

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

FORM 10-KSB

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

For the Fiscal Year Ended December 31, 2005

OR

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

FDIC Certificate Number: 57690

THE CONNECTICUT BANK AND TRUST COMPANY

(Exact name of 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)

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

Title of Each Class

None

Name of Each Exchange
on Which Registered

None

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

Common Stock, \$1.00 par value

(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB.

Indicate by check market whether the registrant is a shell company (as defined in Rule 12b-2 of the

Exchange Act). Yes [] No [X]

State issuer's revenues for its most recent fiscal year: \$4,101,000.

The market value of the voting and non-voting common equity held by non-affiliates was \$30,992,938, which was computed by reference to the price at which the common equity was last sold as of March 10, 2006. Solely for purposes of this calculation, the shares held by the directors and officers of the registrant are deemed to be affiliates.

Portions of the Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this document.

As of March 10, 2005, there were 3,567,450 shares of the Registrant's Common Stock outstanding.

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

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PART I

Item 1. Business.

The Connecticut Bank and Trust Company is a Connecticut state bank and trust company which commenced banking operations in March 2004. As used in this 10-KSB, the terms “we,” “us,” “our,” “CBT” and “Bank” mean The Connecticut Bank and Trust Company (unless the context indicates another meaning). We maintain our main office at 58 State House Square in Hartford, Connecticut and full-service branch offices at 7 Sycamore Street in Glastonbury, Connecticut, 68 South Main Street in West Hartford, Connecticut and 435 Hartford Turnpike in Vernon, Connecticut. CBT operates as a community-based bank serving small- to medium-sized business customers and individuals in northern and central Connecticut whom we believe are underserved as a result of bank acquisitions and a movement away from customer service by larger banks in recent years.

Who We Are

CBT is a state bank and trust company chartered under the laws of the state of Connecticut, based in Hartford, Connecticut with deposit accounts insured by the FDIC. We received our Final Certificate of Authority from the State of Connecticut Department of Banking and commenced banking operations on March 12, 2004.

Since opening for business in March 2004, we have accomplished the following:

- assembled a banking staff consisting of bankers from our local markets including six commercial lenders, each having over 10 years of banking experience;
- opened four full service branches, including the main office, in North-Central Connecticut and received approval to open one additional branch in Windsor Connecticut;
- adopted state of the art banking products including a comprehensive set of loans, deposit services and investment management products for commercial and retail customers and cash management products for commercial customers;
- increased our total assets to \$96.9 million;
- received net proceeds totaling \$14.7 million from a secondary stock offering completed in 2005;
- developed a local identity in the communities we serve through staff involvement in a variety of non-profit and civic organizations and charitable contributions;
- established an award-winning marketing program featuring Director Geno Auriemma;
- implemented a sound credit culture which, as of December 31, 2005, reflected an allowance for loan losses of \$876,000, or 1.53% of total loans, and no loans past due 30 days or more other than one consumer non-accrual loan for \$25,000; and
- satisfied the listing requirements of the NASDAQ and, in February 2006, began trading on the NASDAQ Capital Market under the symbol “CTBC.”

Business Strategy

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

CBT’s strategy has been to hire experienced staff with established business contacts in our market area and a reputation for excellent customer service. Each of our commercial lenders has over 10 years of experience, and senior management possesses extensive experience in the banking industry as well as substantial business contacts in our market area. For example, our President and Chief Executive Officer, David A. Lentini, has 38 years of banking experience in retail and commercial banking in Hartford County and has previously started a local de novo Connecticut commercial bank. CBT’s Board of Directors consists predominately of long-time residents and business people from the North-Central Connecticut area who are representative of target customers and are sensitive and responsive to the needs of the community. Our Directors, many of which are also owners and managers of locally based businesses and organizations, have significant contacts in the community and have and are expected to continue to bring substantial business contacts to CBT.

We carry out our marketing strategy through print and broadcast media highlighting our personal approach to providing banking services. Our marketing program emphasizes our commitment to customer service and the availability of our senior officers to bank customers. We have engaged Mr. Geno Auriemma, one of our directors, as our spokesperson to support our marketing activities and to endorse our products and services.

Our strategy is to expand CBT's presence in the North-Central Connecticut market. We anticipate that key components in successfully penetrating our geographic market include expanding our branch network in the communities of the North-Central Connecticut market as well as providing other convenient services such as electronic banking. Our business strategy contemplates opening six to eight additional branches over the next several years in the North-Central Connecticut market. Achieving this strategy will be dependent on identifying and leasing suitable locations and obtaining all required regulatory approvals. Although our growth strategy is not dependent on acquisitions, we may consider acquisition opportunities from time to time if useful in accelerating our business plan.

Market Focus

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

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

Our branching strategy is to expand into growing areas within North-Central Connecticut in order to provide convenience to current and potential individual and commercial customers. CBT's main office location is visible and accessible and is located in the downtown business district of the City of Hartford near the city's cultural centers and new downtown projects. Three additional full service branches of the Bank, which are located in West Hartford, Glastonbury and Vernon, are conveniently located, highly visible and have extended service hours. Each branch is a full service branch which includes a drive-up window and drive-up ATM. We have also received regulatory approval to open a new branch at 148 Broad Street, Windsor, Connecticut.

Market Area

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

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

Based on 2000 U.S. Bureau of the Census Survey data, the City of Hartford is comprised of approximately 122,000 people, 45,000 households and approximately 3,900 business entities. Approximately 4% of all households earn over \$100,000. The North-Central Connecticut market has a population of approximately 588,000 people and 235,000 households with approximate average and median household income of \$48,500 and \$55,600 respectively. Almost one in five households (18%) has income in excess of \$100,000. This market has roughly 19,500 businesses with estimated annual loan demand of approximately \$3.0 billion. As of June 2003, 87 institutions competed for \$18.7 billion in deposits through 215 branch facilities.

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

Risks Related to Our Business

We have a limited operating history.

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

We do not have a history of profitability.

As of December 31, 2005, we recorded an accumulated deficit of \$7.8 million since commencing banking operations. The losses that we incurred resulted from anticipated start-up costs associated with developing our operating infrastructure, an initially low volume of earning assets, increasing provisions for loan losses and other non-interest expenses. Early losses are typical in new banks, and we expect to continue to incur losses as we implement our growth strategy. Our operating losses have been significant and may occur for periods longer than planned, depending upon our ability to generate net interest income and non-interest income greater than operating expenses. If we do not increase revenues sufficiently to offset anticipated expense increases, we will continue to experience losses. There is no assurance that we will earn a profit in the future.

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

We have pursued and continue to pursue a growth strategy which depends on generating an increasing level of loans and deposits at acceptable risk levels. To sustain our planned growth, it will be necessary to establish additional new branches and more new products. This expansion will require significant investments in equipment, technology, personnel and site locations. We expect that implementing our growth strategy will result in corresponding increases in our non-interest expenses.

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

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

The building of our market share through de novo branching could cause our expenses to increase faster than our revenues.

We anticipate that a key component of building our market share in North-Central Connecticut will be de novo branching. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our new branches can be expected to have a negative impact on our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, we have no assurance our new branches will be successful even after they have been established.

Key components of our growth plans, including the opening of additional branches, are subject to regulatory approvals.

We commenced operations with our main office and two branch offices in Glastonbury and West Hartford. Last year, we received approval to open new branch offices in Vernon and Windsor, Connecticut and have opened the Vernon office. We anticipate applying to the Department of Banking and the Board of Governors of the Federal Reserve System to open additional branches in the future. If any of these applications are denied, or if future applications to establish additional branches in Connecticut are denied, our growth strategy could be adversely affected.

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

A significant portion of our loan portfolio is comprised of a relatively small number of borrowers. The loss of even a few of

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

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

All of the loans in our loan portfolio were originated since March 2004. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as “seasoning.” As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned. Additionally, because of the relatively small size of our loan portfolio, one or more loan defaults or loan prepayments could have an adverse effect on our earnings.

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

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

As of December 31, 2005 our allowance for loan losses was \$876,000, or 1.5% of gross outstanding loans. Although we believe that this allowance is currently adequate, we cannot assure you that it will be sufficient to cover probable loan losses. Although we use the best information available to make our determinations with respect to this allowance, future adjustments may be necessary if economic conditions change substantially from the assumptions used or if negative developments occur with respect to non-performing or performing loans. If our assumptions or conclusions prove to be incorrect and the allowance for loan losses is not adequate to absorb probable losses, or if bank regulatory agencies require us to increase our allowance, our earnings, and potentially our capital, could be significantly and adversely impacted.

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

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

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

Our legally mandated lending limit is lower than those of many of our competitors because we have less capital than those competitors. Currently, we have a legal lending limit for unsecured loans of approximately \$3.9 million to any one borrower and affiliated entities. In the early years of our operations, our actual lending limit will depend, to a significant extent, on the amount of capital that we raise. Our lower lending limit may discourage potential borrowers who have lending needs that exceed our limits, which may restrict our ability to grow. To date, we have served the needs of these borrowers by selling loan participations to other institutions and intend to continue to do so in the future, but this strategy may not always succeed.

Our business is concentrated in North-Central Connecticut and adverse economic conditions in this region may adversely affect our business.

Our primary market is North-Central Connecticut, including the communities of Hartford, Glastonbury, West Hartford, East Hartford, Manchester, Windsor, South Windsor, Bloomfield, Avon, Farmington, New Britain, Newington, Wethersfield and Vernon, Connecticut. As a result, our financial condition and results of operations may be affected by changes in the Hartford, Connecticut economy. The economy of the State of Connecticut has been growing slowly for the past five years and a continuation of this slow rate of economic growth or other adverse economic conditions in Connecticut may result in decreases in demand for our services, increases in nonpayment of loans and decreases in the value of collateral securing loans. The occurrence of adverse economic conditions in the Hartford, Connecticut area could have a material adverse effect on our business, future prospects, financial condition or results of operations.

