

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

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

FDIC Certificate Number 57690

THE CONNECTICUT BANK AND TRUST COMPANY  
(Exact name of registrant as specified in its charter)

CONNECTICUT  
(State or other jurisdiction of  
incorporation or organization)

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

58 STATE HOUSE SQUARE  
(Address of principal executive offices)

06103  
(Zip Code)

**(860) 246-5200**

(Registrant's telephone number, including area code)

**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," and "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 [X]

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

COMMON STOCK, \$1 par value per share

3,572,450 shares at October 30, 2009

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

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

#### THE CONNECTICUT BANK AND TRUST COMPANY

##### Balance Sheets

(Unaudited)

##### ASSETS

	September 30, 2009	December 31, 2008
<i>(Dollars in thousands)</i>		
Cash and due from banks	\$ 13,639	\$ 6,774
Certificates of deposit	78	99
Securities available for sale, at fair value	29,017	32,461
Federal Reserve Bank stock, at cost	710	585
Federal Home Loan Bank stock, at cost	2,057	1,870
Loans	191,869	181,772
Less: allowance for loan losses	(2,973)	(2,681)
Loans, net	<u>188,896</u>	<u>179,091</u>
Premises and equipment, net	2,203	2,566
Accrued interest receivable	894	949
Other assets	769	683
	<u>\$ 238,263</u>	<u>\$ 225,078</u>

##### LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$ 181,368	\$ 162,934
Short-term borrowings	1,173	7,521
Long-term debt	30,450	30,450
Other liabilities	922	634
Total liabilities	<u>213,913</u>	<u>201,539</u>

Commitments and Contingencies (Note 6)

Stockholders' equity:

Preferred stock, no par value; 1,000,000 shares authorized; 5,448 shares issued and outstanding at September 30, 2009 and December 31, 2008; aggregate liquidation preference of \$5,448 at September 30, 2009 and December 31, 2008	5,448	5,448
Discount on preferred stock	(518)	(604)
Common stock, \$1.00 par value; 10,000,000 shares authorized; 3,572,450 shares issued and outstanding at September 30, 2009 and December 31, 2008	3,572	3,572
Common stock warrants	1,405	1,405
Additional paid-in capital	29,839	29,780
Restricted stock unearned compensation	(49)	(141)
Retained deficit	(15,579)	(15,618)
Accumulated other comprehensive income (loss)	232	(303)
Total stockholders' equity	<u>24,350</u>	<u>23,539</u>
	<u>\$ 238,263</u>	<u>\$ 225,078</u>

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

**THE CONNECTICUT BANK AND TRUST COMPANY**

**Statements of Operations**

**(Unaudited)**

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Interest and dividend income:				
Interest and fees on loans	\$ 2,887	\$ 2,651	\$ 8,359	\$ 7,805
Debt securities	317	356	1,001	938
Dividends	11	10	27	61
Federal funds sold/other	1	37	2	149
Total interest and dividend income	3,216	3,054	9,389	8,953
Interest expense:				
Deposits	629	1,039	2,265	3,282
Borrowed funds	277	281	831	781
Total interest expense	906	1,320	3,096	4,063
Net interest income	2,310	1,734	6,293	4,890
Provision for loan losses	154	1,316	420	1,537
Net interest income, after provision for loan losses	2,156	418	5,873	3,353
Noninterest income:				
Service charges and fees	75	69	211	172
Brokerage commissions	71	77	191	213
Gains from sales of available-for-sale securities, net	-	-	56	65
Gains from sales of loans, net	7	-	15	-
Total noninterest income	153	146	473	450
Noninterest expenses:				
Salaries and benefits	1,087	1,102	3,170	3,244
Occupancy and equipment	443	467	1,348	1,333
Data processing	82	76	230	218
Marketing	105	90	268	230
Professional services	134	115	392	325
FDIC assessment	82	33	300	93
Other general and administrative	172	168	513	538
Total noninterest expenses	2,105	2,051	6,221	5,981
Net income (loss)	204	(1,487)	125	(2,178)
Accretion of discount on preferred stock issuance	(28)	-	(86)	-
Net income (loss) attributable to common shareholders	\$ 176	\$ (1,487)	\$ 39	\$ (2,178)
Net income (loss) per share:				
Basic	\$ 0.05	\$ (0.42)	\$ 0.01	\$ (0.61)
Diluted	\$ 0.05	\$ (0.42)	\$ 0.01	\$ (0.61)
Shares outstanding:				
Average basic common shares issued and outstanding	3,572	3,572	3,572	3,572
Average diluted common shares issued and outstanding	3,572	3,572	3,572	3,572

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Statements of Changes in Stockholders' Equity**  
**Nine Months Ended September 30, 2009 and 2008**  
**(Unaudited)**

<i>(Dollars in thousands)</i>	<u>Preferred Stock</u>	<u>Discount on Preferred Stock</u>	<u>Common Stock</u>	<u>Common Stock Warrants</u>	<u>Additional Paid-in Capital</u>	<u>Unearned Compensation</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2007	\$ -	-	\$ 3,572	\$ 853	\$ 29,700	\$ (279)	\$(13,142)	\$ (263)	<u>\$ 20,441</u>
Comprehensive loss:									
Net loss	-	-	-	-	-	-	(2,178)	-	(2,178)
Change in net unrealized loss on securities available for sale, net of reclassification adjustment of \$65	-	-	-	-	-	-	-	(359)	<u>(359)</u>
Total comprehensive loss									<u>(2,537)</u>
Activity related to stock option grants	-	-	-	-	59	-	-	-	59
Activity related to restricted stock awards	-	-	-	-	-	107	-	-	<u>107</u>
Balance at September 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,572</u>	<u>\$ 853</u>	<u>\$ 29,759</u>	<u>\$ (172)</u>	<u>\$(15,320)</u>	<u>\$ (622)</u>	<u>\$ 18,070</u>
Balance at December 31, 2008	\$ 5,448	\$ (604)	\$ 3,572	\$ 1,405	\$ 29,780	\$ (141)	\$(15,618)	\$ (303)	<u>\$ 23,539</u>
Comprehensive income:									
Net income	-	-	-	-	-	-	125	-	125
Change in net unrealized gain on securities available for sale, net of reclassification adjustment of \$56	-	-	-	-	-	-	-	535	<u>535</u>
Total comprehensive income									<u>660</u>
Accretion of discount on preferred stock issuance	-	86	-	-	-	-	(86)	-	-
Activity related to stock option grants	-	-	-	-	59	-	-	-	59
Activity related to restricted stock awards	-	-	-	-	-	92	-	-	<u>92</u>
Balance at September 30, 2009	<u>\$ 5,448</u>	<u>\$ (518)</u>	<u>\$ 3,572</u>	<u>\$ 1,405</u>	<u>\$ 29,839</u>	<u>\$ (49)</u>	<u>\$(15,579)</u>	<u>\$ 232</u>	<u>\$ 24,350</u>

