

# 2007 ANNUAL REPORT

THE CONNECTICUT BANK  
AND TRUST COMPANY

Different. Bank on it.

# THE CONNECTICUT BANK AND TRUST COMPANY

## FINANCIAL HIGHLIGHTS

|   | At or for the year ended December 31, |            |           |
|---|---------------------------------------|------------|-----------|
|   | 2007                                  | 2006       | 2005      |
| <b>Selected Financial Data (in thousands):</b>      |                                       |            |           |
| Assets  | \$ 178,739                            | \$ 136,434 | \$ 96,875 |
| Loans   | 142,686                               | 106,910    | 57,140    |
| Deposits  | 137,800                               | 99,745     | 70,740    |
| Equity  | 20,441                                | 22,085     | 25,045    |
| <b>Selected Operating Data (in thousands):</b>      |                                       |            |           |
| Net interest income                                 | \$ 5,540                              | \$ 4,097   | \$ 2,480  |
| Provision for loan losses                           | 308                                   | 516        | 637       |
| Noninterest income                                  | 395                                   | 176        | 34        |
| Noninterest expenses                                | 7,775                                 | 6,995      | 5,445     |
| Net loss  | (2,148)                               | (3,238)    | (3,568)   |
| <b>Per Share Data:</b>                              |                                       |            |           |
| Loss per diluted share                              | \$ (0.61)                             | \$ (0.91)  | \$ (1.53) |
| Book value per share                                | 5.72                                  | 6.49       | 7.02      |
| Market price (at year end)                          | 5.68                                  | 7.92       | 9.45      |
| <b>Selected Performance Ratios:</b>                 |                                       |            |           |
| Net interest margin                                 | 3.59%                                 | 3.85%      | 3.08%     |
| Noninterest expenses as percent of average assets   | 4.83%                                 | 6.29%      | 6.44%     |
| Return on average assets                            | -1.33%                                | -2.91%     | -4.22%    |
| Return on average equity                            | -10.18%                               | -13.87%    | -22.36%   |
| <b>Regulatory Capital Ratios:</b>                   |                                       |            |           |
| Leverage capital                                    | 11.09%                                | 20.20%     | 26.90%    |
| Total Risk-based Capital                            | 14.80%                                | 21.30%     | 38.80%    |
| <b>Asset Quality Ratios:</b>                        |                                       |            |           |
| Nonperforming loans as percent of total loans       | 0.42%                                 | 0.56%      | 0.04%     |
| Allowance for loan losses as percent of total loans | 1.19%                                 | 1.30%      | 1.53%     |

## THE CONNECTICUT BANK AND TRUST COMPANY

Dear Shareholders:

It is my pleasure to bring to you this Report on your Company's progress and the results of operations for 2007.

CBT continues to be the fastest growing new bank in Connecticut history. Total Assets at December 31, 2007 were \$179 million, an increase of \$43 million or 31.6%. Loans outstanding increased by \$36 million to finish at \$143 million at year-end. Supporting this growth were increased deposits of \$31 million and borrowed funds of \$6 million.

Our blend of one-on-one personal banking combined with conveniently placed branch locations has been welcomed into the marketplace. During 2007 we completed our branch expansion with the Windsor Center and Rocky Hill openings. Our seven banking centers are situated such that most consumers and businesses in our market are within a ten-minute drive to CBT.

Our operating results improved in 2007. The net loss for 2007 was \$2.1 million, or \$0.61 per diluted share, and decreased \$1.1 million compared to \$3.2 million, or \$0.92 per diluted share, in 2006. Net interest income, our principal source of revenue, increased \$1.4 million in 2007. Noninterest income in 2007 increased \$219,000 or 124%. It is noteworthy that brokerage partnership income which was introduced in mid 2006, increased \$167,000 176% in 2007. Additionally, banking services fees increased \$76,000 or 78% in 2007 reflecting CBT's widening array of products and growing sales volume. Noninterest expense in 2007 increased \$780,000 or 11%. This increase was less than half of the \$1.6 million increase reported for 2006. As in the earlier years, expenses grew primarily in response to branch development. With the completion of that effort, by mid 2007 we have seen these costs leveling out. Also impacting the Bank's expenses was the increased cost of regulatory compliance. Sarbanes Oxley, enacted in the wake of Enron, and the Bank Secrecy Act are just two of many new or expanded requirements that have increased our expense.

Both nationally and here in Connecticut, we saw significant changes within the economy in 2007. Signs of change were already present as the year began. For the nation as a whole, the median price of home sales had ended its nearly decade long rise and the trend turned downward as the year progressed. Here in Connecticut the impact was measurable but less severe. After topping out at 8.25% in July 2006, the Prime Rate held steady until mid September 2007 when action by the Federal Open Market Committee ("FOMC") resulted in a downward move to 7.75%. The FOMC would lower rates twice more in 2007 ending the year at 7.25%. Deposit interest rates, especially in the important

## CONNECTICUT BANK AND TRUST COMPANY

consumer sector, were slow to follow this change, putting significant pressure in interest spreads as banks competed for new funds.

Like many community banks, CBT and its customers felt the impact of these forces. Our net interest margin declined in 2007, to 3.59% compared to 3.85% in 2006. The average rate earned on earning assets rose 30 basis points to 7.02%, primarily as a result of the strong growth in loans. For 2007, the average rate paid on interest-bearing liabilities increased 42 basis points to 4.49% largely due the higher cost of time deposits used to support growth. This higher cost resulted from strong competition for new funds. Competitors for these funds came from many segments of the financial services industry including regional, national, and international banks and nontraditional competitors such as credit unions and brokerage firms.

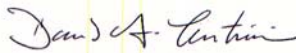
CBT is and remains well capitalized. The Federal Reserve Guidelines define a well-capitalized institution as one having its Capital to Risk Based Assets ratio not less than 10%. At December 31, 2007, CBT's Risk Based Assets were \$159 million and the Risk Based Capital ratio was 13.9%.

With our branch system in place, we are concentrating on further expanding our customer base while emphasizing extreme expense control to reach profitability as soon as possible.

To learn more about CBT and the results achieved in 2007, please turn to the Annual Report on Form 10K included as a part of this report.

On behalf of our Board of Directors and for myself, I want to thank you, our shareowners, for your patience and confidence as we have built out this new franchise. I would also like to thank our dedicated CBT staff that who give their *all* every day.

Sincerely,

A handwritten signature in blue ink, reading "David A. Lentini".

David A. Lentini  
Chairman, President and CEO

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

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**FORM 10-KSB**

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

For the Fiscal Year Ended December 31, 2007

**OR**

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

FDIC Certificate Number: 57690

THE CONNECTICUT BANK AND TRUST COMPANY

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(Exact name of small business issuer as specified in its charter)

Connecticut

---

(State or other jurisdiction of incorporation or organization)

90-0115348

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

58 State House Square, Hartford, CT

---

(Address of principal executive offices)

06103-3902

---

(Zip Code)

(860) 246-5200

---

(Issuer's telephone number, including area code)

Not Applicable

---

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

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

Title of Each Class

Name of Each Exchange  
on Which Registered

None

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None

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

Common Stock, \$1.00 par value

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(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. [ X ]

Indicate by check mark 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: \$11,218,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$22,443,155, which was computed by reference to the price at which the common equity was last sold as of March 3, 2008. 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 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this document.

As of February 25, 2008, there were 3,572,450 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, 435 Hartford Turnpike in Vernon, Connecticut, 66 Cedar Street, Newington, Connecticut, 148 Broad Street, Windsor, Connecticut, and 396 Cromwell Avenue, Rocky Hill, Connecticut. CBT operates as a community-based bank serving privately-owned business customers and individuals in Greater Hartford Connecticut whom we believe are underserved as a result of bank acquisitions and a movement away from customer service by larger banks in recent years.

#### **Who We Are**

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

#### **Business Strategy**

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

CBT’s strategy has been to hire experienced staff with established business contacts in our market area and a reputation for excellent customer service. Each of our commercial lenders has over 10 years of experience, and senior management possesses extensive experience in the banking industry as well as substantial business contacts in our market area. For example, our President and Chief Executive Officer, David A. Lentini, has 39 years of banking experience in retail and commercial banking in Hartford County and has previously started a local de novo Connecticut commercial bank. CBT’s Board of Directors consists predominately of long-time residents and business people from the Greater Hartford Connecticut area who are representative of target customers and are sensitive and responsive to the needs of the community. Our Directors, many of 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 our director Mr. Geno Auriemma, a Hall of Fame Women’s Basketball Coach and recognized public speaker, to support our marketing activities and to endorse our products and services.

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



## **Market Focus**

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

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

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

## **Market Area**

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

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

Based on 2000 U.S. Bureau of the Census Survey data, the City of Hartford is comprised of approximately 122,000 people, 45,000 households and approximately 3,900 business entities. Approximately 4% of all households earn over \$100,000. The Greater Hartford 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 2007, 30 institutions competed for \$24.4 billion in deposits through 289 branch facilities.

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

## **Risks Related to Our Business**

**The following discussion of risk factors contains "forward looking statements" as discussed in Item 6 of this report. These factors may be important to understanding any statement in the Annual Report on Form 10-KSB or elsewhere. The following information should be read in conjunction with the other information in this report, including the consolidated financial statements and related notes incorporated by reference in this report. We do not undertake to update our forward looking statements.**

***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, 2007, we recorded an accumulated deficit of \$13.1 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 grow our assets. Our operating losses have been significant and may occur for periods longer than planned, depending upon our ability to generate net interest income and non-interest income greater than operating expenses. If we do not increase revenues sufficiently to offset anticipated expense increases, we will continue to experience losses. There is no assurance that we will earn a profit in the future.

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

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

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

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

Our seven banking center offices required significant expenditures with investments in equipment, technology, and personnel resulting in increases to our noninterest expenses. The fixed costs related to operating the branches are significant and generally, new branches do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our 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.

***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.***

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

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

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

As of December 31, 2007 our allowance for loan losses was \$1,693,000, or 1.2% of gross outstanding loans. Although we believe that this allowance is currently adequate, we cannot assure you that it will be sufficient to cover probable loan losses. Although we use the best information available to make our determinations with respect to this allowance, future adjustments may be necessary if economic conditions change substantially from the assumptions used or if negative developments occur with respect to non-performing or performing loans. If our assumptions or conclusions prove to be incorrect and the allowance for loan losses is not adequate to absorb probable losses, or if bank regulatory agencies require us to increase our allowance, our earnings, and potentially our capital, could be significantly and adversely impacted.

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

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

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

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

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

Our primary market is Greater Hartford Connecticut, including the communities of Hartford, Glastonbury, West Hartford, East Hartford, Manchester, Windsor, South Windsor, Bloomfield, Avon, Farmington, New Britain, Newington, Wethersfield and Vernon, Connecticut. As a result, our financial condition and results of operations may be affected by changes in the local 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.

