

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
Washington, DC 20551

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

FDIC Certificate Number 57690

THE CONNECTICUT BANK AND TRUST COMPANY
(Exact Name of Registrant as Specified in Its Charter)

CONNECTICUT
(State or Other Jurisdiction of
Incorporation or Organization)

90-0115348
(I.R.S. Employer
Identification No.)

58 STATE HOUSE SQUARE
(Address of Principal Executive Offices)

06103
(Zip Code)

(860) 246-5200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Yes No

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

Yes No

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

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

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

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

<u>COMMON STOCK, \$1 par value per share</u>	<u>3,620,950 shares as of August 1, 2011</u>
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**THE CONNECTICUT BANK AND TRUST COMPANY
FORM 10-Q**

INDEX

PART I. FINANCIAL INFORMATION	<u>Page</u>
Item 1. Financial Statements (unaudited)	
Balance Sheets at June 30, 2011 and December 31, 2010.....	1
Statements of Income for the Three and Six Months Ended June 30, 2011 and 2010	2
Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2011 and 2010.....	3
Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010	4
Notes to Unaudited Financial Statements.....	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	22
Item 3. Quantitative and Qualitative Disclosure About Market Risk	38
Item 4. Controls and Procedures.....	38
 PART II: OTHER INFORMATION	
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	39
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds....	39
Item 3. Defaults Upon Senior Securities.....	39
Item 4. [Removed and Reserved].....	39
Item 5. Other Information	39
Item 6. Exhibits.....	39
 Signatures.....	 40
Exhibit Index.....	41

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE CONNECTICUT BANK AND TRUST COMPANY BALANCE SHEETS (Unaudited)

(In thousands, except share data)	June 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 18,352	\$ 8,725
Interest-bearing deposits in banks	479	79
Securities available for sale	35,921	35,349
Federal Reserve Bank stock, at cost	751	762
Federal Home Loan Bank stock, at cost	2,057	2,057
Loans held for sale	-	386
Loans	223,130	223,723
Allowance for loan losses	(3,404)	(3,381)
Loans, net	<u>219,726</u>	<u>220,342</u>
Premises and equipment, net	1,858	1,898
Deferred tax asset	700	-
Other assets	3,433	4,633
	<u>\$ 283,277</u>	<u>\$ 274,231</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Non-interest-bearing deposits	\$ 47,873	\$ 35,972
Interest-bearing deposits	<u>175,744</u>	<u>177,822</u>
Total deposits	223,617	213,794
Secured borrowings	798	577
Securities sold under agreements to repurchase	2,324	3,392
Federal Home Loan Bank advances	29,450	30,450
Other liabilities	1,206	1,151
Total liabilities	<u>257,395</u>	<u>249,364</u>
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; issued and outstanding: 5,448 shares; aggregate liquidation preference of \$5,448	5,448	5,448
Discount on preferred stock	(316)	(374)
Common stock, \$1.00 par value; 10,000,000 shares authorized; 3,620,950 shares issued and outstanding	3,621	3,621
Common stock warrants	1,405	1,405
Additional paid-in capital	30,106	30,088
Restricted stock unearned compensation	(133)	(163)
Accumulated deficit	(14,544)	(15,272)
Accumulated other comprehensive income	295	114
Total stockholders' equity	<u>25,882</u>	<u>24,867</u>
	<u>\$ 283,277</u>	<u>\$ 274,231</u>

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

THE CONNECTICUT BANK AND TRUST COMPANY

Statements of Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share data)	2011	2010	2011	2010
Interest and dividend income:				
Loans, including fees	\$ 2,942	\$ 3,062	\$ 5,952	\$ 6,110
Debt securities	243	223	444	491
Other	19	28	36	47
Total interest and dividend income	<u>3,204</u>	<u>3,313</u>	<u>6,432</u>	<u>6,648</u>
Interest expense:				
Deposits	457	580	931	1,172
Securities sold under agreements to repurchase	3	3	6	6
Federal Home Loan Bank advances	267	268	524	533
Total interest expense	<u>727</u>	<u>851</u>	<u>1,461</u>	<u>1,711</u>
Net interest income	<u>2,477</u>	<u>2,462</u>	<u>4,971</u>	<u>4,937</u>
Provision for loan losses	<u>110</u>	<u>154</u>	<u>264</u>	<u>309</u>
Net interest income, after provision for loan losses	<u>2,367</u>	<u>2,308</u>	<u>4,707</u>	<u>4,628</u>
Noninterest income:				
Customer service fees	117	77	230	146
Brokerage commissions	95	72	163	143
Net gain on sales of available-for-sale securities	53	60	138	60
Net gain on sales of loans	15	-	42	9
Total noninterest income	<u>280</u>	<u>209</u>	<u>573</u>	<u>358</u>
Noninterest expenses:				
Salaries and benefits	1,192	1,092	2,421	2,263
Occupancy and equipment	447	436	896	871
Data processing	88	80	170	158
Marketing	76	93	138	186
Professional services	249	183	480	332
FDIC insurance	135	93	267	190
Other general and administrative	344	279	686	479
Total noninterest expenses	<u>2,531</u>	<u>2,256</u>	<u>5,058</u>	<u>4,479</u>
Income before income tax benefit	<u>116</u>	<u>261</u>	<u>222</u>	<u>507</u>
Income tax benefit	<u>-</u>	<u>-</u>	<u>700</u>	<u>-</u>
Net income	<u>116</u>	<u>261</u>	<u>922</u>	<u>507</u>
Less preferred stock dividend and accretion	<u>(97)</u>	<u>(97)</u>	<u>(194)</u>	<u>(194)</u>
Net income attributable to common shareholders	<u>\$ 19</u>	<u>\$ 164</u>	<u>\$ 728</u>	<u>\$ 313</u>
Net income per common share:				
Basic	\$ 0.01	\$ 0.05	\$ 0.20	\$ 0.09
Diluted	\$ 0.01	\$ 0.04	\$ 0.20	\$ 0.09
Average basic common shares issued and outstanding	3,621	3,621	3,621	3,613
Average diluted common shares issued and outstanding	3,677	3,663	3,673	3,634

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

THE CONNECTICUT BANK AND TRUST COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2011 and 2010
(Unaudited)

(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 Income (Loss)	Total
Balance at December 31, 2009	\$ 5,448	\$ (489)	\$ 3,572	\$1,405	\$ 29,858	\$ (29)	\$ (15,444)	\$ (268)	\$ 24,053
Comprehensive income:									
Net income	-	-	-	-	-	-	507	-	507
Change in net unrealized gain on securities available for sale, net of reclassification adjustment of \$60	-	-	-	-	-	-	-	697	697
Total comprehensive income									<u>1,204</u>
Cash dividends declared on preferred stock	-	-	-	-	-	-	(136)	-	(136)
Accretion of discount on preferred stock	-	58	-	-	-	-	(58)	-	-
Share-based compensation - restricted stock grant	-	-	49	-	156	(205)	-	-	-
Share-based compensation - stock options	-	-	-	-	37	-	-	-	37
Share-based compensation - restricted stock awards	-	-	-	-	-	45	-	-	45
Balance at June 30, 2010	<u>\$ 5,448</u>	<u>\$ (431)</u>	<u>\$ 3,621</u>	<u>\$1,405</u>	<u>\$ 30,051</u>	<u>\$ (189)</u>	<u>\$ (15,131)</u>	<u>\$ 429</u>	<u>\$ 25,203</u>
Balance at December 31, 2010	\$ 5,448	\$ (374)	\$ 3,621	\$1,405	\$ 30,088	\$ (163)	\$ (15,272)	\$ 114	\$ 24,867
Comprehensive income:									
Net income	-	-	-	-	-	-	922	-	922
Change in net unrealized gain on securities available for sale, net of reclassification adjustment of \$138	-	-	-	-	-	-	-	181	181
Total comprehensive income									<u>1,103</u>
Cash dividends declared on preferred stock	-	-	-	-	-	-	(136)	-	(136)
Accretion of discount on preferred stock	-	58	-	-	-	-	(58)	-	-
Share-based compensation - stock options	-	-	-	-	18	-	-	-	18
Share-based compensation - restricted stock awards	-	-	-	-	-	30	-	-	30
Balance at June 30, 2011	<u>\$ 5,448</u>	<u>\$ (316)</u>	<u>\$ 3,621</u>	<u>\$1,405</u>	<u>\$ 30,106</u>	<u>\$ (133)</u>	<u>\$ (14,544)</u>	<u>\$ 295</u>	<u>\$ 25,882</u>

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

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

(In thousands)	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 922	\$ 507
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	264	309
Net gains from sales of available-for-sale securities	(138)	(60)
Depreciation and amortization	245	249
Net amortization of premiums on available-for-sale securities	181	253
Net amortization of deferred loan costs and fees	97	38
Share-based compensation plans	48	82
Deferred income tax benefit	(700)	-
Decrease (increase) in loans held for sale	386	(642)
Decrease (increase) in accrued interest receivable	112	(139)
Decrease (increase) in other assets	88	(248)
Increase in other liabilities	55	16
Net cash provided by operating activities	1,560	365
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Sales	3,964	2,567
Maturities and calls	7,355	-
Purchases	(13,658)	(6,775)
Principal payments	2,905	4,013
Purchases of certificates of deposit	(400)	(1)
Redemption of FRB stock	11	1
Net loan principal repayments (originations and purchases)	255	(8,164)
Purchases of premises and equipment	(205)	(156)
Net cash used by investing activities	227	(8,515)
Cash flows from financing activities:		
Net increase in deposits	9,823	8,215
Net increase in secured borrowings	221	-
Net decrease in securities sold under agreement to repurchase	(1,068)	(2,104)
Repayments of FHLB advances	(1,000)	-
Preferred cash dividends paid	(136)	(136)
Net cash provided by financing activities	7,840	5,975
Net change in cash and cash equivalents	9,627	(2,175)
Cash and cash equivalents at beginning of period	8,725	27,117
Cash and cash equivalents at end of period	\$ 18,352	\$ 24,942
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,500	\$ 1,733
Loans transferred to other real estate owned	\$ -	\$ 267

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

THE CONNECTICUT BANK AND TRUST COMPANY
Notes to Unaudited Financial Statements
June 30, 2011

(1) Organization

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

(2) Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, CBT’s management (“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 securities and the valuation of deferred tax assets.

