BNC FINANCIAL GROUP ANNUAL REPORT 2012

BNC Financial Group is the bank holding company of its wholly owned subsidiaries, The Bank of New Canaan, The Bank of Fairfield and Stamford First Bank, a division of The Bank of New Canaan. Our banks serve the personal finance and business banking needs of consumers and businesses in Southern Connecticut.

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"We are relentless in our efforts to achieve our full potential – for our customers, our shareholders and our communities."

—Peyton R. Patterson

Dear Shareholder:

I am very pleased to be sharing my first annual report with you. Since taking the helm as CEO last September, our team has been hard at work building a Strategic Plan – a vision that will grow our banks, diversify revenue streams, strengthen our brand and improve the overall profitability of the Company.

I truly believe this will be a pivotal year for our Organization, building on the momentum that continues with our family of banks. We are committed to superior financial performance, investing in our products and services, and ensuring that we have the right people in place to accomplish our objectives. BNC Financial Group is an outstanding company in a market full of opportunity. We have an exceptional Management Team and Board of Directors, dedicated to the success of its shareholders. It is our goal to stand out in the banking industry as a local community bank that serves its clients with the attention and respect they deserve.

We excelled in virtually all aspects of our business in 2012, as our Organization showed solid returns, steady growth and consistent performance. We ended the year with $612 million in assets, up 28% over 2011. Loans outstanding grew 44% to $530 million, and deposits grew 26% to $462 million – all in all, another record year for the Company. We are especially proud that this strong growth was supported by excellent credit quality and a Net Interest Margin of 4.09%, an industry stand-out.

In 2012, we renewed our commitment to invest in our franchise. We are enhancing our core technologies as well as our personal and business product offerings. We are investing in people. We are entering new lines of business. And with each new initiative, we are maintaining and strengthening our underwriting standards, operational infrastructure and risk management.

We recently completed the first phase of a successful capital raise through a Private Placement offering that resulted in $7.3 million in new capital. We are currently in the second phase of that Private Placement. We plan to use this additional capital to fund our strategic initiatives, including expanding into new markets, both organically and through smart and strategic acquisitions.

As we continue to execute against our strategy, our focus is local. Our approach to community banking is built on a keen knowledge of our market economy, customer preferences, business and social conditions and other factors that impact our customers and their financial well-being. We saw the significance of this in 2012 as measured by our outstanding growth in loans and deposits, and we take pride in the value that we provide to the communities we serve.

In closing, I want to thank you for your continued confidence and support. I am very proud to be a part of this great institution.

Peyton R. Patterson

"It is our goal to stand out in the banking industry as a local community bank that serves its clients with the attention and respect they deserve."

BNC Financial Group Financial Highlights

(in 000's, except where noted)

	2012	2011	2010	2009	2008	December 31, 2007	2006
STATEMENT OF CONDITION							
Cash and cash equivalents	$28,927	$7,091	$39,448	$27,780	$13,545	$14,136	$7,837
Available for sale securities, at market	41,058	89,071	51,998	26,596	30,975	28,721	27,955
Held to maturity securities, at amortized cost	5,354	5,901	6,154	7,464	-	-	-
Loans held for sale (LHFS)	-	1,172	3,588	3,403	-	517	675
Loans (portfolio)	528,733	368,512	288,042	257,139	197,701	143,320	108,543
Allowance for loan losses (ALL)	(7,941)	(6,425)	(5,440)	(4,380)	(3,050)	(1,450)	(1,180)
Total assets	611,788	477,355	395,708	328,160	247,041	190,906	149,138
Noninterest bearing deposits	78,120	74,735	50,187	42,883	36,887	26,031	25,500
Interest bearing deposits	383,981	292,380	258,950	201,332	133,845	116,877	92,942
Total deposits	462,101	367,115	309,137	244,215	170,732	142,908	118,442
Capital	51,534	49,188	40,354	35,695	31,577	30,234	13,631
STATEMENT OF INCOME AND EXPENSE							
Interest and dividend income	$24,079	$20,579	$16,860	$13,920	$12,313	$10,107	$8,385
Interest expense:							
Deposits	2,367	2,023	2,374	2,892	2,524	3,096	2,509
Borrowings	825	847	835	759	864	538	538
Net interest income	20,887	17,709	13,651	10,269	8,925	6,473	5,338
Provision for loan losses	1,821	1,049	1,311	1,741	1,618	257	142
Noninterest income	663	1,142	1,712	926	636	638	682
Noninterest expenses	17,858	14,601	13,331	10,555	8,385	5,745	4,973
Income (loss) before income tax or benefit	1,871	3,201	721	(1,101)	(442)	1,109	905
Net income (loss)	1,214	2,204	507	(830)	(443)	684	512
FINANCIAL RATIOS							
Capital to Assets (excluding unrealized gains)	8.18%	10.13%	10.15%	10.85%	12.81%	15.82%	9.30%
Tier I capital (BNC)	7.88%	8.71%	8.15%	8.48%	7.62%	8.91%	9.43%
Tier I capital (TBF)	8.39%	11.30%	13.25%	16.54%	58.87%	N/A	N/A
Tier I risk-based capital (BNC)	9.09%	11.07%	11.86%	12.24%	11.00%	12.89%	14.66%
Tier I risk-based capital (TBF)	10.80%	13.66%	16.41%	22.46%	73.22%	N/A	N/A
Total risk-based capital (BNC)	10.34%	12.33%	13.12%	13.50%	12.26%	14.00%	15.91%
Total risk-based capital (TBF)	12.05%	14.91%	17.10%	23.26%	74.48%	N/A	N/A
Yield on earning assets, tax equivalent basis	4.71%	4.95%	5.09%	5.07%	5.99%	6.35%	6.19%
Cost of funds	0.65%	0.89%	1.21%	1.71%	1.87%	2.62%	2.17%
Net interest margin, tax equivalent basis	4.09%	4.27%	4.13%	3.73%	4.25%	4.00%	3.87%
Earning assets to total assets	98.36%	98.30%	96.81%	96.10%	97.06%	97.68%	96.49%
ALL to gross portfolio loans (excluding LHFS)	1.50%	1.74%	1.89%	1.70%	1.54%	1.00%	1.07%

Results for 2007-2012 are consolidated numbers for BNC Financial Group, Inc. Previous years are for The Bank of New Canaan only. Capital ratios, excluding "Capital to asset" ratio, are by bank — The Bank of New Canaan (BNC) and The Bank of Fairfield (TBF). TBF opened in 2008, so previous year comparisons are not applicable.

2012 Overview

Financial Results

Growing the balance sheet in a profitable manner was the hallmark of our performance in 2012. Our loan growth, for example, increased 44%, from $369 million in 2011, to $530 million at year-end 2012. While maintaining superior credit quality, we outperformed our regional peers, whose average loan growth for 2012 was 10%.

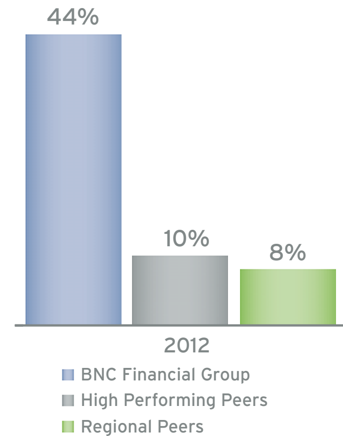
We believe that our overall steady growth reflects our ongoing ability to balance the financing that we provide to the communities we serve with an expertise in delivering consistently high quality loans on a timely basis. As a result of our lending success and our unwavering focus on credit quality, we are able to be selective in our lending. The result is very few delinquencies or non-performing assets. At year-end, our ratio of non-performing assets to total assets was historically low at .97%. A consequence of our outstanding loan growth in 2012, however, was the addition to the Allowance to Loan Loss Provision of $1.8 million, an increase from 2011 of $0.8 million, resulting in a 1.50% Allowance for Loan Loss ratio.

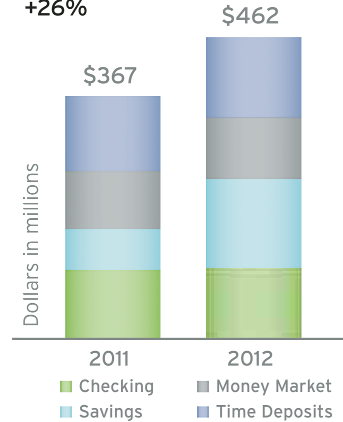
In addition to our focus on Commercial Real Estate, we strengthened our commitment to Commercial and Industrial lending during 2012, as we expanded into Bridgeport, Connecticut, with our new Loan Production Office in July. On the residential lending side, we have broadened our product offerings to include a wide range of both fixed and adjustable rate mortgages, and we continue to excel in the Jumbo Mortgage market.

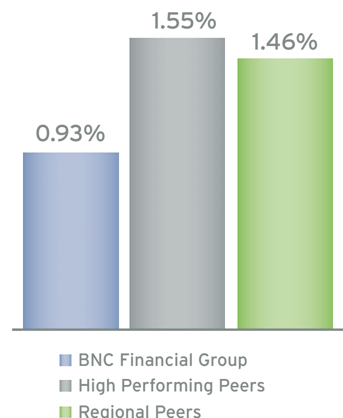
- Commercial Real Estate loans were up 47%.
- Commercial loans grew by 70%.
- Single family mortgage loans, including home equity loans, grew 30%.

Deposit growth was also strong in 2012, up 26% from $367 million to $462 million, in spite of slow growth in the economy and fierce competition. The predominant presence of the larger national banks in our markets has made capturing market share a key strength of our Company, as evidenced by our consistent growth in deposit market share year over year. As the big banks continued to charge checking and transaction fees in 2012, we differentiated ourselves by maintaining our offers of Free Personal and Business Checking and No Fee ATM banking nationwide.

Bob Hojnacki, Jeff Ruden, Toni Boyd, Jim Wood







*Source: SNL Financial
Peer group consists of banks and thrifts located in the Northeast or Mid-Atlantic with total assets between $500 million and $2.5 billion at December 31, 2012.

performance-driven,
with a keen focus on delivering for
our clients and shareholders

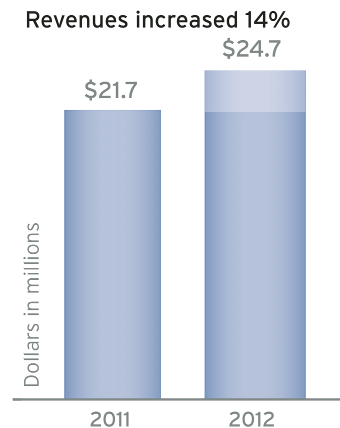
We are a performance-driven company with significant growth potential, as evidenced by a 14% revenue increase in 2012, from $21.7 million to $24.7 million. Our net income for 2012 was $1.2 million, impacted by a few non-recurring items. Absent these items, net income would have been $2.4 million, representing a 10% increase over 2011. With over $51 million in capital, we remain well capitalized with a Capital to Asset ratio of 8.4%.