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

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

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

|                                     | December 31,           |                   |
|-------------------------------------|------------------------|-------------------|
|                                     | 2007                   | 2006              |
|                                     | (Dollars in Thousands) |                   |
| Mortgage loans on real estate:      |                        |                   |
| Commercial loans                    | \$ 71,192              | \$ 60,646         |
| Construction                        | 11,361                 | 5,989             |
| Home Equity                         | 4,895                  | 4,693             |
| Residential Real Estate             | 1,724                  | 250               |
| Total mortgage loans on real estate | 89,172                 | 71,578            |
| Commercial loans                    | 52,832                 | 33,713            |
| Consumer loans                      | 693                    | 1,576             |
| Total loans                         | 142,697                | 106,866           |
| Allowance for loan losses           | (1,693)                | (1,384)           |
| Net deferred loan (fees)costs       | (11)                   | 44                |
| Loans, net                          | <u>\$ 140,993</u>      | <u>\$ 105,526</u> |

**Loan Maturity.** The following table shows the remaining contractual maturity of our loan portfolio at December 31, 2007. The table does not include prepayments or scheduled principal amortization.

|                                     | Commercial             | Commercial<br>Real Estate | Construction     | Home Equity<br>Lines of Credit | Closed End<br>Home Equity | Consumer      | Total<br>Loans    |
|-------------------------------------|------------------------|---------------------------|------------------|--------------------------------|---------------------------|---------------|-------------------|
|                                     | (Dollars in Thousands) |                           |                  |                                |                           |               |                   |
| Amounts Due:                        |                        |                           |                  |                                |                           |               |                   |
| One year or less                    | \$ 19,688              | 3,500                     | \$ 2,341         | -                              | 1,059                     | 359           | \$ 26,947         |
| After one year:                     |                        |                           |                  |                                |                           |               |                   |
| More than one year to three years   | 10,365                 | 304                       | 6,468            | -                              | -                         | 114           | 17,251            |
| More than three years to five years | 11,571                 | 632                       | -                | -                              | 37                        | 93            | 12,333            |
| More than five years to 10 years    | 9,365                  | 8,539                     | -                | -                              | -                         | 127           | 18,031            |
| More than ten years to 15 years     | 1,746                  | 4,846                     | -                | -                              | 49                        | -             | 6,641             |
| More than 15 years                  | 97                     | 53,371                    | 2,552            | 4,895                          | 579                       | -             | 61,494            |
| Total amount due                    | <u>\$ 52,832</u>       | <u>\$ 71,192</u>          | <u>\$ 11,361</u> | <u>\$ 4,895</u>                | <u>\$ 1,724</u>           | <u>\$ 693</u> | <u>142,697</u>    |
| Less:                               |                        |                           |                  |                                |                           |               |                   |
| Net deferred loan fees              |                        |                           |                  |                                |                           |               | (11)              |
| Allowance for loan losses           |                        |                           |                  |                                |                           |               | (1,693)           |
| Loans, net                          |                        |                           |                  |                                |                           |               | <u>\$ 140,993</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, 2007, the Bank had six non-accrual loans with an outstanding balance of \$599,000. At December 31, 2006, the Bank had two non-accrual loans with an outstanding balance of \$597,000.

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

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

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

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

|                            | December 31,           |                 |
|----------------------------|------------------------|-----------------|
|                            | 2007                   | 2006            |
|                            | (Dollars in Thousands) |                 |
| Balance, beginning of year | \$ 1,384               | \$ 876          |
| Provision for loan losses  | 308                    | 516             |
| Recoveries                 | 1                      | -               |
| Charge-offs                | -                      | 8               |
| Balance, at end of year    | <u>\$ 1,693</u>        | <u>\$ 1,384</u> |

### 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, 2007 or 2006. At December 31, 2007, the fair value of the Bank's available-for-sale securities portfolio totaled \$19.9 million, or 11% of assets.

***Government-Sponsored Enterprises Available-for-Sale.*** At December 31, 2007, the Bank's total investment in Government-sponsored enterprises securities was \$14.1 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"). Approximately \$9.6 million, or 68% of the total portfolio, are callable during the life of the investment. Of these callable bonds, \$3.4 million, or 35% of the portfolio, have step-up rate coupons scheduled for 2007 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, 2007, mortgage-backed securities totaled \$5.8 million all of which are classified as available-for-sale. Investments in mortgage-backed securities involve a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments, thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

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.

| <u>December 31, 2007</u>         | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|----------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                  |                           | (Dollars in Thousands)                |  |                       |
| Government-sponsored enterprises | \$ 14,374                 | \$ 74                                 | \$ (314)                               | \$ 14,134             |
| Mortgage-backed securities       | <u>5,783</u>              | <u>12</u>                             | <u>(35)</u>                            | <u>5,760</u>          |
|                                  | <u>\$ 20,157</u>          | <u>\$ 86</u>                          | <u>\$ (349)</u>                        | <u>\$ 19,894</u>      |

| <u>December 31, 2006</u>         | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|----------------------------------|---------------------------|---------------------------------------|--|-----------------------|
|                                  |                           | (Dollars in Thousands)                |  |                       |
| Government-sponsored enterprises | \$ 16,378                 | \$ -                                  | \$ (355)                               | \$ 16,023             |
| Mortgage-backed securities       | <u>4,857</u>              | <u>-</u>                              | <u>(142)</u>                           | <u>4,715</u>          |
|                                  | <u>\$ 21,235</u>          | <u>\$ -</u>                           | <u>\$ (497)</u>                        | <u>\$ 20,738</u>      |

## Sources of Funds

**Deposits.** At December 31, 2007, CBT's total deposits amounted to \$137.8 million, or 77.1% of total assets. To date, deposits from our primary market have provided a relatively stable funding source for CBT's loan portfolio and other earning assets. We offer a full range of interest bearing and non-interest bearing accounts with a range of maturity date options, including commercial and retail checking accounts, money market accounts, individual retirement accounts, savings accounts, certificates of deposit and sweep accounts. We have tailored the rates and terms of our accounts and time deposits to compete in our market area.

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

|                                       | December 31, 2007 |   | December 31, 2006 |                             |
|---------------------------------------|-------------------|---|-------------------|-----------------------------|
|                                       | Amount            | Weighted<br>Average<br>Rate<br>(Dollars in Thousands) | Amount            | Weighted<br>Average<br>Rate |
| Non interest-bearing deposits         | \$ 26,115         | - %   | \$ 17,902         | - %                         |
| NOW deposits                          | 5,138             | 1.60  | 3,453             | 0.87                        |
| Money market deposits                 | 23,307            | 3.78  | 19,259            | 3.79                        |
| Savings deposits                      | 963               | 0.50  | 722               | 0.51                        |
|                                       | <u>55,523</u>     |   | <u>41,336</u>     |                             |
| Time deposits of \$100,000 or greater | 49,909            | 4.80  | 30,311            | 5.01                        |
| Time deposits less than \$100,000     | 32,368            | 4.85  | 28,098            | 4.82                        |
|                                       | <u>82,277</u>     |   | <u>58,409</u>     |                             |
| Total deposits                        | <u>\$ 137,800</u> | 3.19%   | <u>\$ 99,745</u>  | 2.29%                       |

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

| Year Ending<br>December 31, | Amount           |
|-----------------------------|------------------|
| (Dollars in Thousands)      |                  |
| 2008                        | \$ 78,160        |
| 2009                        | 3,729            |
| 2010                        | 175              |
| 2011                        | 213              |
|                             | <u>\$ 82,277</u> |

## Borrowings

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

### *Federal Home Loan Bank Advances*

The Federal Home Loan Bank of Boston ("FHLB") provides credit for savings banks and certain other member financial institutions. As a member of the FHLB, the Bank is required to own capital stock in the FHLB and may apply for advances on the security of the capital stock and qualified collateral maintained at the FHLB. Borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 95% of the market value of U.S. Government and

government sponsored enterprises and various percentages of the carrying value of certain commercial properties. Advances are made under several different credit programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under the lines are limited to \$1 million and the line of credit may be increased to 2% of the Bank's total assets in accordance with the credit policy of the FHLB. At December 31, 2007, the Bank had the ability to borrow a total of approximately \$19.9 million from the FHLB. At December 31, 2007 the Bank had borrowings totaling \$17.5 million 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. The securities pledged to secure repurchase agreements are under the Bank's control.

At December 31, 2007 the Bank had repurchase agreements totaling \$2.3 million with a weighted average rate of 3.50%. At December 31, 2006, the bank had repurchase agreements totaling \$1.5 million with a weighted average rate of 4.40%.

### **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;
- Courier service;
- Sweep accounts;
- Direct deposit of payroll and social security checks;
- Online banking;
- Wire transfers, ACH (Automated Clearinghouse) and EDI (Electronic Data Interchange) services;
- Client escrow accounts;
- Debit cards;
- Merchant credit card processing; and
- ATM access through the SUM shared network of automated teller machines.

### **Asset and Liability Management**

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

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

## **Competition**

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

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

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

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

## **Employees**

As of December 31, 2007, CBT had 56 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. Until March 2007, the FRB required CBT to maintain a Tier 1 leverage ratio of 9%. At December 31, 2007, the Tier 1 leverage capital ratio stood at 13.7%.

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,” .

### ***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, 2007, CBT qualified as a well-capitalized institution.

### ***FDIC Insurance Assessments***

The FDIC uses a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the Deposit Insurance Fund (DIF). Under the rule adopted by the FDIC Board in November 2006, beginning in 2007, the FDIC will place each institution in one of four risk categories using a two-step process based first on capital ratios and then on other relevant information. Within the lowest risk category, Risk Category I, rates will vary based on each institution's CAMELS component ratings, certain financial ratios (for most institutions), and long-term debt issuer ratings (for large institutions that have such a rating).

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

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

### ***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 received a satisfactory CRA rating at its most recent examination in 2006.

### ***Safety and Soundness Standards***

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

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

## ***Monetary Policy***

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

## ***Gramm-Leach-Bliley Act***

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

- Repeals portions of the Glass-Steagall Act of 1933 that separated commercial and investment banking and eliminates the prohibition on insurance underwriting activities under the Bank Holding Company Act of 1956.
- Creates "financial holding companies" that may conduct a broad list of financial activities, including insurance and securities underwriting, and real estate development and investment.
- Allows financial holding companies to conduct activities that are "complementary" to banking.
- Allows banks to underwrite securities through direct subsidiaries and use direct subsidiaries for insurance or securities sales or other low-risk activities.
- Prohibits a bank holding company from merging with insurance or securities firms or embarking on new powers if any of its banks earned less than a "satisfactory" CRA rating on its most recent exam. A financial holding company would be barred from additional powers or acquisitions if one of its bank's CRA rating dropped below "satisfactory" later.
- Requires financial institutions to establish privacy policies and disclose them at the start of a customer relationship and once a year thereafter.
- Requires banks to give customers a chance to block sharing of confidential information with third parties except in cases of marketing agreements between financial institutions and some other marketing agreements.
- Prohibits credit card and account numbers from being shared with third-party marketers.