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

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

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 125	\$ (2,178)
Adjustment to reconcile net income (loss) to net cash provided (used) by operating activities:		
Provision for loan losses	420	1,537
Loans originated for sale	(1,729)	-
Proceeds from sales of loans	1,744	-
Net gains from sales of loans	(15)	-
Net gains from sales of available for sale securities	(56)	(65)
Depreciation and amortization	398	461
Net amortization of premiums on available-for-sale securities	149	35
Net amortization of deferred loan costs and fees	(17)	(23)
Share-based compensation plans	151	166
Decrease (increase) in accrued interest receivable	55	(37)
Increase in other assets	(86)	(159)
Increase (decrease) in other liabilities	288	(153)
Net cash provided (used) by operating activities	1,427	(416)
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Sales	9,942	2,994
Maturities and calls	6,136	7,248
Purchases	(18,048)	(21,347)
Principal payments	5,856	2,268
Maturity (purchases) of certificates of deposit	21	(415)
(Purchases) redemption of FRB stock	(125)	50
Purchases of FHLB stock	(187)	(640)
Net loan originations and purchases	(10,208)	(27,416)
Purchases of premises and equipment	(35)	(118)
Net cash used by investing activities	(6,648)	(37,376)
Cash flows from financing activities:		
Net increase in deposits	18,434	32,136
Net (decrease) increase in short-term borrowings	(6,348)	274
Proceeds from long-term debt	-	13,000
Net cash provided by financing activities	12,086	45,410
Net change in cash and cash equivalents	6,865	7,618
Cash and cash equivalents at beginning of period	6,774	11,491
Cash and cash equivalents at end of period	\$ 13,639	\$ 19,109
Supplemental disclosures of cash flow information:		
Interest paid	\$ 3,066	\$ 4,089

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Notes to Unaudited Financial Statements**  
**September 30, 2009**

**(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; and 148 Broad Street Windsor, Connecticut. CBT is subject to competition from other financial institutions, including but not limited to commercial banks, savings banks, credit unions and mortgage banking companies. CBT is also subject to the regulations of, and periodic examinations by, the Connecticut Department of Banking (“DOB”) and the Board of Governors of the Federal Reserve System (“Fed”) through the Federal Reserve Bank of Boston (“FRBB”). CBT’s deposits are insured up to the limits specified by the Federal Deposit Insurance Corporation (“FDIC”).

**(2) Use of Estimates**

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

**(3) Basis of Presentation**

In the opinion of CBT’s management (“Management”), the accompanying unaudited financial statements contain all adjustments necessary to present fairly the financial position for the period ended September 30, 2009 and December 31, 2008, and the results of operations, changes in stockholders’ equity and cash flows as of and for the three and nine month periods ended September 30, 2009. These adjustments consist only of normal recurring adjustments. Certain amounts in prior periods have been reclassified to conform to the current presentation. The results of operations for the three and nine 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 49-79 of CBT’s Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Board of Governors of the Federal Reserve System on March 30, 2009. Management evaluated subsequent events for the purpose of this filing through November 11, 2009.

**(4) Earnings (Loss) Per Share**

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

Earnings (loss) per common share for the three and nine months ended September 30, 2009 and 2008 have been computed based upon the following (in thousands, except per share amounts):

	Unaudited		Unaudited	
	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net income (loss)	\$ 204	\$ (1,487)	\$ 125	\$ (2,178)
Accretion of discount on preferred stock issuance	<u>(28)</u>	<u>-</u>	<u>(86)</u>	<u>-</u>
Net income (loss) available to common shareholders	<u>\$ 176</u>	<u>\$ (1,487)</u>	<u>\$ 39</u>	<u>\$ (2,178)</u>
Average number of common shares outstanding	<u>3,572</u>	<u>3,572</u>	<u>3,572</u>	<u>3,572</u>
Average number of common shares outstanding used to calculate diluted earnings per share	<u>3,572</u>	<u>3,572</u>	<u>3,572</u>	<u>3,572</u>
Basic earnings (loss) per share	<u>\$ 0.05</u>	<u>\$ (0.42)</u>	<u>\$ 0.01</u>	<u>\$ (0.61)</u>
Diluted earnings (loss) per share	<u>\$ 0.05</u>	<u>\$ (0.42)</u>	<u>\$ 0.01</u>	<u>\$ (0.61)</u>

For the three and nine month periods ending September 30, 2009, the Bank recognized \$28,000 and \$86,000, respectively, for the discount accretion on the preferred stock issued to the United States Treasury under the Capital Purchase Program.

For the three and nine month periods ended September 30, 2009 and 2008, 346,242 and 170,500, respectively, of common stock warrants, and 141,900 and 143,500, respectively, of stock options were anti-dilutive and therefore not included in the diluted earnings (loss) per share calculation.

## (5) Securities

At September 30, 2009, CBT's investment securities portfolio, all of which were classified as available for sale, amounted to \$29.0 million, or 12.2% of assets. The following table sets forth at the dates indicated information regarding the amortized cost and market values of CBT's investment securities.

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b><u>September 30, 2009</u></b>				
Government-sponsored enterprises	\$ 993	\$ 13	\$ -	\$ 1,006
Agency mortgage-backed securities	26,793	621	(89)	27,325
Other bonds	999	-	(313)	686
	<u>\$ 28,785</u>	<u>\$ 634</u>	<u>\$ (402)</u>	<u>\$ 29,017</u>
<b><u>December 31, 2008</u></b>				
Government-sponsored enterprises	\$ 7,129	\$ 42	\$ -	\$ 7,171
Agency mortgage-backed securities	24,636	276	(104)	24,808
Other bonds	999	-	(517)	482
	<u>\$ 32,764</u>	<u>\$ 318</u>	<u>\$ (621)</u>	<u>\$ 32,461</u>

There were no sales of securities available-for-sale for the three months ended September 30, 2009 and 2008, respectively. Proceeds from the sales of securities available-for-sale amounted to \$9.9 million and \$3.0 million for the nine months ended September 30, 2009 and 2008, respectively.