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

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

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

Departures of our key personnel may impair CBT's profitability.

We are a relationship-driven organization. We depend upon the skills and reputations of our executive officers, key employees and directors for our future success. Our senior management has primary contact with our customers and is extremely important in maintaining personalized relationships with our customer base, in increasing our market presence and to key aspects of our business strategy. The loss of any of these key persons, including, without limitation, our Chairman, President and Chief Executive Officer, and our Chief Financial Officer, or the inability to attract and retain other key personnel, could adversely affect our results of operations. Although we have entered into employment agreements with our Chief Executive Officer and our Chief Financial Officer, we cannot be assured of their continued service. Additionally, our directors' community involvement, diverse backgrounds and extensive local business relationships are important to our success. Our growth could be adversely affected if the composition of our Board of Directors were to change significantly or if our directors were unable to devote sufficient time to our affairs.

Rapidly rising or falling interest rates could significantly reduce CBT's profitability.

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

Lending Activities

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

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

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

regarding the ultimate collectibility of loans in our portfolio and a percentage of the outstanding balances of specific loans when their ultimate collectibility is considered questionable.

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

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

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

Commercial Real Estate Loans. Commercial real estate loans are made for purchasing, constructing and refinancing both commercial and residential properties. Risks associated with commercial real estate loans include credit risk, the risk of loss of tenants and the risk of fluctuations in real estate market values. We manage credit risk associated with these loans by actively monitoring such measures as cash flow, collateral value and other appropriate credit factors. . We attempt to reduce credit risks in the commercial real estate portfolio by analyzing the strength of the borrower and tenants, by evaluating the cash flow available to service loan repayment, by limiting the loan- to-value ratio to 80% or less in owner-occupied properties and 75% or less in non-owner occupied properties and by typically requiring personal guarantees of the principal owners. In addition, we emphasize the origination of loans secured by owner-occupied and investment properties. At December 31, 2005 in excess of 50% of commercial real estate loans were secured by owner-occupied properties.

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

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

The following table sets forth at December 31, 2005, the dollar amount of gross loans receivable contractually due after December 31, 2006, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2006		
	Fixed	Adjustable	Total
	(In Thousands)		
Commercial	\$ 7,805	\$ 8,703	\$ 16,508
Commercial real estate	28	22,366	22,394
Construction	167	2,066	2,233
Home equity lines of credit	-	2,955	2,955
Closed end home equity	-	487	487
Consumer	92	-	92
	<hr/>	<hr/>	<hr/>
Total loans	<u>\$ 8,092</u>	<u>\$ 36,577</u>	<u>\$ 44,669</u>

Loan Quality. CBT manages the risk characteristics of its loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits and application of lending procedures, including the holding of adequate collateral. However, primary reliance is placed on the cash flow of the borrower as the principal source of repayment. Although credit policies are designed to minimize risk, management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio as well as general and regional economic conditions. Management regularly reevaluates the allowance for loan losses, 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 accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income.

At December 31, 2005, the Bank had one consumer non-accrual loan with an outstanding balance of \$25,000. The Bank had no impaired loans as of or for the year ended December 31, 2005. As of and for the year ended December 31, 2004, the Bank had no impaired loans or loans on non-accrual.

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 and commitments to extend credit, 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 portfolio quality, loan 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 continuously reevaluates the allowance, formal evaluations occur on a quarterly basis.

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

	Years Ended	
	December 31, 2005	
	2005	2004
	(Dollars in thousands)	
Balance, beginning of year	\$ 239	\$ -
Provision for loan losses	637	239
Recoveries	-	-
Charge-offs	-	-
Balance, end of year	<u>\$ 876</u>	<u>\$ 239</u>
Allowance for loan losses to total loans	1.53%	1.13%
Allowance for loan losses to nonperforming loans and troubled debt restructurings	N/A	N/A
Net loan charge-offs (recoveries) to allowance for loan losses	-	-
Recoveries to charge-offs	-	-

Investment Activities

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

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

The Bank generally invests in securities with funds not employed for loan origination activity, to maintain liquidity at levels deemed appropriate by management, to enhance profitability within overall asset/liability management objectives and to provide a degree of high credit quality assets to the balance sheet. The Bank has no investments classified as trading or held to maturity at December 31, 2005. At December 31, 2005, the fair value of the Bank's available-for-sale securities portfolio totaled \$23.9 million, or 24.7% of assets.

Government-Sponsored Agencies Available-for-Sale. At December 31, 2005, the Bank's total investment in Government-sponsored agency securities was \$16.4 million, consisting of bonds issued and guaranteed by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Bank ("FHLB"). These bonds have a weighted average maturity of 7.80 years and a weighted average yield of 4.13%. Approximately \$14 million, or 85% of the total portfolio, are callable once or quarterly in 2006 or 2007. Of these callable bonds, \$8.0 million, or 48% of the portfolio, have step-up features scheduled for 2006 through 2009.

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

At December 31, 2005, mortgage-backed securities totaled \$7.5 million, or 7.7% of assets and 8.1% of interest earning assets, all of which are classified as available-for-sale. At December 31, 2005, the portfolio had a stated rate of 4.90% and consisted of fixed-rate loans (71% of total) and variable rate loans (29% of total). Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

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

	December 31, 2005			
	Amortized Cost	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
(In thousands)				
Government-sponsored enterprises	\$ 16,768	\$ -	\$ (360)	\$ 16,408
Mortgage-backed securities	7,677	-	(177)	7,500
	<u>\$ 24,445</u>	<u>\$ -</u>	<u>\$ (537)</u>	<u>\$ 23,908</u>

	December 31, 2004			
	Amortized Cost	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
(In thousands)				
Government-sponsored enterprises	\$ 27,767	\$ 16	\$ (190)	\$ 27,593
Mortgage-backed securities	10,375	7	(48)	10,334
	<u>\$ 38,142</u>	<u>\$ 23</u>	<u>\$ (238)</u>	<u>\$ 37,927</u>

The table below sets forth information regarding the carrying value and contractual maturities of the Bank's securities portfolio at December 31, 2005.

	Less than One Year		One Year to Five Years		Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
(Dollars in Thousands)										
Government-sponsored enterprises	\$ 1,994	4.04%	\$ 1,027	4.07%	\$ 11,051	4.06%	\$ 2,696	4.52%	\$ 16,768	4.13%
Mortgage-backed securities	-	-	-	-	658	4.03%	7,019	4.74%	7,677	4.68%
Total	<u>\$ 1,994</u>	4.04%	<u>\$ 1,027</u>	4.07%	<u>\$ 11,709</u>	4.05%	<u>\$ 9,715</u>	4.68%	<u>\$ 24,445</u>	4.30%

Sources of Funds

Deposits. At December 31, 2005, CBT's total deposits amounted to \$70.7 million, or 73.0% of total assets. To date, deposits from our primary market have provided a relatively stable funding source for CBT's loan portfolio and other earning assets. We offer a full range of interest bearing and non-interest bearing accounts with a range of maturity date options, including commercial and retail checking accounts, money market accounts, individual retirement accounts, savings accounts, certificates of deposit and sweep accounts. We have tailored the rates and terms of our accounts and time deposits to compete in our market area. The sources of deposits are businesses and employees of businesses within our market area, as well as residents of North-Central Connecticut. As of December 31, 2004, CBT's assets were supported by \$63.5 million in deposits, which represented 81.0% of total assets.

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

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
	(Dollars in thousands)			
Demand	\$ 21,159	29.91%	\$ 12,026	18.95%
NOW accounts	3,096	4.38%	3,595	5.67%
Savings and money market	14,815	20.94%	2,849	4.49%
Time	31,670	44.77%	44,981	70.89%
Total deposits	<u>\$ 70,740</u>	<u>100.00%</u>	<u>\$ 63,451</u>	<u>100.00%</u>

A summary of certificate accounts, by maturity, are as follows:

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Amount</u>	<u>Weighted Average Rate</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
	(Dollars In Thousands)			
Within 1 year	\$ 22,885	3.57%	\$ 42,221	2.85%
Over 1 to 3 years	8,251	3.91	2,383	3.11
Over 3 to 5 years	534	3.53	377	3.08
	<u>\$ 31,670</u>	3.59%	<u>\$ 44,981</u>	2.86%

At December 31, 2005, the Bank had \$10.4 million in retail certificate of deposit accounts in amounts of \$100,000 or more, maturing as follows:

<u>Maturity Period</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
	(Dollars in Thousands)	
Three months or less	\$ 409	2.12%
Over three through six months	1,987	2.43%
Over six through 12 months	5,213	3.79%
Over 12 months	2,748	3.62%
Total	<u>\$ 10,357</u>	3.42%

Borrowings.

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

Federal Home Loan Bank Advances

The Federal Home Loan Bank of Boston (“FHLB”) provides credit for savings banks and certain other member financial institutions. As a member of the FHLB, the Bank is required to own capital stock in the FHLB and may apply for advances on the security of the capital stock and qualified collateral maintained at the FHLB. Borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property and 90% of the market value of U.S. Government and federal agency securities. Advances are made under several different credit programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under the lines are limited to \$1 million and the line of credit may be increased to 2% of the Bank’s total assets in accordance with the credit policy of the FHLB. At December 31, 2005, the Bank had the ability to borrow a total of approximately \$20 million from the FHLB. At December 31, 2005 and 2004, the Bank had no borrowings outstanding with the FHLB.

Securities Sold Under Agreements to Repurchase

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

	At or For the	
	Years Ended December 31,	
	2005	2004
	(Dollars in Thousands)	
Year end balance	\$ 442	\$ 302
Average balance	300	340
Interest paid	6	10
Maximum month-end balance	442	2,702
Weighted average rate	2.97%	1.27%

The securities pledged to secure repurchase agreements are under the Bank’s control.

