecognized stock-based compensation expense related to nonvested options amounted to \$191. This amount is expected to be recognized over a weighted average period of 2.6 years.

Stock Awards

In March 2004, the Board of Directors approved reserving 67,900 shares of common stock for awards of restricted stock to CBT's "First Team," which consisted of persons who were employees of CBT at the commencement of its operations. These awards vest over periods of up to five years and were awarded prior to the registration of the Bank's common stock with the Federal Reserve Bank. The fair market value of the shares awarded, based on the market price as of the date of grant, is recorded as unearned compensation and amortized over the vesting period.

A summary of activity for stock awards for the year ended December 31, 2008 is presented in the following table:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at beginning of year	27,833	\$ 12.45
Granted	-	-
Vested	(11,500)	12.65
Forfeited	-	-
Unvested at end of year	<u>16,333</u>	<u>\$ 12.31</u>

The total cost of these shares is being amortized over the vesting period in accordance with FASB Statement No. 123(R) "Share Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R). The Bank recorded compensation cost related to these stock awards totaling \$138 and \$186, respectively, for the years ended December 31, 2008 and 2007.

As of December 31, 2008 there was \$141 of total unrecognized compensation cost related to nonvested stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.5 years.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

15. EMPLOYMENT AGREEMENTS

The Bank has entered into employment agreements with its Chief Executive Officer and Chief Financial Officer (the “executives”) for original terms of three and two years, respectively. These agreements generally provide for a specified minimum annual compensation and participation in various cash incentive plans and stock-based compensation programs in an amount and form set by the Compensation Committee.

The agreement further provides for participation in various employee benefit plans, as well as furnishing fringe benefits available to similarly-situated executive personnel. The employment agreements provide that the executives’ base salary will be reviewed annually. Such agreements may be terminated for cause, as defined, without incurring any continuing obligations.

16. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 15 percent of the Bank's capital stock and surplus on an unsecured basis.

As long as there are senior preferred shares outstanding, no dividends may be paid on our common stock unless all dividends on the senior preferred shares have been paid in full. Any dividends declared on our fixed rate non-cumulative preferred shares will reduce the net income available to common shareholders and our earnings per common share. Moreover, holders of our common stock are entitled to receive dividends only when, as and if declared by our Board of Directors. The Bank is not required to declare cash dividends on our common stock and has never paid a cash dividend on our common stock. Until the earlier of (i) December 19, 2011 or (ii) the Treasury no longer owns any shares of our senior preferred stock, we may not pay any dividends on our common stock without the prior consent of the Treasury.

17. RELATED PARTY TRANSACTIONS

The Bank has an agency agreement with an insurance company (“SBI”) of which a director is a principal. Under the agency agreement, the Bank may refer its customers and members of the general public to SBI for the purposes of purchasing insurance products offered by SBI. In the event revenues are generated by SBI as a result of the Bank’s referrals, the Bank is entitled to share in those revenues under the terms of the agency agreement. The Bank received commissions of \$1 for the year ended December 31, 2008, and no commissions for the year ended December 31, 2007.

A director of the Bank is under contract for services relating to the endorsement of the Bank’s banking and

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

RELATED PARTY TRANSACTIONS (concluded)

financial services. The endorsement contract is for a two-year term with compensation payable of \$75 in each of 2008 and 2009. The Bank believes that the endorsement contract is on terms no less favorable to the Bank than could be obtained from other third persons for similar endorsement services. The expense incurred for the endorsement contract was \$75 and \$73 for the years ended December 31, 2008 and 2007, respectively.

A director of the Bank was retained to provide various legal services to the Bank. For the year ended December 31, 2008 and 2007, total fees paid for legal services amounted to \$19 and \$11, respectively.

In the ordinary course of business, the Bank has granted loans to directors, officers and their affiliates. Total loans outstanding to directors, officers and their affiliates, including principal additions and principal payments are included in the following table.

	December 31,	
	2008	2007
Balance at beginning of year	\$ 3,066	\$ 1,678
Additions	2,079	1,610
Repayments	(246)	(222)
Balance at end of year	<u>\$ 4,899</u>	<u>\$ 3,066</u>

18. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with SFAS No. 157, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair value are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

DISCLOSURES ABOUT FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Fair Value Hierarchy

In accordance with SFAS No. 157, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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

Level 2 – Valuation is based on 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 and liabilities. For example, Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange traded instruments or mortgage loans held for sale, for which fair value is based on what the securitization market is currently offering for mortgage loans with similar characteristics.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain asset-backed securities, certain private equity investments, residential mortgage servicing rights, and long-term derivative contracts.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts of cash and short term instruments approximate fair value based on the short term nature of the assets.