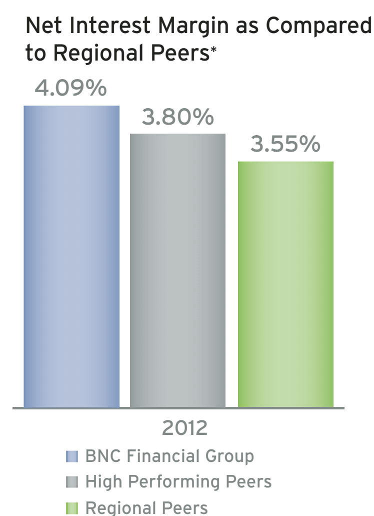
Our Net Interest Margin remained an industry stand-out at 4.09% in 2012, in spite of industry-wide pressure. This is a 9 basis point increase since 2007, and another top ranking among our peers. We continue to seek broader sources of income through market and channel expansion, while maintaining revenue momentum and balancing our short and long-term bank investments. While we continue to grow our loan and deposit portfolios, we are also working hard to generate fee income from diversified revenue streams. We believe this will help us achieve our desired earnings momentum. Even so, we know that we face certain challenges in the way of external factors, including aggressive competition and a challenging interest rate environment. Our goal is to build a balance sheet that will ensure the continuation of our strong performance, regardless of changes to the economic environment.

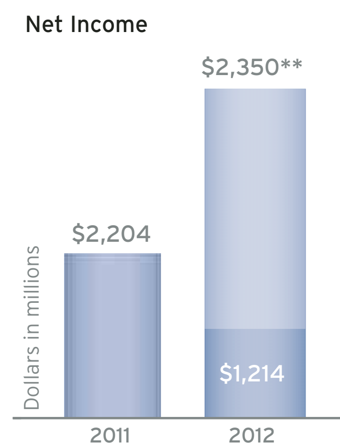
Jim Matthiessen, Julie Turner, Patrick Laffin, Shawn Gelin, Mary Lynn Drake, Gary D'Andrea

Client satisfaction is our priority. Deepening client relationships, sustaining new business momentum, and maintaining strong credit standards are what we do best. We continue to cultivate an intelligent sales culture that can produce results in changing economic cycles. We combine discipline with thoughtful leadership to understand and deliver what is most important to our key constituents – a full range of personal and commercial banking services, along with community bank service and values. Finally, we strive to be a great place to work, because we know we will succeed only if we are able to attract and keep the best possible people.

Brian Charlebois, Diane Bredehoft (left)







*Source: SNL Financial
Peer group consists of banks and thrifts located in the Northeast or Mid-Atlantic with total assets between $500 million and $2.5 billion at December 31, 2012.
**Includes $1.2 million (after-tax) in one-time charges.

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Focus on Growth

Our vision is based on a growth strategy that will increase our effectiveness by setting us apart from our competitors, both large and small. We will continue to develop value propositions aimed at serving the needs and preferences of the markets we serve, with a focus on upscale consumers and small and medium-sized businesses. We work hard to keep our promises and use all our resources to take care of our current customers, while making sound and sensible plans to reach new ones. We have a strong management team and three outstanding boards of directors, each comprised of local business and community leaders.

Our new CEO, Peyton Patterson, brings to BNC Financial Group over 25 years of experience, and has been widely recognized as an outstanding community banker. In 2008, while Chairman and CEO of NewAlliance Bancshares, Inc., she was named Community Banker of the Year by *American Banker*. And in 2004 and 2005, *U.S. Banker* ranked Ms. Patterson 2nd on their list of the 25 Most Powerful Women in Banking. Most recently, in February 2013, she was recognized in *American Banker* as one of the 10 Top Banking CEOs to Watch in 2013.

Tom Cragg, Elena Lanni

The Bank of New Canaan continued to show strong and steady performance as it celebrated ten years in 2012, and continues to rank second of eight banks in town for deposit market share. In August, The Bank of Fairfield will celebrate its fifth anniversary. The Bank of Fairfield's success, as one of the fastest growing de novos in Connecticut, has largely resulted from a strong demand for our expertise in structuring commercial mortgages and credit lines for small and medium-sized businesses. Stamford First Bank, a division of The Bank of New Canaan that was founded in 2010, has also exceeded our expectations. We are optimistic about the opportunity for continued accelerated growth in Stamford, one of Connecticut's fastest growing markets. As the economy expands, we are poised to challenge larger bank competitors for those segments of the consumer and business markets that value relationship-style banking. We believe that we have a truly unique value proposition, as we strengthen our technology platform and combine our new online capabilities with our local focus and private banking style.

While we are considering strategic acquisitions to grow our franchise, we are also strengthening our positions in markets where we are confident we can excel. We are currently in the process of moving our two Fairfield branches to new locations that will better serve that market, and also exploring ways to expand into other contiguous areas.

Mike Pida, Bob Palermo, Raymond Michaud (right)

we are strengthening

our infrastructure with the best available talent

Investing in our Franchise

Capabilities

An important part of our commitment to becoming a high performing bank and *"The Bank of Choice"* in our markets, is investing in our franchise. As part of our unwavering commitment to provide a quality experience to customers, we realize the importance of keeping our products and services on a par or ahead of those of our competitors. To that end, we have recently completed several important product and services initiatives.

Rob Kunces, Elizabeth Buzzeo, Mario Pombo

In April 2013, we introduced an all-new Online and Mobile Banking platform that provides state-of-the-art features and enhancements to both our personal and business customers. The personal online platform offers a wide range of new benefits, including a debit card purchase rewards program, a comprehensive money management tool, e-statements, Person-to-Person transfers and mobile banking, to name a few. We will soon be adding a remote deposit capture feature that allows consumers to deposit checks using their mobile phone. On the business side, we now offer a full suite of cash management services that allows customers to more efficiently manage their finances and maximize cash flow. These new business capabilities complement an established business banking program that includes access to capital, local market expertise and a reputation for customized lending solutions.

This summer, we will further broaden our service offering and become a full-service financial institution with the launch of our new Wealth Management Services Division. Through a partnership with a leading investment brokerage firm, our on-site wealth management specialists will provide advice and support to individuals and businesses with a diverse offering of products and services in the areas of investments, retirement and estate planning.

Gail Donovan (right)

People

Our goal is to enhance the financial well-being of all of our clients. Our employees are at the center of that promise. As a result, we hold to a very high standard when it comes to serving local residents and businesses. We believe that how we do business is as important as what we do, as we execute our strategic plan. We have to ensure that we have the best credentialed and experienced people leading our sales staff. Last fall, we hired a new Divisional President, John Friend, to head up our regional sales efforts. Several months later, in support of the introduction of our new Online Cash Management Services, Bob Torra joined our business development team as Cash Management Specialist.

Focusing on the quality of our team and the seamless delivery of our products and services, we renewed our commitment to strengthening our infrastructure with the best available talent. We are pleased to announce the recent addition of Gail E. D. Brathwaite to the Company as Executive Vice President and Chief Operating Officer. Ms. Brathwaite is a highly accomplished Bank Executive with extensive and diverse experience in all areas of retail

community centric

Dave Malloy, Bob Hagan

and mortgage banking operations, Information Technology, Human Resources Management and Mergers and Acquisitions. She was most recently Executive Vice President and Chief Operating Officer at NewAlliance Bank, where she was instrumental in the operational transformation from a mutual bank to a New York Stock Exchange listed company, and led the implementation and integration efforts in the company's initial public offering, simultaneous acquisitions of two banks and four subsequent acquisitions.

Bob Palermo, Linda West

Last but not least, we are committed to protecting our franchise through sound risk management. Our Management Team and Board of Directors are fully aligned in their commitment to balancing risk with long-term financial goals. Earlier this year, we introduced the position of Chief Risk Officer, a role held by Michele Johnson, who also heads up our Compliance Department.

Community

After ten years, our mission remains the same: to provide the best possible banking and lending experience to individuals and businesses and to add value to the communities we serve. We believe that being a good neighbor is both the right thing to do and also good business. We begin with friendly, helpful service, local decision-making, and a genuine commitment to provide value to our communities. To bring that commitment to life, our Management Team, employees and Board members are actively involved in leadership roles, mentoring and volunteering in the community, and we take pride in our local involvement.

Mike Sulkis, Mary Jascha

Heidi DeWyngaert, Executive Vice President and President of The Bank of New Canaan, was recently elected to join the Board of Directors of the Connecticut Housing Finance Authority, an organization that is dedicated to providing housing opportunities to low and moderate income individuals throughout Connecticut. Collectively, our Organization provides support to more than 120 local not-for-profits, and earlier this year we held our inaugural employee campaign in support of the United Way of Coastal Fairfield County.

John Friend, Diane Bredehoft, Bob Torra

What Lies Ahead

The combination of a challenging interest rate environment and aggressive competition will continue to put our business model to the test, but we feel very confident in our ability to execute our strategic initiatives and build shareholder value by diversifying our engines of growth, both organically and through acquisitions. As we reflect on 2012 and look to the future, we are energized and feel well positioned to undertake new ventures and meet marketplace challenges to deliver on the promise of our Organization.

Mackenley Colinet, Vicky Maccaro

Ernest J. Verrico, Heidi DeWyngaert, Gail E. D. Brathwaite, Peyton R. Patterson, Michele Johnson, Diane Knetzger, Peter Russell

BNC Financial Group, Inc.

Executive Officers

Peyton R. Patterson
President & Chief Executive Officer

Heidi S. DeWyngaert
Executive Vice President, Chief Lending Officer

Ernest J. Verrico, Sr.
Senior Vice President, Chief Financial Officer, Asst. Corporate Secretary

Gail E.D. Brathwaite
Executive Vice President, Chief Operating Officer

Diane Knetzger
Senior Vice President, Director of Marketing

Officers and Managers*

Peter Russell
Chief Credit Officer

Joseph Campbell
Vice President, Compliance

Christine Chivily
Vice President, Commercial Credit Team Leader

Gary D'Andrea
Vice President, Loan Operations

Mary Lynn M. Drake
Vice President, Director of Human Resources

Christine M. Ericson
Vice President, Retail Lending

Shawn T. Gelin
Vice President, Deposit Operations

Michele Johnson
Vice President, Chief Risk Officer

Patrick Laffin
Vice President, Retail Operations

James Matthiessen
Vice President, Information Technology

Michael Pida
Vice President, Residential Sales Manager

Julie K. Turner
Vice President, Controller

Mary Ellen Casceillo
Assistant Vice President, Senior Underwriter

Kristin Clemens
Assistant Vice President, Senior Commercial Credit Analyst

Simon Lee
Assistant Vice President, Financial Analyst

Kimberly Perry
Assistant Vice President, Assistant Controller

Cynthia Swansiger
Assistant Treasurer, Loan Servicing

Maureen Truini
Assistant Treasurer, Finance

Employees*

Mark Ahern
Diana Arias
Jeffrey Boyle
Margaret Castango
Anthony Crowder
Lucy French
Lisa Frojen
Ilya Garkavy
Lynne Gomez
Michael Hokanson
Smita Kambli
Robert Kunces
Nancy O'Neil
Brandie Pineda
Kevin Randall
Samille Reddic
Virginia Robertson
Stephanie Santiago
Debra Saviello
Michael Shapiro
Melissa Simmons
Kristine Thiel
Yassine Zribi

*Service Unit Officers, Managers and Employees serve BNC Financial Group, Inc., The Bank of New Canaan and The Bank of Fairfield, and are considered employees of each company.