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

## ***The USA PATRIOT Act***

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

- A financial institution must establish due diligence policies, procedures and controls reasonably designed to detect and report money laundering through correspondent accounts and private banking accounts.
- No bank may establish, maintain, administer or manage a correspondent account in the United States for a foreign shell bank.
- Financial institutions must follow regulations adopted by the Treasury Department to encourage financial institutions, their regulatory authorities, and law enforcement authorities to share information about individuals, entities, and organizations engaged in or suspected of engaging in terrorist acts or money laundering activities.



- Financial institutions must follow regulations adopted by the Treasury Department setting forth minimum standards regarding customer identification. These regulations require financial institutions to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintain records of the information used to verify the person's identity, and consult lists of known or suspected terrorists and terrorist organizations provided to the financial institution by government agencies.
- Every financial institution must establish anti-money laundering programs, including the development of internal policies and procedures, designation of a compliance officer, employee training, and an independent audit function.

### ***Sarbanes-Oxley Act of 2002***

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

The SOX addresses, among other matters:

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

### ***Reports to Security Holders***

We are obligated to file with the Board of Governors of the Federal Reserve System certain periodic reports including an annual report containing audited financial statements pursuant to Section 12(i) of the Exchange Act. We will continue to file such reports as required under the Exchange Act. Unlike the SEC, the Fed does not maintain an electronic database of reports, proxies and information statements and other information regarding issuers that file electronically. Instead, interested persons should visit our website at [www.thecbt.com](http://www.thecbt.com), where we 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; our Vernon Office at 435 Hartford Turnpike, Vernon, Connecticut; our Newington Office at 66 Cedar Street, Newington, Connecticut; our Windsor Office at 148 Broad Street, Windsor, Connecticut; and our Rocky Hill Office at 396 Cromwell Avenue, Rocky Hill, Connecticut. All of these facilities have been renovated within the past three years and, as such, are in excellent condition.

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

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

*West Hartford Office.* CBT leases a 3,400 square foot building located at 68 South Main Street in West Hartford, Connecticut as the location for its West Hartford Office. The lease expires on November 1, 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.

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

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

*Rocky Hill Office.* CBT leases a 3,000 square foot building located at 396 Cromwell Avenue, in Rocky Hill, Connecticut as its location for its Rocky Hill Office. The lease expires on October 14, 2017 and contains a five year option to extend the term. This location provides drive-through banking service,, ATM access, and safe-deposit boxes.

We paid an aggregate of \$629,000 in rental payments during 2007.

## **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.**

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. The following table sets forth the range of high and low per share sales prices as reported on the NASDAQ for each fiscal quarter of 2007 and the range of high and low bid prices reported on the OTC Bulletin Board for each fiscal quarter of 2006. 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.

| <b><u>2007</u></b> |    | <b><u>High</u></b> |    | <b><u>Low</u></b> |
|--------------------|----|--------------------|----|-------------------|
| First Quarter      | \$ | 8.04               | \$ | 7.35              |
| Second Quarter     |    | 8.99               |    | 7.46              |
| Third Quarter      |    | 8.15               |    | 6.20              |
| Fourth Quarter     |    | 7.76               |    | 5.49              |

| <b><u>2006</u></b> |    | <b><u>High</u></b> |    | <b><u>Low</u></b> |
|--------------------|----|--------------------|----|-------------------|
| First Quarter      | \$ | 10.34              | \$ | 9.30              |
| Second Quarter     |    | 10.01              |    | 8.16              |
| Third Quarter      |    | 8.70               |    | 7.65              |
| Fourth Quarter     |    | 8.06               |    | 7.64              |

- (a) As of February 25, 2008, CBT had approximately 265 holders of record of its common stock.
- (b) 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."
- (c) The following table sets forth information, as of December 31, 2007, about CBT common stock that may be issued upon exercise of options under The Connecticut Bank and Trust Company's 2005 Stock Option and Award Plan. The Bank's stockholders approved the plan.

|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of options warrants and rights | Number of Securities remaining available for future issuance under equity compensation plans |
|--|---|--|--|
| Plan Category  |   |  | (Excluding securities reflected in column (a))   |
|  | (a)   | (b)  | (c)  |
| Equity Compensation Plans approved by security holders     | \$ 143,500  | \$ 8.46  | \$ 22,400  |
| Equity Compensation Plans not approved by security holders | \$ -  | \$ -   | \$ -   |
| Total  | \$ 143,500  | \$ 8.46  | \$ 22,400  |

## **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. We do not undertake to update our forward looking statements.

### **Overview**

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

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

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

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

### **Application of Critical Accounting Policies**

In the ordinary course of business, CBT has made a number of estimates and assumptions relating to reporting results of operations and financial condition in preparing its financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. CBT believes that 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 temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The realization of the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are subject to significant uncertainty. A 100% valuation allowance has been applied to the net deferred state and Federal tax assets due to the uncertainties of realization. CBT has reviewed this policy with its Audit Committee. Refer to Note 8 to the accompanying financial statements for a detailed discussion of the components of the net deferred tax assets.

***Results of Operations for the Year Ended December 31, 2007 Compared to December 31, 2006***

Net Loss. CBT had a net loss of \$2.1 million (or basic and diluted loss per share of \$0.61) for the year ended December 31, 2007, compared to a net loss of \$3.2 million (or basic and diluted loss per share of \$0.92) for the year ended December 31, 2006. Net interest income totaled \$5.5 million for the year ended December 31, 2007, an increase of \$1.4 million, or 34%, from the prior year. Non interest expenses were \$7.8 million for the year ended December 31, 2007, an increase of \$800,000, or 11%, from the prior year.

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

**Average Balance Sheet.** The following table depicts the condensed averages of the major balance sheet categories that generate interest income or interest expense and the resulting asset yields or cost of funds for the years ended December 31, 2007 and 2006. The difference between asset yields and the cost of funds equals the net interest spread. The difference between interest income and interest expense equals net interest income, which is divided by the average balance of interest earning assets to arrive at the net interest margin. The total dollar amount of interest income from assets and the subsequent yields are calculated on a taxable equivalent basis, which for the Bank has no impact under the tax loss position.

|   | Year Ended December 31, |                                |                          |                    |                                |                          |
|---|-------------------------|--------------------------------|--------------------------|--------------------|--------------------------------|--------------------------|
|   | 2007                    |                                |                          | 2006               |                                |                          |
|   | (Dollars in Thousands)  |                                |                          |                    |                                |                          |
|   | Average<br>Balance      | Interest<br>Income/<br>Expense | Average<br>Yield<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Yield<br>Rate |
| Interest-earning assets:  |                         |                                |                          |                    |                                |                          |
| Loans   | \$ 123,598              | \$ 9,292                       | 7.52%                    | \$ 82,218          | \$ 6,054                       | 7.36%                    |
| Investment securities   | 20,656                  | 1,006                          | 4.87%                    | 21,812             | 963                            | 4.42%                    |
| Federal funds sold/Other  | 10,086                  | 525                            | 5.21%                    | 2,353              | 133                            | 5.65%                    |
| Total interest-earning assets                                       | 154,340                 | 10,823                         | 7.02%                    | 106,383            | 7,150                          | 6.72%                    |
| Allowance for loan losses   | (1,535)                 |                                |                          | (1,120)            |                                |                          |
| Cash and due from banks   | 4,158                   |                                |                          | 2,510              |                                |                          |
| Other assets  | 4,078                   |                                |                          | 3,510              |                                |                          |
| Total assets  | \$ 161,041              |                                |                          | \$ 111,283         |                                |                          |
| Interest-bearing liabilities:                                       |                         |                                |                          |                    |                                |                          |
| Savings, NOW and money market deposits                              | \$ 28,490               | 971                            | 3.41%                    | \$ 21,163          | 660                            | 3.12%                    |
| Time deposits   | 72,461                  | 3,570                          | 4.93%                    | 42,191             | 1,809                          | 4.29%                    |
| Borrowed funds  | 16,837                  | 742                            | 4.41%                    | 11,690             | 584                            | 5.00%                    |
| Total interest-bearing liabilities                                  | 117,788                 | 5,283                          | 4.49%                    | 75,044             | 3,053                          | 4.07%                    |
| Demand deposits   | 21,242                  |                                |                          | 12,351             |                                |                          |
| Total deposits and borrowed funds                                   | 139,030                 |                                |                          | 87,395             |                                |                          |
| Other liabilities   | 917                     |                                |                          | 537                |                                |                          |
| Stockholders' equity  | 21,094                  |                                |                          | 23,351             |                                |                          |
| Total liabilities and stockholders' equity                          | \$ 161,041              |                                |                          | \$ 111,283         |                                |                          |
| Net interest income   |                         | \$ 5,540                       |                          |                    | \$ 4,097                       |                          |
| Interest rate spread  |                         |                                | 2.53%                    |                    |                                | 2.65%                    |
| Net interest margin   |                         |                                | 3.59%                    |                    |                                | 3.85%                    |
| Ratio of interest-earning assets to<br>interest-bearing liabilities |                         |                                | 131.03%                  |                    |                                | 141.76%                  |

**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.

|  | Year Ended December 31,<br>2007 compared to 2006 |          |          |
|--|--|----------|----------|
|  | Increase (Decrease)<br>Due to                    |          | Net      |
|  | Volume   | Rate     |          |
|  | (In Thousands)                                   |          |          |
| Interest-earning assets:                   |  |          |          |
| Loans                                      | \$ 3,108   | \$ 130   | \$ 3,238 |
| Investments securities                     | (20)   | 63       | 43       |
| Federal funds sold                         | 393  | (1)      | 392      |
| Total interest earning assets              | 3,481  | 192      | 3,673    |
| Interest-bearing liabilities:              |  |          |          |
| Savings, NOW and money market deposits     | 246  | 65       | 311      |
| Time deposits                              | 1,458  | 303      | 1,761    |
| Borrowed funds                             | 233  | (75)     | 158      |
| Total interest-bearing liabilities         | 1,937  | 293      | 2,230    |
| Increase (decrease) in net interest income | \$ 1,544   | \$ (101) | \$ 1,443 |

Net interest income increased \$1.4 million to \$5.5 million for the year ended December 31, 2007 compared to \$4.1 million in the comparable period in 2006, mainly driven by growth in average interest-earning assets. Total average interest-earning assets increased \$48.0 million to \$154.3 million for the year ended December 31, 2007 reflecting solid growth in average loans and an increase in cash and equivalents, somewhat lessened by a decrease in average investments. Compared to the prior period, average loans increased \$41.4 million principally due to new originations and increases on lines of credit, less expected cash flow payments due to amortization in the portfolio of existing loans. Average Federal funds sold and other investments increased \$7.7 to provide liquidity for loan growth and meet the cash demands of our customers. The volume of interest bearing liabilities rose \$42.7 million coupled with an increase in market interest rates paid primarily on time deposits. The resulting net interest margin declined 26 basis points to 3.59% for the year ended December 31, 2007 from 3.85% in 2006 primarily resulting from the higher cost of funds compared to the prior year.