Information pertaining to securities available for sale with gross unrealized losses at September 30, 2009 and December 31, 2008 aggregated by investment category and length of time that individual securities have been in a loss position, is as follows:

<i>(Dollars in thousands)</i>	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<b><u>September 30, 2009</u></b>				
Agency mortgage-backed securities	\$ (82)	\$ 5,451	\$ (7)	\$ 2,097
Other bonds	-	-	(313)	686
	<u>\$ (82)</u>	<u>\$ 5,451</u>	<u>\$ (320)</u>	<u>\$ 2,783</u>
<b><u>December 31, 2008</u></b>				
Agency mortgage-backed securities	\$ (104)	\$ 5,971	\$ -	\$ -
Other bonds	-	-	(517)	482
	<u>\$ (104)</u>	<u>\$ 5,971</u>	<u>\$ (517)</u>	<u>\$ 482</u>

At September 30, 2009, the Bank has five investments in government-sponsored mortgage backed securities with depreciation totaling 1.2% of its amortized cost basis. Management believes that the change in value is attributable to

changes in interest rates and not to the credit quality of the issuer. The Bank does not consider these investments to be other-than-temporarily impaired as of September 30, 2009 and it is not likely that the Bank will have to sell the investment before recovery of its cost basis, which may be its maturity.

The Bank's unrealized loss on the other bond segment of the portfolio relates to a senior unsecured obligation from SLM Corp ("SLM"). At September 30, 2009, the SLM bond had depreciation totaling 31.3% of its amortized cost. The market value of this bond improved \$306,000 from the valuation as of June 30, 2009, however, the bond has a net unrealized loss of \$313,000 as of September 30, 2009. The improvement is attributable to recent quoted prices from our broker regarding similar transactions in the market. Management believes that the cause of such a decline was driven by the low trading volume of this bond and the overall illiquidity for this debt issue in the bond market. Management does not believe that this investment will suffer from any credit related losses. The Bank does not consider this investment to be other-than-temporarily impaired as it has the ability to hold this investment until maturity (approximately six years), and it is not likely that the investment will have to be sold before recovery of its cost basis, which may be its maturity.

The following table sets forth the indicated information regarding the scheduled maturity including the weighted average yield of the Bank's available for sale investment security portfolio as of September 30, 2009.

<i>(Dollars in thousands)</i>	September 30, 2009		
	Amortized Cost	Fair Value	Weighted Avg Yield
Government-sponsored enterprises:			
Over 10 years	\$ 993	\$ 1,006	4.9%
	<u>993</u>	<u>1,006</u>	4.9%
Agency mortgage-backed securities:			
Over 5 years to 10 years	2,212	2,320	4.3%
Over 10 years	24,581	25,005	4.7%
	<u>26,793</u>	<u>27,325</u>	4.7%
Other bonds:			
Over 5 years to 10 years	999	686	5.3%
	<u>999</u>	<u>686</u>	5.3%
	<u>\$ 28,785</u>	<u>\$ 29,017</u>	5.1%

## **(6) 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. CBT had commitments to originate loans totaling \$16.6 million at September 30, 2009 compared to \$12.4 million at December 31, 2008. CBT also had unfunded commitments under existing lines of credit aggregating \$41.6 million at September 30, 2009 and \$38.9 million at December 31, 2008.

## **(7) Allowance for Loan Losses**

The allowance for loan losses is established through provisions for loan losses charged to expense. Loans are charged against the allowance for loan losses when Management believes that the uncollectibility of a loan balance is confirmed. The allowance is an amount that CBT's Management believes will be adequate to absorb losses inherent in existing loans, based on evaluations of collectibility and historical loss experience. The evaluations take into consideration such factors

as changes in the nature and volume of the portfolio, overall credit quality, industry concentrations, specific problem loans, commitments, current economic conditions that may affect the borrowers' ability to pay, and other economic factors related to the collectibility of loans in CBT's portfolio. Although Management reevaluates the allowance periodically, formal evaluations occur on a quarterly basis.

**(8) Fair Value of Assets and Liabilities**

Effective April 1, 2009, CBT adopted Accounting Standards Codification (“ASC”) 825, “*Interim Disclosures about Fair Value of Financial Instruments.*” which provides a framework for measuring fair value under generally accepted accounting principles (“GAAP”) and requires a public entity to provide disclosures about fair value of financial instruments in interim financial information.

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

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

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

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

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

	September 30, 2009			Assets/Liabilities
<i>(Dollars in thousands)</i>	Level 1	Level 2	Level 3	at Fair Value
Securities available-for-sale	<u>\$ -</u>	<u>\$ 29,017</u>	<u>\$ -</u>	<u>\$ 29,017</u>

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

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

<i>(Dollars in thousands)</i>	September 30, 2009			Three months ended September 30, 2009	Nine months ended September 30, 2009
	Level 1	Level 2	Level 3	Gains/(Losses)	Gains/(Losses)
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Loans	<u>-</u>	<u>-</u>	<u>2,057</u>	<u>5</u>	<u>(206)</u>

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

***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. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Bank.

<i>(Dollars in thousands)</i>	September 30, 2009		December 31, 2008	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 13,639	\$ 13,639	\$ 6,774	\$ 6,774
Certificates of deposit	78	78	99	99
Securities available-for-sale	29,017	29,017	32,461	32,461
Federal Reserve Bank stock	710	710	585	585
Federal Home Loan Bank stock	2,057	2,057	1,870	1,870
Loans, net	188,896	192,931	179,091	182,803
Accrued interest receivable	894	894	949	949
<b>Financial liabilities:</b>				
Deposits	181,368	181,795	162,934	163,275
Short-term borrowings	1,173	1,173	7,521	7,521
Long-term borrowings	30,450	31,218	30,450	30,565

## **(9) Recent Accounting Pronouncements**

In August 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-05, “*Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value*”. This ASU provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

1. A valuation technique that uses:
  - a. The quoted price of the identical liability when traded as an asset.
  - b. Quoted prices for similar liabilities or similar liabilities when traded as assets.
2. Another valuation technique that is consistent with the principles of Topic 820. Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter the identical liability.

The amendments also clarify that:

- When estimating the fair value of the liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability; and
- That the quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

ASU No. 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance and is not expected to have a material impact on the bank’s consolidated financial statements.

In June 2009, the FASB issued two related accounting pronouncements changing the accounting principles and disclosure requirements related to securitizations and special purpose entities. Specifically, these pronouncements eliminate the concept of a “qualifying special-purpose entity”, change the requirements for derecognizing financial assets and change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. These pronouncements also expand existing disclosure requirements to include more information about assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. These pronouncements will be effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions regarding transfers of financial assets shall be applied to transfers that occur on or after the effective date. The adoption of these pronouncements is not expected to have a material impact on the Bank’s consolidated financial statements.

In June 2009, the FASB issued ASU No. 2009-01, “*Topic 105 Generally Accepted Accounting Principles – FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.*” The codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered nonauthoritative. The Codification is effective for interim or annual reporting periods ending after September 15, 2009. This pronouncement had no impact on the Bank’s financial statements. However, all future references to authoritative accounting literature will be references in accordance with the Accounting Standards Codification.

In May 2009, the FASB issued ASC 855, “*Subsequent Events*”. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 is effective for interim or annual reporting periods ending after June 15, 2009 and had no effect on the Bank’s consolidated financial statements.