Other Products and Services

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

Other products and services that we provide include:

- Cash management services;
- Sweep accounts;
- Direct deposit of payroll and social security checks;
- Online banking;
- Wire transfers, ACH (Automated Clearinghouse) and EDI (Electronic Data Interchange) services;
- Client escrow accounts;
- Debit cards;
- Merchant credit card processing; and

- ATM access through the SUM shared network of automated teller machines.

Asset and Liability Management

Our primary assets are cash and cash equivalents, our loan portfolio and our securities portfolio. Our liabilities consist primarily of deposits. Our objective is to support asset growth primarily through the growth in core deposits, which include deposits of all categories made by individual and commercial customers. Consistent with the requirements of prudent banking practices necessary to maintain liquidity, we seek to match maturities and rates of loans and the securities portfolio with those of deposits, although exact matching is not always possible. Our securities portfolio consists primarily of marketable securities of Government-sponsored enterprises and mortgage-backed securities, generally with varied maturities.

Interest rate risk measures the impact that changing interest rates have on current and future earnings. Our goal is to optimize long-term profitability while minimizing our exposure to interest rate fluctuations. We monitor our exposure to interest rate risk through our Asset Liability Management Committee (“ALCO”), with the participation of members of CBT’s senior management personnel. ALCO reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. ALCO reports to the Board of Directors on a quarterly basis regarding the status of ALCO activities within CBT.

Competition

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

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

In commercial transactions, CBT’s legal lending limit to a single borrower enables CBT to compete effectively for the business of smaller enterprises and individuals. However, CBT’s legal lending limit is considerably lower than that of various competing institutions, which have substantially greater capitalization. CBT has a relatively smaller capital base than most other competing institutions which, although above regulatory minimums, may constrain CBT’s effectiveness in competing for loans.

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

Employees

As of December 31, 2005, CBT had 35 full time equivalent employees. Our employees are not represented by any union or other collective bargaining agreement, and we consider our relations with our employees to be excellent.

Regulation and Supervision

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

General

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

Federal Reserve Membership

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

Payment of Dividends

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. Further, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized.

In light of these restrictions and the need for us to retain and build capital, our Board of Directors plans to reinvest earnings for the period of time necessary to support development of successful operations. As a result, we have not paid and do not plan to pay dividends until we recover any losses incurred and CBT can sustain its profitability and adequately support growth. Our future dividend policy, therefore, will depend on our earnings, capital requirements and financial condition and on other factors that our Board of Directors considers relevant.

Capital Adequacy

Regulatory agencies measure capital adequacy within a framework that makes capital requirements sensitive to the risk profile of the individual banking institutions. The guidelines define capital as either Tier 1 capital (primarily shareholders’ equity) or Tier 2 capital (certain debt instruments and a portion of the reserve for loan losses). There are two measures of capital adequacy for banks: the Tier 1 leverage ratio and the risk-based capital requirements. Most banks must maintain a minimum Tier 1 leverage ratio of 4%. In addition, Tier 1 capital must equal 4% of risk-weighted assets, and total capital (Tier 1 plus Tier 2) must equal 8% of risk-weighted assets. These are minimum requirements, however, and institutions expecting internal growth (like CBT) or making acquisitions, as well as institutions with supervisory or operational weaknesses, will be expected to maintain capital positions well above these minimum levels. For the first three years of operations, the FRB requires CBT to maintain a Tier 1 leverage ratio of 9%. At December 31, 2005, the Tier 1 leverage capital stood at 26.9%.

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

Prompt Corrective Action

Federal banking laws establish a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), are required to take certain mandatory supervisory

actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of the action will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

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

As of December 31, 2005, CBT qualified as a well capitalized institution.

FDIC Insurance Assessments

The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (i) well capitalized; (ii) adequately capitalized; and (iii) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the “undercapitalized” category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation that the institution’s primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution’s financial condition and the risk posed to the deposit insurance funds. These groups range from Group A (highest) to Group C (lowest). The FDIC then determines an institution’s insurance assessment rate based on the institution’s capital category and supervisory category. Under the risk-based assessment system, there are nine combinations of capital groups and supervisory subgroups to which different assessment rates are applied. Assessments range from 0 to 27 cents per \$100 of deposits, depending on the institution’s capital group and supervisory subgroup. CBT currently is considered a “well capitalized Group A” institution.

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

Federal Reserve System

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

Community Reinvestment Act

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

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

- A lending test, which compares the institution’s market share of loans in low- and moderate- income areas to its market share of loans in its entire service area;

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

Institutions are required to make public disclosure of their written CRA evaluations made by regulatory agencies. This promotes enforcement of CRA requirements by providing the public with the status of a particular institution's community investment record. In addition to public disclosure of an institution's CRA assessment, regulatory authorities are required to consider an institution's CRA assessment when an institution applies for approval to establish a new branch which will accept deposits, to relocate an existing branch, or to merge with another federally regulated financial institution. CRA ratings are "outstanding," "satisfactory," and "substantial noncompliance." CBT has not yet received a CRA rating.

Safety and Soundness Standards

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

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

Monetary Policy

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

Gramm-Leach-Bliley Act

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

- Repeals portions of the Glass-Steagall Act of 1933 that separated commercial and investment banking and eliminates the prohibition on insurance underwriting activities under the Bank Holding Company Act of 1956.
- Creates "financial holding companies" that may conduct a broad list of financial activities, including insurance and securities underwriting, and real estate development and investment.
- Allows financial holding companies to conduct activities that are "complementary" to banking.
- Allows banks to underwrite securities through direct subsidiaries and use direct subsidiaries for insurance or securities sales or other low-risk activities.
- Prohibits a bank holding company from merging with insurance or securities firms or embarking on new powers if any of its banks earned less than a "satisfactory" CRA rating on its most recent exam. A financial holding company would be barred from additional powers or acquisitions if one of its bank's CRA rating dropped below "satisfactory" later.

- Requires financial institutions to establish privacy policies and disclose them at the start of a customer relationship and once a year thereafter.
- Requires banks to give customers a chance to block sharing of confidential information with third parties except in cases of marketing agreements between financial institutions and some other marketing agreements.
- Prohibits credit card and account numbers from being shared with third-party marketers.

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

The USA PATRIOT Act

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

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

Sarbanes-Oxley Act of 2002

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

The SOX includes specific disclosure requirements and new corporate governance rules and requires the Securities Exchange Commission (the "SEC") to adopt extensive additional disclosure, corporate governance and other related rules.

The SOX addresses, among other matters:

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

Reports to Security Holders

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

Item 2. Properties.

We conduct business from our main office located at 58 State House Square, Hartford, Connecticut; our West Hartford Office at 68 South Main Street, West Hartford, Connecticut; our Glastonbury Office at 7 Sycamore Street in Glastonbury, Connecticut and our Vernon Office at 435 Hartford Turnpike. All of these facilities have been renovated within the past two years and, as such, are in excellent condition. Additionally, we have received approval to open a new branch at 148 Broad Street, Windsor, Connecticut.

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

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

West Hartford Office. CBT leases a 3,400 square foot building located at 68 South Main Street in West Hartford, Connecticut as the location for its West Hartford Office. The lease expires on November 1, 2008 and contains two independent five year-options to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Glastonbury Office. CBT leases a 4,600 square foot building located at 7 Sycamore Street in Glastonbury, Connecticut as the location for its Glastonbury office. The lease expires on September 30, 2008 and contains one five-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Vernon Office. CBT leases a 4,000 square foot building located at 435 Hartford Turnpike, in Vernon, Connecticut as its location for its Vernon Office. The lease expires on August 15, 2008 and contains one seven-year option to extend the term. The location provides for drive-through banking service, ATM access and safe-deposit boxes.

Windsor Office. CBT plans to lease a 4,400 square foot building located at 148 Broad Street, in Windsor, Connecticut as its location for its Windsor Office. The Bank has received regulatory approvals and intends to open this branch in the second or third quarter of 2006. The location will provide drive-through banking service, ATM access and safe-deposit boxes.

We paid an aggregate of \$361,000 in rental payments during 2005.

Item 3. Legal Proceedings.

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

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

None

PART II

Item 5. Market for the Bank's Common Equity and Related Stockholder Matters.

- (a) CBT's common stock began trading on the NASDAQ Capital Market in January 2006 under the symbol "CTBC." Prior to joining the NASDAQ, CBT's common stock shares were quoted for trading on the OTC Bulletin Board under the symbol "CTBC." The following table sets forth the high and low closing prices of the common stock for the past two years, as quoted on the OTC Bulletin Board. High and low bid prices reported on the OTC Bulletin Board reflect inter-dealer quotations without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
2005		
First Quarter	\$ 20.00	\$ 14.70
Second Quarter	\$ 14.95	\$ 11.25
Third Quarter	\$ 13.75	\$ 9.65
Fourth Quarter	\$ 9.85	\$ 9.25
2004		
First Quarter	\$ 19.00	\$ 15.00
Second Quarter	\$ 16.50	\$ 14.00
Third Quarter	\$ 19.50	\$ 14.70
Fourth Quarter	\$ 22.00	\$ 18.30

- (b) As of March 3, 2005, CBT had approximately 306 holders of record of its common stock.
- (c) The Bank paid no dividends during these periods. For information relating to restrictions on the Bank's declaration of dividends, see "Item 1 Business – Regulation and Supervision."
- (d) The following table sets forth information, as of December 31, 2005, about CBT common stock that may be issued upon exercise of options under the The Connecticut Bank and Trust Company 2005 Stock Option and Award Plan. The Bank's stockholders approved the plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	64,250	\$9.25	160,750
Equity compensation plans not approved by security holders	-	-	-
Total	64,250	\$9.25	160,750

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview

CBT received its final certificate of authority and commenced operations on March 12, 2004. CBT was considered a development stage company for the period November 1, 2002 (date of inception) through March 11, 2004. During this period, our only activities were raising capital and preparing for the commencement of operations, both of which activities resulted in incurred expenses. The Bank sold 1,850,000 shares of its common stock and 180,500 common stock purchase warrants at \$10 per share in a public offering during 2003. The proceeds of the offering were used to capitalize the Bank as well as to provide working capital.