**Provision for Loan Losses.** CBT's provision for loan losses was \$308,000 compared to \$516,000 for the comparable period in 2006, increasing the allowance to \$1.7 million for the year ended December 31, 2007. The loan loss allowance increased in 2007 primarily due to new loan originations and represented 1.19% of total loans outstanding at December 31, 2007. CBT's 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 \$219,000 to \$395,000 for the year ended December 31, 2007 compared to \$176,000 for the same period in 2006 primarily reflecting growth in service charges and fees and expanded business

banking products as well as a full year of brokerage commissions earned on our affiliation with Raymond James Financial Services. Service charges and fees were \$174,000 compared to \$98,000 in the prior period chiefly due to the expanded number of deposit accounts. Brokerage commissions were \$262,000 earned on a full year of activity compared to \$95,000 earned on four months of activity in 2006 as CBT launched this business in September 2006. Losses on the sales of investment securities were \$41,000 compared to \$17,000 in the prior period.

**Non-Interest Expense.** Non-interest expenses totaled \$7.8 million, increasing \$780,000, or 11%, for the year ended December 31, 2007 compared to the prior period in 2006. Salaries and benefits amounted to \$4.3 million compared to \$3.9 million in the prior period in connection with expanded staff to support and facilitate CBT's growth. Occupancy and equipment expenses were \$1.5 million, increasing \$291,000 mainly due to the commencement of operations in Windsor in July 2007 and Rocky Hill in October 2007. Data processing expenses for the Bank's core processing system rose \$60,000 from the prior year. Professional services increased \$80,000 primarily resulting from consulting costs associated with the Bank's requirements under Sarbanes-Oxley and recruiting efforts for new hires. Other general and administrative costs increased \$106,000 attributable to FDIC insurance costs, costs associated with nonaccrual loans and provisions for off-balance sheet commitments, and general cost increases on goods and services. Marketing expenses of \$440,000 were \$209,000 lower compared to the prior period as Management concentrated efforts on alternative methods of advertising and business development.

**Income Taxes.** At December 31, 2007, CBT had approximately \$10.9 million in net operating loss carry forwards available to offset future taxable earnings, if any, under current Federal tax laws. At December 31, 2007, 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 \$42.3 million, or 31%, to \$178.7 million at December 31, 2007 from \$136.4 million at December 31, 2006. The majority of the increase has been in earning assets as net loans increased \$35.5 million and cash and equivalents increased \$6.4 million. Loan growth continues to be strong in the origination of new loans as well as advances on lines of credit. Commercial loans and commercial real estate mortgages represent approximately 86% of the portfolio as the Bank strives to meet the needs of the commercial customers. The Bank recognized \$41,000 in net losses on available-for-sale securities as Management sold certain lower-coupon bonds and replaced those investments with available-for-sale investments with an improved yield.

Balance sheet expansion was funded primarily through deposit growth as total deposit balances expanded \$38.1 million to \$137.8 million at December 31, 2007 from \$99.7 million at December 31, 2006. New branch locations, promotional and sales efforts, and competitively priced deposit products provide the basis for the growth in the portfolio. Total stockholders' equity was \$20.4 million at December 31, 2007 mainly attributable to the operating losses for 2007 offset by improvement in the market value of the available-for-sale securities portfolio and lower unearned stock-based compensation.

## **Liquidity**

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

The primary investing activities of CBT are the origination of commercial loans and commercial mortgages, and, to a lesser extent, the origination of consumer loans, primarily home equity loans and lines of credit, and other types of loans, and investments in mortgage-backed and Government-sponsored enterprises. During the year ended December 31, 2007, CBT's gross loan originations of new loans and advances on unused lines of credit, before participations, aggregated \$79.9 million. At December 31, 2007, CBT's investments in Government-sponsored enterprises and mortgage-backed securities totaled \$19.9 million.



These activities are funded primarily through deposit growth, short-term overnight Federal funds, cash flows on loans and investment securities and, when necessary, borrowing capacity with the FHLB. At December 31, 2007 CBT had \$8.1 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 \$38.1 million net increase in total deposits during the year ended December 31, 2007. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by CBT and its local competitors and other factors. CBT closely monitors its liquidity position on a daily basis. If CBT requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances and a \$2.0 million Federal funds borrowing line of credit from Bankers' Bank Northeast. CBT has the ability to borrow \$19.9 million from the FHLB-Boston and as of December 31, 2007 has current advances outstanding of \$17.5 million.

CBT has commitments to originate loans totaling \$17.0 million and has unfunded commitments under existing lines of credit aggregating \$42.3 million at December 31, 2007. These commitments relate primarily to commercial and commercial real estate loans, including construction lines of credit. Management of CBT anticipates that it will have sufficient funds available to meet its current loan commitments. CBT relies primarily on competitive rates, customer service and customer relationships to retain deposits. Management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with CBT. Management believes that CBT's short-term assets provide sufficient liquidity to cover potential fluctuations in deposit accounts and loan demand and to meet other anticipated operating cash and investment requirements.

## **Regulatory Capital**

Total equity capital was \$20.4 million at December 31, 2007. This level of capital does not include the favorable impact of tax loss carry-forwards that may become available to CBT in future periods. A strong capital position, which is vital to CBT's continued operation, also promotes depositor and investor confidence and provides a solid foundation for future growth. Federal banking regulators establish minimum capital levels.

At December 31, 2007, the Bank exceeded all of the regulatory capital requirements to be considered well capitalized, with a Tier 1 risk-based capital level of \$20.7 million, or 13.7% of risk-weighted assets, which is above the required level of \$6.0 million, or 4.00%, and total risk-based capital of \$22.3 million, or 14.8% of risk-weighted assets, which is above the required level of \$12.1 million, or 8.00%. There are no conditions that Management believes have changed CBT's category since its December 31, 2007 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 reviewed 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 over the next twelve months 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, 2007 and December 31, 2006.

| Changes in<br>Interest Rates<br>(Basis Points) | Estimated Increase<br>(Decrease) in NII<br>December 31, 2007 | Estimated Increase<br>(Decrease) in NII<br>December 31, 2006 |
|--|--|--|
| -200   | (9.0)%   | (7.8)%   |
| Stable   | 0.0%   | 0.0%   |
| + 200  | 3.8%   | 2.0%   |

#### **Off-balance sheet arrangements**

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

**Item 7. Financial Statements and Supplementary Data.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying balance sheets of The Connecticut Bank and Trust Company as of December 31, 2007 and 2006, 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, 2007 and 2006, 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  
March 10, 2008

# THE CONNECTICUT BANK AND TRUST COMPANY

## BALANCE SHEETS

December 31, 2007 and 2006

(Dollars in Thousands)

| ASSETS  |  | 2007             | 2006              |
|---|--|------------------|-------------------|
| Cash and due from banks                                       |  | \$ 3,411         | \$ 4,589          |
| Federal funds sold  |  | 8,080            | 475               |
| Cash and cash equivalents                                     |  | <u>11,491</u>    | <u>5,064</u>      |
| Securities available for sale, at fair value                  |  | 19,894           | 20,738            |
| Certificates of deposit                                       |  | 76               | 76                |
| Federal Reserve Bank stock, at cost                           |  | 635              | 693               |
| Federal Home Loan Bank stock, at cost                         |  | 945              | 728               |
| Loans   |  | 142,686          | 106,910           |
| Allowance for loan losses                                     |  | <u>(1,693)</u>   | <u>(1,384)</u>    |
| Loans, net  |  | <u>140,993</u>   | <u>105,526</u>    |
| Premises and equipment, net                                   |  | 3,053            | 2,217             |
| Accrued interest receivable                                   |  | 830              | 613               |
| Other assets  |  | <u>822</u>       | <u>779</u>        |
|   |  | <u>\$178,739</u> | <u>\$ 136,434</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY                          |  |                  |                   |
| Deposits  |  | \$137,800        | \$ 99,745         |
| Short-term borrowings   |  | 2,255            | 1,453             |
| FHLB Advances   |  | 17,450           | 12,450            |
| Other liabilities   |  | <u>793</u>       | <u>701</u>        |
| Total liabilities   |  | <u>158,298</u>   | <u>114,349</u>    |
| Commitments and Contingencies (notes 4,9,10,and 17)           |  |                  |                   |
| Stockholders' equity;   |  |                  |                   |
| Common stock, \$1.00 par value; 10,000,000 shares authorized; |  |                  |                   |
| shares issued and outstanding: 3,572,450 at December 31, 2007 |  |                  |                   |
| and 3,567,450 at December 31, 2006                            |  | 3,572            | 3,567             |
| Common stock warrants   |  | 853              | 853               |
| Additional paid-in capital                                    |  | 29,700           | 29,582            |
| Restricted stock unearned compensation                        |  | (279)            | (426)             |
| Retained deficit  |  | (13,142)         | (10,994)          |
| Accumulated other comprehensive loss                          |  | <u>(263)</u>     | <u>(497)</u>      |
| Total stockholders' equity                                    |  | <u>20,441</u>    | <u>22,085</u>     |
|   |  | <u>\$178,739</u> | <u>\$ 136,434</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, 2007 and 2006

(Dollars in Thousands; except per share data)

|  | <u>2007</u>       | <u>2006</u>       |
|--|-------------------|-------------------|
| Interest and dividend income:                        |                   |                   |
| Loans, including fees                                | \$ 9,292          | \$ 6,054          |
| Debt securities                                      | 1,006             | 963               |
| Dividends  | 104               | 82                |
| Federal funds sold                                   | 421               | 51                |
| Total interest and dividend income                   | <u>10,823</u>     | <u>7,150</u>      |
| Interest expense:                                    |                   |                   |
| Deposits   | 4,541             | 2,469             |
| Other borrowings                                     | 742               | 584               |
| Total interest expense                               | <u>5,283</u>      | <u>3,053</u>      |
| Net interest income                                  | 5,540             | 4,097             |
| Provision for loan losses                            | 308               | 516               |
| Net interest income, after provision for loan losses | <u>5,232</u>      | <u>3,581</u>      |
| Non-interest income:                                 |                   |                   |
| Service charges and fees                             | 174               | 98                |
| Brokerage fee income                                 | 262               | 95                |
| Net losses on available-for-sale securities          | (41)              | (17)              |
| Total non-interest income                            | <u>395</u>        | <u>176</u>        |
| Non-interest expense:                                |                   |                   |
| Salaries and benefits                                | 4,342             | 3,890             |
| Occupancy and equipment                              | 1,493             | 1,202             |
| Data processing                                      | 234               | 174               |
| Marketing  | 440               | 649               |
| Professional services                                | 524               | 444               |
| Other general and administrative                     | 742               | 636               |
| Total non-interest expense                           | <u>7,775</u>      | <u>6,995</u>      |
| Net loss   | <u>\$ (2,148)</u> | <u>\$ (3,238)</u> |
| Loss per share:                                      |                   |                   |
| Basic and Diluted                                    | <u>\$ (0.61)</u>  | <u>\$ (0.92)</u>  |
| Weighted Average Shares Outstanding                  | <u>3,537,481</u>  | <u>3,523,794</u>  |