Certificates of deposit: Fair values of other interest bearing deposits are estimated using discounted cash flow analyses based on current market rates for similar types of deposits.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Securities available for sale: The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. These securities include US Government and federal agency securities. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations, FHLMC and FNMA bonds, corporate bonds, and other securities.

Federal Home Loan Bank and Federal Reserve Bank stock: The carrying amount of FHLB and Federal Reserve Bank stock approximates fair value.

Loans, net: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair value for other loans are estimated using discounted cash flows analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit liabilities - The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: For short term borrowings maturing within ninety days, carrying values approximate fair values. Fair values of other short term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Long-term borrowings: The fair value of the Bank's long term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair value of off-balance sheet financial instruments is immaterial.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Assets Measured at Fair Value on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Assets at Fair Value</u>
Securities available for sale	\$ -	\$ 32,461	\$ -	\$ 32,461

Assets Measured at Fair Value on a Nonrecurring Basis

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 as of December 31, 2008.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Gains/(Losses) Year Ended December 31, 2008</u>
Loans	\$ -	\$ -	\$ 1,027	\$ (405)

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. The Bank does not measure liabilities at fair value on a recurring or nonrecurring basis on the balance sheet.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (concluded)

Summary of Fair Values of Financial Instruments

As required under FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments”, the estimated fair values, and related carrying or notional amounts, of the Bank’s financial instruments are as follows. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the bank.

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 6,774	\$ 6,774	\$11,491	\$11,491
Certificates of Deposit	99	99	76	76
Securities available for sale	32,461	32,461	19,894	19,894
Federal Reserve Bank stock	585	585	635	635
Federal Home Loan Bank stock	1,870	1,870	945	945
Loans, net	179,091	182,803	140,993	142,179
Accrued interest receivable	949	949	830	830
Financial liabilities:				
Deposits	162,934	163,275	137,800	136,049
Short-term borrowings	7,521	7,521	2,255	2,255
Long-term borrowings	30,450	30,565	17,450	17,465

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

None.

Item 9A(T). Controls and Procedures.

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 Federal Reserve Bank of Boston (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.

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 December 31, 2008 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

CBT's Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. CBT's internal control over financial reporting is designed 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.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement presentation.

Management assessed the effectiveness of CBT's internal control over financial reporting as of December 31, 2008, using as its framework for that evaluation the criteria set forth by the Committee for Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control – Integrated Framework. Based on that assessment, Management believes that CBT maintained effective internal control over financial reporting as of December 31, 2008.

This annual report does not include an attestation report of CBT's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by CBT's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit CBT to provide only management's report in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

For information concerning the directors of the Bank, the information contained under the sections captioned "Proposal 1 – Election of Five Directors" in The Connecticut Bank and Trust Company's Proxy Statement for the 2009 Annual Meeting of Shareholders (the "Proxy Statement") is incorporated by reference.

Executive Officers of the Bank

Biographical information with respect to each of our executive officers as of December 31, 2008 is set forth below.

David A. Lentini, age 62, of West Hartford, Connecticut, is Chairman, President and Chief Executive Officer of CBT. He is a Director of the Federal Reserve Bank of Boston and also serves as Director for the Connecticut Water Services Inc. and the Cooper Atkins Corporation. Mr. Lentini is a Director of St. Francis Hospital; and is Treasurer and a Director of the St. Francis Foundation. He serves as Vice Chairman of the Board of Trustees of the Renbrook School.

Anson. C. Hall, age 71, of Ellington, Connecticut, is Treasurer, Secretary and Chief Financial Officer of CBT. Mr. Hall serves as Treasurer and Director of the Connecticut Public Health Foundation and is a Corporator of Eastern Connecticut Health Network.

Lyle T. Fulton, age 45, of Wethersfield, Connecticut, has been an Executive Vice President and the Chief Lending Officer of CBT since April 2004. He was previously employed by Webster Bank as a Vice President and a Regional Manager for Small Business Banking from January 2000 through March 2004.