BNC Financial Group

Board of Directors

Blake S. Drexler
Chairman
Partner
Five Mile Ventures
Rowayton, CT

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Vice Chairman
Managing Member
Fieber Group, LLC;
Managing Partner
FIEBRO Acquisitions, LLC
New Canaan, CT

George Bauer
Retired
Wilton, CT

Eric J. Dale
Partner
Robinson & Cole, LLP
Stamford, CT

Mark Fitzgibbon
Principal/Director of Research
Sandler O'Neill & Partners, L.P.
New York, NY

William J. Fitzpatrick, III
Member, Fitzpatrick, Fray & Bologna, LLC
Fairfield, CT

Daniel S. Jones
President
NewsBank, Inc.
New Canaan, CT

Carl R. Kuehner III
Chairman & Chief Executive Officer
Building and Land Technology Corp.
Norwalk, CT

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Corporate Secretary
Managing Member
Lampert, Toohey & Rucci, LLC;
Managing Member
Main Street Group, LLC
New Canaan, CT

Victor S. Liss
Retired
Stratford, CT

Peyton R. Patterson
Chief Executive Officer
BNC Financial Group, Inc.
New Canaan, CT

T. Brock Saxe
Chairman
Tombrock Corporation
New Canaan, CT

The Bank of New Canaan

Board of Directors

Blake S. Drexler
Chairman
Partner
Five Mile Ventures,
Rowayton, CT

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Vice Chairman
Managing Partner
Fieber Group, LLC;
Managing Partner
FIEBRO Acquisitions, LLC
New Canaan, CT

Frederick R. Afragola
Chairman Emeritus
The Bank of New Canaan;
Founder, Frame Advisors
New Canaan, CT

Thomas V. Ayoub
Chief of Medical Staff
Norwalk Hospital
Norwalk, CT

Judy Bentley
Community Volunteer
New Canaan, CT

Richard E. Castiglioni
Partner
Diserio Martin O'Connor
and Castiglioni, LLP,
Stamford CT

Mark Fitzgibbon
Principal & Director
of Research,
Sandler O'Neill &
Partners, L.P.
New York, NY

Merrill Jay Forgotson
Retired
Westport, CT

Hugh Halsell
Brotherhood & Higley
Real Estate
New Canaan, CT

Daniel S. Jones
President
NewsBank, Inc.
New Canaan, CT

Todd H. Lampert
Corporate Secretary
Managing Member
Lampert, Toohey,
& Rucci, LLC;
Managing Member
Main Street Group, LLC
New Canaan, CT

Kathleen M. McShane
Managing Director
Ladies Who Launch
Southwestern CT

Peyton R. Patterson
Chief Executive Officer
BNC Financial Group, Inc.
New Canaan, CT

T. Brock Saxe
Chairman
Tombrock Corporation,
New Canaan, CT

The Bank of Fairfield

Board of Directors

Victor S. Liss
Chairman
Retired
Stratford, CT

William J. Fitzpatrick, III
Vice Chairman
Member, Fitzpatrick, Fray
& Bologna, LLC,
Fairfield, CT

Merle Berke-Schlessel
President and Chief
Executive Officer
United Way of Coastal
Fairfield County,
Bridgeport, CT

Scott K. Brooks
Real Estate Investor
Brooks, Torrey &
Scott, Inc.,
Norwalk, CT

Eric J. Dale
Partner
Robinson & Cole, LLP,
Stamford, CT

Frank J. Duzy
Realtor
The Higgins Group,
Fairfield, CT

Merrill Jay Forgotson
Retired
Westport, CT

Denise P. Griffin
Realtor
Coldwell Banker
Trumbull, CT

Anthony F. Izzo
President
AFI, Inc.
Fairfield, CT

Peyton R. Patterson
Chief Executive Officer
BNC Financial Group, Inc.,
New Canaan, CT

THE BANK OF NEW CANAAN
Executive Officers

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President

Gail E.D. Brathwaite
Executive Vice President,
Chief Operating Officer

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Executive Vice President,
Finance

Diane Knetzger
Senior Vice President,
Director of Marketing

Peter Russell
Senior Vice President,
Chief Credit Officer

Julie Turner
Senior Vice President,
Chief Financial Officer

Officers and Managers

Diane Bredehoft
First Vice President,
Commercial Lending

Brian Charlebois
First Vice President,
Commercial Team Leader

Patrick Laffin
First Vice President,
Retail Operations

Gail Donovan
Vice President,
Branch Manager, Elm Street

Mary Lynn Drake
Vice President,
Director of Human Resources,
Assistant Corporate Secretary

Mary Jascha
Vice President,
Commercial Lender

Michael Pida
Vice President,
Residential Sales Manager

Michael Sulkis
Vice President,
Commercial Lending

Robert Torra
Vice President,
Cash Management Officer

Linda West
Vice President,
Commercial Lending

Michael Yao
Vice President,
Commercial Lender

Elizabeth Buzzeo
Divisional Vice President,
Branch Manager, Cherry Street

Stacey Lambert
Assistant Vice President,
Commercial Loan Assistant

Jennifer Burns
Assistant Branch Manager, Elm Street

Kay Ben-Dov
Teller Supervisor, Cherry Street

Noel Pascarella
Teller Supervisor, Elm Street

Employees

Ann Cotoia
Mohammad Haque
Jordan Hopkins
Elena Lanni
Martha Melitsanopoulos
Corey Mola
Marcelo Pena
Mary Pinto
Mario Pombo
Tracey Tangarife

STAMFORD FIRST BANK
A division of The Bank of New Canaan
Executive Officers

Peyton R. Patterson
Chief Executive Officer

Heidi S. DeWyngaert
President

John Friend
Divisional President

Gail E.D. Brathwaite
Executive Vice President,
Chief Operating Officer

Ernest J. Verrico, Sr.
Executive Vice President, Finance

Diane Knetzger
Senior Vice President,
Director of Marketing

Peter Russell
Senior Vice President,
Chief Credit Officer

Julie Turner
Senior Vice President,
Chief Financial Officer

Officers and Managers

Patrick Laffin
First Vice President, Retail Operations

Mary Lynn Drake
Vice President, Director of Human Resources,
Assistant Corporate Secretary

David Malloy
Vice President, Branch Manager,
Bedford Street

Linda West
Divisional Senior Vice President,
Commercial Lending

Kevin Callahan
Divisional Vice President,
Commercial Lending

Robert Hagan
Divisional Vice President,
Business Development Officer

Michael P. McKelvey
Assistant Vice President,
Commercial Lending

Eugenia Simington
Assistant Vice President,
Commercial Loan Assistant

Daniel Cavazzi
Teller Supervisor, Bedford Street

Employees

Thomas Cragg
Rebecca Gill
Megan Swick

THE BANK OF FAIRFIELD
Executive Officers

Peyton R. Patterson
Chief Executive Officer

Robert Palermo
President

Gail E.D. Brathwaite
Executive Vice President
Chief Operating Officer

Ernest J. Verrico, Sr.
Executive Vice President, Finance

Diane Knetzger
Senior Vice President, Director of Marketing

Julie Turner
Senior Vice President, Chief Financial Officer

Officers and Managers

Robert Hojnacki
First Vice President,
Business Development Officer

Patrick Laffin
First Vice President,
Retail Operations

Heidi S. DeWyngaert
Vice President

Mary Lynn Drake
Vice President, Director of Human Resources,
Assistant Corporate Secretary

Michael Pida
Vice President, Residential Sales Manager

Jeffrey Ruden
Vice President, Senior Commercial Lender

James Wood
Vice President, Commercial Lender

Toni Boyd
Assistant Vice President,
Commercial Lender

Vittoria Lisanti-Maccaro
Divisional Vice President,
Branch Manager, Black Rock Turnpike

Mackenley Colinet
Assistant Treasurer,
Branch Manager, Post Road

Jessica Sepulveda
Teller Supervisor, Post Road

Julie Camerota
Teller Supervisor, Black Rock Turnpike

Employees

Michael Fallon
Angela McCabe
Raymond Michaud
Juan Quiroga
Thamarsha Smith

The success of any organization ultimately depends upon the quality and performance of its employees. The Company would like to acknowledge and thank its entire staff for their hard work and dedication to providing our customers with the highest level of customer service.

WHITTLESEY & HADLEY, P.C.

Certified Public Accountants/Consultants

147 Charter Oak Avenue
Hartford, Connecticut 06106

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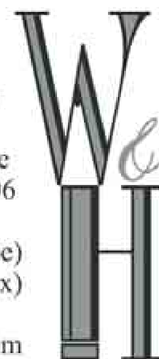

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Stockholders
BNC Financial Group, Inc.
New Canaan, Connecticut

We have audited the accompanying consolidated balance sheets of BNC Financial Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of BNC Financial Group, Inc. and subsidiaries at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

Whittlesey & Hadley, P.C.