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

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

**Years Ended December 31, 2007 and 2006**

**(Dollars in Thousands)**

|   | Common<br>Stock | Common<br>Stock<br>Warrants | Additional<br>Paid-in<br>Capital | Restricted<br>Stock<br>Unearned<br>Compensation | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total            |
|---|-----------------|-----------------------------|----------------------------------|---|---------------------|---|------------------|
| Balance at December 31, 2005  | \$ 3,567        | \$ 853                      | \$ 29,536                        | \$ (618)  | \$ (7,756)          | \$ (537)                                      | <u>25,045</u>    |
| Comprehensive loss:   |                 |                             |                                  |   |                     |   |                  |
| Net loss  |                 |                             |                                  |   | (3,238)             |   | (3,238)          |
| Change in net unrealized gains/losses<br>on securities available for sale, net<br>of reclassification adjustment of \$17<br>for losses included in net income |                 |                             |                                  |   |                     | 40  | <u>40</u>        |
| Total comprehensive loss  |                 |                             |                                  |   |                     |   | <u>(3,198)</u>   |
| Activity related to restricted stock awards   |                 |                             |                                  | 192   |                     |   | 192              |
| Activity related to stock option grants   |                 |                             | 46                               |   |                     |   | <u>46</u>        |
| Balance at December 31, 2006  | 3,567           | 853                         | 29,582                           | (426)   | (10,994)            | (497)   | <u>22,085</u>    |
| Comprehensive loss:   |                 |                             |                                  |   |                     |   |                  |
| Net loss  |                 |                             |                                  |   | (2,148)             |   | (2,148)          |
| Change in net unrealized gains/losses<br>on securities available for sale, net<br>of reclassification adjustment of \$41<br>for losses included in net income |                 |                             |                                  |   |                     | 234   | <u>234</u>       |
| Total comprehensive loss  |                 |                             |                                  |   |                     |   | <u>(1,914)</u>   |
| Activity related to restricted stock awards   | 5               |                             | 34                               | 147   |                     |   | 186              |
| Activity related to stock option grants   |                 |                             | 84                               |   |                     |   | <u>84</u>        |
| Balance at December 31, 2007  | <u>\$ 3,572</u> | <u>\$ 853</u>               | <u>\$ 29,700</u>                 | <u>\$ (279)</u>                                 | <u>\$ (13,142)</u>  | <u>\$ (263)</u>                               | <u>\$ 20,441</u> |

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

# THE CONNECTICUT BANK AND TRUST COMPANY

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

(Dollars in Thousands)

|  | <u>2007</u>      | <u>2006</u>     |
|--|------------------|-----------------|
| Cash flows from operating activities:                                      |                  |                 |
| Net loss   | \$ (2,148)       | \$ (3,238)      |
| Adjustment to reconcile net loss to net cash used by operating activities: |                  |                 |
| Provision for loan losses  | 308              | 516             |
| Net losses from sales of available-for-sale securities                     | 41               | 17              |
| Depreciation and amortization  | 527              | 405             |
| Net amortization of premiums on available-for-sale securities              | 126              | 59              |
| Net amortization of deferred loan costs and fees                           | 48               | 1               |
| Share based compensation   | 270              | 238             |
| Increase in accrued interest receivable                                    | (217)            | (223)           |
| (Increase)decrease in other assets   | (43)             | 131             |
| Increase in other liabilities  | 92               | 53              |
| Net cash used in operating activities                                      | <u>(996)</u>     | <u>(2,041)</u>  |
| Cash flows from investing activities:                                      |                  |                 |
| Activity in available-for-sale securities:                                 |                  |                 |
| Sales  | 3,330            | 1,136           |
| Maturities and calls   | 1,999            | 1,500           |
| Purchases  | (6,105)          | (1,122)         |
| Principal payments   | 1,687            | 1,620           |
| Purchase of certificates of deposit  | -                | (76)            |
| Redemption of FRB stock  | 58               | 73              |
| Purchases of FHLB stock  | (217)            | (603)           |
| Net loan originations  | (35,823)         | (49,779)        |
| Purchase of premises and equipment   | (1,363)          | (543)           |
| Net cash used in investing activities                                      | <u>(36,434)</u>  | <u>(47,794)</u> |
| Cash flows from financing activities:                                      |                  |                 |
| Net increase in deposits   | 38,055           | 29,005          |
| Net increase in short term borrowings                                      | 802              | 1,011           |
| Proceeds from long-term borrowings   | 5,000            | 12,450          |
| Net cash provided by financing activities                                  | <u>43,857</u>    | <u>42,466</u>   |
| Net change in cash and cash equivalents                                    | 6,427            | (7,369)         |
| Cash and cash equivalents at beginning of year                             | <u>5,064</u>     | <u>12,433</u>   |
| Cash and cash equivalents at end of year                                   | <u>\$ 11,491</u> | <u>\$ 5,064</u> |
| Supplemental disclosures of cash flow information:                         |                  |                 |
| Interest paid  | \$ 5,228         | \$ 2,909        |

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



# **THE CONNECTICUT BANK AND TRUST COMPANY**

## **NOTES TO FINANCIAL STATEMENTS**

(DOLLARS IN THOUSANDS)

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Nature of Operations***

The 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, other than temporary impairment of investment securities, and the valuation of deferred tax assets.

#### ***Reclassification***

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

#### ***Significant Group Concentrations of Credit Risk***

Most of the Bank's activities are with customers located within Connecticut. Note 2 describes the investment securities for the Bank. Note 3 describes the lending activities of the Bank. As of December 31, 2007 and 2006 the Bank had one governmental depositor with deposits totaling \$10,706 and \$15,187 respectively.

#### ***Cash and Cash Equivalents***

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

#### ***Advertising***

Advertising costs are expensed as incurred.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Securities*

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

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

#### *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

(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.

The allowance consists of allocated and general components. The allocated component relates to loans that are impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

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

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

# **THE CONNECTICUT BANK AND TRUST COMPANY**

## **NOTES TO FINANCIAL STATEMENTS**

(DOLLARS IN THOUSANDS)

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Premises and Equipment***

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

#### ***Other Intangibles***

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

#### ***Transfers of Financial Assets***

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

#### ***Income Taxes***

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

#### ***Stock Compensation Plans***

The Bank accounts for stock compensation plans in accordance with Financial Accounting Standards Board ("FASB") Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options and restricted stock awards, be recognized in the financial statements. The cost of employee services received in exchange for stock compensation 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. There was no effect on the Company's reported net income and earnings per share due to this adoption.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Earnings (Loss) Per Common Share*

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

|  | Years Ended December 31,                  |                   |
|--|---|-------------------|
|  | 2007                                      | 2006              |
|  | (Dollars in thousands; except share data) |                   |
| Net loss   | \$ <u>(2,148)</u>                         | \$ <u>(3,238)</u> |
| Average number of common shares outstanding  | <u>3,537,481</u>                          | <u>3,523,794</u>  |
| Average number of common shares outstanding<br>used to calculate diluted loss per common share | <u>3,537,481</u>                          | <u>3,523,794</u>  |
| Basic loss per share   | \$ <u>(0.61)</u>                          | \$ <u>(0.92)</u>  |
| Diluted loss per share   | \$ <u>(0.61)</u>                          | \$ <u>(0.92)</u>  |

For the years ended December 31, 2007 and 2006, 170,500 common stock warrants and 143,500 and 74,250 of common stock options, respectively, were anti-dilutive and therefore not included in the earnings (loss) per share calculation.

#### *Business segments*

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

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

#### *Comprehensive Income/Loss*

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

#### *Recent Accounting Pronouncements*

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

In July 2006, the FASB issued Financial Accounting Standards Interpretation no. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with FASB Statement 109 “accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Bank adopted FIN 48 on January 1, 2007 and this adoption did not have a material impact on the Bank’s financial statements.

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

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 2. SECURITIES AVAILABLE FOR SALE

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

| <u>December 31, 2007</u>         | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u><br>(Dollars in Thousands) | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|----------------------------------|---------------------------|---|--|-----------------------|
| Government-sponsored enterprises | \$ 14,374                 | \$ 74   | \$ (314)                               | \$ 14,134             |
| Mortgage-backed securities       | <u>5,783</u>              | <u>12</u>   | <u>(35)</u>                            | <u>5,760</u>          |
|                                  | <u>\$ 20,157</u>          | <u>\$ 86</u>  | <u>\$ (349)</u>                        | <u>\$ 19,894</u>      |

| <u>December 31, 2006</u>         | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u><br>(Dollars in Thousands) | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|----------------------------------|---------------------------|---|--|-----------------------|
| Government-sponsored enterprises | \$ 16,378                 | \$ -  | \$ (355)                               | \$ 16,023             |
| Mortgage-backed securities       | <u>4,857</u>              | <u>-</u>  | <u>(142)</u>                           | <u>4,715</u>          |
|                                  | <u>\$ 21,235</u>          | <u>\$ -</u>   | <u>\$ (497)</u>                        | <u>\$ 20,738</u>      |

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

|                            | <u>December 31, 2007</u>  |                       | <u>December 31, 2006</u>  |                       |
|----------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                            | <u>Amortized<br/>Cost</u> | <u>Fair<br/>Value</u> | <u>Amortized<br/>Cost</u> | <u>Fair<br/>Value</u> |
| Over 1 year to 5 years     | \$ 2,999                  | \$ 3,005              | \$ 2,999                  | \$ 2,944              |
| Over 5 years to 10 years   | 6,841                     | 6,577                 | 9,835                     | 9,592                 |
| Over 10 years              | <u>4,534</u>              | <u>4,552</u>          | <u>3,544</u>              | <u>3,487</u>          |
|                            | 14,374                    | 14,134                | 16,378                    | 16,023                |
| Mortgage-backed securities | <u>5,783</u>              | <u>5,760</u>          | <u>4,857</u>              | <u>4,715</u>          |
|                            | <u>\$ 20,157</u>          | <u>\$ 19,894</u>      | <u>\$ 21,235</u>          | <u>\$ 20,738</u>      |

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### SECURITIES AVAILABLE FOR SALE (concluded)

For the years ended December 31, 2007 and 2006, proceeds from sales of securities available for sale amounted to \$3,330 and \$1,136, respectively. Gross realized losses amounted to \$41 and \$17, respectively.

