

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

**FORM 10-QSB**

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

For the quarterly period ended June 30, 2007

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 small business issuer as specified in its charter)

Connecticut

(State or other jurisdiction of incorporation or organization)

90-0115348

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

58 State House Square, Hartford, CT

(Address of principal executive offices)

06103-3902

(Zip Code)

(860) 246-5200

(Issuer's telephone number, including area code)

Not Applicable

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

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

Number of shares of the issuer's common stock, par value \$1.00 per share, outstanding as of July 24, 2007: 3,572,450 shares.

Transitional Small Business Disclosure Format (check one): Yes  No

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

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (unaudited)

#### THE CONNECTICUT BANK AND TRUST COMPANY Balance Sheets

	June 30, 2007	December 31, 2006
	(Unaudited)	
<i>(Dollars in thousands)</i>		
Cash and due from banks	\$ 5,407	\$ 4,589
Federal funds sold	16,274	475
Cash and cash equivalents	21,681	5,064
Securities available for sale, at fair value	20,125	20,738
Certificates of deposit	76	76
Federal Reserve Bank stock, at cost	675	693
Federal Home Loan Bank stock, at cost	914	728
Loans	123,665	106,910
Less: allowance for loan losses	(1,511)	(1,384)
Loans, net	122,154	105,526
Premises and equipment, net	2,689	2,217
Accrued interest receivable	765	613
Other assets	737	779
<b>Total Assets</b>	<b>\$ 169,816</b>	<b>\$ 136,434</b>

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$ 133,091	\$ 99,745
Short term borrowings	1,839	1,453
Long term debt	12,450	12,450
Other liabilities	1,628	701
Total liabilities	149,008	114,349

#### Commitments and Contingencies (Note 5)

#### Stockholders' equity;

Common stock, \$1.00 par value; 10,000,000 shares authorized;

3,572,450 shares issued and outstanding at June 30, 2007

and 3,567,450 issued and outstanding at December 31, 2006

and 3,567,450 issued and outstanding at December 31, 2006	3,572	3,567
Common stock warrants	853	853
Additional paid-in capital	29,657	29,582
Restricted stock unearned compensation	(367)	(426)
Retained deficit	(12,224)	(10,994)
Accumulated other comprehensive loss	(683)	(497)
Total stockholders' equity	20,808	22,085
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 169,816</b>	<b>\$ 136,434</b>

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Consolidated Statements of Operations**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
<i>(Dollars in thousands except per share data)</i>				
Interest and dividend income:				
Loans, including fees	\$ 2,254	\$ 1,386	\$ 4,285	\$ 2,534
Debt securities	245	239	495	499
Federal funds sold	137	1	144	16
Other	25	11	45	29
Total interest and dividend income	<u>2,661</u>	<u>1,637</u>	<u>4,969</u>	<u>3,078</u>
Interest expense:				
Deposits	1,185	530	2,089	948
Borrowed funds	152	142	343	227
Total interest expense	<u>1,337</u>	<u>672</u>	<u>2,432</u>	<u>1,175</u>
Net interest income	<u>1,324</u>	<u>965</u>	<u>2,537</u>	<u>1,903</u>
Provision for loan losses	67	178	127	260
Net interest income, after provision for loan losses	<u>1,257</u>	<u>787</u>	<u>2,410</u>	<u>1,643</u>
Non-interest income:				
Service charges and fees	43	25	83	43
Brokerage commissions	70	-	124	-
Net gain/(loss) from sales of available-for-sale securities	1	-	(42)	-
Total non-interest income	<u>114</u>	<u>25</u>	<u>165</u>	<u>43</u>
Non-interest expenses:				
Salaries and benefits	1,112	928	2,172	1,834
Occupancy and equipment	345	287	681	563
Data processing	50	40	99	82
Marketing	106	158	221	430
Professional services	116	200	221	253
Other general and administrative	234	107	411	308
Total non-interest expenses	<u>1,963</u>	<u>1,720</u>	<u>3,805</u>	<u>3,470</u>
Net loss	<u>\$ (592)</u>	<u>\$ (908)</u>	<u>\$ (1,230)</u>	<u>\$ (1,784)</u>
Net loss per share:				
Basic	\$ (0.17)	\$ (0.26)	\$ (0.35)	\$ (0.51)
Diluted	\$ (0.17)	\$ (0.26)	\$ (0.35)	\$ (0.51)

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Statements of Changes in Stockholders' Equity**  
**Six Months Ended June 30, 2007 and 2006**  
**(Unaudited)**

<i>(Dollars in thousands)</i>	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Unearned Compensation	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2005	\$3,567	\$ 853	\$ 29,536	\$ (618)	\$ (7,756)	\$ (537)	<u>\$ 25,045</u>
Comprehensive loss:							
Net loss	-	-	-	-	(1,784)	-	(1,784)
Change in net unrealized loss on securities available for sale	-	-	-	-	-	(354)	<u>(354)</u>
Total comprehensive loss							<u>(2,138)</u>
Activity related to stock option grants	-	-	17	-			17
Activity related to restricted stock awards				95			<u>95</u>
Balance at June 30, 2006	<u>\$3,567</u>	<u>\$ 853</u>	<u>\$ 29,553</u>	<u>\$ (523)</u>	<u>\$ (9,540)</u>	<u>\$ (891)</u>	<u>\$ 23,019</u>
Balance at December 31, 2006	\$3,567	\$ 853	\$ 29,582	\$ (426)	\$ (10,994)	\$ (497)	<u>\$ 22,085</u>
Comprehensive loss:							
Net loss	-	-	-	-	(1,230)	-	(1,230)
Change in net unrealized loss on securities available for sale	-	-	-	-	-	(186)	<u>(186)</u>
Total comprehensive loss							<u>(1,416)</u>
Issuance of restricted stock award	5	-	34	(39)	-	-	-
Activity related to stock option grants	-	-	41	-	-	-	41
Activity related to restricted stock awards	-	-	-	98	-	-	<u>98</u>
Balance at June 30, 2007	<u>\$3,572</u>	<u>\$ 853</u>	<u>\$ 29,657</u>	<u>\$ (367)</u>	<u>\$ (12,224)</u>	<u>\$ (683)</u>	<u>\$ 20,808</u>

