



April 20, 2009

Dear Valued Customers and Shareholders:

Simsbury Bank was formed with two core commitments to the market: provide excellent, respectful service to all customers all the time and provide businesses and consumers with a locally managed loan source to help them achieve their goals. By fulfilling these commitments, the Bank would provide its shareholders with a competitive return and the communities we serve with a trusted and involved partner. These commitments continue to guide Simsbury Bank and its holding company, SBT Bancorp.

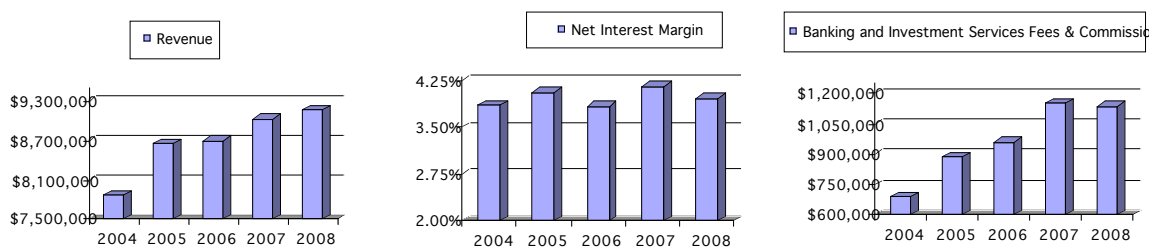
The subprime mortgage crisis began in August 2007. Early in 2008, we anticipated that the continued unraveling of the subprime mortgage crisis would impact the national economy for much of 2008 and banks like ours. We did not, however, anticipate the depth and breadth of the financial market crisis that unfolded subsequent to the Treasury Department's nationalization of Fannie Mae and Freddie Mac in early September 2008 and its impact on the economy. We now navigate through a period of economic uncertainty unlike any in the post-World War II period. The financial market crisis and economic recession have disrupted many large national and regional banks that serve our market. We are mindful now more than ever that our commitment to the importance of a locally managed bank able to meet its market's loan demand in good economic times and bad is critical to the wellbeing of our region.

We are very pleased to report that Simsbury Bank's strong balance sheet and dedicated staff position it extremely well to fulfill our enduring commitments to the market during this most difficult economic period. We have a relatively low risk loan portfolio comprised of loans secured by conventionally underwritten residential mortgages and home equities (70%), commercial loans (28%) and consumer loans (2%). We have only modest exposure to one of the typically riskiest loan categories, non-owner occupied commercial real estate secured loans, which comprise less than 8.5% of our total loans, well below many peer banks. Our deposit mix remains low cost and diversified with almost 32% checking deposits, 29% money market and savings deposits, and 39% certificates of deposit. Finally, our capital levels remain comfortably above levels qualifying the Bank as "well capitalized" from a regulatory perspective. However, as you know, we have chosen to participate in the Treasury Department's Capital Purchase Program in order to ensure that we have adequate capital to support loan demand and protect us from unexpected adverse consequences of the uncertain economic conditions. This capital will permit us to continue to enjoy the loan and deposit growth of the past year as more and more businesses and consumers choose us as their banking and investment services partner.

2008 was a year of mixed results for Simsbury Bank. We enjoyed the best loan and deposit growth in years. However, we reported a loss for the year due principally to a number of one time events related to the financial market crisis, weakening economy and our decision to align our Albany Turnpike market presence with demonstrated customer demand.

Earnings

In 2008, Simsbury Bank's total revenue, net interest income plus other income (excluding security write downs and losses), increased 2% from 2007. While the Bank enjoyed strong deposit growth of 18% and robust loan growth of 9%, our loan to deposit ratio decreased from 89% at year end 2007 to 82% at year end 2008. As deposits grew more quickly than loans, we increased our investment activity. The almost 33% increase in our investment portfolio, whose components are generally lower yielding than loans, resulted in a decline in our net interest margin from 4.16% in 2007 to 3.95% in 2008. As a result, our net interest income and dividend increased only 2% in 2008. Meanwhile, Banking and Investment Services Fees & Commissions declined 1% due principally to a 60% decline in investment services commissions offset by a strong 12% increase in banking fees. Banking fee increases were due principally to customer growth and more careful management of fee waivers. Investment services commissions declined due principally to lower capacity as we had only one financial advisor for more than half the year, the attention required for our transition to LPL Financial for brokerage services, and the difficult fourth quarter investment markets due to the financial market crisis.