Hartford, Connecticut
March 27, 2013

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

(In thousands, except share data)	2012	2011
ASSETS		
Cash and due from banks (Note 3)	$ 28,927	$ 7,091
Held to maturity investment securities, at amortized cost (Note 4)	5,354	5,901
Available for sale investment securities, at fair value (Note 4)	41,058	89,071
Loans held for sale	-	1,172
Loans receivable (net of allowance for loan losses of $7,941 in 2012 and $6,425 in 2011) (Notes 5 and 16)	520,792	362,087
Foreclosed real estate	962	-
Accrued interest receivable	2,109	2,315
Federal Home Loan Bank stock, at cost (Note 9)	4,442	3,408
Leasehold improvements and equipment, net (Note 6)	2,518	2,446
Deferred income taxes, net (Note 10)	2,798	2,468
Other assets	2,828	1,396
Total assets	$ 611,788	$ 477,355
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits (Note 7 and 16)		
Noninterest bearing deposits	$ 78,120	$ 74,735
Interest bearing deposits	383,981	292,380
Total deposits	462,101	367,115
Advances from the Federal Home Loan Bank (Note 9)	91,000	58,000
Accrued expenses and other liabilities	7,153	3,052
Total liabilities	560,254	428,167
Commitments and Contingencies (Note 8)		
Stockholders' equity (Notes 2, 12 and 15)		
Preferred stock, senior noncumulative perpetual, Series C, no par; 10,980 shares issued and oustanding at December 31, 2012 and 2011, respectively; liquidation value of $1,000 per share	10,980	10,980
Common stock, no par value; 10,000,000 and 5,000,000 shares authorized; 2,846,700 and 2,797,200 shares issued and 2,797,200 and 2,758,200 shares outstanding at December 31, 2012 and 2011	38,117	37,554
Retained earnings (deficit)	926	(156)
Accumulated other comprehensive income - net unrealized gains on available for sale securities, net of taxes	1,511	810
Total stockholders' equity	51,534	49,188
Total liabilities and stockholders' equity	$ 611,788	$ 477,355

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2012, 2011 and 2010

(In thousands, except per share amounts)	2012	2011	2010
Interest income			
Interest and fees on loans	$ 22,011	$ 17,613	$ 15,124
Interest and dividends on securities	2,033	2,919	1,650
Interest on cash and cash equivalents	35	47	86
Total interest income	24,079	20,579	16,860
Interest expense			
Interest on deposits	2,367	2,023	2,374
Interest on Federal Home Loan Bank advances	825	847	835
Total interest expense	3,192	2,870	3,209
Net interest income	20,887	17,709	13,651
Provision for loan losses	1,821	1,049	1,311
Net interest income after provision for loan losses	19,066	16,660	12,340
Noninterest income			
Service charges and fees	663	345	395
Gains and fees from sales and referrals of loans	18	547	1,316
Net (loss) gain on sale of investments	(18)	250	1
Total noninterest income	663	1,142	1,712
Noninterest expenses			
Salaries and employee benefits	9,426	8,506	7,856
Occupancy and equipment	2,941	2,383	1,997
Professional services	1,546	715	576
Data processing	1,202	865	752
Director fees	366	288	216
FDIC insurance	365	472	471
Marketing	333	342	265
Loss on foreclosed real estate, net	9	-	284
Other	1,670	1,030	914
Total noninterest expenses	17,858	14,601	13,331
Income before income tax expense	1,871	3,201	721
Income tax expense	657	997	214
Net income	1,214	2,204	507
Preferred stock dividends and net accretion	(132)	(206)	(261)
Net income attributable to common shareholders	$ 1,082	$ 1,998	$ 246
Earnings per common share - basic	$ 0.39	$ 0.72	$ 0.10
Earnings per common share - diluted	0.38	0.71	0.09

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2012, 2011 and 2010

(In thousands)	2012	2011	2010
Net income	$ 1,214	$ 2,204	$ 507
Other comprehensive income:			
Unrealized holding gain on available for sale securities	1,130	1,272	160
Reclassification adjustment for net loss (gain) recognized in net income	18	(250)	(1)
Other comprehensive income before tax expense	1,148	1,022	159
Income tax expense related to items of other comprehensive income	(447)	(397)	(62)
Other comprehensive income, net of tax	701	625	97
Total comprehensive income	$ 1,915	$ 2,829	$ 604

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31, 2012, 2011 and 2010

(In thousands)	Preferred Stock	Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2009	$ 5,037	$ 32,970	$ (2,400)	$ 88	$ 35,695
Net income	-	-	507	-	507
Other comprehensive income, net of tax	-	-	-	97	97
Preferred stock dividends	-	-	(261)	-	(261)
Capital from private placement		4,158	-		4,158
Equity based compensation expense	-	152	-	-	152
Capital from exercise of stock options	-	6	-	-	6
Balance at December 31, 2010	5,037	37,286	(2,154)	185	40,354
Net income	-	-	2,204	-	2,204
Other comprehensive income, net of tax	-	-	-	625	625
Issuance of Series C preferred stock	10,980	-	-	-	10,980
Redemption of Series A preferred stock	(4,797)	-	-	-	(4,797)
Redemption of Series B preferred stock	(240)	-	-	-	(240)
Preferred stock dividends	-	-	(206)	-	(206)
Equity based compensation expense	-	250	-	-	250
Capital from exercise of stock options	-	18	-	-	18
Balance at December 31, 2011	10,980	37,554	(156)	810	49,188
Net income	-	-	1,214	-	1,214
Other comprehensive income, net of tax	-	-	-	701	701
Preferred stock dividends	-	-	(132)	-	(132)
Equity based compensation expense	-	563	-	-	563
Balance at December 31, 2012	$ 10,980	$ 38,117	$ 926	$ 1,511	$ 51,534

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2012, 2011 and 2010

(In thousands)	2012	2011	2010
Cash flows from operating activities			
Net income	$ 1,214	$ 2,204	$ 507
Adjustments to reconcile net income to net cash provided by operating activities:			
Net accretion of premiums and discounts on investment securities	130	126	70
Provision for loan losses	1,821	1,049	1,311
Benefit from deferred taxes	(777)	(404)	(482)
Net loss (gain) from sales of available for sale securities	18	(250)	(1)
Depreciation and amortization	612	541	452
Loans originated for sale	(575)	(46,035)	(115,279)
Proceeds from sales of loans	1,765	48,823	116,091
Net gain on sales of loans	(18)	(547)	(1,316)
Stock-based compensation	563	250	152
Net change in:			
Deferred loan fees	539	344	215
Accrued interest receivable	206	(745)	(267)
Other assets	(1,432)	274	444
Accrued expenses and other liabilities	4,101	835	(33)
Net cash provided by operating activities	8,167	6,465	1,864
Cash flows from investing activities			
Proceeds from principal repayments on available for sale securities	1,103	1,143	1,059
Proceeds from principal repayments on held to maturity securities	480	233	290
Net proceeds from sales and calls of available for sale securities	54,973	31,979	21,476
Net proceeds from maturities of held to maturity securities	-	-	1,000
Purchases of available for sale securities	(6,997)	(69,026)	(47,828)
Net increase in loans receivable	(162,026)	(80,704)	(31,048)
Purchases of leasehold improvements and equipment	(684)	(96)	(1,434)
Purchase of Federal Home Loan Bank stock	(1,034)	(84)	(535)
Net cash used by investing activities	(114,185)	(116,555)	(57,020)
Cash flows from financing activities			
Net change in time certificates of deposit	(230)	(1,265)	4,473
Net change in other deposits	95,216	59,243	60,448
Net proceeds from (repayments to) FHLB advances	33,000	14,000	(2,000)
Net proceeds from issuance (redemption) of preferred stock	-	5,943	-
Proceeds from issuance of common stock	-	-	4,158
Exercise of options	-	18	6
Dividends paid on preferred stock	(132)	(206)	(261)
Net cash provided by financing activities	127,854	77,733	66,824
Net increase (decrease) in cash and cash equivalents	21,836	(32,357)	11,668
Cash and cash equivalents			
Beginning of year	7,091	39,448	27,780
Ending of year	$ 28,927	$ 7,091	$ 39,448
Supplemental disclosures of cash flows information:			
Cash paid for:			
Interest	$ 3,208	$ 2,952	$ 3,318
Income taxes	1,984	866	590
Noncash investing and financing activities:			
Loans transferred to foreclosed real estate	962	-	3,386

The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BNC Financial Group, Inc. (the “Company”) is a federally-chartered bank holding company located in New Canaan, Connecticut. The Company operates two subsidiaries, The Bank of New Canaan (“BNC”) and The Bank of Fairfield ("TBF"), collectively referred to as "the Banks". BNC operates a branch located in Stamford, Connecticut under the name Stamford First Bank (“SFB”).

The Banks are state-chartered commercial banks whose deposits are insured under the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation. The Banks provide a full range of banking services to commercial and consumer customers, primarily concentrated in the Fairfield County area of Connecticut. The Banks operate branch locations in New Canaan, Stamford and Fairfield, Connecticut.

Basis of consolidated financial statement presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. Such policies have been followed on a consistent basis.

Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through March 27, 2013, the date upon which the Bank’s consolidated financial statements were available to be issued. No subsequent events were identified that would have required a change to the consolidated financial statements or disclosure in the notes to the consolidated financial statements, other than as discussed in Note 2, *Preferred and Common Stock*.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the 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, the valuation of foreclosed real estate and the valuation of deferred taxes. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, especially in the Fairfield County region of Connecticut.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and the Banks. All significant intercompany accounts and transactions have been eliminated in consolidation.

Significant concentrations of credit risk

Most of the Company’s activities are with customers located within Fairfield County and the surrounding region of Connecticut. The Company has significant concentrations in commercial real estate and interest-only residential mortgage loans. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.

Cash and cash equivalents and statement of cash flows

Cash and due from banks and federal funds sold are recognized as cash equivalents in the consolidated statements of cash flows. Federal funds sold generally mature in one day. For purposes of reporting cash flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash flows from loans and deposits are reported net. The balances of cash and due from banks and federal funds sold, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

Investment securities

Management determines the appropriate classification of investment securities at the date individual investment securities are acquired, and the appropriateness of such classification is reaffirmed at each balance sheet date. The Company's investment securities are categorized as either available for sale or held to maturity. Held to maturity investments are carried at amortized cost; available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income as a separate component of capital, net of estimated income taxes.

Fair value is determined by applying the valuation framework in accordance with GAAP, which specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions.

Investment securities are reviewed regularly for other-than-temporary impairment. For debt securities, other-than-temporary impairment is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the security. The credit loss component of an other-than-temporary impairment write-down is recorded in earnings, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss), provided the Company does not intend to sell the underlying debt security and it is more likely than not that the Company will not be required to sell the debt security prior to recovery.

In determining whether a credit loss exists and the period over which the fair value of the debt security is expected to recover, management considers the following factors: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, any external credit ratings, the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities, the level of credit enhancement provided by the structure and the Bank's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

The sale of a held to maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sales of securities are recognized at trade date utilizing the specific identification method.

Federal Home Loan Bank stock

Federal Home Loan Bank of Boston ("FHLB") stock is a non-marketable equity security that is carried at cost and evaluated for impairment.

Loans held for sale

Loans held for sale are those loans which management has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized by a valuation allowance through a charge to noninterest income. Realized gains and losses on the sale of mortgage loans are recognized on the settlement date and are determined by the difference between the sale proceeds and the carrying value of the loans.

Mortgage loans may be sold with servicing rights released or retained. At the time of the sale, management determines the value of any retained servicing rights, which represents the present value of the differential between the contractual servicing fee and adequate compensation, defined as the fee a sub-servicer would require to assume the role of servicer, after considering the estimated effects of prepayments. If material, a portion of the gain on the sale of the loan is recognized as due to the value of the servicing rights, and a servicing asset is recorded. There have been no loan sales to date where servicing rights have been retained.

Loans receivable

Loans receivable that management has the ability and intent to hold for the foreseeable future or until maturity or payoff are stated at their current unpaid principal balances, net of the allowance for loan losses, net deferred loan origination fees and unamortized loan premiums.