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Statements of Cash Flows**

	Six Months Ended	
	June 30,	
<i>(Dollars in thousands)</i>	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net loss	\$ (1,230)	\$ (1,784)
Adjustment to reconcile net loss to net cash provided by (used by) operating activities:		
Provision for loan losses	127	260
Net losses from sales of securities available-for-sale	42	-
Depreciation and amortization	195	189
Net amortization of premiums on available-for-sale securities	18	37
Net amortization of deferred loan costs/fees	5	2
Amortization of unearned compensation	139	112
Increase in accrued interest receivable	(152)	(107)
(Increase) Decrease in other assets	42	(29)
Increase (Decrease) in other liabilities	927	(123)
Net cash provided by (used in) operating activities	113	(1,443)
Cash flows from investing activities:		
Purchases of investment securities available for sale	(5,094)	-
Sales of investment securities available for sale	3,330	-
Principal payments on mortgage backed securities	1,131	934
Proceeds from maturities/calls of investment securities available for sale	1,000	1,500
Redemption (Purchases) of FRB stock	18	(4)
Purchases of FHLB stock	(186)	(408)
Net loan originations and purchases	(16,760)	(25,931)
Purchases of premises and equipment	(667)	(146)
Net cash used in investing activities	(17,228)	(24,055)
Cash flows from financing activities:		
Net increase in deposits	33,346	5,137
Net increase in short term borrowings	386	10,149
Proceeds from issuance of long term debt	-	2,450
Net cash provided by financing activities	33,732	17,736
Net change in cash and cash equivalents	16,617	(7,762)
Cash and cash equivalents at beginning of period	5,064	12,433
Cash and cash equivalents at end of period	\$ 21,681	\$ 4,671
Supplemental disclosures of cash flow information:		
Interest paid	\$ 2,386	\$ 1,129

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

**THE CONNECTICUT BANK AND TRUST COMPANY**  
**Notes to Unaudited Financial Statements**  
**June 30, 2007**

**(1) Organization**

The Connecticut Bank and Trust Company (“CBT”) is a state chartered bank and trust company operating primarily in North Central Connecticut. CBT operates out of its main office at 58 State House Square, Hartford, Connecticut and branch offices at 7 Sycamore Street, Glastonbury, Connecticut, 66 Cedar Street, Newington, Connecticut, 435 Hartford Turnpike, Vernon, Connecticut, 68 South Main Street, West Hartford, Connecticut, and 148 Broad Street, Windsor, Connecticut. CBT received regulatory approval to establish a branch in Rocky Hill, Connecticut, which is scheduled to open in the fourth quarter of 2007. 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”). The Bank’s deposits are insured up to the maximum limits specified by the Federal Deposit Insurance Corporation (“FDIC”).

**(2) 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 as of June 30, 2007 and December 31, 2006 and the results of operations for the three and six month periods ended June 30, 2007 and 2006 and changes in stockholder’s equity and cash flows for the six month period ended June 30, 2007. 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 or six month periods are not necessarily indicative of the results to be expected for the full year. The statements should be read in conjunction with the financial statements and accompanying notes found on pages 25-56 of CBT’s Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Board of Governors of the Federal Reserve System on March 30, 2007.

**(3) 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 and lease losses, and the valuation of deferred tax assets.

**(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 six months ended June 30, 2007 and 2006 have been computed based upon the following (dollars in thousands except per share amounts):

	Unaudited		Unaudited	
	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Net loss	\$ (592)	\$ (908)	\$ (1,230)	\$ (1,784)
Average number of common shares outstanding	3,534	3,521	3,534	3,521
Effect of dilutive potential common shares	-	-	-	-
Average number of common shares outstanding used to calculate diluted earnings per share	3,534	3,521	3,534	3,521
Net loss per share:				
Basic	\$ (0.17)	\$ (0.26)	\$ (0.35)	\$ (0.51)
Diluted	\$ (0.17)	\$ (0.26)	\$ (0.35)	\$ (0.51)

For the three and six months ended June 30, 2007 and 2006, common stock warrants, options, and restricted stock awards were anti-dilutive and therefore not included in the earnings per share calculation.

## **(5) Loan Commitments**

CBT is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. CBT's commitments to extend credit include unfunded loans as well as unused lines of credit. CBT has commitments to originate loans totaling \$19.4 million at June 30, 2007 compared to \$21.1 million at December 31, 2006. CBT also has unfunded commitments under existing lines of credit aggregating \$33.1 million at June 30, 2007 and \$29.1 million at December 31, 2006.

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

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when Management believes that the collectibility of the principal is unlikely. 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 prior loss experience of loans and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall credit quality, industry concentration, specific problem loans, commitments, current economic conditions that may affect the borrowers' ability to pay, and other factors related to the collectibility of loans in CBT's portfolio. Although Management reevaluates the allowance periodically, formal evaluations occur on a quarterly basis.

## **(7) Stock Compensation Plans**

### Stock Options

The Bank's 2005 Stock Option and Award Plan (the "2005 Plan") authorizes the granting of up to 225,000 shares of incentive stock options, non-qualified stock options and awards of shares of the Bank's common stock to its employees, officers and directors. The Plan is administrated by the Compensation Committee of the Board of Directors. The authorization of grants, the determination of number of shares to be granted, the exercise date, vesting schedule and the option price of each award is determined by the Compensation Committee on the date of grant. In January 2007, the Bank granted 73,350 stock option awards authorized under the 2005 Plan.