In April 2009, the FASB issued ASC 825, “*Interim Disclosures about Fair Value of Financial Instruments*”. ASC 825 requires a public entity to provide disclosures about fair value of financial instruments in interim financial information. ASC 825 is effective for interim and annual financial periods ending after June 15, 2009. The Bank adopted the provisions of ASC 825 on April 1, 2009 and provided the required disclosures in “Note 9. Fair Value of Assets and Liabilities” within the *Notes to Unaudited Financial Statements*.

In April 2009, the FASB issued ASC 820, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*”. ASC 820 affirms that the objective of fair value when a market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market is for that asset is not active. ASC 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. ASC 820 also expanded certain disclosure requirements. ASC 820 is effective for interim and annual periods ending after June 15, 2009. The Bank adopted the provisions of ASC 820 on April 1, 2009. Please refer to the “Note 6. Securities” within the *Notes to Unaudited Financial Statements* in Item 1 for a more detailed discussion.

In April 2009, the FASB issued ASC 320, “*Recognition and Presentation of Other-Than-Temporary-Impairment*”. ASC 320 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert that it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC 320, declines in fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. ASC 320 is effective for interim and annual periods ending after June 15, 2009. The Bank adopted the provisions of ASC 320 on April 1, 2009. Please refer to “Note 6. Securities” within the *Notes to Unaudited Financial Statements* in Item 1 for a more detailed discussion.

In June 2008, the FASB issued ASC 260, “*Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*.” ASC 260 clarifies that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities. ASC 260 also provides guidance on how to allocate earnings to participating securities and compute EPS using the two-class method. ASC 260 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. ASC 260 became effective on January 1, 2009 and did not impact the bank’s consolidated financial statements because dividends paid on unvested shares are forfeitable under the Bank’s stock grant agreements.

In December 2007, the FASB issued ASC 805, “*Business Combinations*”. ASC 805 broadens the guidance and, extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. ASC 805 expands on required disclosures to improve the statement users’ abilities to evaluate the nature and financial effects of business combinations. ASC 805 is effective for the first annual reporting period beginning on or after December 15, 2008. The provisions of ASC 805 will be applied to business combinations closing on or after January 1, 2009.

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

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

### **General**

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

### **Critical Accounting Policies**

In the ordinary course of business, Management makes a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Management believes that the critical accounting policies which rely on material estimates that are susceptible to significant differences between actual results and estimates are the determination of allowance for loan losses, other-than-temporary impairment of investments, and valuation of deferred tax assets. Management believes its accounting policy and estimates relating to the provision and allowance for loan losses is very important to the portrayal of CBT's financial condition and results and requires its most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. A detailed description of the estimation processes and methodology related to the allowance for loan losses is included in CBT's notes to the unaudited interim financial statements appearing in Part I of this Form 10-Q. A description of the estimation process and methodology related to the allowance for loan and lease losses, other-than-temporary impairment of investments and the valuation of deferred tax assets is included in CBT's financial statements and accompanying notes included in CBT's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Board of Governors of the Federal Reserve on March 30, 2009.

## Comparison of Financial Condition at September 30, 2009 and December 31, 2008

Total assets were \$238.3 million at September 30, 2009, an increase of \$13.2 million, or 5.9%, compared to \$225.1 million at December 31, 2008. Total loans expanded \$10.1 million at September 30, 2009 and totaled \$191.9 million compared to \$181.8 at December 31, 2008. We continue to follow our primary strategy of lending to commercial and commercial real estate ventures in the North-Central Connecticut market. The investment portfolio totaled \$29.0 million at September 30, 2009 compared to \$32.5 million at December 31, 2008. During the nine month period ended September 30, 2009, the investment portfolio declined by \$3.5 million. The investment portfolio was impacted by \$6.1 million of callable investments that were redeemed by the issuer due to the low interest rate environment and Management restructured a portion of the portfolio due to excessive principal prepayments on mortgage backed securities. Cash and cash equivalents rose \$6.8 million from \$6.8 million at December 31, 2008 to \$13.6 million at September 30, 2009 and represented our primary source of liquidity. Cash and cash equivalents are fully insured funds under the FDIC's Transaction Account Guarantee Program in which the FDIC will guarantee certain noninterest bearing transaction accounts through December 31, 2009.

Total deposit balances grew \$18.4 million to \$181.4 million at September 30, 2009. Management has employed a variety of strategies to raise funds from a diverse set of depositors. CBT recently experienced a migration of \$5 million of certificates of deposit to its tiered money market product. Non-maturity money market funds grew \$21.3 million to \$56.9 million at September 30, 2009. Long-term FHLB advances were \$30.5 million at September 30, 2009 unchanged from December 31, 2008. Short-term borrowings declined by \$6.3 million from \$7.5 million to \$1.2 million as borrowings were repaid in accordance with their contractual terms.

### Investment securities

At September 30, 2009, CBT's investment securities portfolio, all of which was classified as available-for-sale, amounted to \$29.0 million, or 12.2% of total assets. The following table sets forth information regarding the amortized cost and fair values of CBT's investment securities at the dates indicated.

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b><u>September 30, 2009</u></b>				
Government-sponsored enterprises	\$ 993	\$ 13	\$ -	\$ 1,006
Mortgage-backed securities	26,793	621	(89)	27,326
Other bonds	999	-	(313)	686
	<u>\$ 28,785</u>	<u>\$ 634</u>	<u>\$ (402)</u>	<u>\$ 29,018</u>
<b><u>December 31, 2008</u></b>				
Government-sponsored enterprises	\$ 7,129	\$ 42	\$ -	\$ 7,171
Mortgage-backed securities	24,636	276	(104)	24,808
Other bonds	999	-	(517)	482
	<u>\$ 32,764</u>	<u>\$ 318</u>	<u>\$ (621)</u>	<u>\$ 32,461</u>

Securities available-for-sale decreased \$3.5 million from December 31, 2008. The decrease resulted from the sale of investments and redemption of callable bonds by the issuer. Also, principal paydowns on mortgage-backed securities increased primarily due to the low interest rate environment. The portfolio has a net unrealized gain of \$232,000 as of September 30, 2009, an increase of \$535,000 compared to December 31, 2008. For the nine month period ending September 30, 2009, CBT realized a gain of \$56,000 on the sale of available-for-sale securities.

## Loans

CBT is a traditional commercial bank with 83.4% of its loan portfolio advanced to commercial and commercial real estate (CRE) borrowers. Because loans generally produce higher yields than investment securities and other interest-earning assets, it is CBT's strategy to use deposit balances to fund loans within its market area as soon as practicable. At September 30, 2009, CBT's loan portfolio totaled \$191.9 million, or 80.5% of total assets.