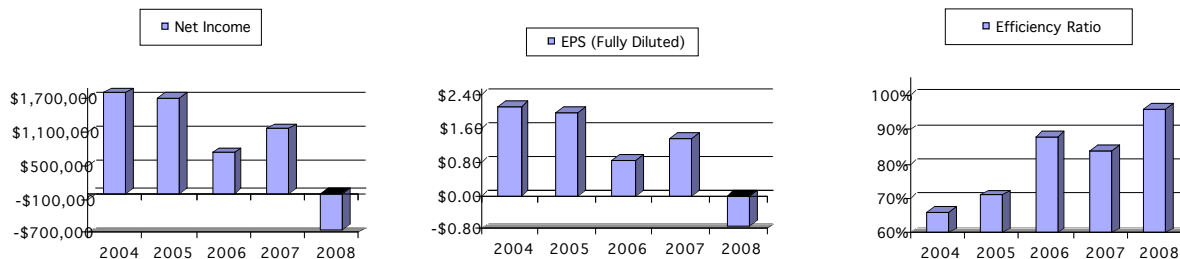


Our revenue growth, however, did not translate into net income growth. The principal reasons that we reported a net loss for the year were the almost total loss in value of our Fannie Mae and Freddie Mac preferred stock holdings and the resulting mark-to-market write-down, the repositioning of our Canton location in serving the Albany Turnpike marketplace and resulting expenses, and the otherwise modest increase in other operating expenses, offset somewhat by the proceeds from a bank owned life insurance policy.

- As you know, when the Treasury Department nationalized Fannie Mae and Freddie Mac in early September 2008, they chose to treat preferred stockholders of these government sponsored enterprises in the same manner as common shareholders, while fully guaranteeing the enterprises' debt obligations. This resulted in a \$1,755,600 Other Than Temporary Impairment charge to mark our investments to market. While we joined with hundreds of community banks and trade associations across the country to seek a change in this treatment, community banks were ultimately able to achieve only, though very importantly, more appropriate tax treatment of the write-down.
- In the first half of 2008, we took a close look at how our customers use our full service branches. We found that four of the branches experienced full utilization of all of the services we offer while one, Canton, was used primarily for convenience transactions such as check cashing. Based on our customers' preferences, we decided to reposition the Canton location to continue to meet the convenience transaction service demand with an ATM and night deposit drop, and to redeploy the branch space for mortgage, commercial and investment services business development activities. This decision resulted in the need to accelerate recognition of \$485,000 in costs associated with the former full service activities. These expenses were recognized in the second half of the year.
- By far the largest component of our noninterest expenses, accounting for slightly less than half, are salaries and employee benefits. In 2008, these expenses increased only 2.8%. Occupancy and equipment expense increased 32.7%. However, excluding the accelerated expenses related to the repositioning of the Canton location, occupancy and equipment expenses increased only 0.4% for the

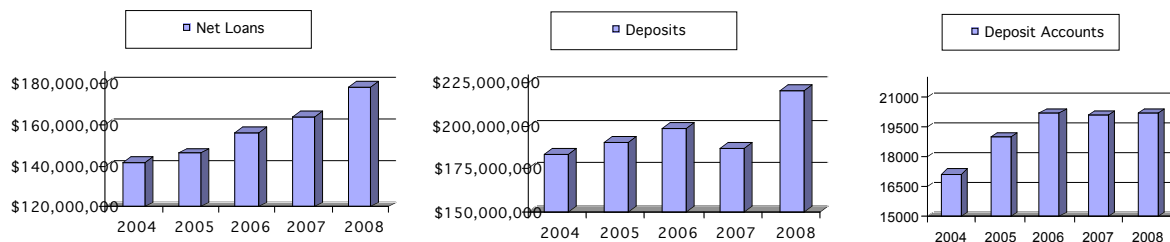
year. Our remaining noninterest expenses, comprising approximately 29% of the total, increased 14.4% due in part to higher volume related costs (correspondent charges, postage, forms and supplies), as well as higher marketing expenditures and professional fees.

- Finally, our earnings benefited from a \$328,358 bank owned life insurance death benefit related to a policy insuring our director and former President & CEO Barry Loucks. Barry's premature death triggered payment of the death benefit on a policy purchased to provide a source of income for Bank employee and executive benefits.



Loans and Deposits

2008 was an excellent year for loan and deposit growth. The Bank enjoyed an 8.7% increase in net loans and an 18.2% increase in deposits. Commercial purpose loans increased by 11.9% and residential property secured mortgages and home equities increased by 10.9%. Consumer loans declined by 45% due to the runoff of a purchased loan portfolio. At year end, 70% of the Bank's loans were residential property secured mortgages and home equities, 28% were commercial loans and the balance consumer. Deposit growth was led by time deposits which increased by 33.5% as consumers and businesses sought the safety of FDIC insured, guaranteed return certificates in the face of the unfolding financial market crisis. Savings and NOW deposits also increased for the same reason by 17.8%. Demand deposits declined slightly by 4.7%. The Bank's deposit mix remains favorable and relationship-based with 32% in checking deposits, 30% in savings and money market, and 38% in time deposits. The Bank also experienced an increase in the average deposit balance to over \$10,800 from \$9,200 at year end 2007.