The Bank completed a secondary offering of its common stock in September 2005. In connection with this offering the Bank issued 1,650,000 shares of its stock at a price of \$9.50 per share. The Bank received net proceeds of \$14.7 million after deducting underwriting expenses totaling \$728,000 and aggregate offering costs of \$283,000. These proceeds will be used to support the Bank's expansion in the North-Central Connecticut market through the establishment of additional branches, to strengthen the Bank's capital level in anticipation of continued growth and for general working capital purposes.

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

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

CBT operates from its main office and main office branch at 58 State House Square, Hartford, Connecticut and three full service branches, at 68 South Main Street in West Hartford, Connecticut, at 7 Sycamore Street in Glastonbury, Connecticut and at 435 Hartford Turnpike, Vernon, Connecticut. CBT provides a wide range of retail and commercial banking products and services to its customers, including checking and savings accounts, money market accounts, certificates of deposit and commercial, consumer, and real estate loans to customers located in our primary market area, the communities of Hartford, Glastonbury, West Hartford, East Hartford, Manchester, Windsor, South Windsor, Bloomfield, Avon, Farmington, New Britain, Newington, Wethersfield and Vernon, Connecticut. CBT has received approval from the Connecticut Department of Banking and the Board of Governors of the Federal Reserve System to open a new branch in Windsor, Connecticut.

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

Application of Critical Accounting Policies

In the ordinary course of business, CBT has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. CBT believes that two of its critical accounting policies rely on material estimates that are susceptible to significant differences between actual results and estimates - determination of allowance for loan losses and valuation of deferred tax assets.

CBT believes the following discussion of its accounting policy and estimates relating to the provision and allowance for loan losses addresses the policy that is most important to the portrayal of CBT's financial condition and results and requires management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. CBT has reviewed this policy with its Audit Committee. Refer to the discussion below under "Allowance for Loan Losses" and Note 1 to the accompanying financial statements for a detailed description of our estimation process and methodology relating to the allowance for loan losses.

Temporary differences in the valuation of deferred tax assets result from the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are subject to significant uncertainty. A 100% valuation allowance has been applied to the net deferred state and Federal tax assets due to the uncertainties of realization. CBT has reviewed this policy with its Audit Committee. Refer to Note 7 to the accompanying financial statements for a detailed discussion of the components of the net deferred tax assets.

Results of Operations

Results of Operations for the Year Ended December 31, 2005 Compared to December 31, 2004

General. CBT began banking operations in March 2004, therefore, it should be noted that comparisons to the year ended December 31, 2004 actually reflect a period of operations that is approximately three months less than the year ended December 31, 2005.

Net Income. CBT had a net loss of \$3.6 million (or basic and diluted loss per share of \$1.53) for the year ended December 31, 2005, compared to a net loss of \$3.4 million (or basic and diluted loss per share of \$2.29) for the year ended December 31, 2004. The 2005 results were affected by higher provisions for loan losses and non-interest expenses, offset somewhat by growth in average loans and core deposits and net interest margin expansion.

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

Average Balance Sheet. The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the years ended December 31, 2005 and 2004. 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.

	Years Ended December 31,					
	2005			2004		
	(Dollars in Thousands)					
	Average Balance	Interest Income/ Expense	Average Yield Rate	Average Balance	Interest Income/ Expense	Average Yield Rate
Interest-Earning Assets						
Loans (including loans held for sale)	\$ 38,946	\$ 2,514	6.46%	\$ 6,086	\$ 340	5.59%
Investments (including Fed Funds)	41,560	1,553	3.74%	26,841	692	2.58%
Total interest-earning assets	80,506	4,067	5.05%	32,927	1,032	3.13%
Allowance for loan losses	(514)			(50)		
Cash and due from banks	1,818			1,543		
Other assets	2,744			1,900		
Total assets	<u>\$ 84,554</u>			<u>\$ 36,320</u>		
Interest-Bearing Liabilities						
Savings, NOW and money market deposits	\$ 12,337	\$ 272	2.20%	\$ 2,289	\$ 11	0.48%
Time deposits	43,072	1,309	3.04%	13,395	371	2.77%
Borrowed funds	300	6	2.00%	340	10	2.94%
Total interest-bearing liabilities	55,709	1,587	2.85%	16,024	392	2.45%
Demand deposits	12,336			4,174		
Total deposits and borrowed funds	68,045			20,198		
Other liabilities	555			168		
Stockholders' equity	15,954			15,954		
Total liabilities and stockholders' equity	<u>\$ 84,554</u>			<u>\$ 36,320</u>		
Net interest income		<u>\$ 2,480</u>			<u>\$ 640</u>	
Interest rate spread (1)			<u>2.20%</u>			<u>0.69%</u>
Net interest margin (2)			<u>3.08%</u>			<u>1.94%</u>

(1) Net interest rate spread represents the difference between the yield on interest earning assets and the cost of interest-bearing liabilities at December 31, 2005 and 2004.

(2) Net interest margin represents net interest income annualized divided by average total 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 the Company'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.

	Years Ended December 31,		
	2005 compared to 2004		
	Increase (Decrease)		
	Due to		
	Volume	Rate	Net
	(In Thousands)		
Interest-earning assets:			
Loans	\$ 2,113	\$ 61	\$ 2,174
Investments (including Fed Funds)	473	388	861
Total interest earning assets	2,586	449	3,035
Interest-bearing liabilities:			
Savings, NOW and money market deposits	\$ 144	\$ 117	\$ 261
Time deposits	899	39	938
Borrowed funds	(1)	(3)	(4)
Total interest-bearing liabilities	1,042	153	1,195
Increase in net interest income	\$ 1,544	\$ 296	\$ 1,840

Net interest income increased \$1.8 million to \$2.5 million for the year ended December 31, 2005 compared to \$640,000 in the comparable period in 2004, mainly driven by growth in average interest-earning assets and net interest margin expansion. Total average interest-earning assets increased \$47.6 million to \$80.5 million for the year ended December 31, 2005 reflecting growth in average loans and investments. For this comparable period, average loans increased \$32.9 million primarily due to solid origination volume, somewhat mitigated by amortization and prepayments of existing loans. Average investments expanded \$14.7 million principally reflecting bond purchases, offset by sales and calls of certain agency securities and principal payments on mortgage-backed securities. Net interest margin increased 114 basis points to 3.08% for the year ended December 31, 2005 from 1.94% in 2004 primarily resulting from the investment of proceeds from the stock offerings, the use of overnight fed funds sold balances, cash flows from investment securities and expanded deposit balances to support higher yielding loans, and to a lesser extent, the impact of higher short-term interest rates in 2005. In connection with rising short-term rates, CBT benefited from the repricing of certain variable rate assets to a greater degree than the impact to the cost of interest-bearing liabilities.

Provision for Loan Losses. CBT's provision for loan losses increased \$398,000 to \$637,000 for the year ended December 31, 2005 compared to \$239,000 for the comparable period in 2004. The higher loan loss provision in 2005 was primarily due to accelerated loan growth in 2005. CBT's management ("Management") determines the necessary level of the allowance for loan losses based upon known circumstances and conditions associated with individual loans, industry trends, regional and national economic conditions and estimates of probable losses.

Non-Interest Income. Total non-interest income increased \$8,000 to \$34,000 for the year ended December 31, 2005 compared to \$26,000 for the same period in 2004 primarily reflecting growth in service charges and fees and gains of \$16,000 from the sales of loans held for sale, partially offset by net losses of \$48,000 from the sale of certain available for sale securities. Service charges and fees increased \$38,000 to \$66,000 for 2005 principally resulting from an expanded number of deposit accounts. The primary source of CBT's non-interest income is derived from fees on deposit accounts and other banking-related services.

Non-Interest Expense. Non-interest expenses increased by \$1.6 million, or 41.1%, to \$5.4 million for the year ended December 31, 2005 compared to \$3.9 million for the comparable period in 2004. Salaries and benefits increased \$1.1 million in connection with additional staff required to support and facilitate CBT's growth, annual merit increases, expanded stock-based compensation and short-term incentive costs, personnel employed in the Bank's new Vernon branch which opened in the fourth quarter of 2005 and higher employer insurance expenses. Occupancy and equipment expenses rose \$236,000 principally due to unusually low costs in the first quarter of 2004 as a result of the opening of CBT's three branches on March 12, 2004 and to a lesser extent the establishment of a new facility in Vernon Connecticut during the fourth quarter of 2005. Marketing expenses expanded \$448,000 as a result of increased promotional activities, including the costs of retaining Director Geno Auriemma as a spokesman for CBT and the introduction of the Bank's new branch in Vernon. Professional services grew \$81,000 principally due to increased legal and audit activities associated with being a public company. Other general and administrative expenses declined \$386,000 mainly attributable to the initial contribution of \$360,000 to fund the CBT Foundation in 2004.

Income Taxes. At December 31, 2005, CBT had approximately \$6.5 million in net operating loss carry forwards available to offset future taxable earnings, if any, under current Federal tax laws. At December 31, 2005, CBT's deferred tax asset was offset with a full valuation allowance. A deferred tax asset valuation allowance is required to reduce the potential tax benefit when it is more likely than not that all or some portion of the potential benefit will not be realized due to the lack of sufficient taxable income in the carry forward period. As CBT generates taxable income in the future, it will realize the benefit of the net operating loss carry forwards at that time. Net operating loss carry forwards are available for a period of up to 20 years to offset taxable income in those years. CBT's net operating loss carry forwards could reduce taxes in the initial years of profitability.