A loan is classified as a restructured loan when certain concessions have been made to the original contractual terms, such as a reduction in interest rate or deferral of interest or principal payments, due to the borrower's financial condition.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are recorded as adjustments to the allowance for loan losses. A loan is considered impaired when it is probable that all contractual principal or interest payments due will not be collected in accordance with the terms of the loan agreement.

Management reviews all nonaccrual loans, other loans past due 90 days or more, and restructured loans for impairment. In most cases, loan payments that are past due less than 90 days are considered minor collection delays and the related loans are not considered to be impaired. Consumer installment loans are considered to be pools of small balance homogeneous loans, which are collectively evaluated for impairment.

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 non-collectability 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 collectability 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 specific and general components. The specific component relates to impaired loans that are classified as doubtful, substandard or special mention. For these loans, 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, and includes unallocated

components maintained to cover uncertainties that could affect management's estimation of probable losses, and reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The majority of loans are collateralized by real estate located within the Fairfield County region of Connecticut. Accordingly, the collateral value of a substantial portion of the loan portfolio and real estate acquired through foreclosure is susceptible to changes in local market conditions.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies have the authority to require additions to the allowance or charge-offs based on the agencies' judgments about information available to them at the time of their examination.

Interest and fees on loans

Interest on loans is accrued and included in income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectability of the loan or loan interest becomes uncertain. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectability of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.

Loan origination fees, net of direct loan origination costs, are deferred and amortized as an adjustment to the loan's yield generally over the contractual life of the loan, utilizing the interest method.

Leasehold improvements and equipment

Leasehold improvements and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets which range from 3 to 30 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

Income taxes

The Company accounts for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these temporary differences. The Company examines its financial statements, its income tax provision, and its federal and state income tax returns and analyzes its tax positions, including permanent and temporary differences, as well as the major components of income and expense to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the consolidated statements of income.

Related party transactions

The Company's Directors, Officers and their affiliates have been customers of and have had transactions with the Banks, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposits accounts, loans, services and commitments comprising such

transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. See Note 16.

Stock compensation

Stock-based compensation cost is measured as of the grant date, based on the fair value of the award, and is recognized as an expense over the employee requisite service period.

Earnings Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. 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 stockholders' equity section of the balance sheets, such items, along with net income, are components of comprehensive income.

Fair values of financial instruments

The following methods and assumptions were used by management in estimating the fair value of its financial instruments:

Cash and due from banks, federal funds sold, accrued interest receivable and mortgagors' escrow accounts: The carrying amount is a reasonable estimate of fair value.

Investment securities: Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The fair value of securities is further classified in accordance with the framework specified in GAAP as discussed in Note 14.

FHLB stock: The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB.

Loans held for sale: The fair value is based upon prevailing market prices.

Loans receivable: For variable rate loans which reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of fixed rate loans are estimated by discounting the future cash flows using the year end rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits.

Advances from the FHLB: The fair value of the advances is estimated using a discounted cash flow calculation that applies current FHLB interest rates for advances of similar maturity to a schedule of maturities of such advances.

Recent Accounting Pronouncements

The following section includes changes in accounting principles and potential effects of new accounting pronouncements.

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*, which requires the Company to present information about reclassification adjustments from accumulated other comprehensive income to be presented in a single note or on the face of the financial statements. The guidance is effective for the Company as of December 31, 2013. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform a quantitative impairment test. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income,* which requires that all non-owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was effective for the Company as of December 31, 2012, and was applied retrospectively. The adoption of this guidance resulted in additional disclosures. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* which supersedes most of the accounting guidance currently found in Topic 820 of FASB's Accounting Standards Codification. The amendments improve comparability of fair value measurements presented and disclosed in financial statements prepared with GAAP and International Financial Reporting Standards ("IFRS"). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. The guidance was effective for the Bank's annual periods beginning after December 15, 2011 and was applied prospectively. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In January 2011, the FASB issued ASU No. 2011-01*, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. The amendments in this update temporarily delayed the effective date of disclosures about troubled debt restructurings in ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The effective date for the troubled debt restructuring disclosures was aligned with the effective date for new guidance for determining what constitutes a troubled debt restructuring. The guidance was effective for interim and annual periods ending after June 15, 2011. The adoption of ASU No. 2011-01 did not have a material impact on the Company's consolidated financial statements as it impacted disclosures only.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The statement is intended to improve the transparency of financial reporting by requiring enhanced disclosures about a bank's allowance for loan losses and the credit quality of its financing receivables (generally defined as loans and leases). The primary goal of the disclosure requirements is to provide more information about the credit risk in a bank's portfolio of loans and how that risk is analyzed and assessed in arriving at the allowance for loan loss. The guidance was effective for public entities for annual and interim reporting periods ending on or after December 15, 2010, and was effective for non-public entities for annual periods ending on or after December 15, 2011. The adoption of ASU No. 2010-20 did not have a material impact on the Company's consolidated financial statements as it impacted disclosures only.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications only changed the reporting categories but did not affect our results of operations or financial position.

2. PREFERRED AND COMMON STOCK

Preferred stock

On February 27, 2009, the Company entered into a Letter Agreement, which included a Securities Purchase Agreement (together, the "Purchase Agreement'), with the United States Department of the Treasury (the "Treasury") pursuant to which the Company issued and sold to the Treasury (i) 4,797 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par (the "Series A Preferred Stock"), having a liquidation preference of $1,000 per preferred share, for a total purchase price of $4,797,000 and (ii) a warrant (the "Warrant") to purchase 240 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, no par (the "Series B Preferred Stock"), with a liquidation preference of $1,000 per preferred share, at an exercise price of $.01. The Warrant had a ten-year term and was immediately exercisable. Immediately following the issuance of the Series A Preferred Stock and the Warrant, the Treasury exercised its rights under the Warrant to acquire 240 shares of the Series B Preferred Stock through a cashless exercise.

The Series A and Series B Preferred Stocks were fully redeemed by the Company on August 4, 2011 (see below). The Series A Preferred Stock paid cumulative dividends at a rate of 5% per 360-day year for the first five years and thereafter at a rate of 9% per 360-day year. The Series A Preferred Stock was non-voting. The Series B Preferred Stock paid cumulative dividends at a rate of 9% per 360-day year. The Series B Preferred Stock generally had the same rights and privileges as the Series A Preferred Stock.

The Company allocated the $4,797,000 in proceeds received from the Treasury between Series A Preferred Stock and Series B Preferred Stock assuming that the Preferred Stock would be replaced with a qualifying equity offering and the Preferred Stock would therefore be redeemed at the end of five years. The allocation was recorded assuming a discount rate of 12% on the cash flows of each instrument. The allocation of the proceeds was $4,505,822 for Series A Preferred Stock and $291,178 for Series B Preferred Stock, for total proceeds of $4,797,000.

The Series A Preferred Stock and the Series B Preferred Stock were fully amortized and accreted during the year ended December 31, 2009.

In 2011, the Company elected to participate in Treasury's Small Business Lending Fund Program ("SBLF"). The SBLF is a $30 billion fund established under the Small Business Jobs Act of 2010 to

encourage lending to small businesses by providing Tier 1 Capital to qualified community banks with assets of less than $10 billion. The SBLF funding expanded the Company's ability to lend to small businesses, which will in turn helps stimulate the economy and promote job growth.

On August 4, 2011, the Treasury approved the Company's request to repay the Treasury's preferred investment through participation in the SBLF. The Company sold 10,980 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, no par (the "Series C Preferred Stock"), having a liquidation preference of $1,000 per preferred share, to the Treasury and simultaneously repurchased all of its Series A and Series B Preferred Stock sold to the Treasury in 2009. The transaction resulted in net capital proceeds to the Company of $5.9 million, of which at least 90% was invested in the Banks' as Tier 1 Capital.

The Series C Preferred stock pays noncumulative dividends. The dividend rate on the Series C Preferred Stock for the initial ten quarterly dividend periods, commencing with the period ended September 30, 2011 and ending with the period ended December 31, 2013, is determined each quarter based on the increase in the Banks' Qualified Small Business Lending over a baseline amount. The Company has paid quarterly dividends at a rate of 1.0% since issuance. For the eleventh quarterly dividend payment through four and one-half years after its issuance, the dividend rate on the Series C Preferred Stock will be fixed at the rate in effect at the end of the ninth quarterly dividend period and after four and one-half years from its issuance the dividend rate will be fixed at 9 percent per annum.

The Series C Preferred Stock has no maturity date and ranks senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series C Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Series C Preferred Stock, and is redeemable at any time by the Company, subject to the approval of its federal banking regulator. The redemption price is the aggregate liquidation preference of the SBLF Preferred Stock plus accrued but unpaid dividends and pro rata portion of any lending incentive fee. All redemptions must be in an amount at least equal to 25% of the number of originally issued shares of SBLF Preferred Stock, or 100% of the then-outstanding shares if less than 25% of the number of shares originally issued.

Common stock

On March 23, 2007, BNC completed an offering begun in October 2006, and raised a total of $15.52 million ($15.42 million, net of expenses). The purpose of the offering was to capitalize the Company and through it, capitalize TBF during its de novo period, and allow for the continued growth of BNC.

On July 10, 2007, BNC began a Private Placement for the sale of Units similar to those offered in the secondary offering. The purpose of the Private Placement was to attract investors from the Town of Fairfield who would be willing to support TBF during its de novo period. The Private Placement raised a total of $1,670,000 ($1.64 million, net of expenses). The net proceeds of these funds were added to the Company's capital in the first quarter of 2008.

For both the 2006 Secondary Offering and the 2007 Private Placement, the Company issued 945,789 units and received $17,191,202 in total capital ($17.06 million, net of expenses).

On December 20, 2010, the Company completed a Private Placement for the sale of its common stock. The purpose of the offering was to raise additional capital for future growth. The Company issued 300,321 shares and received $4,204,634 in total capital ($4.16 million, net of expenses).

The Company is in the process of completing a Private Placement for the sale of its common stock, which began in the fourth quarter of 2012. At December 31, 2012, the Private Placement remains open and is expected to close in the second quarter of 2013.

Dividends

The Company's shareholders are entitled to dividends when and if declared by the Board of Directors out of funds legally available. Connecticut law prohibits the Company from paying cash dividends except from its net profits, which are defined by state statutes.

The payment of dividends are subject to additional restrictions in connection with preferred stock issued under TARP, which were repurchased in August 2011, and the Treasury Department's SBLF, which were issued in August 2011.

In 2012, 2011 and 2010, the Company declared and paid cash dividends on preferred stock of $131,760, $205,634 and $261,450, respectively. For 2012, 2011 and 2010, the Company did not declare or pay dividends on its common stock. The Company did not repurchase any of its common stock during 2012, 2011 or 2010.

3. RESTRICTIONS ON CASH AND DUE FROM BANKS

BNC and TBF are required to maintain $125,000 and $25,000, respectively, in the Federal Reserve Bank for clearing purposes.