Asset Quality

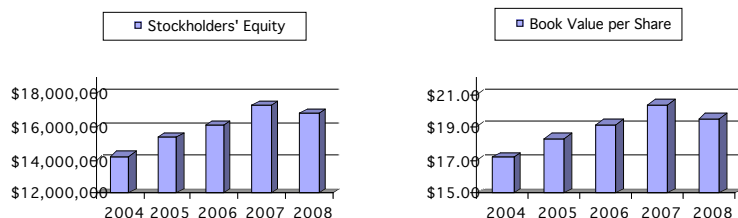
The Bank's asset quality remains strong both absolutely and compared to our competitors. Although nonaccruals and loan charge offs increased in 2008, they remained at low levels. Nonaccruals increased to \$560,917 (0.31% of gross loans and leases) from \$5,328 in 2007, while charge-offs net of recoveries increased to \$357,407 (0.21% of average loans and leases) from \$23,777 in 2007. The Bank's provision for loan losses in 2008 totaled \$450,000 compared to \$250,000 in 2007. The loan loss reserve increased almost 5% to \$2,017,145 equaling 1.12% of total loans and leases.

With the likelihood of a difficult economy through 2009 high, we feel that our relatively low exposure to commercial real estate secured loans is one of our strengths. With only approximately 18% of our loans

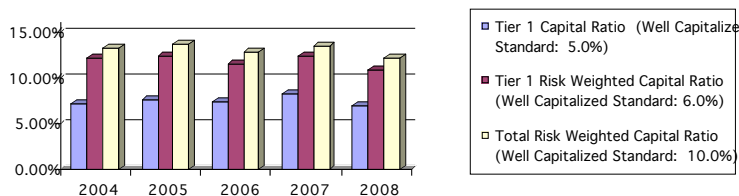
financing commercial real estate, we are among banks with the lowest exposure to commercial real estate in our market area. Construction and development loans total approximately 5% of total loans and non-owner occupied commercial real estate secured loans total approximately 8.5% of our total loans.

Capital

Due to the Company's net loss, shareholders' equity and book value per share both declined in 2008 but were above 2006 year end levels.



The Bank's capital position was adversely impacted by our net loss in 2008; however, we remain comfortably "well capitalized" compared to the FDIC's capital adequacy standards. Nevertheless, we believe that the current difficult economic environment combined with steady business and consumer loan demand suggest that we add to capital to ensure that your company continues to have the capital necessary to weather these uncertain times and have the capacity to meet loan demand as more businesses and households turn to locally managed banks to meet their needs. The management and board of directors determined that the Treasury's Capital Purchase Program offered the most advantageous source of capital at this time. As such, on March 27, 2009, SBT Bancorp issued 4200 shares of preferred stock to the Treasury in return for \$4 million of capital. This capital qualifies for treatment as "Tier 1" capital from a regulatory perspective.



Financial Markets, Economic Conditions and SBT Bancorp

The financial market crisis began in August 2007 and then accelerated in September 2008 with the Treasury's decision to nationalize Fannie Mae and Freddie Mac. We have all learned a great deal about the causes of this crisis and it is likely that more will be learned. We continue to witness unprecedented intervention in the financial markets and economy by the federal government and anticipate significant changes to the regulatory framework within which financial companies, including ours, operate. At the same time, we are all dealing with the consequences of the crisis in our households, businesses, and local, state and federal governments. There is still great uncertainty as to the ultimate severity and duration of the economic recession. Inevitably, there will be a recovery of the economy. However, it is unclear to what degree the recovery will resemble those of the past or instead reflect fundamental changes in household and business consumption, saving, borrowing and investing behavior.

Banks are a reflection of the economy. Simsbury Bank's success is tied to the success of the businesses and households in Central Connecticut. Simsbury Bank manages its assets and liabilities conservatively and with the knowledge that economic cycles will test any unhealthy loan or deposit concentrations. Most of our loans are to businesses, families and individuals in our primary market area. We try to

mitigate this geographic concentration risk through careful underwriting and by having a diverse loan portfolio by loan type and borrower. Our deposits are adequate to fund most of our loan and investment activities and reflect the strong relationship orientation of our focus with a healthy mix of checking, savings and time deposits. We do not rely on wholesale funding such as brokered CDs. We occasionally borrow from the Federal Home Loan Bank when it offers rates, terms and flexibility better than we can obtain through local deposits.

Looking Forward, Not Pulling Back

We look forward with confidence rooted in the strength of our people, our performance culture, our commitment to customer service excellence and the resilience of our market area. The current financial market and economic crisis creates an opportunity for us. We are open for business and seeking to provide the capital and financial strength that our market demands. We will manage risk well and create value for our shareholders, customers and the communities we serve.

We appreciate your support and look forward to continuing to help our customers achieve their life goals by being their banking and investment partner of choice.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Geitz', with a stylized, cursive flourish extending to the right.

Martin J. Geitz
President & Chief Executive Officer