(3) Basis of Presentation

In the opinion of Management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position at June 30, 2011, the results of operations for the three and six month periods ended June 30, 2011 and 2010 and changes in stockholders’ equity and cash flows for the six month periods ended June 30, 2011 and 2010. These adjustments consist only of normal recurring adjustments. Certain amounts in prior periods have been reclassified to conform to the current presentation. The results of operations for the three and six month periods are not necessarily indicative of the results to be expected for the full year. The statements should be read in conjunction with the financial statements and accompanying notes found on pages 49-81 of CBT’s Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Board of Governors of the Federal Reserve System on March 31, 2011.

(4) Net Income Per Common Share

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

Net income per common share for the three and six months ended June 30, 2011 and 2010 have been computed based upon the following:

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 116	\$ 261	\$ 922	\$ 507
Preferred stock dividend and accretion	(97)	(97)	(194)	(194)
Net income available to common shareholders	<u>\$ 19</u>	<u>\$ 164</u>	<u>\$ 728</u>	<u>\$ 313</u>
Average number of common shares outstanding	3,620,950	3,620,950	3,620,950	3,612,643
Add: dilutive effect of warrants	<u>55,742</u>	<u>41,994</u>	<u>51,798</u>	<u>20,997</u>
Average number of common shares outstanding used to calculate diluted net income per common share	<u>3,676,692</u>	<u>3,662,944</u>	<u>3,672,748</u>	<u>3,633,640</u>
Net income per common share:				
Basic	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.20</u>	<u>\$ 0.09</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.20</u>	<u>\$ 0.09</u>
Anti-dilutive common stock equivalents not included in the above computation:				
Stock options	141,900	141,900	141,900	141,900
Warrants	170,500	175,742	170,500	175,742

(5) Securities Available for Sale

The following table sets forth information regarding the amortized cost and market values of CBT's securities at the dates indicated.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>June 30, 2011</u>				
Government-sponsored enterprises	\$ 10,012	\$ 1	\$ (169)	\$ 9,844
U.S. Government guaranteed residential mortgage-backed securities	4,677	139	(55)	4,762
Government-sponsored residential mortgage-backed securities	12,364	346	(16)	12,694
U.S. Government guaranteed commercial mortgage-backed securities	7,574	98	(3)	7,669
Corporate bonds	999	-	(46)	953
	<u>\$ 35,626</u>	<u>\$ 584</u>	<u>\$ (289)</u>	<u>\$ 35,921</u>
<u>December 31, 2010</u>				
Government-sponsored enterprises	\$ 6,540	\$ -	\$ (196)	\$ 6,344
U.S. Government guaranteed residential mortgage-backed securities	5,935	195	(2)	6,128
Government-sponsored residential mortgage-backed securities	12,803	297	(37)	13,063
U.S. Government guaranteed commercial mortgage-backed securities	8,958	70	(40)	8,988
Corporate bonds	999	-	(173)	826
	<u>\$ 35,235</u>	<u>\$ 562</u>	<u>\$ (448)</u>	<u>\$ 35,349</u>

Proceeds from the sales of securities amounted to \$1.4 million and \$4.0 million, respectively, for the three and six months ended June 30, 2011 with the Bank realizing a gross gain of \$53,000 and \$138,000, respectively, on the sale of such securities. For the three and six months ended June 30, 2010, proceeds from the sales of securities amounted to \$2.6 million with the Bank realizing a gain of \$60,000 on the sale of such securities. There were no sales of securities for the three months ended June 30, 2010.

Information pertaining to securities available for sale with gross unrealized losses at June 30, 2011 and December 31, 2010, aggregated by investment category and length of time that individual securities have been in a loss position, is as follows:

(In thousands)	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>June 30, 2011</u>				
Government-sponsored enterprises	\$ 169	\$ 8,342	\$ -	\$ -
U.S. Government guaranteed residential mortgage-backed securities	55	991	-	-
Government-sponsored residential mortgage-backed securities	16	2,187	-	-
U.S. Government guaranteed commercial mortgage-backed securities	3	1,688	-	-
Corporate bonds	-	-	46	953
	<u>\$ 243</u>	<u>\$ 13,208</u>	<u>\$ 46</u>	<u>\$ 953</u>
<u>December 31, 2010</u>				
Government-sponsored enterprises	\$ 196	\$ 6,344	\$ -	\$ -
U.S. Government guaranteed residential mortgage-backed securities	2	919	-	-
Government-sponsored residential mortgage-backed securities	37	6,894	-	-
U.S. Government guaranteed commercial mortgage-backed securities	40	6,883	-	-
Corporate bonds	-	-	173	826
	<u>\$ 275</u>	<u>\$ 21,040</u>	<u>\$ 173</u>	<u>\$ 826</u>

Each reporting period, the Bank evaluates all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary (“OTTI”). OTTI is required to be recognized if (1) the Bank intends to sell the security; (2) it is “more likely than not” that the Bank will be required to sell the security before the recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired securities that the Bank intends to sell, or that are more likely than not that the Bank will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. Credit-related OTTI for all impaired debt securities is recognized through earnings. Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes.

At June 30, 2011, the Bank had 9 government-sponsored enterprise securities with unrealized losses totaling \$169 thousand. This represented 1.69% of the amortized cost of the securities. The Bank also had 3 U.S. government-guaranteed residential mortgage-backed securities, 6 government-sponsored residential mortgage-backed securities and 11 U.S. government-guaranteed commercial mortgage-backed securities with unrealized losses totaling \$16 thousand, \$55 thousand and \$3 thousand, respectively. This represented 1.5%, 0.32% and 0.04%, respectively, of the amortized cost of the securities.

Management currently believes that none of the unrealized losses are other than temporary because the debt and mortgage-backed securities are issued and guaranteed by government agencies or government sponsored enterprises. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

The Bank's unrealized loss on the corporate bond segment of the portfolio relates to a senior unsecured obligation from Sallie Mae ("SLM Corp" or "SLM"). SLM provides funding and servicing for student loans. At June 30, 2011, the SLM bond has depreciation totaling 4.6% of its amortized cost and the unrealized losses have existed for more than twelve months. Management believes that the cause of such a decline is driven by the thin trading volume of this bond and the overall illiquidity in the bond market. The value of the bond has improved over the past four quarters as SLM has reported improved operating results. Because the decline in market value is attributable to illiquidity and to changes in interest rates and not to credit quality, and because the Bank does not intend to sell the investment and it is more likely than not that the Bank will not be required to sell the investment before recovery of the amortized cost basis, which may be maturity, the Bank does not consider the investment to be other-than-temporarily impaired at June 30, 2011.

The amortized cost and fair value of debt securities by contractual maturity as of June 30, 2011 are as follows:

(In thousands)	Amortized Cost	Fair Value
Government-sponsored enterprises:		
Over 1 year to 5 years	\$ 2,019	\$ 2,012
Over 5 years to 10 years	500	500
Over 10 years	7,493	7,332
	<u>10,012</u>	<u>9,844</u>
Corporate bonds:		
Over 1 year to 5 years	999	953
	<u>11,011</u>	<u>10,797</u>
Mortgage-backed securities	<u>24,615</u>	<u>25,124</u>
	<u>\$ 35,626</u>	<u>\$ 35,921</u>

(6) Loans and Allowance for Loan Losses:

A summary of the balances of loans is as follows:

(In thousands)	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Commercial real estate:		
Owner occupied	\$ 59,652	\$ 59,798
Non-owner occupied	57,183	56,344
Residential real estate:		
Residential 1-4 family	11,403	9,726
Second mortgages	474	478
Equity lines of credit	8,475	8,480
Construction	11,399	13,766
Total mortgage loans on real estate	<u>148,586</u>	<u>148,592</u>
Commercial loans	67,769	69,110
Consumer loans	6,382	5,627
Total loans	<u>222,737</u>	<u>223,329</u>
Allowance for loan losses	(3,404)	(3,381)
Net deferred loan costs	<u>393</u>	<u>394</u>
Loans, net	<u>\$ 219,726</u>	<u>\$ 220,342</u>

The following table summarizes the changes in the allowance for loan losses by portfolio segment:

(In thousands)