Information pertaining to securities available for sale with gross unrealized losses at December 31, 2007 and 2006, 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<br>Unrealized<br>Losses | Fair<br>Value   | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
| <b><u>December 31, 2007</u></b>       |                               |                 |                               |                  |
| Government-sponsored enterprises      | \$ -                          | \$ -            | \$ (314)                      | \$ 5,092         |
| Mortgage-backed securities            | (4)                           | 560             | (31)                          | 3,681            |
| Total temporarily impaired securities | <u>\$ (4)</u>                 | <u>\$ 560</u>   | <u>\$ (345)</u>               | <u>\$ 8,773</u>  |
| <b><u>December 31, 2006</u></b>       |                               |                 |                               |                  |
| Government-sponsored enterprises      | \$ (16)                       | \$ 1,118        | \$ (339)                      | \$ 14,905        |
| Mortgage-backed securities            | -                             | -               | (142)                         | 4,715            |
| Total temporarily impaired securities | <u>\$ (16)</u>                | <u>\$ 1,118</u> | <u>\$ (481)</u>               | <u>\$ 19,620</u> |

At December 31, 2007, 15 debt securities have unrealized losses with aggregate depreciation of 3.4% from the Bank's amortized cost basis. The depreciation in the portfolio is due to changing interest rates. Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. 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.



# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 3. LOANS

A summary of the balances of loans follows:

|                                     | December 31,           |                   |
|-------------------------------------|------------------------|-------------------|
|                                     | 2007                   | 2006              |
|                                     | (Dollars in Thousands) |                   |
| Mortgage loans on real estate:      |                        |                   |
| Commercial loans                    | \$ 71,192              | \$ 60,646         |
| Construction                        | 11,361                 | 5,989             |
| Home Equity                         | 4,895                  | 4,693             |
| Residential Real Estate             | 1,724                  | 250               |
| Total mortgage loans on real estate | <u>89,172</u>          | <u>71,578</u>     |
| Commercial loans                    | 52,832                 | 33,713            |
| Consumer loans                      | 693                    | 1,576             |
| Total loans                         | <u>142,697</u>         | <u>106,866</u>    |
| Allowance for loan losses           | (1,693)                | (1,384)           |
| Net deferred loan (fees)costs       | <u>(11)</u>            | <u>44</u>         |
| Loans, net                          | <u>\$ 140,993</u>      | <u>\$ 105,526</u> |

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### LOANS (concluded)

An analysis of the allowance for loan losses follows:

|                            | December 31,    |                 |
|----------------------------|-----------------|-----------------|
|                            | 2007            | 2006            |
| Balance, beginning of year | \$ 1,384        | \$ 876          |
| Provision for loan losses  | 308             | 516             |
| Recoveries                 | 1               | -               |
| Charge-offs                | -               | 8               |
| Balance, at end of year    | <u>\$ 1,693</u> | <u>\$ 1,384</u> |

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

|   | December 31,    |               |
|---|-----------------|---------------|
|   | 2007            | 2006          |
| Impaired loans without a valuation allowance  | \$ 1,077        | \$ -          |
| Impaired loans with a valuation allowance     | <u>1,263</u>    | <u>719</u>    |
| Total impaired loans                          | <u>\$ 2,340</u> | <u>\$ 719</u> |
| Valuation allowance related to impaired loans | <u>\$ 91</u>    | <u>\$ 81</u>  |
| Total nonaccrual loans                        | <u>\$ 599</u>   | <u>\$ 597</u> |

|  | December 31,    |               |
|--|-----------------|---------------|
|  | 2007            | 2006          |
| Average investment in impaired loans         | <u>\$ 2,489</u> | <u>\$ 360</u> |
| Interest income recognized on impaired loans | <u>\$ 156</u>   | <u>\$ 22</u>  |

There were no loans greater than 90 days delinquent and still accruing interest. No additional funds are committed to be advanced in connection with impaired loans.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 4. PREMISES AND EQUIPMENT

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

|  | December 31,          |                       | Estimated           |
|--|-----------------------|-----------------------|---------------------|
|  | <u>2007</u>           | <u>2006</u>           | <u>Useful Lives</u> |
| Leasehold improvements                       | \$ 2,112              | \$ 1,260              | 5- 10 years         |
| Furniture and equipment                      | <u>2,443</u>          | <u>1,933</u>          | 3-7 years           |
|  | 4,555                 | 3,193                 |                     |
| Accumulated depreciation<br>and amortization | <u>(1,502)</u>        | <u>(976)</u>          |                     |
|  | <u><u>\$3,053</u></u> | <u><u>\$2,217</u></u> |                     |

Depreciation and amortization expense for the years ended December 31, 2007 and 2006 amounted to \$527 and \$405, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2007, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

| <u>Year Ending<br/>December 31,</u> | <u>Amount</u>         |
|-------------------------------------|-----------------------|
| 2008                                | \$ 591                |
| 2009                                | 447                   |
| 2010                                | 460                   |
| 2011                                | 445                   |
| 2012                                | 414                   |
| Thereafter                          | <u>927</u>            |
|                                     | <u><u>\$3,284</u></u> |

The leases contain options to extend for periods up to ten years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2007 and 2006 amounted to \$629 and \$549, respectively.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 5. DEPOSITS

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

|                                       | December 31, 2007 |   | December 31, 2006 |                             |
|---------------------------------------|-------------------|---|-------------------|-----------------------------|
|                                       | Amount            | Weighted<br>Average<br>Rate<br>(Dollars in Thousands) | Amount            | Weighted<br>Average<br>Rate |
| Non interest-bearing deposits         | \$ 26,115         | - %   | \$ 17,902         | - %                         |
| NOW deposits                          | 5,138             | 1.60  | 3,453             | 0.87                        |
| Money market deposits                 | 23,307            | 3.78  | 19,259            | 3.79                        |
| Savings deposits                      | 963               | 0.50  | 722               | 0.51                        |
|                                       | <u>55,523</u>     |   | <u>41,336</u>     |                             |
| Time deposits of \$100,000 or greater | 49,909            | 4.80  | 30,311            | 5.01                        |
| Time deposits less than \$100,000     | 32,368            | 4.85  | 28,098            | 4.82                        |
|                                       | <u>82,277</u>     |   | <u>58,409</u>     |                             |
| Total deposits                        | <u>\$ 137,800</u> | 3.19%   | <u>\$ 99,745</u>  | 2.29%                       |

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

| Year Ending<br>December 31, | Amount           |
|-----------------------------|------------------|
| 2008                        | \$ 78,160        |
| 2009                        | 3,729            |
| 2010                        | 175              |
| 2011                        | 213              |
|                             | <u>\$ 82,277</u> |

\* Included in certificate accounts maturing within one year are brokered deposits in the amount of \$20,000 with a weighted average rate of 4.83% at December 31, 2007.

At December 31, 2007, the carrying amount and fair value of securities pledged to secure municipal deposits was \$1,986 and \$2,018, respectively. At December 31, 2006, the carrying amount and fair value of securities pledged to secure municipal deposits was \$1,993 and \$1,962, respectively.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 6. SHORT-TERM BORROWINGS

#### *Securities Sold Under Agreements to Repurchase*

Securities sold under agreements to repurchase amounted to \$2,255 at December 31, 2007 and \$1,453 at December 31, 2006. These agreements mature on a daily basis and are secured by Government-sponsored enterprise securities with a fair value of \$2,601 at December 31, 2007 and \$2,800 at December 31, 2006. The weighted average interest rate on these agreements was 3.50% at December 31, 2007 and 4.40% at December 31, 2006.

#### *Other Borrowing Facilities*

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

### 7. LONG-TERM DEBT

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

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

| Fixed rate advances maturing: | Amount           |   | Average<br>Rate |
|-------------------------------|------------------|---|-----------------|
| 2011                          | \$ 1,000         |   | 5.10%           |
| 2012                          | 5,000            | * | 4.15%           |
| 2016                          | 11,450           | * | 4.32%           |
| Total                         | <u>\$ 17,450</u> |   | 4.32%           |

\* includes FHLB callable advances in the amount of \$15 million with a weighted average rate of 4.18%.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 8. INCOME TAXES

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

|                             | Years Ended<br>December 31, |                |
|-----------------------------|-----------------------------|----------------|
|                             | 2007                        | 2006           |
| Deferred tax benefit:       |                             |                |
| Federal                     | \$ (573)                    | \$ (904)       |
| State                       | (136)                       | (216)          |
|                             | <u>(709)</u>                | <u>(1,120)</u> |
| Change in valuation reserve | 709                         | 1,120          |
|                             | <u>\$ -</u>                 | <u>\$ -</u>    |

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, |              |
|---|--------------------------|--------------|
|   | 2007                     | 2006         |
| Statutory tax rate                      | (34.0)                   | (34.0)       |
| Increase (decrease) resulting from:     |                          |              |
| State taxes, net of federal tax benefit | (4.2)                    | 4.4          |
| Change in valuation allowance           | 33.0                     | 34.5         |
| Stock-based compensation                | 2.9                      | (2.0)        |
| Other, net                              | <u>2.3</u>               | <u>(2.9)</u> |
| Effective tax rates                     | <u>- %</u>               | <u>- %</u>   |

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### INCOME TAXES (continued)

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

|   | December 31,   |                |
|---|----------------|----------------|
|   | 2007           | 2006           |
| Deferred tax asset:                     |                |                |
| Federal                                 | \$ (4,169)     | \$ (3,605)     |
| State                                   | (994)          | (860)          |
|   | <u>(5,163)</u> | <u>(4,465)</u> |
| Valuation reserve on deferred tax asset | 4,867          | 4,158          |
|   | <u>(296)</u>   | <u>(307)</u>   |
| Deferred tax liability:                 |                |                |
| Federal                                 | 239            | 248            |
| State                                   | 57             | 59             |
|   | <u>296</u>     | <u>307</u>     |
| Net deferred tax asset                  | <u>\$ -</u>    | <u>\$ -</u>    |

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

|                                    | December 31,   |                |
|------------------------------------|----------------|----------------|
|                                    | 2007           | 2006           |
| Organization and start-up costs    | \$ (87)        | \$ (160)       |
| Allowance for loan losses          | (660)          | (539)          |
| Federal and state operating losses | (4,232)        | (3,583)        |
| Other                              | 112            | 124            |
|                                    | <u>(4,867)</u> | <u>(4,158)</u> |
| Valuation reserve                  | 4,867          | 4,158          |
| Net deferred taxes                 | <u>\$ -</u>    | <u>\$ -</u>    |

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### INCOME TAXES (concluded)

At December 31, 2006, the Bank has Federal and Connecticut net operating loss carry forwards that begin expiring in 2024. The following table identifies the net operating loss carry forwards.

| <u>Amount</u>    | <u>Expiration<br/>Date</u> |
|------------------|----------------------------|
| \$ 3,404         | 2024                       |
| 3,004            | 2025                       |
| 2,689            | 2026                       |
| <u>1,784</u>     | 2027                       |
| <u>\$ 10,881</u> |                            |

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

|   | <u>Years Ended December 31,</u> |                 |
|---|---------------------------------|-----------------|
|   | <u>2007</u>                     | <u>2006</u>     |
| Balance at beginning of year                    | \$ 4,158                        | \$ 3,038        |
| Benefits generated by current year's operations | <u>709</u>                      | <u>1,120</u>    |
| Balance at end of year                          | <u>\$ 4,867</u>                 | <u>\$ 4,158</u> |

### 9. OFF-BALANCE SHEET ACTIVITIES

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



# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### OFF-BALANCE SHEET ACTIVITIES (concluded)

At December 31, 2007 and 2006, the following financial instruments were outstanding whose contract amounts represent credit risk:

|  | December 31, |           |
|--|--------------|-----------|
|  | 2007         | 2006      |
| Unfunded commitments under commercial lines of credit    | \$ 27,138    | \$ 24,328 |
| Unfunded commitments under commercial construction loans | 9,898        | 1,389     |
| Unfunded commitments under home equity lines of credit   | 4,893        | 3,524     |
| Commitments to originate loans                           | 17,014       | 21,074    |
| Commercial letter of credit                              | 553          | 486       |

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

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

### 10. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business. As of December 31, 2007 there are no legal claims which management believes will have a material effect on the Bank's financial statements.