In accordance with Financial Accounting Standards Board Statement No. 123 (revised 2004) *Share-Based Payment* (“SFAS 123R”), the Bank recognized compensation cost of \$18,000 and \$9,000 for the three month periods ended June 30, 2007 and 2006, respectively. The Bank recognized compensation cost of \$41,000 and \$17,000 for the six month periods ended June 30, 2007 and 2006, respectively. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Assumptions used to determine fair values of stock options granted during 2007 and 2006 are noted in the following table:

	<u>2007 Grant</u>	<u>2006 Grant</u>
Expected term (in years)	6.5	6.0
Volatility	20.00%	20.00%
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	4.79%	5.04%

The expected term is based on the simplified method calculation allowed for share options granted prior to December 31, 2007. The options granted under this plan are not transferable, normally resulting in option exercises occurring prior to the expiration date. Since options are typically most valuable at the expiration date, an early exercise would reduce the value to the option holder. Volatility is based on the historical volatility of the Bank’s stock adjusted for certain anomalies, the historical volatility of peer banks with similar operating histories and other factors. The Bank does not anticipate payment of dividends during the option period. The risk-free interest rate is the comparable interest rate on the United States Treasury Bill for periods within the contractual life of the stock options in effect at the time of the stock option grants. A summary of option activity under the 2005 Plan for the six month periods ended June 30, 2007 and 2006 is presented in the following table:

	<u>2007</u>		<u>2006</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Fixed Options:				
Outstanding at beginning of year	72,250	\$ 9.23	64,250	\$ 9.25
Granted	73,350	7.70	10,000	9.13
Forfeited	(2,750)	7.97	(2,000)	9.25
Outstanding at end of year	<u>142,850</u>	\$ 8.47	<u>72,250</u>	\$ 9.23
Weighted-average fair value of options granted during the period	<u>\$ 2.59</u>		<u>\$ 2.99</u>	

Information pertaining to options outstanding at June 30, 2007 is as follows:

Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
		Remaining Contractual Life			
\$ 9.25	61,750	8.4 years	\$9.25	12,450	\$ 9.25
9.13	10,000	8.9 years	9.13	3,333	9.13
7.70	71,100	9.6 years	7.70	-	-
	<u>142,850</u>	9.0 years	\$8.47	<u>15,783</u>	<u>\$ 9.22</u>

### Stock Awards

In March 2004, the Board of Directors approved reserving 67,900 shares of common stock for awards of restricted stock to CBT's "First Team," which consisted of persons who were employees of CBT at the commencement of its operations. In July 2004, the Compensation Committee approved specific awards to all members of the First Team other than the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Two other executive officers received an aggregate of 15,000 shares of restricted common stock as part of such restricted stock awards to the First Team. Since the CEO and the CFO did not receive awards in 2004, the Compensation Committee approved restricted stock awards of 15,000 shares of common stock to the CEO and 10,000 shares of common stock to the CFO on February 14, 2005. These awards vest over periods of up to five years. On March 1, 2007, the Compensation Committee approved 5,000 shares of restricted stock for an employee of the Bank. These restricted stock awards vest over a 3 year period.

A summary of stock awards and nonvested shares is presented in the following table for the period ending June 30, 2007 and 2006;

	2007		2006	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
<u>Nonvested Shares</u>				
Balance at beginning of year	31,100	\$ 13.69	44,991	\$ 13.79
Granted	5,000	7.80	-	-
Vested	(7,347)	13.55	(13,591)	14.00
Cancelled	-	-	-	-
Forfeited	<u>(200)</u>	15.00	<u>(300)</u>	15.00
Balance at June 30,	<u>28,553</u>	\$ 12.85	<u>31,100</u>	\$ 13.69

The total cost of these shares is being amortized over the vesting period in accordance with SFAS 123R. The Bank recorded compensation cost related to these stock awards totaling \$47,000 and \$49,000 for the three month periods ended June 30, 2007 and 2006, respectively. The Bank recorded compensation cost related to these stock awards totaling \$98,000 and \$95,000 for the six month periods ended June 30, 2007 and 2006, respectively.

As of June 30, 2007, there was \$367,000 of total unrecognized compensation cost related to nonvested stock awards granted. That cost is expected to be recognized over a weighted-average period of 2.0 years.

## **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for the Bank on January 1, 2008 and is not expected to have a material impact on the Bank’s consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). This Statement provides companies with an option to report selected financial assets and liabilities at fair value. The Standard’s objective is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of the entity’s fiscal year beginning after November 15, 2007. Early adoption is permitted if the Bank makes the choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Bank does not expect SFAS 159 to have a material impact on the Bank’s financial statements.

Effective January 1, 2007, the bank adopted FASB interpretation No 48, “Accounting for Uncertainty in Income Taxes.” FIN 48 provides guidance on financial statement recognition, measurement and disclosure of tax positions taken, or expected to be taken in the future, in the Bank’s tax returns. The initial adoption of FIN 48 had no impact on the bank’s financial statements. The Bank had no material uncertain tax positions as of June 30, 2007.

In accordance with the provisions of FIN 48, in future periods, the bank may record a liability for unrecognized tax benefits related to the recognition, derecognition or change in measurement of a tax position as a result of new tax positions, changes in management’s judgment about the level of uncertainty of existing tax positions, expiration of open income tax returns due to the statute of limitation, status of examinations and litigation and legislative activity. The Bank has elected to report future interest and penalties related to unrecognized tax benefits, if any, as income tax expense in the Bank’s Statement of Operations.

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

The following discussion and analysis is designed to assist you in better understanding the financial condition, results of operations, liquidity and capital resources of CBT, as well as any significant changes and trends related thereto. This discussion should be read in conjunction with the accompanying unaudited financial statements and the notes appearing in Part I of this Form 10-QSB and the financial statements and accompanying notes found on pages 25-56 of CBT's Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Board of Governors of the Federal Reserve System on March 30, 2007.