Three months ended June 30, 2011	Commercial Real Estate	Commercial	Construction	Consumer/ Residential	Unallocated	Total
Balance at beginning of period	\$ 1,621	\$ 1,223	\$ 405	\$ 134	\$ -	\$ 3,383
Provision (credit) for loan losses	65	111	(278)	32	180	110
Loans charged-off	-	(80)	-	(15)	-	(95)
Recoveries of loans previously charged-off	-	6	-	-	-	6
Balance at end of period	\$ 1,686	\$ 1,260	\$ 127	\$ 151	\$ 180	\$ 3,404

Six months ended June 30, 2011	Commercial Real Estate	Commercial	Construction	Consumer/ Residential	Unallocated	Total
Balance at beginning of period	\$ 1,527	\$ 1,301	\$ 420	\$ 133	\$ -	\$ 3,381
Provision (credit) for loan losses	159	157	(293)	61	180	264
Loans charged-off	-	(203)	-	(43)	-	(246)
Recoveries of loans previously charged-off	-	5	-	-	-	5
Balance at end of period	\$ 1,686	\$ 1,260	\$ 127	\$ 151	\$ 180	\$ 3,404

Three months ended June 30, 2010	Commercial Real Estate	Commercial	Construction	Consumer/ Residential	Unallocated	Total
Balance at beginning of period	\$ 1,409	\$ 1,101	\$ 185	\$ 114	\$ -	\$ 2,809
Provision (credit) for loan losses	132	161	(149)	10	-	154
Loans charged-off	-	(37)	-	-	-	(37)
Recoveries of loans previously charged-off	-	-	-	-	-	-
Balance at end of period	\$ 1,541	\$ 1,225	\$ 36	\$ 124	\$ -	\$ 2,926

Six months ended June 30, 2010	Commercial Real Estate	Commercial	Construction	Consumer/ Residential	Unallocated	Total
Balance at beginning of period	\$ 1,351	\$ 1,037	\$ 237	\$ 77	\$ -	\$ 2,702
Provision (credit) for loan losses	190	225	(201)	95	-	309
Loans charged-off	-	(37)	-	(48)	-	(85)
Recoveries of loans previously charged-off	-	-	-	-	-	-
Balance at end of period	\$ 1,541	\$ 1,225	\$ 36	\$ 124	\$ -	\$ 2,926

Further information pertaining to the allowance for loan losses and impaired loans at June 30, 2011 and December 31, 2010 is as follows:

(In thousands)	<u>Commercial Real Estate</u>	<u>Commercial</u>	<u>Construction</u>	<u>Consumer/ Residential</u>	<u>Unallocated</u>	<u>Total</u>
<u>June 30, 2011</u>						
Amount of allowance for loan losses related to loans individually evaluated for impairment	<u>\$ 165</u>	<u>\$ 349</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 539</u>
Amount of allowance for loan losses related to loans collectively evaluated for impairment	<u>\$ 1,521</u>	<u>\$ 911</u>	<u>\$ 127</u>	<u>\$ 126</u>	<u>\$ 180</u>	<u>\$ 2,865</u>
Loans individually evaluated for impairment	<u>\$ 11,932</u>	<u>\$ 4,215</u>	<u>\$ 2,411</u>	<u>\$ 117</u>	<u>\$ -</u>	<u>\$ 18,675</u>
Loans collectively evaluated for impairment	<u>\$ 104,903</u>	<u>\$ 63,555</u>	<u>\$ 8,988</u>	<u>\$ 26,617</u>	<u>\$ -</u>	<u>\$ 204,063</u>
<u>December 31, 2010</u>						
Amount of allowance for loan losses related to loans individually evaluated for impairment	<u>\$ 50</u>	<u>\$ 344</u>	<u>\$ 224</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 636</u>
Amount of allowance for loan losses related to loans collectively evaluated for impairment	<u>\$ 1,509</u>	<u>\$ 961</u>	<u>\$ 164</u>	<u>\$ 110</u>	<u>\$ -</u>	<u>\$ 2,745</u>
Loans individually evaluated for impairment	<u>\$ 2,920</u>	<u>\$ 6,893</u>	<u>\$ 2,854</u>	<u>\$ 1,054</u>	<u>\$ -</u>	<u>\$ 13,721</u>
Loans collectively evaluated for impairment	<u>\$ 113,221</u>	<u>\$ 62,217</u>	<u>\$ 10,912</u>	<u>\$ 23,258</u>	<u>\$ -</u>	<u>\$ 209,608</u>

The following is a summary of past due and nonaccrual loans:

(In thousands)	30-89 Days Past Due	Past Due 90 Days or More and Still Accruing	Total Past Due and still accruing	Non accruals > 90 days	Total Past Due incl Non accruals
<u>June 30, 2011</u>					
Commercial real estate owner-occupied	\$ 619	\$ -	\$ 619	\$ 5,859	\$ 6,478
Commercial real estate non-owner occupied	1,084	-	1,084	2,709	3,793
Commercial	417	251	668	3,147	3,815
Construction	-	-	-	1,844	1,844
Residential real estate	115	-	115	-	115
Consumer	6	-	6	109	115
Total	<u>\$ 2,241</u>	<u>\$ 251</u>	<u>\$ 2,492</u>	<u>\$ 13,668</u>	<u>\$ 16,160</u>
<u>December 31, 2010</u>					
Commercial real estate owner-occupied	\$ 3,388	\$ -	\$ 3,388	\$ 2,576	\$ 5,964
Commercial real estate non-owner occupied	809	1,103	1,912	2,890	4,802
Commercial	298	-	298	3,246	3,544
Construction	2,266	-	2,266	-	2,266
Residential real estate	71	-	71	50	121
Consumer	215	46	261	23	284
Total	<u>\$ 7,047</u>	<u>\$ 1,149</u>	<u>\$ 8,196</u>	<u>\$ 8,785</u>	<u>\$ 16,982</u>

The following is a summary of impaired loans at June 30, 2011 and December 31, 2010:

(In thousands)	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
<u>June 30, 2011</u>			
Impaired loans without a valuation allowance:			
Commercial real estate owner-occupied	3,067	3,067	-
Commercial real estate non-owner occupied	4,644	4,644	-
Commercial	\$ 3,388	\$ 3,388	\$ -
Construction	2,410	2,410	-
Consumer/residential	32	32	-
Total	<u>13,541</u>	<u>13,541</u>	<u>-</u>
Impaired loans with a valuation allowance:			
Commercial real estate owner-occupied	2,060	2,060	70
Commercial real estate non-owner occupied	2,161	2,161	95
Commercial	827	902	349
Construction	-	-	-
Consumer/residential	85	85	25
Total	<u>5,133</u>	<u>5,208</u>	<u>539</u>
Total impaired loans	<u>\$ 18,674</u>	<u>\$ 18,749</u>	<u>\$ 539</u>
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
<u>December 31, 2010</u>			
Impaired loans without a valuation allowance:			
Commercial real estate owner-occupied	3,429	3,429	-
Commercial real estate non-owner occupied	2,870	2,870	-
Commercial	\$ 1,266	\$ 1,266	\$ -
Construction	1,298	1,298	-
Total	<u>8,863</u>	<u>8,863</u>	<u>-</u>
Impaired loans with a valuation allowance:			
Commercial real estate non-owner occupied	3,401	3,464	50
Commercial	1,054	1,054	344
Construction	1,556	1,556	224
Consumer/residential	50	50	18
Total	<u>6,061</u>	<u>6,124</u>	<u>636</u>
Total impaired loans	<u>\$ 14,924</u>	<u>\$ 14,987</u>	<u>\$ 636</u>

(In thousands)	<u>Three Months Ended June 30, 2011</u>		<u>Six Months Ended June 30, 2011</u>	
	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Average investment in impaired loans				
Commercial real estate owner-occupied	5,725	18	5,826	63
Commercial real estate non-owner occupied	8,071	46	8,054	98
Commercial	\$ 2,380	\$ 8	\$ 2,508	\$ 15
Construction	2,040	17	2,420	38
Consumer/residential	104	-	104	1
Total	<u>\$ 18,320</u>	<u>\$ 89</u>	<u>\$ 18,912</u>	<u>\$ 215</u>

Interest income recognized for impaired loans on a cash-basis method during the three and six months ended June 30, 2011 totaled \$89,000 and 215,000, respectively.

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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated and unallocated components, as further described below.

General component. The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: commercial, commercial real estate, construction and consumer and residential real estate. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2011. The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Commercial loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment are primarily income-producing properties in the Greater Hartford area. The underlying cash flows generated by properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

Construction loans – Loans in this segment primarily include speculative real estate development loans for which payment is derived from the sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price and market conditions.

Consumer and residential real estate – Loans in the consumer segment are generally unsecured and repayment is dependant on the credit quality of the individual borrower. The Bank generally does not originate residential real estate loans with a loan-to-value ratio greater than 80% and does not grant subprime loans. All loans in this classification are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Allocated component. The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependant. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. 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, unless such loans are subject to a troubled debt restructuring ("TDR") agreement.

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.

The Bank may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are initially classified as impaired.

Unallocated component. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in

the underlying assumptions used in the methodologies for estimating allocated and general losses in the portfolio. For the six months ended June 30, 2011, the Bank had an unallocated reserve of \$180,000 compared to none for the six months ended June 30, 2010.

No additional funds are committed to be advanced in connection with impaired loans. During the six month periods ended June 30, 2011 and 2010, interest income of \$126,000 and \$1,000 were reversed, respectively. All nonaccrual loans are accounted for on the cash basis.

At June 30, 2011 and December 31, 2010, there were two loans totaling \$1.4 million accounted for as troubled debt restructurings. These two loans are considered impaired and are on nonaccrual.