Financial Condition

CBT's total assets expanded \$18.6 million, or 23.7%, to \$96.9 million at December 31, 2005 from \$78.3 million at December 31, 2004 reflecting an increase in loans of \$35.9 million, or 169.34%, offset somewhat by decreased balances of \$14.0 million, or 37.0%, in securities available for sale and \$3.7 million, or 25.1% in fed funds sold. Growth in loans largely reflects the origination of \$42.6 million of new loans, advances of \$10.6 million on unused lines of credit and loan purchases totaling \$1.3 million, somewhat mitigated by amortization of the existing portfolio amounting to \$13.1 million and loan participations sold to other banks totaling \$5.4 million. CBT's level of loan closings was particularly strong in the commercial loan and commercial real estate mortgage loan portfolios as a result of several factors including sales and promotional activities, a stable local economy and a historically low interest rate environment. The decrease in securities available for sale is largely attributable to sales of certain lower-coupon bonds totaling \$10.3 million, calls of several agency securities aggregating \$7.7 million and mortgage-backed securities payments in an amount of \$1.7 million, somewhat offset by purchases of agency securities accumulating \$6.2 million. The reduction in fed funds sold balances reflects the use of excess funds to support of loan growth.

Balance sheet expansion was funded with \$14.7 million in net proceeds received from the secondary offering, deposit growth and proceeds from sales, calls and repayments of securities available for sale. Total deposit balances expanded \$7.3 million, or 11.5%, to \$70.7 million at December 31, 2005 from \$63.5 million at December 31, 2004 largely as a result of promotional and sales efforts and the introduction of a new tiered money market savings account, partially offset by runoff of maturing certificates of deposits. Total stockholders' equity increased \$10.9 million, or 77.5%, to \$25.0 million at December 31, 2005 mainly attributable to the secondary offering, offset by a net loss of \$3.6 million.

Liquidity

Liquidity and funding strategies are the responsibility of CBT's 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, and investments in mortgage-backed and Government-sponsored enterprises. During the year ended December 31, 2005, CBT's loan originations totaled \$42.6 million and advances on unused lines of credit aggregated \$10.6 million. At December 31, 2005, CBT's investments in Government-sponsored enterprises and mortgage-backed securities totaled \$23.9 million.

These activities are funded primarily by excess reserves invested in overnight fed funds, and to a lesser extent, principal and interest payments on loans and investment securities and deposit growth. At December 31, 2005, CBT had \$11.0 million of Federal Funds sold balances. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. CBT experienced a \$7.3 million net increase in total deposits during the year ended December 31, 2005. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by CBT and its local competitors and other factors. CBT closely monitors its liquidity position on a daily basis. If CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through 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 December 31, 2005, CBT had no borrowings outstanding with the FHLB-Boston or from the Federal Funds line of credit.

CBT has commitments to originate loans totaling \$4.9 million at December 31, 2005. CBT also has unfunded commitments under existing lines of credit aggregating \$16.4 million at December 31, 2005. 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. Based upon CBT's limited experience with deposit retention and current retention strategies, Management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant

portion of such deposits will remain with CBT.

At December 31, 2005, the net ratio of liquid assets not pledged for collateral and other purposes to interest-bearing liabilities and demand deposits was 55.3%. The ratio of gross loans to deposits, another key liquidity ratio, was 80.8% at December 31, 2005. Management believes that CBT's short-term assets provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

Regulatory Capital

Approximately \$18.5 million in capital was generated during CBT's initial stock offering which closed in August 2003. At June 30, 2005, capital had been reduced to \$12.2 million due to the effects of operating losses and organizational costs through that date. CBT anticipated such a decline in capital in its early period of operations. In the third quarter of 2005 CBT raised an additional \$14.7 million in capital from a secondary offering. With this offering, CBT's total capital increased \$10.9 million to \$25.0 million at December 31, 2005 from \$14.1 million at December 31, 2004. This level of capital does not include the favorable impact of tax loss carry-forwards that may become available to CBT in future periods. A strong capital position, which is vital to CBT's continued operation, also promotes depositor and investor confidence and provides a solid foundation for future growth. Federal banking regulators establish minimum capital levels.

Federal banking regulators have established minimum capital levels. At December 31, 2005, the Bank exceeded all of the regulatory capital requirements to be considered well capitalized, with a Tier 1 risk-based capital level of \$25.5 million, or 26.91% of adjusted average assets, which is above the required level of \$8.5 million, or 9.00%, and total risk-based capital of \$26.4 million, or 38.75% of adjusted assets, which is above the required level of \$5.4 million, or 8.00%. There are no conditions that Management believes have changed CBT's category since its December 31, 2005 notification from regulators that it is "well capitalized."

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 December 31, 2005 and December 31, 2004.

Change in Interest Rates (Basis Points)	Estimated Increase (Decrease) in NII (December 31, 2005)	Estimated Increase (Decrease) in NII (December 31, 2004)
-200	-15.9%	-16.5%
Stable	0.0%	0.0%
+200	9.3%	8.7%

Off-Balance Sheet Arrangements

Information relating to Off-Balance Sheet Arrangements is incorporated herein by reference to Note 8 "Off-Balance Sheet Activities" in the Notes to the Financial Statements.

Payments Due Under Contractual Obligations

Information pertaining to Payments Due Under Contractual Obligations is incorporated herein by reference to the terms of noncancelable lease agreements section of Note 4 "Premises and Equipment" in the Notes to the Financial Statements.

Item 7. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee
The Connecticut Bank and Trust Company
Hartford, Connecticut

We have audited the accompanying balance sheets of The Connecticut Bank and Trust Company as of December 31, 2005 and 2004, and the related statements of loss, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Bank and Trust Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Wolf & Company, P.C.

Boston, Massachusetts
January 13, 2006

THE CONNECTICUT BANK AND TRUST COMPANY

BALANCE SHEETS

December 31, 2005 and 2004

(Dollars in Thousands)

ASSETS		
	2005	2004
Cash and due from banks	\$ 1,406	\$ 1,482
Federal funds sold	11,027	14,731
Cash and cash equivalents	<u>12,433</u>	<u>16,213</u>
Securities available for sale, at fair value	23,908	37,927
Federal Reserve Bank stock, at cost	766	529
Federal Home Loan Bank stock, at cost	125	-
Loans	57,140	21,239
Allowance for loan losses	(876)	(239)
Loans, net	<u>56,264</u>	<u>21,000</u>
Premises and equipment, net	2,079	1,928
Accrued interest receivable	390	322
Other assets	910	369
	<u>\$ 96,875</u>	<u>\$ 78,288</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 70,740	\$ 63,451
Repurchase agreements	442	302
Other liabilities	648	425
Total liabilities	<u>71,830</u>	<u>64,178</u>
Commitments and contingencies (Notes 4, 8, 9 and 15)		
Stockholders' equity;		
Common stock, \$1.00 par value; 10,000,000 shares authorized; shares issued and outstanding: 3,567,450 at December 31, 2005 and 1,888,550 at December 31, 2004	3,567	1,889
Common stock warrants	853	853
Additional paid-in capital	29,536	16,178
Restricted stock unearned compensation	(618)	(407)
Retained deficit	(7,756)	(4,188)
Accumulated other comprehensive loss	(537)	(215)
Total stockholders' equity	<u>25,045</u>	<u>14,110</u>
	<u>\$ 96,875</u>	<u>\$ 78,288</u>

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

THE CONNECTICUT BANK AND TRUST COMPANY

STATEMENTS OF LOSS

Years Ended December 31, 2005 and 2004

(Dollars in Thousands, Except Per Share Data)

	<u>2005</u>	<u>2004</u>
Interest and dividend income:		
Loans, including fees	\$ 2,514	\$ 340
Debt securities	1,197	490
Dividends	34	25
Federal funds sold	322	177
Total interest and dividend income	<u>4,067</u>	<u>1,032</u>
Interest expense:		
Deposits	1,581	382
Repurchase agreements	6	10
Total interest expense	<u>1,587</u>	<u>392</u>
Net interest income	2,480	640
Provision for loan losses	637	239
Net interest income, after provision for loan losses	<u>1,843</u>	<u>401</u>
Non-interest income:		
Service charges and fees	66	28
Gain on sales of loans	16	-
Loss on sale of securities available for sale	(48)	(2)
Total non-interest income	<u>34</u>	<u>26</u>
Non-interest expense:		
Salaries and benefits	2,782	1,667
Occupancy and equipment	899	663
Data processing	183	90
Marketing	797	349
Professional services	395	314
Other general and administrative	389	775
Total non-interest expense	<u>5,445</u>	<u>3,858</u>
Net loss	<u>\$ (3,568)</u>	<u>\$ (3,431)</u>
Loss per share:		
Basic	\$ (1.53)	\$ (2.29)
Diluted	(1.53)	(2.29)

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

THE CONNECTICUT BANK AND TRUST COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2005 and 2004

(Dollars in Thousands)