### **General**

CBT provides a broad range of banking services to both consumers and businesses 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, 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 assumes no obligation 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 principals generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. Management believes that two of CBT's critical accounting policies rely on material estimates that are susceptible to significant differences between actual results and estimates - determination of allowance for loan losses 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 and the valuation of deferred tax assets is included in CBT's accompanying unaudited financial statements and the notes appearing in Part I of this Form 10-QSB and the financial statements and accompanying notes of our Annual Report on Form 10-KSB for the year ended December 31, 2006, filed with the Board of Governors of the Federal Reserve on March 30, 2007.

## Comparison of Financial Condition at June 30, 2007 and December 31, 2006

Total assets increased \$33.4 million, or 24%, to \$169.8 million at June 30, 2007 from \$136.4 million at December 31, 2006 reflecting strong growth in both commercial and commercial real estate loans and cash and cash equivalents. Total loans grew \$16.8 million, or 16%, to \$123.7 million reflecting our continuing strategy to focus our efforts on attracting and retaining small business entrepreneurs and merchants in the North-Central Connecticut market. Cash and cash equivalents increased \$16.6 million, or 328%, as a result of excess funds placed into overnight Federal funds. Deposits grew \$33.3 million, or 33%, to \$133.1 million at June 30, 2007, primarily as a result of a certificate of deposit promotion which coincided with the opening of our banking center in Windsor, CT.

### Investment securities

At June 30, 2007, CBT's investment securities portfolio, all of which was classified as available-for-sale, amounted to \$20.1 million, or 12% of total 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>	June 30, 2007		December 31, 2006	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Government-sponsored enterprises	\$ 15,375	\$ 14,863	\$ 16,378	\$ 16,022
Mortgage-backed securities	5,433	5,262	4,857	4,716
	<u>\$ 20,808</u>	<u>\$ 20,125</u>	<u>\$ 21,235</u>	<u>\$ 20,738</u>

Securities available-for-sale declined \$614,000, or 3%, to \$20.1 million at June 30, 2007, primarily through principal payments on mortgage-backed securities. As of June 30, 2007, the net unrealized loss on the portfolio was \$683,000 and Management does not believe that any of the losses are other than temporary. Through June, the Bank has realized \$42,000 in losses on the sale of securities in which the proceeds were used to purchase investments with an improved yield and higher coupon. A \$1.0 million government sponsored enterprise security was called at par, and the proceeds reinvested in a similar security.

### Loans

Loans generally produce higher yields than investment securities and other interest-earning assets, therefore, it is CBT's strategy to use deposit balances to fund loans within its market area as soon as practicable. Consistent with this strategy, CBT produced a net increase of \$16.8 million in total loans outstanding during the first six months of 2007. At June 30, 2007, CBT's loan portfolio totaled \$123.7 million, or 73% of total assets. New loan activity continues to be strong with a robust loan pipeline.

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.

*Dollars in thousands*

	June 30, 2007		December 31, 2006	
	Balance	Percent of Total	Balance	Percent of Total
Mortgage Loans on Real Estate				
Commercial real estate	\$ 54,066	43.72 %	\$ 47,160	44.11 %
Construction	6,463	5.23	6,024	5.63
Home equity lines of credit	4,280	3.46	4,586	4.29
Total mortgage loans on real estate	<u>64,809</u>	<u>52.41 %</u>	<u>57,770</u>	<u>54.04 %</u>
Commercial	\$ 56,960	46.06 %	\$ 48,542	45.40 %
Consumer	1,858	1.50	554	0.52
Net deferred loan costs	38		44	
Total loans	<u>\$ 123,665</u>	<u>100.00 %</u>	<u>\$ 106,910</u>	<u>100.00 %</u>

### Loan Quality

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

As of June 30, 2007 and December 31, 2006, CBT had classified loans as nonaccrual in the amount of \$621,000 and \$597,000, respectively.

*Dollars in Thousands*

	June 30, 2007		December 31, 2006	
	Balance	Percent of Total	Balance	Percent of Total
Loans Delinquent over 90 days and still accruing	\$ -	-	\$ -	-
Nonaccrual Loans	<u>621</u>	<u>100.00 %</u>	<u>597</u>	<u>100.00 %</u>
Total nonperforming loans	<u>\$ 621</u>	<u>100.00 %</u>	<u>\$ 597</u>	<u>100.00 %</u>

### Allowance for Loan Losses

The allowance for loan losses represents a reserve for probable losses in the loan portfolio. Management regularly reevaluates the allowance, and a formal evaluation based on a review of significant loans, with a particular emphasis on non-accruing loans, past due and other loans that management believes require special attention is completed quarterly. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio credit quality, loan and/or industry concentrations, and specific conditions that may affect a borrower's ability to pay, and other factors related to the collectibility of loans in CBT's portfolio.

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 the principal is confirmed. The allowance is an amount that CBT's Management believes will be adequate to absorb losses inherent in existing loans and commitments to extend credit, based on evaluations of collectibility and prior loss experience of loans and commitments to extend credit. The following table depicts activity in CBT's allowance for loan losses for the periods set forth.

<i>(Dollars in thousands)</i>	Six Months Ended	
	June 30,	
	2007	2006
Balance, beginning of period	\$ 1,384	\$ 876
Provision for loan losses	127	260
Balance, end of period	<u>\$ 1,511</u>	<u>\$ 1,136</u>
Allowance for loan losses to total loans	1.22%	1.37%

## Deposits

Deposits from our primary market provide a relatively stable funding source for CBT's loan portfolio and other earning assets. We offer a full range of interest bearing and non-interest bearing accounts with a range of maturity options and tiered-rate structures. The sources of deposits are businesses entrepreneurs and merchants, employees of businesses and consumers of the North-Central Connecticut market area. The table below sets forth the composition of CBT's deposits in dollar amounts and as a percentage of total deposits.