Credit Quality Information

CBT utilizes an eight grade internal loan rating system for its loans as follows:

Loans rated 1-3A: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 4: Loans in this category are considered “special mention.” These loans are starting to show signs of potential weakness and are being closely monitored by Management.

Loans rated 5: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the value of the assets pledged as collateral for the loan. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weakness inherent in those loans classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, Management formally reviews the ratings on all loans. Semi-annually, the Bank engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the Bank's loans by risk rating at June 30, 2011 and December 31, 2010:

(In thousands)	<u>Commercial Real Estate</u>	<u>Commercial</u>	<u>Construction</u>	<u>Consumer/ Residential</u>	<u>Total Loans</u>
<u>June 30, 2011</u>					
Loans rated 1-3A	\$ 93,147	\$ 58,097	\$ 8,636	\$ 25,983	\$ 185,863
Loans rated 4	10,484	2,658	350	29	13,521
Loans rated 5	13,203	6,917	2,413	690	23,223
Loans rated 6	-	98	-	32	130
Loans rated 7	-	-	-	-	-
Total	<u>\$ 116,835</u>	<u>\$ 67,770</u>	<u>\$ 11,399</u>	<u>\$ 26,734</u>	<u>\$ 222,737</u>
 <u>December 31, 2010</u>					
Loans rated 1-3A	\$ 91,949	\$ 60,159	\$ 8,578	\$ 23,543	\$ 184,229
Loans rated 4	13,271	4,079	2,334	18	19,702
Loans rated 5	10,922	4,872	2,854	700	19,348
Loans rated 6	-	-	-	50	50
Loans rated 7	-	-	-	-	-
Total	<u>\$ 116,142</u>	<u>\$ 69,110</u>	<u>\$ 13,766</u>	<u>\$ 24,311</u>	<u>\$ 223,329</u>

(7) Loan Commitments

CBT is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets. CBT's commitments to extend credit include unfunded loans as well as unused lines of credit that comprised of \$51.0 million at June 30, 2011 and \$43.9 million at December 31, 2010. CBT also had commitments to originate loans totaling \$11.5 million at June 30, 2011 compared to \$10.0 million at December 31, 2010.

(8) Fair Value 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. Fair value 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 assets and liabilities. In cases where quoted market prices are not available, fair value is 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 asset or liability.

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 cash equivalents approximate fair value based on the short term nature of the assets.

Interest-bearing deposits in banks: Fair values of interest-bearing deposits in banks are estimated using discounted cash flow analyses based on current market rates for similar types of deposits.

Securities available for sale: 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. All fair value measurements are obtained from a third party pricing service and are not adjusted by management.

Federal Home Loan Bank and Federal Reserve Bank stock: The carrying amount of FHLB and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the FHLB and FRB.

Loans held for sale: Loans held for sale are accounted for at the lower of cost or market and the fair value of loans held for sale based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted as required for changes in loan characteristics.

Loans, net: For variable-rate loans that re-price 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.

Deposits: The fair values disclosed for demand deposits (e.g., interest and noninterest 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). The carrying amounts of variable-rate, fixed term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market 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.

Long-term debt: 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.

CBT groups its assets measured at fair value in three levels, based on markets in which the assets are traded and reliability of the assumptions used to determine fair value.

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

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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.

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

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

(In thousands)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<u>June 30, 2011</u>				
Government-sponsored enterprises	\$ -	\$ 9,844	\$ -	\$ 9,844
U.S. Government guaranteed residential mortgage-backed securities	-	4,762	-	4,762
Government-sponsored residential mortgage-backed securities	-	12,694	-	12,694
U.S. Government guaranteed commercial mortgage-backed securities	-	7,669	-	7,669
Corporate bonds	-	953	-	953
Securities available for sale	<u>\$ -</u>	<u>\$ 35,921</u>	<u>\$ -</u>	<u>\$ 35,921</u>
 <u>December 31, 2010</u>				
Government-sponsored enterprises	\$ -	\$ 6,344	\$ -	\$ 6,344
U.S. Government guaranteed residential mortgage-backed securities	-	6,128	-	6,128
Government-sponsored residential mortgage-backed securities	-	13,063	-	13,063
U.S. Government guaranteed commercial mortgage-backed securities	-	8,988	-	8,988
Corporate bonds	-	826	-	826
Securities available for sale	<u>\$ -</u>	<u>\$ 35,349</u>	<u>\$ -</u>	<u>\$ 35,349</u>

There were no transfers to or from Levels 1 and 2 during the six months ended June 30, 2011 or 2010.

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

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

(In thousands)	Level 1	Level 2	Level 3
<u>June 30, 2011</u>			
Impaired loans	\$ -	\$ -	\$ 4,669
Other real estate owned	-	-	209
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,878</u>
<u>December 31, 2010</u>			
Impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,030</u>

Gains and losses applicable to impaired loans and other real estate owned are based on appraised values of underlying collateral adjusted for selling costs and for management's assumptions of fair value given current market conditions and portions of loans not guaranteed by the U.S. Government. The Bank recognized a gain of \$96,000 and \$127,000, respectively, in the three and six months ended June 30, 2011 compared to a loss of \$138,000 and \$210,000, respectively, for the three and six months ended June 30, 2010. The gains and losses were attributed to the valuation of \$540,000 and \$523,000 of impaired loans for the six months ended June 30, 2011 and 2010.

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

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments are set forth in the following table. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Bank.

(In thousands)	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 18,352	\$ 18,352	\$ 8,725	\$ 8,725
Interest-bearing deposits in banks	479	479	79	79
Securities available for sale	35,921	35,921	35,349	35,349
Federal Reserve Bank stock, at cost	751	751	762	762
Federal Home Loan Bank stock, at cost	2,057	2,057	2,057	2,057
Loans held for sale	-	-	386	386
Loans, net	219,726	214,836	220,342	217,416
Accrued interest receivable	988	988	1,100	1,100
Financial liabilities:				
Deposits	223,617	219,030	213,794	211,266
Secured borrowings	798	798	577	577
Securities sold under agreements to repurchase	2,324	2,324	3,392	3,392
Federal Home Loan Bank advances	29,450	29,748	30,450	30,762
Accrued interest payable	288	288	293	293

(9) Income Taxes

The Bank recognized a tax benefit in the amount of \$700,000 for the six months ended June 30, 2011. Prior to March 31, 2011, the Bank had a full valuation reserve of \$5.2 million against the net deferred tax asset which related to prior years' federal and state operating losses as well as other timing differences. In the first quarter of 2011, management determined that based on recent earnings history and near-term earnings projections, it was more likely than not that a portion of the deferred tax asset would be realized and that it was appropriate to decrease the valuation reserve against the deferred tax asset by \$700,000. At June 30, 2011, management continues to believe it is more likely than not that this portion of the deferred tax asset will be realized.

(10) Recent Accounting Pronouncements

Receivables, Topic 310: In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The objective of this update is for an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's portfolio of financing receivables, (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (3) the changes and reasons for those changes in the allowance for credit losses. The disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010 and the disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Bank incorporated the end of reporting period disclosures in the December 31, 2010 financial statements. The disclosures about activity are incorporated into the June 30, 2011 financial statements and have significantly increased the Bank's loan disclosures.

Receivables, Topic 310: In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This update provides additional guidance and clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring ("TDR"). This update is effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application to the beginning of the annual period of adoption. The measurement of impairment should be applied prospectively in the period of adoption for loans that are newly identified as TDRs upon adoption of this

update. In addition, the TDR disclosures required by ASU 2010-20, should be provided beginning in the period of adoption of this update. The Bank adopted this update on July 1, 2011 and is currently evaluating the impact of adoption on its financial statements.

Reconsideration of Effective Control for Repurchase Agreements: In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements. This update provides additional guidance which affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. The amendment removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance relate to that criterion. The amendment is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. This amendment is not expected to have a significant impact on the Bank's financial statements.

Comprehensive Income, Topic 220: In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This ASU amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholder's equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early application is permitted. There will be no impact to the Bank's consolidated financial results as the amendments relate only to changes in financial statement presentation.

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

The following discussion and analysis is designed to assist you in better understanding the financial condition, results of operations, liquidity and capital resources of CBT, as well as any significant changes and trends related thereto. This discussion should be read in conjunction with the accompanying unaudited financial statements and the notes appearing in Item 1 of this Form 10-Q and the audited financial statements and accompanying notes found on pages 49 through 81 of CBT's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Board of Governors of the Federal Reserve System on March 31, 2011.

General

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

Forward-Looking Statements Safe-harbor Statement

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, the Bank's future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on Management's beliefs, as well as assumptions made by, and information currently available to, Management. 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 the Bank's plans, objectives and expectations for future events and include statements about the Bank's expectations, beliefs, plans, objectives, intentions, assumptions and other statements

that are not historical facts. These statements are based on Management's opinions and estimates as of the date they are made. Although the Bank believes 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 the Bank's 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 Bank's ability to manage growth; the loss of significant borrowers and depositors; the ability of customers to repay their obligations; changes in loan delinquency rates or in the Bank's levels of nonperforming asset; the adequacy of the allowance for loan losses; changes in returns on the Bank's investment portfolio; competition; changes in deposit flows, loan demand, or real estate values; changes in economic climate in market areas in which the Bank operates; the departure of key personnel; legislation or regulatory changes; significant changes in accounting, tax, regulatory practices and requirements; technological changes; theft of customer information and security breaches; and claims or litigation related to breaches of fiduciary responsibility to the Bank's customers. 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.