	Common Stock	Common Stock Warrants	Additional Paid-in Capital	Restricted Stock Unearned Compensation	Founders' Equity Contribution	Retained Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2003	\$ -	\$ -	\$ -	\$ -	\$ 1,157	\$ (757)	\$ -	\$ 400
Comprehensive loss:								
Net loss	-	-	-	-	-	(3,431)	-	(3,431)
Change in net unrealized gains/losses on securities available for sale, net of reclassification adjustment of \$2 for losses included in net income	-	-	-	-	-	-	(215)	(215)
Total comprehensive loss								(3,646)
Issuance of common stock	1,850	903	15,639	-	(1,157)	-	-	17,235
Activity related to restricted stock awards	29	-	399	(407)	-	-	-	21
Issuance of common stock in connection with exercised stock warrants	10	(50)	140	-	-	-	-	100
Balance at December 31, 2004	1,889	853	16,178	(407)	-	(4,188)	(215)	14,110
Comprehensive loss:								
Net loss						(3,568)		(3,568)
Change in net unrealized gains/losses on securities available for sale, net of reclassification adjustment of \$48 for losses included in net income							(322)	(322)
Total comprehensive loss								(3,890)
Issuance of common stock	1,650	-	13,014	-	-	-	-	14,664
Activity related to restricted stock awards	28	0	340	(211)				157
Activity related to stock option grants	-	-	4	-				4
Balance at December 31, 2005	\$ 3,567	\$ 853	\$ 29,536	\$ (618)	\$ -	\$ (7,756)	\$ (537)	\$ 25,045

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

THE CONNECTICUT BANK AND TRUST COMPANY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004

(Dollars in Thousands)

	2005	2004
Cash flows from operating activities:		
Net loss	\$ (3,568)	\$ (3,431)
Adjustment to reconcile net loss to net cash used by operating activities:		
Provision for loan losses	637	239
Net amortization of securities	138	57
Amortization of deferred loan costs and fees, net	(8)	2
Amortization of unearned compensation	161	21
Depreciation and amortization	325	246
Realized loss on sales of securities	48	2
Loans originated for sale	(2,308)	-
Proceeds from sale of loans held for sale	2,324	-
Gain from sale of loans held for sale	(16)	-
Increase in accrued interest receivable	(68)	(272)
Change in other assets and liabilities, net	(318)	187
Net cash used by operating activities	(2,653)	(2,949)
Cash flows from investing activities:		
Activity in securities available for sale:		
Sales	12,879	993
Maturities, payments and calls	6,857	4,381
Purchases	(6,225)	(34,512)
Purchase of restricted equity securities	(362)	(529)
Net loan originations	(35,893)	(21,241)
Purchase of banking premises and equipment	(476)	(2,103)
Net cash used by investing activities	(23,220)	(53,011)
Cash flows from financing activities:		
Net increase in deposits	7,289	63,451
Net increase in repurchase agreements	140	302
Proceeds from exercised stock warrants	-	100
Net proceeds from secondary offering	14,664	-
Net cash provided by financing activities	22,093	63,853
Net change in cash and cash equivalents	(3,780)	7,893
Cash and cash equivalents at beginning of year	16,213	8,320
Cash and cash equivalents at end of year	\$ 12,433	\$ 16,213
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,567	\$ 335

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Formation of Bank

The Connecticut Bank & Trust Company (the "Bank") is located in Hartford, Connecticut. On March 10, 2004, the Bank received notification from the Federal Deposit Insurance Corporation ("FDIC") that its application for deposit insurance had been accepted. On March 12, 2004, the Bank received its charter from the State of Connecticut Department of Banking, commenced operations and began accepting deposits. Also on that date, stock subscriptions that were in escrow were released to the Bank.

The Bank sold 1,850,000 shares of its common stock and 180,500 common stock purchase warrants in a public offering at \$10 per share. The Organizers purchased 575,500 shares of common stock at \$10 per share for a total of approximately \$5,755,000. The proceeds of the offering were used to capitalize the Bank as well as to provide working capital.

The Bank completed a secondary offering of its common stock in September 2005. In connection with this offering the Bank issued 1,650,000 shares of its stock at a price of \$9.50 per share. The Bank received net proceeds of \$14.7 million after deducting underwriting expenses totaling \$728,000 and aggregate offering costs of \$283,000. These proceeds will be used to support the Bank's expansion in the North-Central Connecticut market through the establishment of additional branches, to strengthen the Bank's capital level in anticipation of continued growth and for general working capital purposes.

Nature of Operations

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

Use of Estimates

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

(Dollars in Thousands)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Connecticut. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

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

Advertising

Advertising costs are expensed as incurred.

Securities

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

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

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

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

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

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Intangibles

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

Organization Costs

Costs directly associated with the organization of the Bank have been expensed as incurred.

Transfers of Financial Assets

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

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock Compensation Plans

The Bank adopted the provisions of Financial Accounting Standards Board ("FASB") Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)") effective October 1, 2005 using the modified prospective transition method. SFAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in the financial statements. The cost of employee services received in exchange for stock options is based on the grant-date fair value of the award and is recognized over the period the employee is required to provide services for the award. SFAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Earnings (Loss) Per Common Share

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

Earnings (loss) per common share has been computed based on the following:

	<u>Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Net loss	<u>\$ (3,568)</u>	<u>\$ (3,431)</u>
Average number of common shares outstanding	<u>2,336</u>	<u>1,501</u>
Average number of common shares outstanding used to calculate diluted loss per common share	<u>2,336</u>	<u>1,501</u>
Basic loss per share	<u>\$ (1.53)</u>	<u>\$ (2.29)</u>
Fully diluted loss per share	<u>\$ (1.53)</u>	<u>\$ (2.29)</u>

For the years ended December 31, 2005 and 2004, 170,500 common stock warrants were anti-dilutive and therefore not included in the earnings (loss) per share calculation.

Comprehensive Income/Loss

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

2. SECURITIES AVAILABLE FOR SALE

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

	December 31, 2005			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Government-sponsored enterprises	\$ 16,768	\$ -	\$ (360)	\$ 16,408
Mortgage-backed securities	7,677	-	(177)	7,500
	<u>\$ 24,445</u>	<u>\$ -</u>	<u>\$ (537)</u>	<u>\$ 23,908</u>

	December 31, 2004			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Government-sponsored enterprises	\$ 27,767	\$ 16	\$ (190)	\$ 27,593
Mortgage-backed securities	10,375	7	(48)	10,334
	<u>\$ 38,142</u>	<u>\$ 23</u>	<u>\$ (238)</u>	<u>\$ 37,927</u>

At December 31, 2005 and 2004, the carrying amount and fair value of securities pledged to secure repurchase agreements was \$1,025 and \$995, respectively, and \$6,011 and \$5,972, respectively. At December 31, 2004, federal agency securities with a carrying value of \$2,062 and a fair value of \$1,961 were pledged to secure a commercial letter of credit. The Bank had no securities pledged to secure commercial letters of credit at December 31, 2005.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SECURITIES AVAILABLE FOR SALE (continued)

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

	December 31, 2005		December 31, 2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$ 1,994	\$ 1,957	\$ 4,151	\$ 4,140
Over 1 year to 5 years	1,027	1,013	7,519	7,480
Over 5 years to 10 years	11,051	10,789	10,594	10,552
Over 10 years	2,696	2,649	5,503	5,421
	<u>16,768</u>	<u>16,408</u>	<u>27,767</u>	<u>27,593</u>
Mortgage-backed securities	<u>7,677</u>	<u>7,500</u>	<u>10,375</u>	<u>10,334</u>
	<u>\$ 24,445</u>	<u>\$ 23,908</u>	<u>\$ 38,142</u>	<u>\$ 37,927</u>

For the years ended December 31, 2005 and 2004, proceeds from sales of securities available for sale amounted to \$12,879 and \$993, respectively. Gross realized losses amounted to \$48 and \$2, respectively.

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2005 and 2004, aggregated by investment category and length of time that individual securities have been in a loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<u>December 31, 2005</u>				
Government-sponsored enterprises	\$ (220)	\$ 9,376	\$ (140)	\$ 7,032
Mortgage-backed securities	<u>(6)</u>	<u>493</u>	<u>(171)</u>	<u>7,007</u>
Total temporarily impaired securities	<u>\$ (226)</u>	<u>\$ 9,869</u>	<u>\$ (311)</u>	<u>\$ 14,039</u>
<u>December 31, 2004</u>				
Government-sponsored enterprises	\$ 190	\$ 21,625	\$ -	\$ -
Mortgage-backed securities	<u>48</u>	<u>9,629</u>	<u>-</u>	<u>-</u>
Total temporarily impaired securities	<u>\$ 238</u>	<u>\$ 31,254</u>	<u>\$ -</u>	<u>\$ -</u>

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

SECURITIES AVAILABLE FOR SALE (concluded)

At December 31 2005, 28 debt securities have unrealized losses with aggregate depreciation of 2.2% from the Bank's amortized cost basis. At December 31, 2004, 29 debt securities have unrealized losses with aggregate depreciation of 0.8% from the Bank's amortized cost basis. The depreciation is due to rising interest rates. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other than temporary.

3. LOANS

A summary of the balances of loans follows:

	December 31,	
	2005	2004
Mortgage loans on real estate:		
Commercial	\$ 23,493	\$ 6,978
Construction	3,516	1,041
Home equity	3,442	2,039
Total mortgage loans on real estate	<u>30,451</u>	<u>10,058</u>
Commercial loans	26,423	10,358
Consumer loans	198	826
Total loans	<u>57,072</u>	<u>21,242</u>
Allowance for loan losses	(876)	(239)
Net deferred loan costs (fees)	<u>68</u>	<u>(3)</u>
Loans, net	<u>\$ 56,264</u>	<u>\$ 21,000</u>

During the years ended December 31, 2005 and 2004, provisions for loan losses amounted to \$637 and \$239, respectively. There were no charge-offs or recoveries.