<i>(Dollars in thousands)</i>	June 30, 2007		December 31, 2006	
	Balance	Percent of Total	Balance	Percent of Total
Demand	\$ 27,769	20.86%	\$ 17,902	17.95%
NOW accounts	6,381	4.80%	3,453	3.46%
Savings and money market	23,605	17.74%	19,981	20.03%
Time	75,336	56.60%	58,409	58.56%
Total deposits	<u>\$ 133,091</u>	<u>100.00%</u>	<u>\$ 99,745</u>	<u>100.00%</u>

Total deposits increased by \$33.3 million, or 33%, to \$133.1 million at June 30, 2007 compared to \$99.7 million at December 31, 2006. Demand balances grew \$9.9 million, or 55%, reflecting significant balances on new business accounts and as well as seasonal balance variability. Growth across all deposit products primarily reflects new accounts opened as a result of sales and promotional activities, a high level of service and convenience, competitive products and pricing and an expanded market presence with the addition of the Windsor banking center in April of 2007.

## Comparison of Operating Results for the Three Months Ended June 30, 2007 and 2006

### General

CBT reported a net loss of \$592,000 or \$0.17 per share in the second quarter of 2007, compared to \$908,000 or \$0.26 per share for the same period last year, an improvement in the net loss of \$316,000, or 35%. The results for the second quarter of 2007 were favorably affected by higher interest and fees on loans on the growth in average loan balances somewhat offset by higher interest expense on the growth in deposit balances. The growth in balances has outpaced the related income which corresponds to a lower net interest margin (NIM). The NIM contracted 40 basis points to 3.46% at June 30, 2007 compared to 3.86% for the comparable period a year earlier. Provisions for loan losses were \$67,000 for the quarter ending June 30, 2007 compared to \$178,000 for the quarter ending June 30, 2006. Noninterest income increased \$89,000 to \$114,000 for the quarter ending June 30, 2007 on fees and related charges on deposit accounts and retail brokerage commissions. Noninterest expenses increased 14% to \$2.0 million for the quarter which includes the expenses for the build out of the Windsor banking center.

## Net Interest Income

Net interest income is the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

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 ended June 30, 2007 and 2006. 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 June 30,</b>					
	<b>2007</b>			<b>2006</b>		
	<b>(Dollars in Thousands)</b>					
	<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 (including loans held for sale)	\$ 120,339	\$ 2,254	7.51%	\$ 76,734	\$ 1,386	7.24%
Investment securities	22,217	270	4.87%	23,377	250	4.29%
Federal funds sold	10,873	137	5.05%	117	1	3.43%
Total interest-earning assets	153,429	2,661	6.96%	100,228	1,637	6.55%
Allowance for loan losses	(1,510)			(1,020)		
Cash and due from banks	3,866			2,431		
Other assets	3,990			3,372		
Total assets	<u>\$ 159,775</u>			<u>\$ 105,011</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 27,984	\$ 226	3.24%	\$ 21,803	\$ 161	2.96%
Time deposits	77,712	959	4.95%	37,353	369	3.96%
Borrowed funds	14,269	152	4.27%	11,220	142	5.08%
Total interest-bearing liabilities	119,965	1,337	4.47%	70,376	672	3.83%
Demand deposits	17,555			10,647		
Total deposits and borrowed funds	137,520			81,023		
Other liabilities	991			441		
Stockholders' equity	21,264			23,547		
Total liabilities and stockholders' equity	<u>\$ 159,775</u>			<u>\$ 105,011</u>		
Net interest income		<u>\$ 1,324</u>			<u>\$ 965</u>	
Interest rate spread			2.49%			2.72%
Net interest margin			3.46%			3.86%
Ratio of interest-earning assets to interest-bearing liabilities			127.89%			142.42%

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) Net interest margin represents annualized net interest income, based upon the actual number of days in the quarter and the year, divided by average interest-earning assets.

### **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 June 30, 2007 compared to 2006</b>		
	<b>Increase (Decrease) Due to</b>		<b>Net</b>
	<b>Volume</b>	<b>Rate</b>	
	<b>(In Thousands)</b>		
<b>Interest-earning assets:</b>			
Loans	\$ 815	\$ 53	\$ 868
Investments securities	(31)	51	20
Federal funds sold	135	1	136
Total interest earning assets	<u>919</u>	<u>105</u>	<u>1,024</u>
<b>Interest-bearing liabilities:</b>			
Savings, NOW and money market deposits	\$ 49	\$ 16	\$ 65
Time deposits	479	111	590
Borrowed funds	35	(25)	10
Total interest-bearing liabilities	<u>563</u>	<u>102</u>	<u>665</u>
<b>Increase in net interest income</b>	<u><u>\$ 356</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 359</u></u>

Net interest income increased \$359,000 to \$1.3 million for the three months ended June 30, 2007 from \$965,000 in the same period last year mainly driven by growth in average interest-earning assets. Total average interest-earning assets expanded \$53.2 million to \$153.4 million at June 30, 2007 reflecting growth in average loans, somewhat offset by reduced investments in securities available for sale and Federal funds sold. Average loans increased \$43.6 million primarily due to strong origination volume and advances on new and existing lines of credit, less amortization and prepayments of existing loans. Average investments declined \$1.2 million principally reflecting principal payments on mortgage-backed securities. Average Federal funds sold increased \$10.8 million as liquid funds remain available for future loan originations. Total average interest bearing liabilities increased \$49.6 million for the quarter ending June 30, 2007 with \$40.4 million increase attributed to average certificates of deposit balances compared to the same period a year earlier. The net interest margin declined 40 basis points to 3.46% for the three months ended June 30, 2007 from 3.86% in 2006 primarily resulting from the volume of Federal funds at lower yielding rates coupled with growth in higher rate certificates of deposit balances.