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

<i>(Dollars in thousands)</i>	September 30, 2009		December 31, 2008	
	Balance	Percent of total	Balance	Percent of total
Mortgage loans on real estate:				
Commercial - owner occupied	\$ 66,148	34.5 %	\$ 59,855	32.9 %
Commercial - non-owner occupied	39,319	20.5	36,650	20.1
Construction	18,641	9.7	16,963	9.3
Equity lines of credit	7,718	4.0	6,603	3.6
Residential	4,999	2.6	3,512	1.9
Total mortgage loans on real estate	<u>136,825</u>	<u>71.3</u>	<u>123,583</u>	<u>67.9</u>
Commercial	\$ 54,450	28.4	\$ 57,465	31.6
Consumer	668	0.3	918	0.5
Total loans	<u>\$ 191,943</u>	<u>100.0 %</u>	<u>\$ 181,966</u>	<u>100.0 %</u>
Allowance for loan losses	(2,973)		(2,681)	
Net deferred loan fees	(74)		(194)	
Loans, net	<u><u>\$ 188,896</u></u>		<u><u>\$ 179,091</u></u>	

## Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are individually assessed for impairment based on probable or observed credit weaknesses. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that CBT will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan agreement. Factors considered by Management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays

and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. Charged-off loans totaled \$129,000 for the nine month period ending September 30, 2009, compared to \$659,000 in the comparable period a year earlier. Management believes that the charge-offs to date represent isolated cases and not a systemic or portfolio trend. The balance of the allowance for loan losses was \$3.0 million as of September 30, 2009 compared to \$2.7 million as of December 31, 2008. The percentage of the allowance for loan losses increased to 1.55% for the period ending September 30, 2009 compared to 1.47% at December 31, 2008. The following is a summary of impaired loans and nonaccrual loans as of the dates indicated:

<i>(Dollars in thousands)</i>	September 30, 2009	December 31, 2008
	<u>          </u>	<u>          </u>
Impaired loans without a valuation allowance	\$ 10,069	\$ 6,040
Impaired loans with a valuation allowance	<u>2,706</u>	<u>1,468</u>
Total impaired loans	<u>\$ 12,775</u>	<u>\$ 7,508</u>
Valuation allowance related to impaired loans	<u>\$ 648</u>	<u>\$ 441</u>
Total nonaccrual loans	<u>\$ 2,636</u>	<u>\$ 2,127</u>

In continuing efforts to protect against loan losses, the Bank adds protection by acquiring 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, the Bank has government guarantees from the Small Business Association and the United States Department of Agriculture in the amount of \$2.7 million as of September 30, 2009.

## **Deposits**

Deposits from our primary market have provided a relatively stable funding source for CBT's loan portfolio and other earning assets. In addition, CBT is a well-capitalized institution and can accept brokered deposits without limitation. CBT offers a full range of interest bearing and non-interest bearing accounts with a range of maturity date options. The primary source 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.

	September 30, 2009		December 31, 2008	
	Balance	Percent of Total	Balance	Percent of Total
<i>(Dollars in thousands)</i>				
Demand	\$ 31,407	17.3 %	\$ 32,498	20.0 %
NOW	8,684	4.8	5,399	3.3
Money market	56,854	31.3	35,508	21.8
Savings	1,153	0.6	1,360	0.8
	<u>98,098</u>	<u>54.1</u>	<u>74,765</u>	<u>45.9</u>
Certificates of deposit less than \$100,000	42,767	23.6	54,645	33.5
Certificates of deposit greater than \$100,000	40,503	22.3	33,524	20.6
Total deposits	<u>\$ 181,368</u>	<u>100.0 %</u>	<u>\$ 162,934</u>	<u>100.0 %</u>

Total deposits increased by \$18.4 million, or 11.3%, to \$181.4 million at September 30, 2009 from \$162.9 million at December 31, 2008. The increase was primarily centered in two categories. NOW deposit accounts increased \$3.3 million and tiered money market deposits increased \$21.3 million, with both an increase in the number of accounts and higher balances from existing customer relationships. Certificate of deposits declined \$5 million as customers shifted their preferences to liquid money market deposit accounts from certificates of deposit accounts. Certificates of deposit less than \$100,000 included \$29.8 million and \$26.3 million in brokered certificates of deposit at September 30, 2009 and December 31, 2008, respectively.

### Contractual Obligations

CBT is required to pay certain obligations under various contracts. Listed in the table below are the obligations for payments in the time frame specified as of September 30, 2009.

<i>(Dollars in thousands)</i>	Total	Less Than 1 year	1-3 Years	3-5 Years	More than 5 Years
Long term debt obligations	\$ 30,450	\$ -	\$ 1,000	\$ 5,000	\$ 24,450
Lease obligations	4,603	722	1,542	1,386	953
Repurchase agreements	1,173	1,173	-	-	-
Total	<u>\$ 36,226</u>	<u>\$ 1,895</u>	<u>\$ 2,542</u>	<u>\$ 6,386</u>	<u>\$ 25,403</u>

### Comparison of Operating Results for the Three Months Ended September 30, 2009 and 2008

#### General

CBT reported net operating income of \$176,000, or \$0.05 per share for the three month period ending September 30, 2009, compared to a net operating loss of \$1,487,000, or (\$0.42) per share for the same period in the prior year. Net interest income increased \$576,000 primarily as a result of a decline in the rate paid on the Bank's interest-bearing liabilities and an increase of \$18.4 million in average earning assets. Interest income on earning assets rose \$162,000 to \$3.2 million for the three month period ending September 30, 2009 compared to the same period a year earlier. Interest expense was \$906,000 for the three month period ending September 30, 2009, a decrease of \$414,000 from \$1.3 million for the comparable period a year earlier. The provision for loan losses for the three month period ending September 30, 2009 was \$154,000 compared to \$1.3 million for the comparable period a year earlier. The unusually high provisions in the third quarter of 2008 were primarily the result of an overall increase in the allowance for loan losses due to deteriorating economic conditions and the charge off of three loans with inadequate performance.

## Net Interest Income

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

The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the three month periods ending September 30, 2009 and 2008. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided into the average balance of interest-earning assets to arrive at the net interest margin. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis.