Deborah S. Davis, age 54, of South Windsor, Connecticut, has been an Executive Vice President of CBT, Retail and Banking Operations, since March 1, 2004. From September 2003 to March 2004, Ms. Davis was engaged as a consultant to CBT. She previously held various positions at Webster Bank and most recently was Senior Vice President, Bank Operations, from 2000 through September 2003.

Paul A. Granato, age 43, of Bristol, Connecticut, was appointed the Chief Accounting Officer position in May 2008. He previously held a management position with the State of Connecticut Department of Banking.

Reference is made to the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for information regarding compliance with Section 16(a) of the Exchange Act. For information concerning the audit committee financial expert, reference is made to the section captioned "Committees of the Board of Directors - Audit Committee" in the Proxy Statement.

For information concerning the Bank's code of ethics, the information contained under the section captioned "Corporate Governance - Code of Business Conduct" in the Proxy Statement is incorporated by reference. A copy of the Bank's code of ethics is available to stockholders on the Bank's website at www.theibt.com. Amendments to or waivers from the Code of Ethics will be discussed in Form 8-K's filed by the Bank and accessible on the Bank's website.

Item 11. Executive Compensation.

The information contained under the sections captioned "Information About Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plans

The following table sets forth information, as of December 31, 2008, about CBT common stock that may be issued upon exercise of options under The Connecticut Bank and Trust Company's 2005 Stock Option and Award Plan. The Bank's stockholders approved the plan.

The additional information required by this item is incorporated by reference to the section captioned "Information About Stock Ownership" in the proxy statement.

Item 13. Certain Relationships and Related Transactions, Director Independence.

The additional information required by this item is incorporated by reference from the Proxy Statement under the sections captioned "Transactions with Management" and "Information About our Directors".

Item 14. Principal Accounting Fees and Services.

The following table sets forth fees scheduled to be billed to the Bank for the years ending December 31, 2008 and 2007 by Wolf & Company, P.C.:

	<u>2008</u>	<u>2007</u>
Audit fees ⁽¹⁾	\$ 81,000	\$ 83,262
Audit-related fees ⁽⁴⁾	10,000	-----
Tax fees ⁽²⁾	11,000	11,300
All other fees ⁽³⁾	<u>14,500</u>	<u>18,683</u>
Total	<u>\$116,500</u>	<u>\$113,245</u>

(1) Includes fees for financial statement audit and quarterly reviews

(2) Consists of tax filings and tax related compliance and other advisory services.

(3) Consists of information technology testing.

(4) Assistance with TARP CPP application

The Audit Committee considered whether the provision of non-audit services by Wolf & Company is compatible with maintaining Wolf & Company's independence. The Audit Committee concluded that performing such services in 2008 and 2007 did not affect the auditor's independence in performing its function as auditor.

Preapproval of Services by the Independent Registered Public Accounting Firm

The Audit Committee's policy is to preapprove all audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Preapproval is generally provided for up to one year and any preapproval is detailed as to particular service or category of services. The Audit Committee has delegated preapproval authority to any of its members when expedition of services is necessary, provided that any such preapproval granted by a member is reviewed by the Audit Committee at its next scheduled meeting. The independent auditors and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent auditors in accordance with this preapproval, and the fees for the services performed to date.

All of the fees paid to Wolf & Company in 2008 were preapproved by the Audit Committee and there were no services for which the de minimis exception permitted in certain circumstances under SEC rules was utilized.

PART IV

Item 15. Exhibits, Financial Statements Schedules.

No.	Description
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 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)