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

CBT's provision for loan losses decreased \$111,000 to \$67,000 for the second quarter of 2007 from \$178,000 for the same period a year earlier. Provisions to the allowance for loan and lease losses are allocated based on the inherent risk in the loan portfolio. Management, based upon known circumstances and conditions related to individual loans, industry trends, regional and national economic conditions and estimates of the potential for losses, determines the necessary level of the allowance for loan losses.

### ***Non-Interest Income***

Total non-interest income increased \$89,000 to \$114,000 for the quarter ending June 30, 2007 primarily reflecting growth in service charges and fees on deposits and the establishment of our retail brokerage business. Service charges and fees increased \$18,000 for the second quarter of 2007 principally resulting from an expanded number of deposit accounts. Commissions earned on retail brokerage activity added \$70,000 for the quarter ending June 30, 2007.

### ***Non-Interest Expenses***

Non-interest expenses increased \$243,000, or 14%, to \$2.0 million for the second quarter of 2007 compared to \$1.7 million for the same period in 2006. Salaries and benefits expanded \$184,000 in connection with additional staff required to support and facilitate CBT's growth. Occupancy and equipment costs increased \$58,000 principally due to the operation of the Windsor banking center and higher contractual lease payments. The total for all other noninterest expenses was flat from the same period a year earlier.

### **Comparison of Operating Results for the Six Months Ended June 30, 2007 and 2006**

#### ***General***

CBT reported a net loss of \$1.2 million or \$0.35 per share for the six months ended June 30, 2007, compared to \$1.8 million or \$.51 per share for the same period last year, an improvement in the net loss of \$554,000 or 31%. Net interest income rose \$634,000 for the six months ending June 30, 2007 compared to the same period in the prior year principally due to higher interest and fees on loans lessened by higher interest expense on deposit balances. Provisions for loan losses were \$127,000 for the first six months of 2007 compare to \$260,000 in same period a year earlier. Noninterest expenses increased \$335,000, or 10% for the first six months of 2007 compared to the prior year largely due to compensation and occupancy costs as a result of the commencement of activities at the Windsor banking center.

#### ***Net Interest Income***

Net interest income is the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the six month periods ended June 30, 2007 and 2006. 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>Six Months Ended June 30,</b>					
	<b>2007</b>			<b>2006</b>		
	<b>(Dollars in Thousands)</b>					
	<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 (including loans held for sale)	\$ 115,275	\$ 4,285	7.50%	\$ 70,893	\$ 2,534	7.21%
Investment securities	22,282	540	4.89%	24,001	528	4.44%
Federal funds sold	5,788	144	5.02%	623	16	5.18%
Total interest-earning assets	143,345	4,969	6.99%	95,517	3,078	6.50%
Allowance for loan losses	(1,461)			(993)		
Cash and due from banks	3,514			2,189		
Other assets	3,797			3,373		
Total assets	<u>\$ 149,195</u>			<u>\$ 100,086</u>		
Interest-bearing liabilities:						
Savings, NOW and money market deposits	\$ 26,042	\$ 397	3.07%	\$ 19,946	\$ 277	2.80%
Time deposits	68,641	1,692	4.97%	35,155	671	3.85%
Borrowed funds	15,416	343	4.49%	9,299	227	4.92%
Total interest-bearing liabilities	110,099	2,432	4.45%	64,400	1,175	3.68%
Demand deposits	16,731			11,239		
Total deposits and borrowed funds	126,830			75,639		
Other liabilities	802			382		
Stockholders' equity	21,563			24,065		
Total liabilities and stockholders' equity	<u>\$ 149,195</u>			<u>\$ 100,086</u>		
Net interest income		<u>\$ 2,537</u>			<u>\$ 1,903</u>	
Interest rate spread			<u>2.54%</u>			<u>2.82%</u>
Net interest margin			<u>3.57%</u>			<u>4.02%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>130.20%</u>			<u>148.32%</u>

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (2) Net interest margin represents annualized net interest income, based upon the actual number of days in the quarter and the year, divided by average interest-earning assets.

### **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>Six Months Ended June 30,</b>		
	<b>2007 compared to 2006</b>		
	<b>Increase (Decrease)</b>		<b>Net</b>
	<b>Due to</b>		
<b>Volume</b>	<b>Rate</b>		
<b>(In Thousands)</b>			
<b>Interest-earning assets:</b>			
Loans	\$ 1,646	\$ 105	\$ 1,751
Investments securities	(40)	52	12
Federal funds sold	129	(1)	128
Total interest earning assets	<u>1,735</u>	<u>156</u>	<u>1,891</u>
<b>Interest-bearing liabilities:</b>			
Savings, NOW and money market deposits	\$ 91	\$ 29	\$ 120
Time deposits	781	240	1,021
Borrowed funds	138	(22)	116
Total interest-bearing liabilities	<u>1,010</u>	<u>247</u>	<u>1,257</u>
<b>Increase (decrease) in net interest income</b>	<u><u>\$ 725</u></u>	<u><u>\$ (91)</u></u>	<u><u>\$ 634</u></u>

Net interest income increased \$634,000 to \$2.5 million for the six months ended June 30, 2007 from \$1.9 million in the same period last year. Average interest-earning assets expanded \$47.8 million to \$143.3 million at June 30, 2007 reflecting strong growth in average loans and money market instruments, slightly offset by reduced investments in securities available for sale. Average loans grew \$44.4 million due to strong loan originations and advances on new and existing lines of credit, less amortization and prepayments on the existing portfolio. Average investments declined \$1.7 million principally reflecting sales and calls of certain agency securities and principal payments on mortgage-backed securities. The net interest margin declined 45 basis points to 3.57% for the six months ended June 30, 2007 from 4.02% in 2006 primarily resulting from the average rate paid on interest bearing liabilities over the same time period. The average rate increased from 3.68% at June 30, 2006 to 4.45% at June 30, 2007 on higher average balances. The volume and growth in average interest earning assets added \$725,000 in net interest income while rate changes decreased net interest income by \$91,000.