Because of the risks and uncertainties inherent in forward-looking statements, readers are cautioned not to place undue reliance on them, whether included in this Quarterly Report on Form 10-Q or made elsewhere from time to time by the Bank in its other filings with the Federal Reserve Bank. The Bank undertakes no obligation to publicly revise any forward-looking statements or cautionary factors, except as required by law.

Critical Accounting Policies

In the ordinary course of business, Management makes a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Management believes that the critical accounting policies which rely on material estimates that are susceptible to significant differences between actual results and estimates are the determination of allowance for loan losses, other-than-temporary impairment of securities, and valuation of deferred tax assets. Management believes its accounting policy and estimates relating to the provision and allowance for loan losses is very important to the portrayal of CBT's results of operations and financial condition and requires its most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. A description of the estimation process and methodology related to the allowance for loan losses, other-than-temporary impairment of securities and the valuation of deferred tax assets is included in CBT's financial statements and accompanying notes included in CBT's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Board of Governors of the Federal Reserve on March 31, 2011.

Financial Regulatory Reform Legislation

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act has a broad impact on the financial services industry, including significant regulatory and compliance changes including, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthening safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the Office of the Comptroller of the Currency, and the FDIC.

Effective July 21, 2011, the Dodd-Frank Act provided for the elimination of the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest-bearing checking accounts. Depending on competitive

responses, this significant change to existing law could have an adverse impact on our net interest margin by potentially increasing our interest expense.

The Dodd-Frank Act also changes the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per account, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013. The legislation also increases the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than \$10 billion in assets, including the Bank.

The Dodd-Frank Act requires publicly traded companies, like the Bank, to give their stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose “clawback” policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies that are no less than those applicable to banks.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

Comparison of Financial Condition at June 30, 2011 and December 31, 2010

Total assets were \$283.3 million at June 30, 2011, an increase of \$9.0 million or 3.3%, compared to \$274.2 million at December 31, 2010. Total loans decreased by \$664,000 to \$223.1 million at June 30, 2011 compared to \$223.7 million at December 31, 2010. The Bank originated loans totaling \$10.2 million during the period ended June 30, 2011 and had repayments totaling \$9.9 million. The securities portfolio totaled \$35.9 million at June 30, 2011 compared to \$35.3 million at December 31, 2010. The increase in the securities portfolio was due to purchases of eleven (11) government sponsored and government guaranteed residential mortgage-backed securities which was offset by the sale of two (2) bonds along with calls made on seven (7) other bonds prior to their maturities and the continuous prepayments of mortgage-backed securities. Cash and cash equivalents totaled \$18.4 million at June 30, 2011 compared to \$8.7 million at December 31, 2010 and represented CBT’s primary source of liquidity. Other assets decreased by \$1.1 million. This decrease was due to a \$1.0 million due from broker for a security called in December 2010 and the funds being received by the Bank in January 2011. The Bank recorded a \$700,000 deferred tax asset at June 30, 2011 as a result of a reduction in the valuation allowance. The deferred tax asset was fully reserved for as of December 31, 2010.

Total deposits increased \$9.8 million to \$223.6 million at June 30, 2011 compared to \$213.8 million at December 31, 2010. Management employed a variety of strategies to increase funds from a diverse set of depositors. Checking accounts, including both non-interest bearing and NOW accounts, grew \$16.2 million to \$67.3 million at June 30, 2011 through additional new accounts. Money market funds increased \$2.3 million to \$75.0 million at June 30, 2011 compared to \$72.7 million at December 31, 2010. Certificates of deposit declined \$9.3 million to \$78.6 million at June 30, 2011 due to customer migration away from time deposits and planned runoff of brokered deposits. Long-term FHLB advances were \$29.5 million at June 30, 2011, down \$1.0 million from December 31, 2010. Short-term and secured borrowings increased \$221,000 to \$798,000 at June 30, 2011 from \$577,000 at December 31, 2010.

Securities

At June 30, 2011, CBT's securities portfolio, all of which are classified as available-for-sale, amounted to \$35.9 million, or 12.7% of total assets. The following table sets forth information regarding the amortized cost and fair values of CBT's securities at the dates indicated.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>June 30, 2011</u>				
Government-sponsored enterprises	\$ 10,012	\$ 1	\$ (169)	\$ 9,844
U.S. Government guaranteed residential mortgage-backed securities	4,677	139	(55)	4,762
Government-sponsored residential mortgage-backed securities	12,364	346	(16)	12,694
U.S. Government guaranteed commercial mortgage-backed securities	7,574	98	(3)	7,669
Corporate bonds	999	-	(46)	953
	<u>\$ 35,626</u>	<u>\$ 584</u>	<u>\$ (289)</u>	<u>\$ 35,921</u>
<u>December 31, 2010</u>				
Government-sponsored enterprises	\$ 6,540	\$ -	\$ (196)	\$ 6,344
U.S. Government guaranteed residential mortgage-backed securities	5,935	195	(2)	6,128
Government-sponsored residential mortgage-backed securities	12,803	297	(37)	13,063
U.S. Government guaranteed commercial mortgage-backed securities	8,958	70	(40)	8,988
Corporate bonds	999	-	(173)	826
	<u>\$ 35,235</u>	<u>\$ 562</u>	<u>\$ (448)</u>	<u>\$ 35,349</u>

Securities available for sale experienced a net increase of \$572,000. Purchases of securities available for sale for the six months ended June 30, 2011 totaled \$13.7 million and consisted primarily of government-guaranteed residential mortgage-backed securities. For the six months ended June 30, 2011, proceeds from sales of available for sale securities totaled \$4.0 million and from matured and called securities amounted to \$6.4 million. Principal payments totaled \$2.9 million for the six months ended June 30, 2011. The portfolio included a net unrealized gain of \$295,000 as of June 30, 2011, an increase of \$181,000 compared to December 31, 2010. The Bank recognized a net gain of \$138,000 on the sale of securities for the six months ended June 30, 2011.

Loans

CBT is a traditional commercial bank with 82.9% of its loan portfolio advanced to commercial and commercial real estate (CRE) borrowers. Because loans generally produce higher yields than securities and other interest-earning assets, it is CBT's strategy to use deposit balances to fund loans within its market area as soon as practicable. At June 30, 2011, CBT's net loan portfolio totaled \$219.7 million, or 77.5% of total assets, compared to \$220.3 million or 77.8% at December 31, 2010. There were no significant changes in the composition of the loan portfolio since December 31, 2010.

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

(In thousands)	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Commercial real estate:		
Owner occupied	\$ 59,652	\$ 59,798
Non-owner occupied	57,183	56,344
Residential real estate:		
Residential 1-4 family	11,403	9,726
Second mortgages	474	478
Equity lines of credit	8,475	8,480
Construction	11,399	13,766
Total mortgage loans on real estate	<u>148,586</u>	<u>148,592</u>
Commercial loans	67,769	69,110
Consumer loans	6,382	5,627
Total loans	<u>222,737</u>	<u>223,329</u>
Allowance for loan losses	(3,404)	(3,381)
Net deferred loan costs	393	394
Loans, net	<u>\$ 219,726</u>	<u>\$ 220,342</u>

During the six months ended June 30, 2011, Management evaluated the loan portfolio and identified 38 loans totaling \$18.7 million which were considered impaired as of June 30, 2011 compared to 31 loans totaling \$14.9 million as of December 31, 2010. Nonaccrual loans of \$13.7 million and \$8.8 million at June 30, 2011 and December 31, 2010 are considered impaired loans.

Eight loans totaling \$3.5 million were placed on nonaccrual basis during the six months ended June 30, 2011. Two nonaccrual commercial loans totaling \$128,000 were charged-off as they were deemed uncollectible. Another nonaccrual loan had a partial charge-off in the amount of \$75,000. A residential mortgage loan had a partial charge-off of \$18,000 and six consumer loans totaling \$25,400 were also charged off in the six months ended June 30, 2011. Nonaccrual loans represented 6.1% of the gross loan portfolio at June 30, 2011 compared to 3.9% at December 31, 2010.

In continuing efforts to protect against loan losses, the Bank strives to acquire personal guarantees from borrowers, and when available, guarantees from government agencies to protect against loan losses. In addition to the valuation allowance set aside for impaired loans detailed in discussion (see note 6 to the accompanying financial statements), the Bank has government guarantees from the Small Business Association ("SBA") totaling \$803,000 and the United States Department of Agriculture ("USDA") totaling \$1.9 million as of June 30, 2011.

Charged-off loans totaled \$246,000 for the six months ended June 30, 2011 compared to \$85,000 for the same period in the prior year. The percentage of the allowance for loan losses to total loans was 1.53% at June 30, 2011 compared to 1.51% at December 31, 2010 and 1.40% at June 30, 2010.