	<b>Three Months Ended September 30,</b>					
	<b>2009</b>			<b>2008</b>		
	<i>(Dollars in thousands)</i>					
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield Rate</b>	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield Rate</b>
Interest-earning assets:						
Loans	\$ 188,956	\$ 2,887	6.06%	\$ 164,468	\$ 2,651	6.39%
Investment securities	29,596	317	4.25%	28,454	356	4.96%
Federal funds sold/other	2,845	12	1.67%	10,081	47	1.85%
Total interest-earning assets	221,397	3,216	5.76%	203,003	3,054	5.97%
Allowance for loan losses	(2,865)			(1,971)		
Cash and due from banks	8,885			4,123		
Other assets	4,021			4,504		
Total assets	<u>\$ 231,438</u>			<u>\$ 209,659</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 63,489	\$ 188	1.17%	\$ 36,652	\$ 208	2.25%
Time deposits	78,733	441	2.22%	95,463	831	3.45%
Borrowed funds	34,988	277	3.14%	32,410	281	3.44%
Total interest-bearing liabilities	177,210	906	2.03%	164,525	1,320	3.18%
Demand deposits	28,747			25,082		
Total deposits and borrowed funds	205,957			189,607		
Other liabilities	1,206			944		
Stockholders' equity	24,275			19,108		
Total liabilities and stockholders' equity	<u>\$ 231,438</u>			<u>\$ 209,659</u>		
Net interest income		<u>\$ 2,310</u>			<u>\$ 1,734</u>	
Interest rate spread			<u>3.73%</u>			<u>2.79%</u>
Net interest margin			<u>4.14%</u>			<u>3.39%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>124.93%</u>			<u>123.39%</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 tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	<b>Three Months Ended September 30, 2009 compared to 2008</b>		
	<b>Increase (Decrease) Due to</b>		<b>Net</b>
	<b>Volume</b>	<b>Rate</b>	
	<i>(Dollars in thousands)</i>		
<b>Interest-earning assets:</b>			
Loans	\$ 379	\$ (143)	\$ 236
Investments securities	36	(75)	(39)
Federal funds sold/other	(31)	(4)	(35)
Total interest earning assets	<u>384</u>	<u>(222)</u>	<u>162</u>
<b>Interest-bearing liabilities:</b>			
Savings, NOW and money market deposits	\$ 108	\$ (128)	\$ (20)
Time deposits	(129)	(261)	(390)
Borrowed funds	21	(25)	(4)
Total interest-bearing liabilities	<u>0</u>	<u>(414)</u>	<u>(414)</u>
<b>Increase in net interest income</b>	<u><u>\$ 384</u></u>	<u><u>\$ 192</u></u>	<u><u>\$ 576</u></u>

Total average interest earning assets increased \$18.4 million to \$221.4 million for the quarter ended September 30, 2009 compared to the same period in the preceding year. Average loan balances increased \$24.5 million as CBT continues to concentrate on commercial lending, with both new originations and advances on existing lines of credit. Average investments increased \$1.1 million as Management increased its available-for-sale investment portfolio to provide liquidity and provide collateral for additional borrowing capacity. Average Federal funds declined \$7.2 million as Management has reduced its holdings in the overnight market due to the low interest rate environment.

The net interest margin expanded 75 basis points to 4.14% for the three months ended September 30, 2009 from 3.39% for the comparable period in 2008 primarily as a result of the effect of the low interest rate environment on the Bank's deposits and borrowed funds. Interest-bearing liability balances rose \$12.7 million and the average rate paid on these liabilities dropped to 2.03% for the period ending September 30, 2008 from 3.18% for the period ending September 30, 2008.

### ***Provision for Loan Losses***

Provisions for loan losses are estimated based upon Management's evaluation of risk and the qualitative and quantitative factors affecting the composition of the loan portfolio. Loan growth was \$4.8 million for the three month period ending September 30, 2009. Qualitative factors affecting Management's analysis of the adequacy of the loan loss reserve include but are not limited to individual loans, industry trends and concentrations, and national and local economic conditions. Based upon Management's evaluation of risk and Management's analysis of the qualitative and quantitative factors, CBT's provision for loan losses was \$154,000 for the three month period ending September 30, 2009, compared to \$1.3 million for the comparable period in the prior year.

### ***Noninterest Income***

Total noninterest income for the quarter ending September 30, 2009 was \$153,000 compared to \$146,000 for the same period in the preceding year. Fees and charges on deposit accounts were \$75,000 for the quarter ending September 30, 2009, an increase of \$6,000 from the comparable period a year earlier. Brokerage commissions earned on our relationship with Raymond James Financial Services declined \$6,000 to \$71,000 for the three month period ending September 30, 2009 compared to the same period in the prior year. The decline in brokerage commissions was partially attributable to lower volume of transactions due to market volatility. Net gains on sales of loans totaled \$7,000 for the quarter ended September 30, 2009. There was no comparable revenue for the same period in the preceding year.

### ***Noninterest Expenses***

Noninterest expenses increased \$54,000, or 2.6%, to \$2.1 million for the three month period ending September 30, 2009 compared to the same period in 2008. The increase was principally due to higher assessment fees from the FDIC and a special assessment from the FDIC on all FDIC member banks. The expense for FDIC insurance premiums rose \$49,000 to \$82,000 for the three month period ending September 30, 2009. Marketing expense rose \$15,000 and totaled \$105,000 for the three month period ending September 30, 2009 due to increased advertising in and around our primary market area. The costs for professional services rose \$19,000 for the three month period ending September 30, 2009 due mainly to the increased fees incurred for specialized expert services. Occupancy expense for the three month period ending September 30, 2009 was \$24,000 lower than the comparable period a year earlier due to a decrease in depreciation as certain fixed assets became fully depreciated. The other categories of expense for the three month period ending September 30, 2009 were similar to the expenses incurred for the same period in the prior year with only small variances noted.

### **Comparison of Operating Results for the Nine Months Ended September 30, 2009 and 2008**

#### ***General***

CBT reported net operating income of \$39,000, or \$0.01 per share, for the nine month period ending September 30, 2009 compared to a net operating loss of \$2,178,000 or \$0.61 per share for the same period in the prior year. Net interest income increased \$1.4 million primarily as a result of the \$24.9 million increase in average earning assets and the decline in the interest rate environment. Interest income on earning assets rose \$436,000 to \$9.4 million for the nine month period ending September 30, 2009 compared to the same period a year earlier. Interest expense was \$3.1 million for the nine month period ending September 30, 2009, a decrease of \$1 million from \$4.1 million for the comparable period of 2008. The provisions for loan losses for the nine month period ending September 30, 2009 was \$420,000 compared to \$1.5 million for the comparable period a year earlier. The unusually high provisions in the third quarter of 2008 were primarily the result of an overall increase in the allowance for loan losses due to deteriorating economic conditions and the charge off of three loans with inadequate performance.

## 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 nine month periods ending September 30, 2009 and 2008. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided into the average balance of interest-earning assets to arrive at the net interest margin. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis.