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

CBT's provision for loan losses decreased \$133,000 to \$127,000 for the six months ended June 30, 2007 from \$260,000 for the same period last year. Provisions for loan losses are allocated for the inherent risk in the loan portfolio. Management, based upon known circumstances and conditions related to individual loans, industry trends, regional and national economic conditions and estimates of the potential for losses, determines the necessary level of the allowance for loan losses.

### ***Non-Interest Income***

Total non-interest income increased \$122,000 to \$165,000 during the six month period ended June 30, 2007 compared to \$43,000 for the same period last year. Service charges and fees grew from \$43,000 to \$83,000 for the first six months of 2007 principally resulting from an expanded number of deposit accounts. Commissions earned on retail brokerage services, which commenced in the third quarter of 2006, added \$124,000 for the first six months of 2007. Through June 2007, losses of \$42,000 resulting from the sale of available for sale securities reduced noninterest income. The proceeds from the sales were reinvested in comparable securities to contribute an overall higher yield on the portfolio.

### ***Non-Interest Expenses***

Non-interest expenses increased \$335,000, or 10%, to \$3.8 million for the six month period ended June 30, 2007 compared to \$3.5 million for the same period in 2006. Salaries and benefits expanded \$338,000 largely as a result of annual merit increases and staff additions to support CBT's growth. Occupancy and equipment costs grew \$118,000 due to the commencement of operations in the Windsor banking center and increased rents related to lease escalation clauses. Marketing expenditures decreased \$209,000, as a result of less promotional spending and more targeted advertising strategies. Professional services declined \$32,000 as a result of lower consulting costs. Other general and administrative expenses were \$110,000 more than last year primarily reflecting costs associated with FDIC insurance premiums, expanded business development efforts, and higher operating costs for goods and services.

### ***Liquidity***

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

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages, and, to a lesser extent, the origination of consumer loans, primarily home equity loans and lines of credit, and other types of loans. The investment portfolio is comprised of investments in mortgage-backed and government-sponsored enterprise securities. During the six months ended June 30, 2007, CBT's loan originations totaled \$49.4 million. At June 30, 2007, CBT's fair value of investments in federal agency mortgage-backed and government-sponsored enterprise securities totaled \$20.1 million.

Balance sheet growth is funded through principal and interest payments on loans and investment securities, deposit growth and alternative funding sources to expand our lending and investing activities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by the overall level of interest rates, the interest rates and products offered by CBT and its local competitors and other factors. CBT closely monitors its liquidity position on a daily basis. If CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through Federal Home Loan Bank of Boston ("FHLB-Boston") advances and a \$2.0 million Federal Funds borrowing line of credit from Bankers' Bank Northeast. At June 30, 2007, CBT had \$12.5 million of borrowings outstanding with the FHLB-Boston and had not drawn on the Federal Funds line of credit. CBT has approximately \$10 million of unused borrowing capacity at the FHLB.

CBT has commitments to originate loans totaling \$19.4 million at June 30, 2007. CBT also has unfunded commitments under existing lines of credit aggregating \$33.1 million at June 30, 2007. These commitments relate primarily to

commercial and commercial real estate loans, including construction lines of credit. Management of CBT anticipates that it will have sufficient funds available to meet its current loan commitments. CBT relies primarily on competitive rates, customer service and customer relationships to retain deposits. Management believes that, although it is not possible to predict future offering terms and conditions, a significant portion of its deposits will remain with CBT.

At June 30, 2007, the net ratio of liquid assets not pledged for collateral and other purposes to interest-bearing liabilities and demand deposits was 19.9%. The ratio of gross loans to deposits, another key liquidity ratio, was 92.9% at June 30, 2007. Management believes that CBT's short-term assets, combined with access to alternative funding sources such as the FHLB, 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

CBT's asset liability management ("ALM") process consists of quantifying, analyzing and controlling interest rate risk ("IRR") to maintain stability in net interest income ("NII") under varying interest rate environments. The principal objective of ALM is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of liquidity.

CBT's net earnings are dependent on its net interest income. Net interest income is susceptible to IRR to the degree that interest-bearing liabilities mature or reprice on a different basis and timing than interest-earning assets. 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.

Management and the ALCO direct CBT's IRR management through a Risk Management policy that is designed to produce a stable net interest margin ("NIM") in periods of interest rate fluctuation. By adjusting CBT's asset/liability position, the Board and Management attempt to direct CBT's IRR while enhancing the 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 its NIM. Notwithstanding CBT's IRR management activities, the potential for changing interest rates is an uncertainty that can have an adverse effect on net earnings.

Interest-sensitive assets and liabilities are those that are subject to maturity or repricing within a given time period. Management attempts to administer this sensitivity through the development and implementation of investment, lending, funding and pricing strategies designed to achieve NII performance goals while minimizing the potential negative variations in NII under different interest rate scenarios. Investment strategies, including portfolio durations and cash flows, are formulated and continually adjusted during the implementation to assure attainment of objectives in the most effective manner. Loan and deposit pricing are adjusted weekly to reflect current interest rate and competitive market environments, with duration targets on both loan pricing and deposit pricing reviewed monthly.

NII at-risk measures the risk of a decline in earnings due to potential short-term and long-term changes in interest rates. The table below presents an analysis of the CBT's IRR as measured by the estimated changes in NII resulting from an instantaneous and sustained parallel shift in the yield curve (+ 200 and -200 basis points) at June 30, 2007 and December 31, 2006.