Deposits

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

(In thousands)	June 30, 2011		December 31, 2010	
	Balance	Percent of Total	Balance	Percent of Total
Noninterest-bearing	\$ 47,873	21.4 %	\$ 35,972	16.8 %
NOW deposits	19,394	8.7	15,140	7.1
Money market deposits	75,038	33.6	72,721	34.0
Savings deposits	2,685	1.2	2,042	1.0
	<u>144,990</u>		<u>125,875</u>	
Certificates of deposit less than \$100,000	29,365	13.1	30,773	14.4
Certificates of deposit greater than \$100,000	49,262	22.0	57,146	26.7
	<u>\$ 223,617</u>	<u>100.0 %</u>	<u>\$ 213,794</u>	<u>100.0 %</u>

Total deposits increased by \$9.8 million to \$223.6 million at June 30, 2011 from \$213.8 million at December 31, 2010. Noninterest-bearing checking accounts totaled \$47.9 million at June 30, 2011, fluctuating within normal deposit ranges. NOW accounts increased \$4.3 million to \$19.4 million at June 30, 2011 primarily due to core growth of new deposit accounts. Tiered money market deposit accounts increased by \$2.3 million to \$75.0 million at June 30, 2011. Certificates of deposits declined \$9.3 million to \$78.6 million at June 30, 2011 with the planned redemption of \$8 million in brokered certificates. Brokered deposits, including brokered money market deposit accounts, totaled \$10.1 million and \$44.4 million at June 30, 2011 and December 31, 2010, respectively.

Comparison of Operating Results for the Three Months Ended June 30, 2011 and 2010

General

CBT reported net income of \$116,000 for the three months ended June 30, 2011 compared to net income of \$261,000 for the same period in the prior year. For the three months ended June 30, 2011 and 2010, the Bank accounted for dividends and accretion on preferred stock totaling \$97,000. The Bank had a net gain on sale of securities available for sale in the amount of \$53,000 during the three months ended June 30, 2011 compared to \$60,000 for the three months ended June 30, 2010. Net income available to common stockholders, after dividend and accretion on preferred stock, was \$19,000 and \$164,000, respectively, for the three months ended June 30, 2011 and 2010. Net interest income was \$2.5 million in each respective three month period ended June 30, 2011 and 2010. The net interest margin was 3.74% for both the three months ended June 30, 2011 and 2010. An increase in average interest-earning assets to \$265.6 million for the quarter ended June 30, 2011 from \$264.1 million for the quarter ended June 30, 2010 was due to the increases in average loans of \$15.0 million and investment in securities of \$3.6 million, which were partially offset by a decline in other average interest earning assets of \$17.1 million. Average loans totaled \$222.3 million during the quarter ended June 30, 2011 compared to \$207.3 million for the same period in the prior year. Interest income on earning assets declined \$109,000 to \$3.2 million for the three months ended June 30, 2011 compared to \$3.3 million for the same period a year earlier due to lower yielding products. Interest expense was \$727,000 for the three months ended June 30, 2011, a decrease of \$124,000 from the comparable period a year earlier. The provision for loan losses decreased \$44,000 to \$110,000 for the quarter ended June 30, 2011 from \$154,000 for the same period a year earlier. The provision for the three months ended June 30, 2011 included reserves on specifically identified impaired loans, as well as provisions in response to deterioration in loan characteristics primarily resulting from loans migrating to delinquent or nonperforming status. The decrease in the provision for loan losses is attributable to the total impaired loans remaining relatively consistent with an increase of \$538,000 to \$18.7 million and \$18.1 million for the three months ended June 30, 2011 and 2010.

Net Interest Income

Net interest income is the difference between income on interest-earning assets and expense on interest-bearing liabilities. The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the three months ended June 30, 2011 and 2010. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided into the average balance of interest-earning assets to arrive at the net interest margin. The average balances of loans include nonaccrual loans, loans held for sale, and deferred fees and costs. Interest on nonaccrual loans has been included only to the extent reflected in the Statement of Income. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis.

	Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/Expense	Average Yield Rate	Average Balance	Interest Income/Expense	Average Yield Rate
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 222,313	\$ 2,942	5.31 %	\$ 207,294	\$ 3,062	5.92 %
Securities	31,761	243	3.07	28,177	223	3.17
Other	11,495	19	0.66	28,641	28	0.39
Total interest-earning assets	265,569	3,204	4.84	264,112	3,313	5.03
Allowance for loan losses	(3,381)			(2,811)		
Cash and due from banks	4,647			4,520		
Other assets	8,016			5,261		
Total assets	<u>\$ 274,851</u>			<u>\$ 271,082</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 95,424	196	0.82	\$ 75,817	203	1.07
Time deposits	78,545	261	1.33	105,491	377	1.43
Borrowed funds	33,534	270	3.23	32,627	271	3.33
Total interest-bearing liabilities	207,503	727	1.41	213,935	851	1.60
Demand deposits	39,850			30,624		
Total deposits and borrowed funds	247,353			244,559		
Other liabilities	1,530			1,543		
Stockholders' equity	25,968			24,980		
Total liabilities and stockholders' equity	<u>\$ 274,851</u>			<u>\$ 271,082</u>		
Net interest income		<u>\$ 2,477</u>			<u>\$ 2,462</u>	
Interest rate spread			<u>3.43 %</u>			<u>3.44 %</u>
Net interest margin			<u>3.74 %</u>			<u>3.74 %</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>127.98 %</u>			<u>123.45 %</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 CBT's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Three Months Ended June 30, 2011 compared to 2010		
	Increase (Decrease)		
	Due to		
	Volume	Rate	Net
	(In Thousands)		
Interest-earning assets:			
Loans	\$ 213	\$ (333)	\$ (120)
Securities	27	(7)	20
Other	(22)	13	(9)
Total interest-earning assets	<u>218</u>	<u>(327)</u>	<u>(109)</u>
Interest-bearing liabilities:			
Savings, NOW and money market deposits	46	(53)	(7)
Time deposits	(91)	(25)	(116)
Borrowed funds	8	(9)	(1)
Total interest-bearing liabilities	<u>(37)</u>	<u>(87)</u>	<u>(124)</u>
Change in net interest income	<u>\$ 255</u>	<u>\$ (240)</u>	<u>\$ 15</u>

Total average interest-earning assets increased \$1.5 million to \$265.6 million for the quarter ended June 30, 2011 compared to the same period in the preceding year. Average loan balances increased by \$15.0 million to \$222.3 million for the quarter ended June 30, 2011 as CBT continued to concentrate on commercial lending, with both new originations and advances on existing lines of credit. Average investments in securities, primarily in government-guaranteed or sponsored securities, increased \$3.6 million to \$31.8 million for the quarter ended June 30, 2011. Other average asset balances, mainly liquid short-term interest bearing funds, decreased by \$17.1 million to 11.5 million for the quarter ended June 30, 2011. Overall, the yield declined 19 basis points year-over-year as an increase of \$218,000 related to volume changes in average interest-earning assets was more than offset by a decrease of \$327,000 related to rate changes in average interest-earning assets.

Average interest-bearing liabilities declined by \$6.4 million to \$207.5 million for the quarter ended June 30, 2011. The decrease in average time deposits of \$27 million to \$78.5 million for the quarter ended June 30, 2011 more than offset increases in both average savings, NOW and money market deposits of \$19.6 million to \$95.4 million and borrowed funds of \$907 thousand to \$33.5 million for the quarter ended June 30, 2011. The average rate paid on these liabilities decreased to 1.41% for the three month period ended June 30, 2011 from 1.60% for the three month period ended June 30, 2010. The effect of these changes resulted in a decrease of \$37,000 related to volume changes and a decrease of \$87,000 related to rate changes. The net interest margin of 3.74% for the three months ended June, 30 2011 remained the same when compared to the same period in the preceding year.

Provision for Loan Losses

The provision for loan losses is estimated based upon quantitative factors affecting both the growth in outstanding loans and composition of the loan portfolio. Management's analysis of the adequacy of the loan loss reserve includes a regular review of qualitative factors including, but not limited to, individual loans, industry trends and concentrations, and national and local economic conditions. Management's evaluation of the current level of outstanding loans and the risk comprised of the qualitative factors within the portfolio resulted in provisions for losses in the amount of \$110,000 for the three months ended June 30, 2011 compared to \$154,000 for the three months ended June 30, 2010. The provision for the three months ended June 30, 2011 included reserves on specifically identified impaired loans, as well as provisions in response to deterioration in loan characteristics primarily resulting from loans migrating to delinquent or nonperforming status. The Bank had recorded \$180,000 provision as an unallocated reserve during the three month ended June 30, 2011 compared to none for the three months ended June 30, 2010. The unallocated reserve is attributable for uncertainties that may occur in the loan portfolio. Management charged off \$93,000 of loans during the three months ended June 30, 2011 compared to \$37,000 in the corresponding period of the prior year.

Non-interest Income

Total non-interest income for the quarter ended June 30, 2011 was \$280,000, an increase of \$71,000 from the same period in the preceding year. The Bank reported a net gain on the sale of available-for-sale securities of \$53,000 for the three months ended June 30, 2011 compared to \$60,000 for the same period in the preceding year. Customer service fees totaled \$117,000 for the quarter ended June 30, 2011 compared to \$77,000 for the corresponding period a year earlier due to increased utilization of fee services. Loan servicing fees totaled \$95,000 compared to \$72,000 for the same period in 2010. The Bank recognized \$15,000 in gains on the sale of loans in the secondary market for the three months ended June 30, 2011 compared to no gains or losses on the sale of loans in the same period a year earlier.