4. INVESTMENT SECURITIES

The amortized costs, gross unrealized gains and losses and approximate fair values of available for sale and held to maturity securities at December 31, 2012 were as follows:

	December 31, 2012			
	Amortized	Gross Unrealized		Fair
(In thousands)	Cost	Gains	Losses	Value
Available for sale securities:				
U.S. Government and agency obligations				
Due from five through ten years	$ 5,997	$ 16	$ (8)	$ 6,005
State agency and municipal obligations				
Due from five through ten years	3,631	286	-	3,917
Due after ten years	13,405	1,209	-	14,614
	17,036	1,495	-	18,531
Corporate bonds				
Due from one through five years	11,612	657	(14)	12,255
Due from five through ten years	2,069	232	-	2,301
	13,681	889	(14)	14,556
Mortgage backed securities	1,872	94	-	1,966
Total available for sale securities	$ 38,586	$ 2,494	$ (22)	$ 41,058
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	$ 3,903	$ -	$ -	3,903
Corporate bonds				
Due from five through ten years	1,000	-	(96)	904
Mortgage backed securities	451	34	-	485
Total held to maturity securities	$ 5,354	$ 34	$ (96)	$ 5,292

The amortized costs, gross unrealized gains and losses and approximate fair values of available for sale securities at December 31, 2011 were as follows:

	December 31, 2011			
	Amortized	Gross Unrealized		Fair
(In thousands)	Cost	Gains	Losses	Value
Available for sale securities:				
U.S. Government and agency obligations				
Due from five through ten years	$ 12,276	$ 59	$ -	$ 12,335
Due after ten years	29,322	98	(6)	29,414
	41,598	157	(6)	41,749
State agency and municipal obligations				
Due from five through ten years	1,771	131	-	1,902
Due after ten years	16,058	1,238	-	17,296
	17,829	1,369	-	19,198
Corporate bonds				
Due from one through five years	15,061	117	(439)	14,739
Due from five through ten years	8,313	125	(204)	8,234
Due after ten years	1,991	17	-	2,008
	25,365	259	(643)	24,981
Mortgage backed securities	2,955	188	-	3,143
Total available for sale securities	$ 87,747	$ 1,973	$ (649)	$ 89,071
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	$ 3,962	$ -	$ -	3,962
Corporate bonds				
Due from five through ten years	1,000	-	(157)	843
Mortgage backed securities	939	60	-	999
Total held to maturity securities	$ 5,901	$ 60	$ (157)	$ 5,804

At December 31, 2012 and 2011, mortgage backed securities held by the Company were issued by U.S. Government Sponsored Entities ("GSE").

During 2012, 2011 and 2010, gross gains of $76,325, $249,700, $737 and gross losses of $94,869, $0, and $0, were realized on sales of investment securities, respectively.

At December 31, 2012 and 2011, securities with approximate fair values of $5,002,000 and $4,330,000 respectively, were pledged as collateral for public deposits.

The following is a summary of the fair values and related unrealized losses aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position as of December 31, 2012 and 2011:

	Length of Time in Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
December 31, 2012						
U.S. Government and agency obligations	$ 1,991	$ (8)	$ -	$ -	$ 1,991	$ (8)
Corporate bonds	-	-	1,889	(110)	1,889	(110)
Total investment securities	$ 1,991	$ (8)	$ 1,889	$ (110)	$ 3,880	$ (118)
December 31, 2011						
U.S. Government and agency obligations	$ 3,324	$ (6)	$ -	$ -	$ 3,324	$ (6)
Corporate bonds	13,660	(589)	1,789	(211)	15,449	(800)
Total investment securities	$ 16,984	$ (595)	$ 1,789	$ (211)	$ 18,773	$ (806)

At December 31, 2012 and 2011, there were 4 individual investment securities and 21 individual investment securities, respectively, in which the fair value of the security was less than the cost of the security.

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or are issued by one of the stockholder-owned corporations chartered by the U.S. Government. The Company's corporate bonds are all rated above investment grade. The U.S. Government and agency obligations and the corporate bonds have experienced declines due to general market conditions. Management has determined that there has been no deterioration in credit quality subsequent to purchase and believes that unrealized losses are temporary, resulting from recent market conditions.

5. LOANS RECEIVABLE

A summary of the loan portfolio at December 31, 2012 and 2011 was as follows:

(In thousands)	2012	2011
Real estate loans:		
Residential	$ 144,288	$ 104,754
Commercial	281,890	173,951
Construction	33,148	40,422
Home equity	11,030	14,815
Total real estate loans	470,356	333,942
Commercial business	59,637	35,041
Consumer	57	311
Total loans	530,050	369,294
Allowance for loan losses	(7,941)	(6,425)
Deferred loan origination fees, net	(1,338)	(825)
Unamortized loan premiums	21	43
Loans receivable, net	$ 520,792	$ 362,087

Lending activities are conducted principally in the Fairfield County region of Connecticut, and consist of residential and commercial real estate loans, commercial business loans and a variety of consumer loans. Loans may also be granted for the construction of residential homes and commercial properties. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate.

Risk management

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% of the market value of the collateral at the date of the credit extension, depending on the borrowers' creditworthiness and the type of collateral. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. The Company's policy for collateral requires that, generally, the amount of the loan may not exceed 90% of the original appraised value of the property. Private mortgage insurance is required for that portion of the residential loan in excess of 80% of the appraised value of the property.

Credit quality of loans and the allowance for loan losses

Management segregates the loan portfolio into portfolio segments which is defined as the level at which the Company develops and documents a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

The Bank's loan portfolio is segregated into the following portfolio segments:

Residential real estate: This portfolio segment consists of the origination of first mortgage loans secured by one-to four-family owner occupied residential properties and residential construction loans to individuals to finance the construction of residential dwellings for personal use located in our market area.

Commercial real estate: This portfolio segment includes loans secured by commercial real estate, non-owner occupied one-to four-family and multi-family dwellings for property owners and businesses in our market area. Loans secured by commercial real estate generally have larger loan balances and more credit risk than owner occupied one-to four-family mortgage loans.

Construction: This portfolio segment includes commercial construction loans for commercial development projects, including condominiums, apartment buildings, and single family subdivisions as well as office buildings, retail and other income producing properties and land loans, which are loans made with land as security. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment. Construction loans also expose the Company to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties, which may cause some borrowers to be unable to continue with debt service which exposes the Company to greater risk of non-payment and loss.

Home equity loans: This portfolio segment primarily includes home equity loans and home equity lines of credit secured by owner occupied one-to four-family residential properties. Loans of this type are written at a maximum of 75% of the appraised value of the property and the Company requires a second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

Commercial business loans: This portfolio segment includes commercial business loans secured by assignments of corporate assets and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than other loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Consumer loans: This portfolio segment includes loans secured by passbook or certificate accounts, or automobiles, as well as unsecured personal loans and overdraft lines of credit. This type of loan may entail greater risk than do residential mortgage loans, particularly in the case of loans that are unsecured or secured by assets that depreciate rapidly.

Allowance for loan losses

The following tables set forth the balances and activity in the allowance for loan losses as of and for the years ended December 31, 2012, 2011 and 2010, by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually:

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
December 31, 2012								
Beginning balance	$ 1,290	$ 2,519	$ 1,007	$ 274	$ 1,317	$ 11	$ 7	$ 6,425
Charge-offs	(261)	-	(60)	-	-	(5)	-	(326)
Recoveries	-	-	-	-	-	21	-	21
Provisions	201	1,381	(18)	(54)	401	(25)	(65)	1,821
Ending balance	$ 1,230	$ 3,900	$ 929	$ 220	$ 1,718	$ 2	$ (58)	$ 7,941
Ending loan balances individually evaluated for impairment	$ 2,137	$ 1,817	$ -	$ -	$ 194	$ -	$ -	$ 4,148
Ending loan balances collectively evaluated for impairment	$ 142,151	$ 280,073	$ 33,148	$ 11,030	$ 59,443	$ 57	$ -	$ 525,902
December 31, 2011								
Beginning balance	$ 1,053	$ 1,806	$ 951	$ 313	$ 744	$ 20	$ 553	$ 5,440
Charge-offs	-	-	(84)	-	-	-	-	(84)
Recoveries	-	-	-	-	-	20	-	20
Provisions	237	713	140	(39)	573	(29)	(546)	1,049
Ending balance	$ 1,290	$ 2,519	$ 1,007	$ 274	$ 1,317	$ 11	$ 7	$ 6,425
Ending loan balances individually evaluated for impairment	$ 2,166	$ 2,807	$ 1,175	$ 90	$ 260	$ -	$ -	$ 6,498
Ending loan balances collectively evaluated for impairment	$ 102,588	$ 171,144	$ 39,247	$ 14,725	$ 34,781	$ 311	$ -	$ 362,796

(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
December 31, 2010								
Beginning balance	$ 627	$ 906	$ 974	$ 268	$ 248	$ 4	$ 1,353	$ 4,380
Charge-offs	-	-	(254)	-	-	(6)	-	(260)
Recoveries	-	-	-	-	-	9	-	9
Provisions	426	900	231	45	496	13	(800)	1,311
Ending balance	$ 1,053	$ 1,806	$ 951	$ 313	$ 744	$ 20	$ 553	$ 5,440
Ending loan balances individually evaluated for impairment	$ 974	$ 2,544	$ 1,300	$ -	$ -	$ -	$ -	$ 4,818
Ending loan balances collectively evaluated for impairment	$ 103,780	$ 171,407	$ 39,122	$ 14,815	$ 35,041	$ 311	$ -	$ 364,476

The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Credit quality indicators

The Company's policies provide for the classification of loans into the following categories: pass, special mention, substandard, doubtful and loss. Consistent with regulatory guidelines, loans that are considered to be of lesser quality are classified as substandard, doubtful, or loss assets. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those loans characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans classified as loss are those considered uncollectible and of such little value that there continuance as loans is not warranted. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are designated as special mention.

When loans are classified as special mention, substandard or doubtful, the Company disaggregates these loans and allocates a portion of the related general loss allowances to such loans as the Company deems prudent. Determinations as to the classification of loans and the amount of loss allowances are subject to review by the Company's regulators, which can require the Company to establish additional loss allowances. The Company regularly reviews its loan portfolio to determine whether any loans require classification in accordance with applicable regulations.