#### Net Interest Income At-Risk

Change in Interest Rates (Basis Points)	Estimated Increase (Decrease) in NII (June 30, 2007)	Estimated Increase (Decrease) in NII (December 31, 2006)
-200	(8.88)%	(7.82)%
Stable	0.0%	0.0%
+200	4.54%	1.96%

## Off-Balance Sheet Arrangements

Information relating to Off-Balance Sheet Arrangements is presented in CBT's Annual Report on Form 10-KSB for the year ended December 31, 2006 (see Note 9 to the Consolidated Financial Statements). There have been no material changes in CBT's off-balance sheet arrangements since December 31, 2006.

## Regulatory Capital

Federal law defines specific capital categories for depository institutions. The capital categories, in declining order, are: (i) well capitalized; (ii) adequately capitalized; (iii) undercapitalized; (iv) significantly undercapitalized; and (v) critically undercapitalized. To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a Tier 1 capital to risk-weighted assets ratio of at least 4% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 8%. To be considered "well capitalized," an institution must generally have a leverage ratio of at least 8%, a Tier 1 capital to risk-weighted assets ratio of at least 6% and total Tier 1 and Tier 2 capital to risk-weighted assets ratio of at least 10%. As of June 30, 2007, 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.

CBT is required to maintain minimum Tier 1 leverage ratios of at least 8.0%. At June 30, 2007, as indicated in the following table, the actual regulatory capital ratios of CBT at June 30, 2007 exceeded the minimum required ratios. There are no conditions that Management believes have changed CBT's category since its June 30, 2007 notification from regulators that it is "well capitalized." CBT's actual capital amounts and ratios as of June 30, 2007 and December 31, 2006 are presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
<b>June 30, 2007</b>						
Total capital (to risk weighted assets)	\$ 22,952	17.5%	\$ 10,491	8.0%	\$ 13,114	10.0%
Tier 1 capital (to risk weighted assets)	21,441	16.4%	5,245	4.0%	7,868	6.0%
Tier 1 capital (to average assets)	21,441	13.4%	12,832	8.0%	12,832	8.0%
<b>December 31, 2006</b>						
Total capital (to risk weighted assets)	\$ 23,916	21.3%	\$ 5,447	8.0%	\$ 6,808	10.0%
Tier 1 capital (to risk weighted assets)	22,532	20.1%	2,723	4.0%	4,085	6.0%
Tier 1 capital (to average assets)	22,532	20.2%	8,538	9.0% *	8,538	9.0% *

\* Although the minimum, as well as the minimum to be considered well capitalized under prompt corrective action provisions, tier 1 capital to average assets ratios are generally 4% and 8%, respectively, pursuant to CBT's charter and its de novo status, since its inception, CBT has been subject to, and has complied with a 9% Tier 1 capital ratio. This requirement will be in effect for thirty-six months from the date of opening, March 12, 2004.

### **Item 3. 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 June 30, 2007 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 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.**

In connection with its Annual Meeting of Shareholders held on May 15, 2007, CBT solicited by proxy the vote of its shareholders on the election of five directors to the Bank's Board of Directors, each to serve for a three year term. At the annual meeting, the following Directors were elected to a new term of three years: Geno Auriemma, Frank A. Falvo, John A. Green, David A. Lentini, and Joan L. Rusconi.

The following table summarizes the voting for the Board of Directors:

	For	Withheld
Geno Auriemma	3,147,004	8,382
Frank A. Falvo	2,854,004	301,382
John A. Green	3,147,304	8,082
David A. Lentini	3,147,304	8,082
Joan L. Rusconi	3,147,304	0

### **Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

<u>No.</u>	<u>Description</u>
3(i)	Amended Certificate of Incorporation of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
3(ii)	Amended Bylaws of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 3.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
4.1	Form of Warrant of The Connecticut Bank and Trust Company (incorporated by reference to Exhibit 4.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
11.1	Statement Re: Computation of Per Share Earnings (incorporated by reference to Part 1 of this Quarterly Statement on Form 10-QSB – 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**

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

THE CONNECTICUT BANK AND TRUST COMPANY

Dated: August 13, 2007

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

## EXHIBIT INDEX

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**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-QSB of The Connecticut Bank and Trust Company for the period ended June 30, 2007;
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 Connecticut Bank and Trust Company as of, and for, the periods presented in this report;
4. The Connecticut Bank and Trust 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)) for The Connecticut Bank and Trust 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 Connecticut Bank and Trust Company is made known to us by others within The Connecticut Bank and Trust Company, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of The Connecticut Bank and Trust 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
  - (c) Disclosed in this report any change in The Connecticut Bank and Trust Company's internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting; and
5. The Connecticut Bank and Trust Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to The Connecticut Bank and Trust Company's auditors and the audit committee of The Connecticut Bank and Trust 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 Connecticut Bank and Trust 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 Connecticut Bank and Trust Company's internal control over financial reporting.

Date: August 13, 2007

/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-QSB of The Connecticut Bank and Trust Company for the period ended June 30, 2007;
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 Connecticut Bank and Trust Company as of, and for, the periods presented in this report;
4. The Connecticut Bank and Trust 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)) for The Connecticut Bank and Trust 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 Connecticut Bank and Trust Company is made known to us by others within The Connecticut Bank and Trust Company, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of The Connecticut Bank and Trust 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
  - (c) Disclosed in this report any change in The Connecticut Bank and Trust Company's internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting; and
5. The Connecticut Bank and Trust Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to The Connecticut Bank and Trust Company's auditors and the audit committee of The Connecticut Bank and Trust 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 Connecticut Bank and Trust 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 Connecticut Bank and Trust Company's internal control over financial reporting.

Date: August 13, 2007

/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-QSB for the period ending June 30, 2007 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of CBT, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David A. Lentini  
David A. Lentini  
Chief Executive Officer  
August 13, 2007

**EXHIBIT 31.2**

**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-QSB for the period ending June 30, 2007 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  
August 13, 2007