Non-interest Expenses

Non-interest expenses increased \$275,000, or 12.2%, to \$2.5 million for the three months ended June 30, 2011 compared to the same period in 2010. Compensation costs rose \$100,000 to \$1.2 million for the quarter ended June 30, 2011 due to staff additions and higher employee benefit costs. Professional services rose \$66,000 to \$249,000 for the three months ended June 30, 2011 due to rising costs and the increased use of legal, accounting and other consulting services. FDIC insurance assessments increased \$42,000 to \$135,000 for the three months ended June 30, 2011 primarily as a result of higher deposit balances and increased assessment rates imposed by the FDIC. Other general and administrative costs grew \$65,000 to \$344,000 for the quarter ended June 30, 2011 due to costs for collection of problem loans and maintenance of other real estate owned, as well as general increases in costs for goods and services.

Comparison of Operating Results for the Six Months Ended June 30, 2011 and 2010

General

CBT reported net income before income tax benefit of \$222,000 for the six months ended June 30, 2011, compared to net income of \$507,000 for the same period in the prior year. For the six months ended June 30, 2011 and 2010, the Bank accounted for dividends and accretion on preferred stock totaling \$194,000. The Bank recognized a tax benefit in the amount of \$700,000 in the six months ended June 30, 2011 due to the reduction in the valuation allowance for deferred taxes. Net income available to common stockholders, after dividend and accretion on preferred stock and the tax benefit, was \$728,000 and \$313,000, respectively, for the six months ended June 30, 2011 and 2010. Net interest income had a minimal increase of \$34,000 to \$5.0 million for the six months ended June 30, 2011 resulting from decreases of \$216,000 and \$250,000 on interest income and interest expense compared to the same period in the prior year. Noninterest expense had an increase of \$579,000 to \$5.1 million for the six months ended June 30, 2011, compared to \$4.5 million for the same period in the prior year. Non interest income had an increase of \$215,000 to \$573,000 for the six months ended June 30, 2011, compared to \$358,000 for the six months ended June 30, 2010. The provision for loan losses was \$264,000 for the six months ended June 30, 2011, compared to \$309,000 for the comparable period a year earlier. The provision for the six months ended June 30, 2011 included reserves on specifically identified impaired loans, as well as provisions in response to deterioration in loan characteristics primarily resulting from loans migrating to delinquent or nonperforming status. The decrease in the provision for loan losses is attributable to the total impaired loans remaining relatively

consistent with an increase of \$538,000 to \$18.7 million and \$18.1 million for the six months ended June 30, 2011 and 2010, respectively.

Net Interest Income

Net interest income is the difference between income on interest-earning assets and expense on interest-bearing liabilities. The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the six months ended June 30, 2011 and 2010. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided into the average balance of interest-earning assets to arrive at the net interest margin. The average balances of loans includes nonaccrual loans, loans held for sale, and deferred fees and costs. Interest on nonaccrual loans has been included only to the extent reflected in the Statement of Income. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis.

	Six Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Yield Rate	Average Balance	Interest Income/ Expense	Average Yield Rate
(Dollars in thousands)						
Interest-earning assets:						
Loans	\$ 222,006	\$ 5,952	5.41 %	\$ 205,811	\$ 6,110	5.99 %
Securities	32,483	444	2.76	27,960	491	3.54
Other	11,569	36	0.63	24,760	47	0.38
Total interest-earning assets	266,058	6,432	4.88	258,531	6,648	5.19
Allowance for loan losses	(3,380)			(2,754)		
Cash and due from banks	4,499			4,421		
Other assets	5,716			5,108		
Total assets	<u>\$ 272,893</u>			<u>\$ 265,306</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 93,063	\$ 389	0.84	\$ 72,284	\$ 395	1.10
Time deposits	80,657	542	1.36	103,067	777	1.52
Borrowed funds	33,506	530	3.19	32,695	539	3.32
Total interest-bearing liabilities	207,226	1,461	1.42	208,046	1,711	1.66
Demand deposits	38,714			30,964		
Total deposits and borrowed funds	245,940			239,010		
Other liabilities	1,475			1,518		
Stockholders' equity	25,478			24,778		
Total liabilities and stockholders' equity	<u>\$ 272,893</u>			<u>\$ 265,306</u>		
Net interest income		<u>\$ 4,971</u>			<u>\$ 4,937</u>	
Interest rate spread			<u>3.46 %</u>			<u>3.53 %</u>
Net interest margin			<u>3.77 %</u>			<u>3.85 %</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>128.39%</u>			<u>124.27%</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 CBT's 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.

	Six Months Ended June 30, 2011 compared to 2010		
	Increase (Decrease)		
	Due to		
	Volume	Rate	Net
	(In thousands)		
Interest-earning assets:			
Loans	\$ 460	\$ (618)	\$ (158)
Investments securities	73	(120)	(47)
Other	(32)	21	(11)
Total interest-earning assets	<u>501</u>	<u>(717)</u>	<u>(216)</u>
Interest-bearing liabilities:			
Savings, NOW and money market deposits	99	(105)	(6)
Time deposits	(157)	(78)	(235)
Borrowed funds	13	(22)	(9)
Total interest-bearing liabilities	<u>(45)</u>	<u>(205)</u>	<u>(250)</u>
Change in net interest income	<u>\$ 546</u>	<u>\$ (512)</u>	<u>\$ 34</u>

Total average interest-earning assets increased \$7.5 million to \$266.1 million for the six months ended June 30, 2011 compared to the same period in the preceding year. Average loan balances increased \$16.2 million as CBT continued to concentrate on commercial lending, including new originations of commercial loans and advances on existing lines of credit. Average investments in government-guaranteed securities increased \$4.5 million resulting from purchases of \$13.7 million less sales of \$4.0 million and principal repayments and amortization of \$3.1 million. Overall, the yield in interest-earning assets declined 31 basis points year-over-year with an increase of \$501,000 related to volume changes in average interest-earning assets and a decrease of \$717,000 related to rate changes in average interest-earning assets.

Average interest-bearing liabilities decreased slightly by \$820,000 to \$207.2 million for the six months ended June 30, 2011 as the decrease in time deposits of \$22.4 million to \$80.7 million was offset by increases in both savings and time deposits of \$20.8 million to \$93.1 million and borrowed funds of \$811,000 to \$33.5 million. The average rate paid on liabilities dropped to 1.42% for the six months ended June 30, 2011 from 1.66% for the comparable period in 2010. The effect of these changes resulted in a decrease of \$45,000 related to volume changes and a decrease of \$205,000 related to rate changes. The net interest margin declined to 3.77% for the six months ended June 30, 2011 from 3.85% for the comparable period in 2010.

Provision for Loan Losses

The provision for loan losses is estimated based upon quantitative factors affecting both the growth in outstanding loans and composition of the loan portfolio. Management's analysis of the adequacy of the loan loss reserve includes a regular review of qualitative factors including but not limited to individual loans, industry trends and concentrations, and national and local economic conditions. Management's evaluation of the current level of outstanding loans and the risk comprised of the qualitative factors within the portfolio resulted in provisions for losses in the amount of \$264,000 for the six months ended June 30, 2011 compared to \$309,000 for the six months ended June 30, 2010. The provision for the six months ended June 30, 2011 included reserves on specifically identified impaired loans, as well as provisions in response to deterioration in loan characteristics primarily resulting from loans migrating to delinquent or nonperforming status. The Bank had recorded \$180,000 provision as an unallocated reserve for the six months ended June 30, 2011 compared to none for the six months ended June 30, 2010. The unallocated reserve is attributable for uncertainties that may occur in the loan portfolio. Management charged-off \$246,000 of loans during the six months ended June 30, 2011 compared to \$85,000 in the corresponding period of the prior year.

Non-interest Income

Total non-interest income for the six months ended June 30, 2011 was \$573,000, an increase of \$215,000 from the same period in the preceding year. The Bank reported a net gain on the sale of available-for-sale securities of \$138,000 for the six months ended June 30, 2011 compared to \$60,000 from the same period in the preceding year. Customer service fees totaled \$230,000 for the six months ended June 30, 2011 compared to \$146,000 for the corresponding period a year earlier due to increased utilization of fee services. Loan servicing fees totaled \$163,000 compared to \$143,000 for the same period in 2010. The Bank recognized \$42,000 in gains on the sale of loans in the secondary market for the six months ended June 30, 2011 compared to \$9,000 on the sale of loans in the same period a year earlier.

Non-interest Expenses

Non-interest expenses increased \$579,000, or 12.9%, to \$5.1 million for the six months ended June 30, 2011 compared to the same period in 2010. Compensation costs rose \$158,000 to \$2.4 million for the six months ended June 30, 2011 due to staff additions and higher employee benefit costs. Professional services rose \$148,000 to \$480,000 for the six months ended June 30, 2011 due to rising costs and the increased use of legal, accounting and other consulting services. FDIC assessments increased \$77,000 to \$267,000 for the six months ended June 30, 2011 primarily as a result of higher deposit balances and increased assessment rates imposed by the FDIC. Other general and administrative costs grew \$207,000 to \$686,000 for the six months ended June 30, 2011 due to costs for collection of problem loans and maintenance of other real estate owned, as well as general increases in costs for goods and services.

Income Tax Benefit

The Bank recognized a tax benefit in the amount of \$700,000 for the six months ended June 30, 2011. Prior to March 31, 2011, the Bank had a full valuation reserve of \$5.2 million against the net deferred tax asset which related to prior years' federal and state operating losses as well as other timing differences. Management determined that based on recent earnings history and near term earnings projections, it was more likely than not that a portion of the deferred tax asset would be realized and that it was appropriate to decrease the valuation reserve against the deferred tax asset as by \$700,000.