4.1	Form of Warrant of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 4.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
4.2	Warrant, dated December 19, 2008 to Purchase up to 175,742 Shares of Common Stock of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.3 to The Connecticut Bank and Trust Company's Current Report on Form 8-K dated December 22, 2008.
10.1	Employment Agreement dated June 16, 2004 (revised 2007) with David A. Lentini (incorporated by reference to Exhibit 10.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.2	Employment Agreement dated June 16, 2004 (revised 2008) with Anson C. Hall (incorporated by reference to Exhibit 10.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.3	Endorsement Contract dated January 1, 2008 with Geno Auriemma (incorporated by reference to Exhibit 10.3 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.4	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.5	Agency Agreement dated December 14, 2004 with Smith Brothers Insurance, Inc. (incorporated by reference to Exhibit 10.5 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.6	Lease Agreement (58 State House Square, Hartford, Connecticut) (incorporated by reference to Exhibit 10.6 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.7	Lease Agreement (68 South Main Street, West Hartford, Connecticut) (incorporated by reference to Exhibit 10.7 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.8	Lease Agreement (7 Sycamore Street, Glastonbury, Connecticut) (incorporated by reference to Exhibit 10.8 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.9	Letter Agreement, dated December 19, 2008, including Securities Purchase Agreement – Standard Terms incorporated by reference therein, between The Connecticut Bank and Trust Company and the United States Department of the Treasury (incorporated by reference to Exhibit 10.1 to The Connecticut Bank and Trust Company's Current Report on Form 8-K dated December 22, 2008.
10.10	Side Letter, dated December 19, 2008, between The Connecticut Bank and Trust Company and the United States Department of the Treasury amending the Letter Agreement (incorporated by reference to Exhibit 10.1 to The Connecticut Bank and Trust Company's Current Report

	on Form 8-K dated December 22, 2008.
10.11	Form of Waiver, executed by each of David A Lentini, Anson C. Hall, Paul A. Granato, Lyle T. Fulton, and Deborah Davis (incorporated by reference to exhibit 10.3 to The Connecticut Bank and Trust Company's Current Report on Form 8-K dated December 22, 2008.
10.12	Form of Senior Executive Officer Agreement, executed by each of David A Lentini, Anson C. Hall, Paul A. Granato, Lyle T. Fulton, and Deborah Davis (incorporated by reference to exhibit 10.4 to The Connecticut Bank and Trust Company's Current Report on Form 8-K dated December 22, 2008.
21	Subsidiaries of The Connecticut bank and Trust Company – None
23	Consent of Wolf & Company, P.C.
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chairman, President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Treasurer, Secretary and Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

SIGNATURES

In accordance with 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: March 27, 2009

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

Dated: March 27, 2009

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

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David A. Lentini</u> David A. Lentini	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 27, 2009
<u>/s/ Anson C. Hall</u> Anson C. Hall	Treasurer, Secretary and Chief Financial Officer (principal accounting and financial officer)	March 27, 2009
<u>/s/ Geno Auriemma</u> Geno Auriemma	Director	March 27, 2009
<u>/s/ Frank A. Falvo</u> Frank A. Falvo	Director	March 27, 2009
<u>/s/ P. Anthony Giorgio</u> P. Anthony Giorgio	Director	March 27, 2009
<u>/s/ John A. Green</u> John A. Green	Director	March 27, 2009
<u>/s/ Solomon Kerensky</u> Solomon Kerensky	Director	March 27, 2009
<u>/s/ Karl J. Krapek</u> Karl J. Krapek	Director	March 27, 2009
<u>/s/ Joan L. Rusconi</u> Joan L. Rusconi	Director	March 27, 2009
<u>/s/ Philip J. Schulz</u> Philip J. Schulz	Director	March 27, 2009
<u>/s/ Peter D. Shapiro</u> Peter D. Shapiro	Director	March 27, 2009
<u>/s/ J. Brian Smith</u> J. Brian Smith	Director	March 27, 2009
<u>/s/ John M. Watkins, Jr.</u> John M. Watkins, Jr.	Director	March 27, 2009

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 (the “Company”), certify that:

- 1) I have reviewed this annual report on Form 10-K of the Company for the year ended December 31, 2008;
- 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) 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: March 27, 2009

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

CERTIFICATION

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

- 1) I have reviewed this annual report on Form 10-K of the Company for the year ended December 31, 2008;
- 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) 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: March 27, 2009

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

**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 Annual Report of The Connecticut Bank and Trust Company (the “Company”) on Form 10-K for the year ending December 31, 2008 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of the Company, 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 the Company as of and for the years covered by the Report.

/s/ David A. Lentini
David A. Lentini
Chief Executive Officer
March 27, 2009

**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 Annual Report of The Connecticut Bank and Trust Company (the “Company”) on Form 10-K for the year ending December 31, 2008 as filed with the Federal Reserve Bank of Boston (the “Report”), I, Anson C. Hall, Chief Financial Officer of the Company, 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 the Company as of and for the years covered by the Report.

/s/ Anson C. Hall
Anson C. Hall
Chief Financial Officer
March 27, 2009