At December 31, 2005, the Bank had one consumer non-accrual loan with an outstanding balance of \$25. The Bank had no impaired loans as of or for the year ended December 31, 2005. As of and for the year ended December 31, 2004, the Bank had no impaired loans or loans on non-accrual.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

4. PREMISES AND EQUIPMENT

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

	December 31,		Estimated
	2005	2004	Useful Lives
Leasehold improvements	\$ 1,063	\$ 925	5- 10 years
Furniture and equipment	1,587	1,249	3-7 years
	2,650	2,174	
Accumulated depreciation and amortization	(571)	(246)	
	\$2,079	\$1,928	

Depreciation and amortization expense for the years ended December 31, 2005 and 2004 amounted to \$325 and \$246, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2005, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount (In thousands)
2006	\$ 411
2007	421
2008	355
2009	189
2010	196
Thereafter	658
	\$2,230

The leases contain options to extend for periods up to seven years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2005 and 2004 amounted to \$361 and \$280, respectively.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

5. DEPOSITS

A summary of deposit accounts by type and related weighted average rates follows:

	December 31, 2005		December 31, 2004	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Non interest-bearing deposits	\$ 21,159	- %	\$ 12,026	- %
NOW deposits	3,096	0.45	3,595	0.44
Money market deposits	13,857	3.25	2,436	0.50
Savings deposits	958	1.82	413	0.25
Time deposits of \$100,000 or greater	10,357	3.42	16,047	2.80
Time deposits less than \$100,000	<u>21,313</u>	3.68	<u>28,934</u>	2.90
Total deposits	<u>\$ 70,740</u>	2.29%	<u>\$ 63,451</u>	2.07%

A summary of certificate accounts, by maturity, are as follows:

	December 31, 2005		December 31, 2004	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Within 1 year	\$ 22,885	3.57%	\$ 42,221	2.85%
Over 1 to 3 years	8,251	3.91	2,383	3.11
Over 3 to 5 years	<u>534</u>	3.53	<u>377</u>	3.08
	<u>\$ 31,670</u>	3.59%	<u>\$ 44,981</u>	2.86%

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

6. SHORT-TERM BORROWINGS

Federal Home Loan Bank Advances

The Federal Home Loan Bank of Boston (“FHLB”) provides credit for savings banks and certain other member financial institutions. As a member of the FHLB, the Bank is required to own capital stock in the FHLB and may apply for advances on the security of the capital stock and qualified collateral maintained at the FHLB. Borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property and 90% of the market value of U.S. Government and federal agency securities. Advances are made under several different credit programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under the lines are limited to \$1 million and the line of credit may be increased to 2% of the Bank’s total assets in accordance with the credit policy of the FHLB. At December 31, 2005, the Bank had the ability to borrow a total of approximately \$20 million from the FHLB. At December 31, 2005 and 2004, the Bank had no borrowings outstanding with the FHLB.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to \$442 at December 31, 2005 and \$302 at December 31, 2004. These agreements mature on a daily basis and are secured by Government-sponsored enterprises securities with a fair value of \$1.0 million at December 31, 2005 and \$6.0 million at December 31, 2004. The weighted average interest rate on these agreements was 2.97% at December 31, 2005 and 1.27% at December 31, 2004.

Other Borrowing Facilities

The Bank has an unsecured Federal Funds borrowing line of credit from Bankers’ Bank Northeast in the amount of \$2,000,000.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

7. INCOME TAXES

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

	Years Ended December 31,	
	2005	2004
Deferred tax benefit:		
Federal	\$ (1,141)	\$ (1,075)
State	(273)	(256)
	(1,414)	(1,331)
Change in valuation reserve	1,414	1,331
	\$ -	\$ -

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	Years Ended December 31,	
	2005	2004
Statutory tax rate	(34.0%)	(34.0%)
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	(5.0)	(4.9)
Other, net	(0.6)	0.1
	(39.6)	(38.8)
Tax rates	(39.6)	(38.8)
Change in valuation reserve	39.6	38.8
	- %	- %
Effective tax rates		

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

INCOME TAXES (continued)

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

	December 31,	
	2005	2004
Deferred tax asset:		
Federal	\$(2,672)	\$(1,373)
State	(637)	(327)
	(3,309)	(1,700)
Valuation reserve on deferred tax asset	3,038	1,624
	(271)	(76)
Deferred tax liability:		
Federal	219	61
State	52	15
	271	76
Net deferred tax asset	\$ -	\$ -

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

	December 31,	
	2005	2004
Organization and start-up costs	\$ (386)	\$ (309)
Allowance for loan losses	(341)	(93)
Federal and state operating losses	(2,551)	(1,290)
Other	240	68
	(3,038)	(1,624)
Valuation reserve	3,038	1,624
Net deferred taxes	\$ -	\$ -

At December 31, 2005, the Bank has federal and Connecticut net operating loss carryforwards expiring in 2024 and 2025 in the amounts of \$3,404 and \$3,144, respectively.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

INCOME TAXES (concluded)

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

	Years Ended December 31,	
	2005	2004
Balance at beginning of year	\$ 1,624	\$ 293
Benefits generated by current year's operations	1,414	1,331
Balance at end of year	\$ 3,038	\$ 1,624

8. OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2005	2004
Commitments to originate and purchase loans	\$ 4,895	\$ 9,020
Unfunded commitments under home equity lines of credit	1,957	1,206
Unfunded commitments under commercial construction loans	1,597	2,760
Unfunded commitments under commercial lines of credit	12,858	4,255
Commercial letter of credit	797	1,250

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

OFF-BALANCE SHEET ACTIVITIES (concluded)

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

The commercial letter of credit is a conditional commitment issued by the Bank to guarantee the performance of a customer to a third party. The letter of credit issued has an expiration date within one year.

9. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005 and 2004, that the Bank meets all capital adequacy requirements to which it is subject.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2005, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2005:</u>						
Total capital (to risk weighted assets)	\$ 26,383	38.8%	\$ 5,447	8.0%	\$ 6,808	10.0%
Tier 1 capital (to risk weighted assets)	25,532	37.5	2,723	4.0	4,085	6.0
Tier 1 capital (to average assets)	25,532	26.9	8,538	9.0*	8,538	9.0*
<u>December 31, 2004:</u>						
Total capital (to risk weighted assets)	\$ 14,564	39.6%	\$ 2,946	8.0%	\$ 3,682	10.0%
Tier 1 capital (to risk weighted assets)	14,325	38.9	1,473	4.0	2,209	6.0
Tier 1 capital (to average assets)	14,325	29.9	4,312	9.0*	4,312	9.0*

* Although the minimum Tier 1 capital to average assets ratio is generally 4%, pursuant to the Bank's charter and its de novo status, since its inception, the Bank 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.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

11. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute up to 80 percent of their compensation subject to certain limits based on federal tax laws. The Bank makes discretionary matching contributions. Matching contributions are 100% vested at all times. For the years ended December 31, 2005 and 2004, expense attributable to the Plan amounted to \$29 and \$12, respectively.

12. STOCK WARRANTS

On March 12, 2004, stock warrants were granted to each Founder based on the number of common stock shares purchased in the Bank's initial offering not to exceed 5,000 shares for warrants issued per Founder and an aggregate of 180,500 shares. Stock warrants have an exercise price of \$10 per share and will expire in ten years from the grant date. Each stock warrant was fully exercisable on the date awarded.

At December 31, 2005 and 2004, total outstanding stock warrants amounted to 170,500. During the year ended December 31, 2004, 10,000 stock warrants were exercised. No stock warrants were exercised during the year ended December 31, 2005.

13. STOCK COMPENSATION PLANS

In March 2004, the Board of Directors approved reserving 67,900 shares of common stock for awards of restricted stock (the "2004 Plan") 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 and were awarded prior to the registration of the Bank's common stock with the Securities and Exchange Commission.

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

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

STOCK COMPENSATION PLANS (continued)

Stock Options

A summary of option activity under the 2005 Plan as of December 31, 2005 is presented in the following table.

	<u>2005</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Fixed Options:		
Outstanding at beginning of year	-	\$ -
Granted	64,250	9.25
Exercised	-	-
Forfeited	-	-
Outstanding at end of year	<u>64,250</u>	\$ 9.25
Options exercisable at year-end	-	\$ -
Weighted-average fair value of options granted during the year	\$ 3.25	

These stock option awards were granted in December 2005 after the bank had adopted SFAS No. 123R. In accordance with SFAS No. 123R, the Bank estimated the fair value of these awards and recognized compensation cost of approximately \$4. The fair value of each option award is estimated on the date of grant using a lattice-based option valuation model that uses the assumptions noted in the following table.

	<u>Year Ended December 31, 2005</u>
Expected dividend yield	0.00%
Expected term (in years)	10
Volatility	20.00%
Suboptimal exercise factor	2
Forfeiture rate	5.00%
Risk-free interest rate	4.49%

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

13. STOCK COMPENSATION PLANS (continued)

Stock Options (concluded)

The expected term represents the expiration date of the options granted. 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. The suboptimal factor, a measure of the anticipated decline in value due to early exercises, is expressed as a ratio of the stock price to exercise price. 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 has estimated forfeiture rates based upon its limited experience with employee turnover.

Information pertaining to options outstanding at December 31, 2005 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 9.25	64,250	10 years	\$9.25	-	\$ -
Outstanding at end of year	<u>64,250</u>	10 years	\$9.25	<u>-</u>	\$ -

Stock Awards

A summary of stock award activity under the 2005 Plan and the 2004 Plan is presented in the following table.

	Years Ended December 31,	
	2005	2004
Balance, beginning of year	28,550	-
Granted	30,500	33,450
Canceled	(1,600)	(4,900)
Balance, end of year	<u>57,450</u>	<u>28,550</u>
Weighted-average fair value of stock awards granted during the year	\$ 12.86	\$ 15.16

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

(Dollars in Thousands)

13. STOCK COMPENSATION PLANS (concluded)

Stock Awards (concluded)

The total cost of these shares is being amortized over the vesting period in accordance with SFAS No. 123(R). The Bank recorded compensation cost related to these stock awards totaling \$157 and \$21, respectively, for the years ended December 31, 2005 and 2004.