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at December 31, 2012 and 2011:

	Commercial Credit Quality Indicators					
	At December 31, 2012			At December 31, 2011		
(In thousands)	Commercial Real Estate	Construction	Commercial Business	Commercial Real Estate	Construction	Commercial Business
Grade:						
Pass	$ 279,824	$ 33,148	$ 58,320	$ 171,120	$ 39,247	$ 34,403
Special mention	249	-	1,123	24	-	378
Substandard	1,817	-	194	2,807	1,175	260
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 281,890	$ 33,148	$ 59,637	$ 173,951	$ 40,422	$ 35,041

	Residential Credit Quality Indicators					
	At December 31, 2012			At December 31, 2011		
(In thousands)	Residential Real Estate	Home Equity	Consumer	Residential Real Estate	Home Equity	Consumer
Grade:						
Pass	$ 142,151	$ 11,030	$ 57	$ 101,987	$ 14,628	$ 311
Special mention	-	-	-	601	97	-
Substandard	2,137	-	-	2,166	90	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 144,288	$ 11,030	$ 57	$ 104,754	$ 14,815	$ 311

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, the Company will send the borrower a final demand for payment and may recommend foreclosure. A summary report of all loans 30 days or more past due is provided to the board of directors of the Company each month. Loans greater than 90 days past due are put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.

The following tables set forth certain information with respect to loan portfolio delinquencies by portfolio segment and amount as of December 31, 2012 and 2011:

(In thousands)	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days (Nonaccrual)	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
December 31, 2012						
Real estate loans:						
Residential	$ -	$ -	$ 2,137	$ 2,137	$ 142,151	$ -
Commercial	-	-	1,817	1,817	280,073	-
Construction	-	-	-	-	33,148	-
Home equity	-	-	-	-	11,030	-
Commercial business	40	-	-	40	59,597	-
Consumer	-	-	-	-	57	-
Total	$ 40	$ -	$ 3,954	$ 3,994	$ 526,056	$ -
December 31, 2011						
Real estate loans:						
Residential	$ -	$ -	$ 2,166	$ 2,166	$ 102,588	$ -
Commercial	-	-	307	307	173,644	-
Construction	-	-	1,175	1,175	39,247	-
Home equity	-	-	90	90	14,725	-
Commercial business	-	-	-	-	35,041	-
Consumer	-	-	-	-	311	-
Total	$ -	$ -	$ 3,738	$ 3,738	$ 365,556	$ -

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of December 31, 2012 and 2011:

(In thousands)	2012	2011
Residential real estate	$ 2,137	$ 2,166
Commercial real estate	1,817	307
Construction	-	1,175
Home equity	-	90
Total	$ 3,954	$ 3,738

The amount of income that was contractually due but not recognized on nonperforming loans totaled $275,552, $133,192 and $158,507 in 2012, 2011 and 2010, respectively. The amount of actual interest income recognized on these loans was $112,681, $75,571, and $212,052 in 2012, 2011 and 2010, respectively.

At December 31, 2012 and 2011, there were no commitments to lend additional funds to any borrower on nonaccrual status.

Impaired loans

An impaired loan generally is one for which it is probable, based on current information, that the Company will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Company classifies a problem loan as impaired, it provides a specific reserve for that portion of the asset that is deemed uncollectible.

The following summarizes impaired loans as of December 31, 2012, 2011 and 2010:

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
December 31, 2012					
Impaired loans without a valuation allowance:					
Residential real estate	$ 2,137	$ 2,137	$ -	$ 2,273	$ 47
Impaired loans with a valuation allowance:					
Commercial real estate	$ 1,817	$ 1,817	$ 249	$ 2,461	$ 44
Commercial business	194	194	9	198	14
Total impaired loans with a valuation allowance	$ 2,011	$ 2,011	$ 258	$ 2,659	$ 58
Total impaired loans	$ 4,148	$ 4,148	$ 258	$ 4,932	$ 105
December 31, 2011					
Impaired loans without a valuation allowance:					
Commercial real estate	$ 307	$ 307	$ -	$ 310	$ 16
Home equity	90	90	-	90	1
Commercial business	203	203	-	206	15
Total impaired loans without a valuation allowance	$ 600	$ 600	$ -	$ 606	$ 32
Impaired loans with a valuation allowance:					
Residential real estate	$ 2,166	$ 2,166	$ 275	$ 2,166	$ 58
Commercial real estate	2,500	2,500	222	2,520	178
Construction	1,175	1,557	164	1,248	-
Commercial business	57	57	2	65	4
Total impaired loans with a valuation allowance	$ 5,898	$ 6,280	$ 663	$ 5,999	$ 240
Total impaired loans	$ 6,498	$ 6,880	$ 663	$ 6,605	$ 272

At December 31, 2010, there were $2,274,422 of nonaccrual loans, $2,543,637 of accruing loans and $3,632,607 of restructured loans that were considered impaired. The restructured loans were performing in accordance with their modified terms. The amount of the allowance for loan losses related to impaired loans was $457,733 and the average balance of impaired loans was $8,562,651 during the year. The amount of actual interest income recognized on impaired loans was $212,052 in 2010.

Troubled debt restructurings (TDRs)

The following table presents loans whose terms were modified under TDRs as of December 31, 2012 and 2011:

(In thousands)	2012	2011
Residential real estate	$ 864	$ -
Commercial real estate	194	203
Commercial business	794	57
Total	$ 1,852	$ 260
TDRs included in nonperforming loans and leases	$ -	$ -
TDRs in compliance with modified terms	$ 1,852	$ 260

All TDRs at December 31, 2012, 2011 and 2010 were performing under their modified terms and therefore, were on accrual status.

6. LEASEHOLD IMPROVEMENTS AND EQUIPMENT

At December 31, 2012 and 2011, leasehold improvements and equipment consisted of the following:

(In thousands)	2012	2011
Leasehold improvements	$ 3,187	$ 3,034
Furniture and fixtures	661	414
Equipment	1,775	1,491
	5,623	4,939
Accumulated depreciation and amortization	(3,105)	(2,493)
Leasehold improvements and equipment, net	$ 2,518	$ 2,446

For the years ended December 31, 2012, 2011 and 2010, depreciation and amortization expense related to leasehold improvements and equipment totaled $612,085, $541,255 and $452,401, respectively.

7. DEPOSITS

At December 31, 2012 and 2011, deposits consisted of the following:

(In thousands)	2012	2011
Noninterest bearing demand deposit accounts	$ 78,120	$ 74,735
Interest bearing accounts:		
NOW and money market	127,812	110,238
Savings	136,121	61,864
Time certificates of deposit	120,048	120,278
Total interest bearing accounts	383,981	292,380
Total deposits	$ 462,101	$ 367,115

Contractual maturities of time certificates of deposit as of December 31, 2012 are summarized below:

(In thousands)		
2013	$	97,401
2014		12,480
2015		4,054
2016		3,018
2017		3,095
	$	120,048

Time certificates of deposit in denominations of $100,000 or more were approximately $91,665,000 and $90,115,000 as of December 31, 2012 and 2011, respectively. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), signed into law on July 21, 2010, permanently raised the maximum deposit insurance amount to $250,000, retroactive to January 1, 2008. The aggregate amount of individual certificate accounts with balances of $250,000 or more was approximately $21,903,000 and $26,822,000 at December 31, 2012 and 2011, respectively.

A summary of interest expense by account type for the years ended December 31, 2012, 2011 and 2010 was as follows:

(In thousands)		2012		2011		2010
NOW and money market	$	657	$	550	$	343
Savings		846		527		511
Time certificates of deposit		864		946		1,520
Total interest expense on deposits	$	2,367	$	2,023	$	2,374

8. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases corporate office space, as well as its two main office locations, three branch locations and certain equipment under operating lease agreements which expire at various dates through 2020. In addition to rental payments, the leases require payment of property taxes and certain common area maintenance fees. At December 31, 2012, future minimum rental commitments under the terms of these leases by year were as follows:

(In thousands)		
2013	$	1,359
2014		1,169
2015		1,162
2016		637
2017		549
Thereafter		515
	$	5,391

Total rental expense approximated $1,303,000, $1,155,000 and $1,048,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Legal matters

The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

Employment agreements

The Company and its subsidiaries have entered into employment agreements with certain executive officers. The agreements have different terms and provide each executive with a base salary, annual cash bonuses and other benefits as determined by the Personnel and Compensation Committee and approved by the Board of Directors.

Off-balance sheet instruments

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer's default, and the value of any existing collateral becomes worthless. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and evaluates each customer’s creditworthiness on a case-by-case basis. Management believes that they control the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contract amounts represented credit risk at December 31, 2012 and 2011 were as follows:

(In thousands)	2012	2011
Commitments to extend credit:		
Loan commitments	$ 39,339	$ 22,035
Undisbursed construction loans	54,705	65,247
Unused home equity lines of credit	10,714	13,541
	$ 104,758	$ 100,823

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 to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management’s credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

9. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

The following is a summary of FHLB advances with maturity dates and weighted average rates at December 31, 2012 and 2011:

	2012		2011	
(Dollars in thousands)	Amount Due	Weighted Average Rate	Amount Due	Weighted Average Rate
Year of maturity:				
2012	$ -	- %	$ 38,000	0.54 %
2013	67,000	0.86	16,000	2.95
2014	2,000	3.24	2,000	3.24
2015	2,000	2.75	2,000	2.75
2017	20,000	0.99	-	-
Total advances	$ 91,000	0.98 %	$ 58,000	1.38 %

The Banks' have additional borrowing capacity at the FHLB, in excess of outstanding advances, up to a certain percentage of the value of their respective qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no additional borrowings at December 31, 2012 and 2011.

Additionally, BNC has access to a pre-approved secured line of credit of $450,000 with the FHLB, none of which was outstanding at December 31, 2012 or 2011.

BNC and TBF have unsecured lines of credit of $2,000,000 and $500,000, respectively, with Bankers' Bank Northeast, none of which was outstanding at December 31, 2012 and 2011.

Federal Home Loan Bank stock

As members of the FHLB, BNC and TBF are required to maintain investments in their capital stock. BNC owned 36,387 and 26,953 shares at December 31, 2012 and 2011, respectively. TBF owned 8,035 and 7,129 shares at December 31, 2012 and 2011, respectively. There is no ready market or quoted market values for the stock. The shares have a par value of $100 and are carried on the consolidated balance sheets at cost, as the stock is only redeemable at par subject to the redemption practices of the FHLB.

10. INCOME TAXES

At December 31, 2012 and 2011, the components of deferred taxes were as follows:

(In thousands)	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 3,093	$ 2,503
Restricted stock options	76	76
State net operating loss carryforwards	236	200
Start-up costs	266	291
Deferred fees	521	321
Gross deferred tax asset	4,192	3,391
Valuation allowance	(182)	(246)
Deferred tax asset, net of valuation allowance	4,010	3,145
Deferred tax liabilities:		
Depreciation	151	106
Tax bad debt reserve	98	55
Unrealized gain on available for sale securities	963	516
Gross deferred tax liability	1,212	677
Net deferred tax asset	$ 2,798	$ 2,468

At December 31, 2012, there were net operating loss carry forwards of approximately $4,034,638 for state tax purposes that were available to reduce future state taxable income. A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. At December 31, 2012, management recorded a valuation allowance against the deferred tax benefits of the state operating loss carry forwards and other state deferred tax assets for the bank holding company.