	<b>Nine Months Ended September 30,</b>					
	<b>2009</b>			<b>2008</b>		
	<i>(Dollars in thousands)</i>					
	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield Rate</b>	<b>Average Balance</b>	<b>Interest Income/ Expense</b>	<b>Average Yield Rate</b>
<b>Interest-earning assets:</b>						
Loans	\$ 184,461	\$ 8,359	6.06%	\$ 156,702	\$ 7,805	6.63%
Investment securities	29,431	1,001	4.55%	25,124	938	4.97%
Federal funds sold/other	2,768	29	1.40%	9,977	210	2.80%
Total interest-earning assets	216,660	9,389	5.79%	191,803	8,953	6.22%
Allowance for loan losses	(2,765)			(1,857)		
Cash and due from banks	10,466			3,906		
Other assets	4,102			4,619		
Total assets	<u>\$ 228,463</u>			<u>\$ 198,471</u>		
<b>Interest-bearing liabilities:</b>						
Savings, NOW and money market deposits	\$ 55,911	\$ 598	1.43%	\$ 35,761	\$ 605	2.25%
Time deposits	83,936	1,667	2.66%	87,808	2,677	4.06%
Borrowed funds	35,862	831	3.10%	29,190	781	3.56%
Total interest-bearing liabilities	175,709	3,096	2.36%	152,759	4,063	3.54%
Demand deposits	27,568			24,854		
Total deposits and borrowed funds	203,277			177,613		
Other liabilities	1,472			1,099		
Stockholders' equity	23,714			19,759		
Total liabilities and stockholders' equity	<u>\$ 228,463</u>			<u>\$ 198,471</u>		
Net interest income		<u>\$ 6,293</u>			<u>\$ 4,890</u>	
Interest rate spread			<u>3.44%</u>			<u>2.67%</u>
Net interest margin			<u>3.88%</u>			<u>3.40%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>123.31%</u>			<u>125.56%</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 tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	<b>Nine Months Ended September 30, 2009 compared to 2008</b>		
	<b>Increase (Decrease) Due to</b>		<b>Net</b>
	<b>Volume</b>	<b>Rate</b>	
	<i>(Dollars in thousands)</i>		
<b>Interest-earning assets:</b>			
Loans	\$ 1,278	\$ (724)	\$ 554
Investments securities	114	(51)	63
Federal funds sold/other	(107)	(74)	(181)
Total interest earning assets	<u>1,285</u>	<u>(849)</u>	<u>436</u>
<b>Interest-bearing liabilities:</b>			
Savings, NOW and money market deposits	\$ 263	\$ (270)	\$ (7)
Time deposits	(114)	(896)	(1,010)
Borrowed funds	161	(111)	50
Total interest-bearing liabilities	<u>310</u>	<u>(1,277)</u>	<u>(967)</u>
<b>Increase (decrease) in net interest income</b>	<u>\$ 975</u>	<u>\$ 428</u>	<u>\$ 1,403</u>

Total average earning assets increased \$24.9 million to \$216.7 million for the nine month period ending September 30, 2009 compared to the same period in the preceding year. Average loan balances increased \$27.8 million, and the available-for-sale investment portfolio increased \$4.3 million. Overall yield on both of these portfolios has declined from the comparable period in the prior year, but expanded balances have outweighed the decline in rate. Average Federal funds declined \$7.2 million as Management has reduced its holdings in the overnight market due to the low interest rate environment.

Total average interest bearing liabilities rose \$23.0 million to \$175.7 million for the nine month period ending September 30, 2009 compared to the same period in the preceding year. Due to the low interest rate environment, depositors are migrating from time deposits to nonmaturity deposit accounts partially due to the absence of a rate incentive in the current environment. Total average savings, NOW and money market accounts rose \$20.2 million while time deposits declined \$3.9 million compared to the same period in the prior year. Average borrowed funds increased \$6.7 million over the same period. Overall cost of funding declined \$1.0 million for the nine month period ending September 30, 2009 compared to the comparable period a year earlier. The average rate paid for interest bearing liabilities was 118 basis points lower for the nine month period ending September 30, 2009 compared to the same period in the prior year.

The resulting net interest margin increased 48 basis points to 3.88% for the nine months ended September 30, 2009 from 3.40% for the same period in 2008 primarily resulting from the effect of growth in average earning assets and the low interest rate environment on the Bank's deposits and borrowed funds.

### ***Provision for Loan Losses***

Provisions for loan losses are estimated based upon Management's evaluation of risk and the quantitative and qualitative factors affecting the composition of the loan portfolio. Loan growth was \$10.1 million for the nine month period ending September 30, 2009. Qualitative factors affecting Management's analysis of the adequacy of the loan loss reserve include but are not limited to individual loans, industry trends and concentrations, and national and local economic conditions. Based upon Management's evaluation of risk and Management's analysis of the quantitative and qualitative factors, CBT's provision for loan losses was \$420,000 for the nine month period ending September 30, 2009, compared to \$1.5 million for the comparable period in the prior year.

### ***Noninterest Income***

Total noninterest income for the nine month period ending September 30, 2009 was \$473,000 compared to \$450,000 in the same period of the preceding year. Fees and charges on deposit accounts rose \$39,000 to \$211,000 for the nine months ending September 30, 2009, compared to \$172,000 for the comparable period a year earlier primarily as a result of an expanded number of deposit account relationships. Brokerage commissions earned on the relationship with Raymond James Financial Services declined \$22,000, or 10.3%, to \$191,000 for the nine month period ending September 30, 2009 compared to the same period of the prior year. The decline in brokerage commissions was mainly caused by a lower volume of trading due to market volatility. Net gains on sales of investment securities available for sale totaled \$56,000 for the nine months ending September 30, 2009 compared to \$65,000 in the same period of the preceding year as Management took advantage of gains in the portfolio without giving up any significant yield. During 2009, the Bank commenced the origination and sale of loans into the secondary market. For the nine month period ending September 30, 2009, the Bank realized net gains on sales on loans of \$15,000. There was no comparable revenue in the same period of the preceding year.

### ***Noninterest Expenses***

Noninterest expenses increased \$240,000, or 4.0%, to \$6.2 million for the nine month period ending September 30, 2009 compared to \$6.0 million for the same period in 2008. The FDIC assessment increased \$207,000 for the nine month period ending September 30, 2009, compared to the same period in the prior year as a result of a one-time special assessment from the FDIC and higher deposit balances. Marketing costs rose \$38,000 due to expanded advertising and business development initiatives. Professional services rose \$67,000 as a result of higher costs on services performed by outside contractors. Salaries and benefits were \$74,000 lower resulting from the discontinuation of incentive programs and a reduction in costs due to restructuring employee benefits. Other general expenses were \$25,000 lower than the prior year due to tight control over discretionary spending.

### ***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 of the Federal Reserve.

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages. To a lesser extent, CBT invests in the origination of consumer loans, primarily home equity loans and lines of credit, and other types of loans 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 \$18.4 million increase in total deposits for the period ending September 30, 2009. Deposit flows are affected by the overall level of interest rates and

products offered by CBT and its local competitors and other factors. CBT utilizes these cash flows to fund a large portion of its balance sheet growth.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by market interest rates and general economic conditions. When CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and a \$2.0 million Federal funds borrowing line of credit from Bankers' Bank Northeast. At September 30, 2009, CBT had \$30.5 million of borrowings outstanding with the FHLB and had not drawn on the Federal funds line of credit.