Liquidity

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

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages. To a lesser extent, CBT invests in the origination of consumer loans, primarily home equity loans and lines of credit, and other types of loans as well as investments in mortgage-backed and government-sponsored enterprise securities. To support the growth in lending and investment activities, CBT uses deposit balances and additional funding sources as well as principal and interest payments on outstanding loans and investment securities. CBT experienced a \$9.8 million increase in total deposits to \$223.6 million for the period ending June 30, 2011. Deposit flows are affected by the overall level of interest rates and products offered by CBT and its local competitors as well as other factors. CBT utilizes these cash flows to fund a large portion of its balance sheet growth.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by market interest rates and general economic conditions. When CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and a \$2.0 million federal funds borrowing line of credit from Bankers' Bank Northeast. At June 30, 2011, CBT had \$29.5 million of borrowings outstanding with the FHLB, which represented a \$1 million decrease from December 31, 2010, and had not drawn on the federal funds line of credit with Bankers' Bank Northeast.

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

(In thousands)	June 30, 2011	December 31, 2010
Unfunded commitments under commercial lines of credit	\$ 40,348	\$ 34,797
Unfunded commitments under commercial construction loans	4,153	2,534
Unfunded commitments under home equity lines of credit	6,463	6,558
Commitments to originate loans	11,512	9,996
Commercial letter of credit	962	1,054

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

Interest Rate Sensitivity Management

Interest rate risk ("IRR") represents CBT's primary market risk exposure. Since the Bank's earnings are to a great extent dependent on its net interest income ("NII"), IRR can adversely affect the Bank's earnings. To manage interest rate risk, the Bank has an Asset/Liability Committee ("ALCO"), whose goal is to mitigate interest rate risk and 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 re-price 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 re-price 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 re-price 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.

ALCO directs Management to produce a stable net interest margin ("NIM") in periods of interest rate fluctuations. 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 a 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 movement will be parallel – both short-term and long-term rates will change by the same number of basis points. ALM allows Management to analyze the behavior of CBT's balance sheet components under various rate levels and compare it to the base case – the scenario in which interest rates are assumed to remain unchanged.

NII at-risk measures the risk of a decline in earnings due to potential short-term and long-term changes in interest rates. The following table summarizes the estimated impact on net interest income of increases of 100, 200, 300 and 400 basis points in interest rates over a twelve month period commencing June 30, 2011. Interest rates are assumed to change in parallel fashion and NII results are compared to the flat rate scenario as a base.

Net Interest Income At-Risk

	Base Case	Estimated Change in Net Interest Income			
	(000's)	+100 BP	+200 BP	+300 BP	+400 BP
June 30, 2011	\$ 10,192	0.18%	-0.33%	-0.78%	-2.22%

Off-Balance Sheet Arrangements

Information relating to Off-Balance Sheet Arrangements is presented in CBT's Annual Report on Form 10-K for the year ended December 31, 2010 (see Note 10 to the Financial Statements). There have been no material changes in CBT's off-balance sheet arrangements since December 31, 2010.

Regulatory Capital

Federal law defines specific capital categories for depository institutions. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. To be considered “adequately capitalized,” an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. To be considered “well capitalized,” an institution must generally have a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 6% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 10%. As of June 30, 2011, the most recent notification from the FDIC categorized CBT as “well capitalized.” To be categorized as “well capitalized,” CBT must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

As indicated in the following table, the actual regulatory capital ratios of CBT at June 30, 2011 exceeded the minimum required ratios. Management believes there are no conditions that have changed CBT’s category since its most recent notification from regulators that it is “well capitalized.” CBT’s actual capital amounts and ratios as of June 30, 2011 and December 31, 2010 are presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
<u>June 30, 2011</u>						
Total capital (to risk weighted assets)	\$ 28,329	12.7 %	\$ 17,870	8.0 %	\$ 22,337	10.0 %
Tier 1 capital (to risk weighted assets)	25,537	11.4	8,935	4.0	13,402	6.0
Tier 1 capital (to average assets)	25,537	9.3	10,980	4.0	13,725	5.0
<u>December 31, 2010</u>						
Total capital (to risk weighted assets)	\$ 27,511	12.3 %	\$ 17,924	8.0 %	\$ 22,406	10.0 %
Tier 1 capital (to risk weighted assets)	24,703	11.0	8,962	4.0	13,443	6.0
Tier 1 capital (to average assets)	24,703	8.9	11,146	4.0	13,933	5.0

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

(In thousands)	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Total capital per financial statements	\$ 25,882	\$ 24,867
Accumulated net unrealized gains on available-for-sale securities	(295)	(114)
Intangible assets	<u>(50)</u>	<u>(50)</u>
Total Tier 1 capital	25,537	24,703
<i>Adjustments for total capital</i>		
Allowance for loan losses includible in Tier 2 Capital	<u>2,792</u>	<u>2,808</u>
Total capital per regulatory reporting	<u>\$ 28,329</u>	<u>\$ 27,511</u>

Payment of Dividends

State and federal statutory and regulatory limitations apply to CBT's payment of dividends to stockholders. The prior approval of the DOB is required if the total of all dividends declared by a bank in any calendar year exceeds such 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 for 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 the share of each class of the Bank's outstanding stock previously approve the dividend.

CBT is required to obtain approval of the DOB, the FRBB and the holders of two-thirds of the shares of each of its common stock and preferred stock in order to pay dividends on the shares of senior preferred stock (the "Preferred Stock") that were issued to the United States Department of the Treasury ("Treasury") on December 19, 2008. In addition, under the terms and conditions of the Bank's 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 Preferred Stock.

From March 2004 (when the Bank commenced operations) through June 30, 2009, the Bank posted net losses that resulted from anticipated start-up costs associated with developing the Bank's operating infrastructure, an initially low volume of earning assets, increases to the provisions for loan losses, and the incurrence of other noninterest expenses. These early losses are typical in a new bank. As a result, the Bank has no undivided profits or net profits (i.e. negative retained earnings) and any dividend payment would be considered a reduction of permanent capital. Accordingly, the Bank would need the approval of the holders of at least two-thirds of the shares of each of its common stock and its Preferred Stock, the FRBB and the DOB in order to declare and pay dividends on its Preferred Stock. Under previous Connecticut law, the DOB had no authority to approve a dividend unless a bank had net profits. On June 3, 2009, a bill was passed by the Connecticut legislature and signed by the Governor to permit the Connecticut Banking Commissioner to approve a dividend even absent any net profits. The effective date of this revision to Connecticut law was October 1, 2009.

At the Bank's annual meeting in May 2009, the Bank's common stockholders approved the dividend payment on its Preferred Stock with 73.8% of the shares of common stock voted in favor of the proposal. The Bank also requested and received the written consent of the Treasury as the sole holder of the Preferred Stock to pay dividends on the Preferred stock to the Treasury. In addition, on a quarterly basis, the Bank has been requesting written approval from the FRBB and the DOB to pay dividends on the Preferred Stock to the Treasury. After the Bank requested and received such written approval from the FRBB and the DOB, the Bank paid all scheduled dividends on the Preferred Stock to Treasury commencing on November 15, 2009 through the second quarter of 2011. Future quarterly dividends will be paid subject to the Bank's receipt of written approvals from the FRBB and the DOB.

The Board of Directors has declared and authorized the payment of a quarterly dividend at a rate of 5% per annum of the liquidation preference (\$1,000 per share) of the Preferred Stock on each of the outstanding 5,448 shares of Preferred Stock. The Bank has requested approval from the FRBB and the DOB to pay such quarterly dividend on August 15, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls over Financial Reporting

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 June 30, 2011 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in the Bank's Annual Report on Form 10-K for the year ended December 31, 2010.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. [Removed and Reserved.]

Item 5. Other Information.

None

Item 6. Exhibits.

<u>No.</u>	<u>Description</u>
3(i)	Restated and Amended Certificate of Incorporation of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3(i) to The Connecticut Bank and Trust Company's Registration Statement on Form S-3 dated January 14, 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 28, 2005)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

SIGNATURES

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

THE CONNECTICUT BANK AND TRUST COMPANY

Dated: August 12, 2011

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

Dated: August 12, 2011

By: /s/ Paul Granato
Paul Granato
Treasurer and
Chief Financial Officer

EXHIBIT INDEX

<u>No.</u>	<u>Description</u>
3(i)	Restated and Amended Certificate of Incorporation of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3(i) 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 28, 2005)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
32.1	Section 1350 Certification by Chief Executive Officer
32.2	Section 1350 Certification by Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

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

1. I have reviewed this Quarterly Report on Form 10-Q of The Connecticut Bank and Trust Company;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 12, 2011

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

EXHIBIT 31.2

CERTIFICATIONS

I, Paul Granato, Treasurer and Chief Financial Officer of The Connecticut Bank and Trust Company, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Connecticut Bank and Trust Company;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 12, 2011

/s/ Paul Granato
Paul Granato
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ended June 30, 2011 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David A. Lentini
David A. Lentini
Chief Executive Officer
August 12, 2011

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ended June 30, 2011 as filed with the Federal Reserve Bank of Boston (the “Report”), I, Paul Granato, Chief Financial Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Paul Granato
Chief Financial Officer
August 12, 2011