# **THE CONNECTICUT BANK AND TRUST COMPANY**

## **NOTES TO FINANCIAL STATEMENTS**

(DOLLARS IN THOUSANDS)

### **11. MINIMUM REGULATORY CAPITAL REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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, 2007 and 2006 are also presented in the table.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

|   | Actual    |       | Minimum<br>Capital<br>Requirement |       | Minimum<br>To Be Well<br>Capitalized Under<br>Prompt Corrective<br>Action Provisions |       |
|---|-----------|-------|-----------------------------------|-------|--|-------|
|   | Amount    | Ratio | Amount                            | Ratio | Amount   | Ratio |
| <b><u>December 31, 2007:</u></b>            |           |       |                                   |       |  |       |
| Total capital<br>(to risk weighted assets)  | \$ 22,347 | 14.8% | \$ 12,097                         | 8.0%  | \$ 15,121  | 10.0% |
| Tier 1 capital<br>(to risk weighted assets) | 20,654    | 13.7  | 6,049                             | 4.0   | 9,073  | 6.0   |
| Tier 1 capital<br>(to average assets)       | 20,654    | 11.9  | 6,971                             | 4.0   | 8,714  | 5.0   |
| <b><u>December 31, 2006:</u></b>            |           |       |                                   |       |  |       |
| Total capital<br>(to risk weighted assets)  | \$ 23,916 | 21.3% | \$ 8,976                          | 8.0%  | \$ 11,220  | 10.0% |
| Tier 1 capital<br>(to risk weighted assets) | 22,532    | 20.1  | 4,488                             | 4.0   | 6,732  | 6.0   |
| Tier 1 capital<br>(to average assets)       | 22,532    | 20.2  | 10,016                            | 9.0*  | 10,016   | 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 was in effect until for thirty six months from the date of opening, March 12, 2004.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### 12. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) Plan in which substantially all employees participate 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, 2007 and 2006, expense attributable to the Plan amounted to \$36 and \$34, respectively.

### 13. STOCK WARRANTS

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, 2007 and 2006, total outstanding stock warrants amounted to 170,500. No stock warrants were exercised during the years ended December 31, 2007 and 2006.

### 14. STOCK COMPENSATION PLANS

#### *Stock Options*

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

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Assumptions used to determine fair values of stock options granted during 2007 and 2006 are noted in the following table:

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

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### STOCK COMPENSATION PLANS (continued)

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

A summary of option activity under the Plan as of December 31, 2007 is presented in the following table.

|                                  | Shares         | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining Contractual<br>Term (in yrs) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|----------------|------------------------------------|--|---------------------------------|
| Outstanding at beginning of year | 72,250         | \$ 9.23                            |  |                                 |
| Granted                          | 74,100         | 7.70                               |  |                                 |
| Exercised                        | -              | -                                  |  |                                 |
| Forfeited                        | (2,850)        | 8.30                               |  |                                 |
| Outstanding at end of year       | <u>143,500</u> | 8.46                               | <u>8.5</u>   | <u>-</u>                        |
| Exercisable at end of year       | <u>27,958</u>  | \$ 9.23                            | <u>8.0</u>   | <u>-</u>                        |

The weighted average fair value of options granted during the years ended December 31, 2007 and 2006 was \$2.59 and \$2.99, respectively.

The Bank recognized compensation cost applicable to stock options granted of \$84 and \$46 for the year ended December 31, 2007 and 2006, respectively. At December 31, 2007, the market value of the stock price is below that of the exercise prices for all outstanding options which results in an intrinsic value of \$0. As of December 31, 2007 unrecognized stock-based compensation expense related to nonvested options amounted to \$285. This amount is expected to be recognized over a weighted average period of 3.6 years.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### STOCK COMPENSATION PLANS (concluded)

#### *Stock Awards*

In March 2004, the Board of Directors approved reserving 67,900 shares of common stock for awards of restricted stock to CBT's "First Team," which consisted of persons who were employees of CBT at the commencement of its operations. These awards vest over periods of up to five years and were awarded prior to the registration of the Bank's common stock with the Securities and Exchange Commission.

A summary of activity for stock awards for the year ended December 31, 2007 is presented in the following table:

|                               | Shares        | Weighted-<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------|--|
| Unvested at beginning of year | 36,550        | \$ 13.68   |
| Granted                       | 5,000         | 7.80   |
| Vested                        | (13,150)      | 13.99  |
| Forfeited                     | <u>(567)</u>  | 15.00  |
| Unvested at end of year       | <u>27,833</u> | \$ 12.45   |

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 \$186 and \$192, respectively, for the years ended December 31, 2007 and 2006.

As of December 31, 2007 there was approximately \$279 of total unrecognized compensation cost related to nonvested stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.1 years.

# **THE CONNECTICUT BANK AND TRUST COMPANY**

## **NOTES TO FINANCIAL STATEMENTS**

(DOLLARS IN THOUSANDS)

### **15. EMPLOYMENT AGREEMENTS**

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

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

### **16. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES**

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

### **17. RELATED PARTY TRANSACTIONS**

On December 14, 2004, the Bank entered into an agency agreement with an insurance company (“SBI”) of which a director is a principal. Under the agency agreement, the Bank may refer its customers and members of the general public to SBI for the purposes of purchasing insurance products offered by SBI. In the event revenues are generated by SBI as a result of the Bank’s referrals, the Bank is entitled to share in those revenues under the terms of the agency agreement. The Bank received no commissions for the year ended December 31, 2007, and \$5 for the year ended December 31, 2006.

A director of the Bank is under contract for services relating to the endorsement of the Bank’s banking and financial services. The endorsement contract expired in 2007, and a new endorsement contract has been executed for a two-year term with compensation payable of \$75 in each of 2008 and 2009. The Bank believes that the endorsement contract is on terms no less favorable to the Bank than could be obtained from other third persons for similar endorsement services. The expense incurred for the endorsement contract was \$73 and \$127 for the years ended December 31, 2007 and 2006, respectively.

A director of the Bank was retained to provide various legal services to the Bank. For the year ended December 31, 2007 and 2006, total fees paid for legal services amounted to \$11 and \$19, respectively.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### RELATED PARTY TRANSACTIONS (concluded)

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

|                              | December 31,    |                 |
|------------------------------|-----------------|-----------------|
|                              | 2007            | 2006            |
| Balance at beginning of year | \$ 1,678        | \$ 832          |
| Additions                    | 1,610           | 1,050           |
| Repayments                   | (222)           | (204)           |
| Balance at end of year       | <u>\$ 3,066</u> | <u>\$ 1,678</u> |

### 18. DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Statement of Financial Accounting Standards No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

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

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate fair values.

Securities available for sale and certificates of deposits: Fair values for securities and certificates of deposits are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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



# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

Borrowings: Fair values for borrowing advances are estimated using a discounted cash flow calculation using current market rates.

Off-balance-sheet instruments: Fair values for off-balance-sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The estimated fair value of off-balance sheet financial instruments at December 31, 2007 and 2006 is immaterial.

# THE CONNECTICUT BANK AND TRUST COMPANY

## NOTES TO FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

### DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (concluded)

The carrying amounts and related estimated fair values of the Bank's financial instruments are as follows:

|                               | December 31,<br>2007 |               | December 31,<br>2006 |               |
|-------------------------------|----------------------|---------------|----------------------|---------------|
|                               | Carrying<br>Amount   | Fair<br>Value | Carrying<br>Amount   | Fair<br>Value |
| Financial assets:             |                      |               |                      |               |
| Cash and cash equivalents     | \$ 11,491            | \$ 11,491     | \$ 5,064             | \$ 5,064      |
| Securities available for sale | 19,894               | 19,894        | 20,738               | 20,738        |
| Certificates of Deposit       | 76                   | 76            | 76                   | 76            |
| Federal Reserve Bank stock    | 635                  | 635           | 693                  | 693           |
| Federal Home Loan Bank stock  | 945                  | 945           | 728                  | 728           |
| Loans, net                    | 140,993              | 142,179       | 105,526              | 103,891       |
| Accrued interest receivable   | 830                  | 830           | 613                  | 613           |
| Financial liabilities:        |                      |               |                      |               |
| Deposits                      | 137,800              | 136,049       | 99,745               | 100,108       |
| Short-term borrowings         | 2,255                | 2,255         | 1,453                | 1,453         |
| Long-term borrowings          | 17,450               | 17,465        | 12,450               | 11,697        |

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

None.

**Item 8A(T). Controls and Procedures.**

***Disclosure Controls and Procedures***

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

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

There have been no significant changes in CBT's internal controls over financial reporting or in other factors identified in connection with the evaluation required by Rule 13a-15 that occurred during CBT's quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, CBT's internal controls over financial reporting.

***Management's Annual Report on Internal Control Over Financial Reporting***

CBT's Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. CBT's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Management assessed the effectiveness of CBT's internal control over financial reporting as of December 31, 2007, using as its framework for that evaluation the criteria set forth by the Committee for Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control – Integrated Framework. Based on that assessment, Management believes that CBT maintained effective internal control over financial reporting as of December 31, 2007.

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

**Item 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 Five Directors" in The Connecticut Bank and Trust Company's Proxy Statement for the 2008 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, 2006 is set forth below.

Lyle T. Fulton, age 44, 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 53, 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.theebt.com](http://www.theebt.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, 2007, 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.

|   | Number of securities to be issued<br>upon exercise of outstanding options,<br>warrants and rights | Weighted average exercise price<br>of options warrants and rights | Number of Securities remaining<br>available for future issuance under<br>equity compensation plans<br>(Excluding securities reflected in column (a)) |
|---|---|---|--|
| Plan Category   | (a)   | (b)   | (c)  |
| Equity Compensation Plans<br>approved by security holders     | \$ 143,500  | \$ 8.46   | \$ 22,400  |
| Equity Compensation Plans<br>not approved by security holders | \$ -  | \$ -  | \$ -   |
| Total   | \$ 143,500  | \$ 8.46   | \$ 22,400  |

**Item 12. Certain Relationships and Related Transactions and Director Independence.**

The information contained under the sections captioned "Transactions with Management" and "Information About our Directors" in the Proxy Statement is incorporated herein by reference.