14. EMPLOYMENT AGREEMENTS

The Bank has entered into employment agreements with its Chief Executive Officer and Chief Financial Officer (the "executives") for original terms of three and two years, respectively. These agreements generally provide for a specified minimum annual compensation and participation in various cash incentive plans and stock-based compensation programs in an amount and form set by the Compensation Committee. The agreement further provides for participation in various employee benefit plans, as well as furnishing fringe benefits available to similarly-situated executive personnel. The employment agreements provide that the executives' base salary will be reviewed annually. Such agreements may be terminated for cause, as defined, without incurring any continuing obligations.

15. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

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

16. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to \$832 at December 31, 2005 and \$0 at December 31, 2004. During the year ended December 31, 2005, total principal additions were \$1,000 and total principal payments were \$168.

Deposits from related parties held by the Bank at December 31, 2005 and 2004 amounted to \$1,126 and \$1,588, respectively.

THE CONNECTICUT BANK AND TRUST COMPANY

NOTES TO FINANCIAL STATEMENTS (Concluded)

(DOLLARS IN THOUSANDS)

RELATED PARTY TRANSACTIONS (concluded)

On December 14, 2004, the Bank entered into an agency agreement with an insurance company of which a director is a principal. Under the agency agreement, the Bank may refer its customers and members of the general public to SBI for the purposes of purchasing insurance products offered by SBI. In the event revenues are generated by SBI as a result of the Bank's referrals, the Bank is entitled to share in those revenues under the terms of the agency agreement. No payments were made to the Bank by SBI with respect to the year ended December 31, 2005 and 2004.

On September 17, 2004, the Bank entered into an endorsement contract with a director of the Bank for services relating to the endorsement of the Bank's banking and financial services. Under the terms of the contract, the Bank will pay an aggregate of \$475 for endorsements over a three-year term. Under this contract, the Bank paid \$150 in each of the years ended December 31, 2005 and 2004. The Bank believes that the endorsement contract is on terms no less favorable to the Bank than could be obtained from other third persons for similar endorsement services.

During the year ended December 31, 2004, a director of the Bank was retained to provide various legal services to the Bank. For the year ended December 31, 2005 and 2004, total fees paid for legal services amounted to \$6 and \$14, respectively.

17. QUARTERLY DATA (unaudited)

Quarterly results of operations for the years ended December 31, 2005 and 2004 were as follows:

	2005				2004			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter (1)
Interest and dividend income	\$ 1,245	\$ 1,092	\$ 927	\$ 803	\$ 590	\$ 237	\$ 138	\$ 67
Interest expense	408	467	378	334	323	56	13	-
Net interest and dividend income	837	625	549	469	267	181	125	67
Provision for loan losses	159	211	147	120	132	49	58	-
Loss on sale of securities, net	-	(45)	(3)	-	-	-	(2)	-
Gain on sales of loans	14	2	-	-	-	-	-	-
Fees and other non-interest income	21	15	19	11	22	3	3	-
Non-interest expenses	1,335	1,247	1,539	1,324	1,141	978	1,002	737
Net loss	<u>\$ (622)</u>	<u>\$ (861)</u>	<u>\$ (1,121)</u>	<u>\$ (964)</u>	<u>\$ (984)</u>	<u>\$ (843)</u>	<u>\$ (934)</u>	<u>\$ (670)</u>
Loss per share:								
Basic	(\$0.17)	(\$0.44)	(\$0.59)	(\$0.51)	(\$0.52)	(\$0.46)	(\$0.50)	(\$0.82)
Diluted	(\$0.17)	(\$0.44)	(\$0.59)	(\$0.51)	(\$0.52)	(\$0.46)	(\$0.50)	(\$0.82)

(1) Opened for operations on March 12, 2004.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. 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 Federal Reserve Bank of Boston (1) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (2) is accumulated and communicated to CBT's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

- (b) Management's annual report on internal control over financial reporting

The Bank's management, including the Bank's principal executive officer and principal financial officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Management used the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of the Bank's internal control over financial reporting. 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, the Bank's internal control over financial reporting was effective.

- (c) 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 December 31, 2005 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

Item 8B. Other Information.

None.

PART III

Item 9. Directors and Executive Officers of the Registrant.

For information concerning the directors of the Bank, the information contained under the sections captioned "Proposal 1 – Election of Four Directors" in The Connecticut Bank and Trust Company's Proxy Statement for the 2006 Annual Meeting of Shareholders (the "Proxy Statement") is incorporated by reference.

Information about Executive Officers

Biographical information with respect to each of our non-director executive officers as of December 31, 2005 is set forth below.

Lyle T. Fulton, age 41, of Wethersfield, Connecticut, has been an Executive Vice President and the Chief Lending Officer of CBT since April 2004. He was previously employed by Webster Bank as a Vice President and a Regional Manager for Small Business Banking from January 2000 through March 2004.

Deborah S. Davis, age 50, of South Windsor, Connecticut, has been an Executive Vice President of CBT, Retail and Banking Operations, since March 1, 2004. From September 2003 to March 2004, Ms. Davis was engaged as a consultant to CBT. She previously held various positions at Webster Bank and most recently was Senior Vice President, Bank Operations, from 2000 through September 2003.

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

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

Item 10. Executive Compensation.

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

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Information About Stock Ownership" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Information About Stock Ownership" in the Proxy Statement.

(c) Changes in Control

Management of The Connecticut Bank and Trust Company knows of no arrangements, including any pledge by any person owning securities of The Connecticut Bank and Trust Company, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plans

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

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	64,250	\$9.25	160,750
Equity compensation plans not approved by security holders	-	-	-
Total	64,250	\$9.25	160,750

Item 12. Certain Relationships and Related Transactions.

The information contained under the section captioned "Transactions with Management" in the Proxy Statement is incorporated herein by reference.

Item 13. Exhibits.

(a) 3. Exhibits Required by Securities and Exchange Commission Regulation S-K

<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)
10.1	Employment Agreement dated June 16, 2004 with David A. Lentini (incorporated by reference to Exhibit 10.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.2	Employment Agreement dated June 16, 2004 with Anson C. Hall (incorporated by reference to Exhibit 10.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
10.3	Endorsement Contract dated September 17, 2004 with Geno Auriemma (incorporated by reference to Exhibit 10.3 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)

- 10.4 Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.5 Agency Agreement dated December 14, 2004 with Smith Brothers Insurance, Inc. (incorporated by reference to Exhibit 10.5 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.6 Lease Agreement (58 State House Square, Hartford, Connecticut) (incorporated by reference to Exhibit 10.6 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.7 Lease Agreement (68 South Main Street, West Hartford, Connecticut) (incorporated by reference to Exhibit 10.7 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.8 Lease Agreement (7 Sycamore Street, Glastonbury, Connecticut) (incorporated by reference to Exhibit 10.8 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.9 Lease Agreement (435 Hartford Turnpike, Vernon, Connecticut)
- 11.1 Statement Re: Computation of Per Share Earnings (incorporated by reference to Part II Item 7 of this Annual Statement on Form 10-KSB – Earnings Per Share)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chairman, President and Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Treasurer, Secretary and Chief Financial Officer
- 32.1 Section 1350 Certification by Chief Executive Officer
- 32.2 Section 1350 Certification by Chief Financial Officer

Item 14. Principal Accountant Fees and Services.

The following table sets forth fees scheduled to be billed to the Bank for the years ending December 31, 2005 and 2004 by Wolf & Company, P.C.:

	2005	2004
Audit fees	\$ 65,700	\$ 42,500
Audit related fees ⁽¹⁾	44,500	0
Tax fees ⁽²⁾	10,000	1,000
All other fees ⁽³⁾	<u>0</u>	<u>4,263</u>
Total	<u>\$120,200</u>	<u>\$ 47,763</u>

(1) Consists of procedures performed in connection with the secondary offering.

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

(3) Consists of information technology testing.

The Audit Committee considered whether the provision of non-audit services by Wolf & Company is compatible with maintaining Wolf & Company's independence. The Audit Committee concluded that performing such services in 2004 and 2005 did not affect the auditor's independence in performing its function as auditor.

CONFORMED

SIGNATURES

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

THE CONNECTICUT BANK AND TRUST COMPANY

Dated: March 31, 2006

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

Dated: March 31, 2006

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

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/David A. Lentini</u> David A. Lentini	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 31, 2006
<u>/s/Anson C. Hall</u> Anson C. Hall	Treasurer, Secretary and Chief Financial Officer (principal accounting and financial officer)	March 31, 2006
<u>/s/Geno Auriemma</u> Geno Auriemma	Director	March 31, 2006
<u>/s/Frank A. Falvo</u> Frank A. Falvo	Director	March 31, 2006
<u>/s/P. Anthony Giorgio</u> P. Anthony Giorgio	Director	March 31, 2006
<u>/s/John A. Green</u> John A. Green	Director	March 31, 2006
<u>/s/Solomon Kerensky</u> Solomon Kerensky	Director	March 31, 2006

<u>/s/Karl J. Krapek</u> Karl J. Krapek	Director	March 31, 2006
<u>/s/Joan L. Rusconi</u> Joan L. Rusconi	Director	March 31, 2006
<u>/s/Phillip J. Schulz</u> Phillip J. Schulz	Director	March 31, 2006
<u>/s/Peter D. Shapiro</u> Peter D. Shapiro	Director	March 31, 2006
<u>/s/J. Brian Smith</u> J. Brian Smith	Director	March 31, 2006

Exhibit Index

<u>No.</u>	<u>Description</u>
10.9	Lease Agreement (435 Hartford Turnpike, Vernon, Connecticut)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Chairman, President and Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification by Treasurer, Secretary and Chief Financial Officer (filed herewith)
32.1	Section 1350 Certification by Chief Executive Officer (filed herewith)
32.2	Section 1350 Certification by Chief Financial Officer (filed herewith)