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

<i>(Dollars in thousands)</i>	September 30, <u>2009</u>	December 31, <u>2008</u>
Commitments to originate and purchase loans	\$ 16,604	\$ 12,422
Unfunded commitments under home equity lines of credit	5,252	4,924
Unfunded commitments under commercial construction loans	2,912	2,660
Unfunded commitments under commercial lines of credit	33,476	31,365
Commercial letter of credit	1,352	1,102

Management of CBT anticipates that it will have sufficient funds available to meet its current loan commitments. Management believes that, although it is not possible to predict future deposit account terms and conditions, 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 to maximize net interest income under changing interest rate environments. To serve its purpose, ALCO utilizes an Asset/Liability Management ("ALM") process. ALM employs techniques to quantify, analyze, and control interest rate risk. The principal objective of ALM is to maximize NII while operating within acceptable limits established for interest rate risk and maintaining adequate levels of liquidity.

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

ALCO directs CBT's 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 movements will be parallel – both short-term and long-term rates will change by the same number of basis points. ALM allows Management to analyze the behavior of CBT's balance sheet components under various rate levels and compare it to the base case – the scenario in which interest rates are assumed to remain unchanged.

NII at-risk measures the risk of a decline in earnings due to potential short-term and long-term changes in interest rates. The following table summarizes the estimated impact on net interest income of a 100 and 200 basis point change in interest rates over a twelve month period commencing September 30, 2009. Interest rates are assumed to change in parallel fashion and NII results are compared to the flat rate scenario as a base.

### Net Interest Income At-Risk

	Base Case NII (000's)	Estimated Change in Net Interest Income				
		-200 BP	-100 BP	Stable	+100 BP	+200 BP
September 30, 2009	\$ 9,934	-4.3%	-1.1%	0.0%	-1.1%	-3.1%

### Off-Balance Sheet Arrangements

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

### Regulatory Capital

Federal law defines specific capital categories for depository institutions. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. To be considered "well capitalized," an institution must generally have a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 6% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 10%. As of September 30, 2009, the most recent notification from the FDIC categorized CBT as "well capitalized." To be categorized as "well capitalized," CBT must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below.

As indicated in the following table, the actual regulatory capital ratios of CBT at September 30, 2009 exceeded the minimum required ratios. There are no conditions that Management believes have changed CBT's category since its June 30, 2009 notification from regulators that it is "well capitalized." CBT's actual capital amounts and ratios as of September 30, 2009 and December 31, 2008 are presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
<b>September 30, 2009</b>						
Total capital (to risk weighted assets)	\$ 26,568	13.3%	\$ 15,957	8.0%	\$ 19,947	10.0%
Tier 1 capital (to risk weighted assets)	24,068	12.1%	7,979	4.0%	11,968	6.0%
Tier 1 capital (to average assets)	24,068	10.4%	9,248	4.0%	11,559	5.0%
<b>December 31, 2008</b>						
Total capital (to risk weighted assets)	\$ 26,142	13.9%	\$ 15,031	8.0%	\$ 18,789	10.0%
Tier 1 capital (to risk weighted assets)	23,792	12.7%	7,516	4.0%	11,274	6.0%
Tier 1 capital (to average assets)	23,792	11.0%	8,648	4.0%	10,810	5.0%

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

<i>(Dollars in thousands)</i>	September 30, 2009	December 31, 2008
Total capital per financial statements	\$ 24,350	\$ 23,539
Accumulated (gains) losses on available for sale securities	(232)	303
Intangible assets	(50)	(50)
Total Tier 1 capital	<u>24,068</u>	<u>23,792</u>
<i>Adjustments for total capital</i>		
Allowance for loan losses includible in Tier 2 Cap	<u>2,500</u>	<u>2,350</u>
Total capital per regulatory reporting	<u><u>\$ 26,568</u></u>	<u><u>\$ 26,142</u></u>

## *Payment of Dividends*

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

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

CBT is required to obtain approval of the DOB, the FRBB and two-thirds of the holders of its common stock in order to pay dividends on the 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 our Letter Agreement with the Treasury, CBT may not pay any dividends on its common stock without obtaining the prior consent of the Treasury until the earlier of (i) December 19, 2011 or (ii) the date the Treasury no longer owns any shares of Preferred Stock.

Since it commenced operations in March 2004, the Bank has 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, increasing provisions for loan losses, and other noninterest expenses. These early losses are typical in a new bank. As a result, the Bank has no undivided profits or net profits (i.e. negative retained earnings) and any dividend payment would be considered a reduction of permanent capital. Accordingly, the Bank would need the approval of at least two-thirds of the stockholders of 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 current Connecticut law, the DOB has no authority to approve a dividend unless a bank has 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 common stockholders voting in favor of the proposal. The Bank has requested the written consent of the Treasury as the sole holder of the Preferred Stock and written approval from the FRBB and the DOB to pay dividends on the Preferred Stock to the Treasury. 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. Such quarterly dividend would be paid on November 15, 2009 subject to the bank's receipt of the written consent of Treasury as sole holder of the Preferred Stock and the written approvals from the FRBB and the DOB.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

### **Item 4T. Controls and Procedures**

#### **(a) Evaluation of disclosure controls and procedures**

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

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

#### **(b) Changes in Internal Controls**

There have been no significant changes in CBT's internal controls over financial reporting or in other factors identified in connection with the evaluation required by Rule 13a-15 that occurred during CBT's quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

### **Item 1A. Risk Factors.**

Not required.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

Not applicable.

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

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

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

## 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: November 11, 2009

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

Dated: November 11, 2009

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

## EXHIBIT INDEX

<u>No.</u>	<u>Description</u>
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32.2	Section 1350 Certification by Secretary and Chief Financial Officer

## EXHIBIT 31.1

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

#### CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of The Connecticut Bank and Trust Company for the period ended September 30, 2009;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 11, 2009

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

## EXHIBIT 31.2

### CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of The Connecticut Bank and Trust Company for the period ended September 30, 2009;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 11, 2009

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

**EXHIBIT 32.1**

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

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ending September 30, 2009 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David A. Lentini  
David A. Lentini  
Chief Executive Officer  
November 11, 2009

**EXHIBIT 32.2**

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

In connection with the Quarterly Report of The Connecticut Bank and Trust Company (“CBT”) on Form 10-Q for the period ending September 30, 2009 as filed with the Federal Reserve Bank of Boston (the “Report”), I, Anson C. Hall, Chief Financial Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Anson C. Hall  
Anson C. Hall  
Chief Financial Officer  
November 11, 2009