**Item 13. Exhibits.**

| No.   | Description   |
|-------|---|
| 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 (revised 2007) with David A. Lentini (incorporated by reference to Exhibit 10.1 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005) |
| 10.2  | Employment Agreement dated June 16, 2004 (revised 2008) with Anson C. Hall (incorporated by reference to Exhibit 10.2 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)    |
| 10.3  | Endorsement Contract dated January 1, 2008 with Geno Auriemma (incorporated by reference to Exhibit 10.3 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)                 |

- 10.4 Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.5 Agency Agreement dated December 14, 2004 with Smith Brothers Insurance, Inc. (incorporated by reference to Exhibit 10.5 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.6 Lease Agreement (58 State House Square, Hartford, Connecticut) (incorporated by reference to Exhibit 10.6 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.7 Lease Agreement (68 South Main Street, West Hartford, Connecticut) (incorporated by reference to Exhibit 10.7 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 10.8 Lease Agreement (7 Sycamore Street, Glastonbury, Connecticut) (incorporated by reference to Exhibit 10.8 to The Connecticut Bank and Trust Company's Registration Statement on Form 10-SB dated April 29, 2005)
- 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, 2007 and 2006 by Wolf & Company, P.C.:

|                               | <u>2007</u>      | <u>2006</u>      |
|-------------------------------|------------------|------------------|
| Audit fees <sup>(1)</sup>     | \$ 83,262        | \$ 85,500        |
| Tax fees <sup>(2)</sup>       | 11,300           | 10,300           |
| All other fees <sup>(3)</sup> | <u>18,683</u>    | <u>17,000</u>    |
| Total                         | <u>\$113,245</u> | <u>\$112,800</u> |

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

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

(3) Consists of information technology testing.

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 2007 and 2006 did not affect the auditor's independence in performing its function as auditor.

All fees paid to Wolf & Company in 2007 were preapproved by the Audit Committee, and there were no services for which the de minimus exception permitted in certain circumstances under SEC rules was utilized.

**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 26, 2008

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

Dated: March 26, 2008

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><br>David A. Lentini         | Chairman of the Board, President<br>and Chief Executive Officer<br>(principal executive officer)       | March 26, 2008 |
| <u>/s/ Anson C. Hall</u><br>Anson C. Hall               | Treasurer, Secretary and Chief<br>Financial Officer<br>(principal accounting and<br>financial officer) | March 26, 2008 |
| <u>/s/ Geno Auriemma</u><br>Geno Auriemma               | Director   | March 26, 2008 |
| <u>/s/ Frank A. Falvo</u><br>Frank A. Falvo             | Director   | March 26, 2008 |
| <u>/s/ P. Anthony Giorgio</u><br>P. Anthony Giorgio     | Director   | March 26, 2008 |
| <u>/s/ John A. Green</u><br>John A. Green               | Director   | March 26, 2008 |
| <u>/s/ Solomon Kerensky</u><br>Solomon Kerensky         | Director   | March 26, 2008 |
| <u>/s/ Karl J. Krapek</u><br>Karl J. Krapek             | Director   | March 26, 2008 |
| <u>/s/ Joan L. Rusconi</u><br>Joan L. Rusconi           | Director   | March 26, 2008 |
| <u>/s/ Philip J. Schulz</u><br>Philip J. Schulz         | Director   | March 26, 2008 |
| <u>/s/ Peter D. Shapiro</u><br>Peter D. Shapiro         | Director   | March 26, 2008 |
| <u>/s/ J. Brian Smith</u><br>J. Brian Smith             | Director   | March 26, 2008 |
| <u>/s/ John M. Watkins, Jr.</u><br>John M. Watkins, Jr. | Director   | March 26, 2008 |

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

## CERTIFICATION

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

1. I have reviewed this annual report on Form 10-KSB of the Company for the year ended December 31, 2007;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 26, 2008

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

### CERTIFICATION

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

1. I have reviewed this annual report on Form 10-KSB of the Company for the year ended December 31, 2007;
3. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us by others within the Company, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) end that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 26, 2008

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

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

In connection with the Annual Report of The Connecticut Bank and Trust Company (the “Company”) on Form 10-KSB for the year ending December 31, 2007 as filed with the Federal Reserve Bank of Boston (the “Report”), I, David A. Lentini, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ David A. Lentini  
David A. Lentini  
Chief Executive Officer  
March 26, 2008

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

In connection with the Annual Report of The Connecticut Bank and Trust Company (the “Company”) on Form 10-KSB for the year ending December 31, 2007 as filed with the Federal Reserve Bank of Boston (the “Report”), I, Anson C. Hall, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Anson C. Hall  
Anson C. Hall  
Chief Financial Officer  
March 26, 2008

# CONNECTICUT BANK AND TRUST COMPANY

## OFFICERS

### ADMINISTRATION GROUP

DAVID A. LENTINI  
Chairman, President & CEO

PAUL A. GRANATO  
Senior Vice President & Controller

ANSON C. HALL  
Secretary, Treasurer & CFO

VIRGINIA B. SPRINGER  
Assistant Secretary  
Manager, Human Resources

### LENDING GROUP

LYLE T. FULTON  
Executive Vice President  
Chief Lending Officer

MICHAEL P. HEALY  
Vice President  
Business Development Officer

JANE E. ANDERSON  
Senior Vice President  
Business Development Officer

ROSE PHELPS  
Vice President  
Manager, Loan Operations

CHARLES D. MACMILLAN  
Senior Vice President  
Business Development Officer

SUSAN A. MATHIASSEN  
Vice President  
Business Development Officer

MICHAEL B. PAPARELLA  
Senior Vice President  
Business Development Officer

DEREK G. DELANEY  
Assistant Vice President  
Manager, Credit Department

DAVID W. STONE  
Senior Vice President  
Business Development Officer

CAROL J. FELICE  
Credit Officer

### RETAIL BANKING & OPERATIONS GROUP

DEBORAH S. DAVIS  
Executive Vice President  
Senior Operations & Retail Banking Officer

MARY F. MC CONVILLE  
Vice President  
Manager, Retail Banking

DIANE RUDY  
Senior Vice President  
Senior Manager, Retail Banking

GEORGE B. STORER III  
Vice President  
Operations Manager

MARTIN E. CHAVEZ  
Vice President  
Manager, On-line Banking Services

KEVIN KOBER  
Vice President  
Manager, Retail Banking

KATHLEEN S. HEWITT  
Vice President  
Manager, Retail Banking

MATHEW SCOTT  
Vice President  
Manager, Retail Banking

### BROKERAGE SERVICES

ROBERT P. PETERS  
Senior Vice President  
Manager, Retail Brokerage Services

# CONNECTICUT BANK AND TRUST COMPANY

## BOARD OF DIRECTORS

GENO AURIEMMA  
Head Coach Women's Basketball  
University of Connecticut

DAVID A. LENTINI  
Chairman, President & CEO  
The Connecticut Bank and Trust Company

FRANK A. FALVO  
President & CEO (Retired)  
Equity Bank

JOAN L. RUSCONI  
Vice President of Finance  
The Rusconi Company

P. ANTHONY GIORGIO  
Managing Director  
The Keystone Companies LLC

PHILIP J. SCHULZ  
Managing Partner (Retired)  
PricewaterhouseCoopers

JOHN A. GREEN  
President & Chief Executive Officer  
Lux Bond & Green, Inc.

J. BRIAN SMITH  
President & CEO (Retired)  
Smith Brothers Insurance, Inc.

ANSON C. HALL  
Secretary, Treasurer & CFO  
The Connecticut Bank and Trust Company

PETER deWILDE SHAPIRO  
Partner  
ArtSpace Connecticut, LLC

SOLOMON KERENSKY  
Partner  
Kahan, Kerensky and Capossela, LLC

JOHN M. WATKINS JR.  
President and Chief Operating Officer  
Ingenium Corporation

KARL J. KRAPEK (Lead Director)  
Managing Director  
The Keystone Companies LLC

# CONNECTICUT BANK AND TRUST COMPANY

## BANKING CENTERS

### Main Office

58 State House Square  
Hartford, CT 06103

### Glastonbury

7 Sycamore Street  
Glastonbury, CT 06033

### Newington

66 Cedar Street  
Newington, CT 06111

### Rocky Hill

396 Cromwell Avenue  
Rocky Hill CT 06067

### Vernon

435 Hartford Turnpike  
Vernon, CT 06066

### West Hartford

68 South Main Street  
West Hartford, CT 06107

### Windsor

148 Broad Street  
Windsor, CT 06095

## INVESTOR INFORMATION

### Annual Meeting

10:00 AM, Tuesday  
May 20, 2008  
The Hartford Golf Club  
134 Norwood Road  
West Hartford, Connecticut

### Stock Listing

Symbol "CTBC"  
Trading on the **Nasdaq** Capital Market

### Transfer Agent

Registrar and Transfer Company  
Cranford, NJ 07016  
[www.rtco.com](http://www.rtco.com)

### Shareholder Relations Contact

Anson C. Hall  
Corporate Secretary  
860-748-4251  
[ahall@thecht.com](mailto:ahall@thecht.com)

### Corporate Counsel

Day Pitney LLP  
Hartford, CT 06103  
[www.daypitney.com](http://www.daypitney.com)

### Independent Auditor

Wolf & Company, P.C.  
Boston, MA 02110  
[www.wolfandco.com](http://www.wolfandco.com)

## FINANCIAL SERVICES PARTNERS

### Insurance

Smith Brothers Insurance, Inc.  
Glastonbury, CT 06033  
[www.smitty.com](http://www.smitty.com)

### Payroll Processing

New England Information Services  
West Hartford, CT 06110  
(860) 232-7550

### Wealth Management

Savino, Sturrock & Sullivan  
East Hartford, CT 06108  
[www.sss-ct.com](http://www.sss-ct.com)

### Merchant Services

A1Merchant4U  
Wethersfield, CT 06109  
[www.A1merchant4U.com](http://www.A1merchant4U.com)

### Retail Brokerage Services

Raymond James Financial Services, Inc.  
[www.raymondjames.com/bobpeters](http://www.raymondjames.com/bobpeters)





**THE CONNECTICUT BANK AND TRUST COMPANY**

Supporting the Communities of Greater Hartford  
with Full Service Banking Locations in:

GLASTONBURY • HARTFORD • NEWINGTON  
ROCKY HILL • VERNON • WEST HARTFORD • WINDSOR

[www.thecbt.com](http://www.thecbt.com)