During 2011, TBF generated sustainable, taxable income. As a result, management reduced the valuation allowance on the deferred state tax assets for TBF by approximately 50%, or $133,000. During 2012, management determined TBF would be able to realize all of its deferred state tax assets and reduced the remaining valuation allowance of approximately $138,000 to zero.

A reconciliation of the anticipated income tax expense (benefit), computed by applying the statutory federal income tax rate of 34% to the income (loss) before income taxes, to the amount reported in the consolidated statements of income for the years ended December 31, 2012, 2011 and 2010 was as follows:

(In thousands)	2012	2011	2010
Income tax expense at statutory federal rate	$ 636	$ 1,089	$ 245
State tax expense, net of federal tax effect	161	150	36
Restricted stock options	191	85	51
Non-deductible expenses	8	5	4
Municipal interest income	(281)	(271)	(182)
Other items, net	6	9	5
Income tax expense before change in valuation allowance	721	1,067	159
Change in valuation allowance	(64)	(70)	55
Income tax expense	$ 657	$ 997	$ 214

Management regularly analyzes their tax positions and at December 31, 2012, does not believe that the Company has taken any tax positions where future deductibility is not certain. As of December 31, 2012, the Company is subject to unexpired statutes of limitation for examination of its tax returns for U.S. federal and Connecticut income taxes for the years 2009 through 2011.

11. 401(K) PROFIT SHARING PLAN

The Company's employees are eligible to participate in The BNC Financial Group, Inc. and its Subsidiaries and Affiliates 401(k) Plan (the "401k Plan"). The 401k Plan covers substantially all employees who are 21 years of age. Under the terms of the 401k Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Company matches eligible contributions and may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in the Company's contributions after completing six years of service. The Company contributed $101,701, $103,099 and $85,943 to the 401k Plan during the years ended December 31, 2012, 2011 and 2010, respectively.

12. STOCKHOLDERS' EQUITY

On December 14, 2007, the Company and BNC completed the consummation of the Plan of Reorganization of BNC into a holding company structure. As a result of the reorganization, all of the outstanding common stock shares, units (shares with attached warrants), and options of BNC were exchanged for an equal number of common stock shares, units and options of the Company.

The Company has three Stock Option and Equity award plans (shown below) which are collectively referred to as the "Plan".

On June 25, 2003, the Company's stockholders approved The Bank of New Canaan Bank Management, Director and Founder Stock Option Plan under which both incentive and non qualified common stock options may be granted. There are 152,200 shares of common stock reserved for issuance under this plan.

On June 26, 2006, the Company's stockholders approved The 2007 Bank of New Canaan Stock Option Plan under which both incentive and non qualified common stock options may be granted. There are 47,800 shares of common stock reserved for issuance under this plan.

On June 27, 2007, the Company's stockholders approved The 2007 Bank of New Canaan Stock Option and Equity Award Plan under which both incentive and non qualified common stock options and other equity awards may be granted. There are 165,244 shares of common stock reserved for issuance under this plan.

During 2012, the Company awarded three grants totaling 49,500 shares of restricted stock. The grants vest over one to five years and are subject to certain performance goals. These shares were granted at a price of $15.00 per share. During 2011, the Company awarded three grants totaling 15,000 shares of restricted stock. The grants vest over two to five years and are subject to certain performance goals. These shares were granted at a price of $15.00 per share. In 2008, the Company awarded two grants totaling 48,000 shares of restricted stock, at a grant price of $16.92 per share, which were fully vested at December 31, 2012. The Company's restricted stock expense for 2012, 2011 and 2010 was $481,061, $173,861 and $93,156, respectively.

In 2011, the Company's shareholders approved the 2011 BNC Financial Group, Inc. Stock Option and Equity Award Plan. The plan includes consideration of grants from prior plans and imposes an overall cap on dilution to shareholders of 15% of the Company's issued and outstanding shares as of January 1, 2011. There were 45,000 shares of common stock reserved for issuance under this plan.

As discussed in Note 1, the Company accounts for stock options based on the fair value at the date of grant over the vesting period of such awards on a straight line basis. During the years ended December 31, 2012, 2011 and 2010, the Company recorded expense related to options granted under the various plans of approximately $82,329 $76,329 and $58,329, respectively.

The fair value of options granted during the years ended December 31, 2012, 2011 and 2010 was estimated at the grant date using the minimum value option-pricing model with the following weighted-average assumptions for the grants:

	2012	2011	2010
Weighted average expected lives, in years	7.50	7.50	7.50
Risk-free interest rate	1.81%	2.83%	3.13%
Expected stock price volatility	35.00%	34.84%	37.69%
Expected annual forfeiture rate	6.00%	10.76%	10.76%

A summary of the status of outstanding stock options at December 31, 2012, 2011 and 2010 and changes during the years were as follows:

	2012		2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	277,558	$ 14.60	273,628	$ 14.58	262,998	$ 14.74
Granted	9,650	15.00	10,000	15.00	12,250	11.00
Forfeited	(14,850)	13.13	(4,070)	16.20	(1,100)	14.56
Exercised	-	-	(2,000)	10.00	(520)	12.19
Options outstanding at end of year	272,358	14.69	277,558	14.60	273,628	14.58
Options exercisable at end of year	255,237	14.39	239,632	15.21	236,832	14.78
Weighted-average fair value of options granted during the year		$ 6.54		$ 5.81		$ 5.91

Warrants

As discussed in Note 2, BNC's October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the "Offerings") call for the issuance of Units. Each Unit issued pursuant to the Offerings represented one share of common stock and one non-transferable Warrant. The Warrants were exercisable at any time from and including October 1, 2009 and prior to or on November 30, 2009, unless extended or accelerated by the Board of Directors in their discretion. The Board of Directors has extended the exercise period to October 1, 2014 through December 1, 2014. Each Warrant allows a holder to purchase .3221 shares of Common Stock at an exercise price of $14.00 per share. None of the warrants have been exercised at December 31, 2012. Assuming that all of the Warrants issued are exercised in full during the exercise period, the Company would receive $4,264,941 in gross capital and issue 304,640 shares of common stock. A total of 945,789 units were sold generating gross capital of $17,191,202.

Earnings per share

The following is a reconciliation of earnings available to common shareholders for the years ended December 31, 2012, 2011 and 2010:

	For the Years Ended December 31,		
(Dollars in thousands, except per share data)	2012	2011	2010
Net income	$ 1,214	$ 2,204	$ 507
Preferred stock dividends and net accretion	(132)	(206)	(261)
Net income available to common shareholders	$ 1,082	$ 1,998	$ 246
Weighted average shares outstanding, basic	2,768	2,757	2,531
Weighted average shares outstanding, diluted	2,865	2,811	2,588
Net earnings per common share:			
Basic earnings per common share	$ 0.39	$ 0.72	$ 0.10
Diluted earnings per common share	$ 0.38	$ 0.71	$ 0.09

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of condition, for which it is practicable to estimate that value. 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 rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either December 31, 2012 or 2011. The estimated fair value amounts for 2012 and 2011 have been measured as of their respective year-ends, and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The recorded carrying values and fair values of the Company's financial instruments at December 31, 2012 and 2011 were as follows:

	2012		2011	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	$ 28,927	$ 28,927	$ 7,091	$ 7,091
Available for sale securities	41,058	41,058	89,071	89,071
Held to maturity securities	5,354	5,292	5,901	5,804
Loans held for sale	-	-	1,172	1,172
Loans receivable, net	520,792	528,199	362,087	380,079
Accrued interest receivable	2,109	2,109	2,315	2,315
FHLB stock	4,442	4,442	3,408	3,408
Financial liabilities:				
Demand deposits	78,120	78,120	74,735	74,735
NOW and money market	127,812	127,812	110,238	110,238
Savings	136,121	136,121	61,864	61,864
Time deposits	120,048	121,029	120,278	120,709
Advances from the FHLB	91,000	91,407	58,000	58,454

14. FAIR VALUE MEASUREMENTS

The Company is required to account for certain assets at fair value on a recurring or non-recurring basis. As discussed in Note 1, the Company determines fair value in accordance with GAAP, which defines fair value and establishes a framework for measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use

of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.

Financial instruments measured at fair value on a recurring basis

The following tables detail the financial instruments carried at fair value on a recurring basis, as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Bank to determine the fair value:

	Carrying Value		
(In thousands)	Level 1	Level 2	Level 3
December 31, 2012:			
Available for sale investment securities:			
U.S. Government and agency obligations	$ -	$ 6,005	$ -
State agency and municipal obligations	-	18,531	-
Corporate bonds	-	14,556	-
Mortgage backed securities	-	1,966	-
December 31, 2011:			
Available for sale investment securities:			
U.S. Government and agency obligations	$ -	$ 41,749	$ -
State agency and municipal obligations	-	19,198	-
Corporate bonds	-	24,981	-
Mortgage backed securities	-	3,143	-

Available for sale investment securities: The fair value of the Company's investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics (i.e. matrix pricing) and are classified within Level 2 of the valuation hierarchy at December 31, 2012 and 2011.

Financial instruments measured at fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These include assets that are measured at the-lower-of-cost-or-market that were recognized at fair value below cost at the end of the period as well as assets that are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The following table details the financial instruments carried at fair value on a nonrecurring basis, as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Bank to determine the fair value:

	Carrying Value		
(In thousands)	Level 1	Level 2	Level 3
December 31, 2012:			
Impaired loans	$ -	$ -	$ 4,148
Foreclosed real estate	-	-	962
December 31, 2011:			
Impaired loans	$ -	$ -	$ 6,498

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis as of December 31, 2012:

(In thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range
Impaired loans	$ 4,148	Appraisals	Discount for dated appraisals	3.9% to 16.5%
		Discounted cash flows	Discount rate	3.9% to 16.5%
Foreclosed real estate	$ 962	Appraisals	Discount for dated appraisals	6.0% to 10.0%

Impaired loans: Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated in accordance with ASC 310-10 when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or other assumptions. Estimates of fair value based on collateral are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Foreclosed real estate: The Company classifies property acquired through foreclosure or acceptance of deed-in-lieu of foreclosure as foreclosed real estate and repossessed assets in its financial statements. Upon foreclosure, the property securing the loan is written down to fair value less selling costs. The write-down is based upon differences between the appraised value and the book value. Appraisals are based on observable market data such as comparable sales, however assumptions made in determining comparability are unobservable and therefore these assets are classified as Level 3 within the valuation hierarchy.

15. REGULATORY MATTERS

The Banks' are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks' must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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 Banks' to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, as defined by regulation. Management believes, as of December 31, 2012, the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2012, the Banks' were well capitalized under the regulatory framework for prompt corrective action, as shown in the following schedules. There are no conditions or events since then that management believes have changed the individual Bank's category.

The capital amounts and ratios for BNC at December 31, 2012 and 2011, were as follows:

	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012						
Total Capital to Risk-Weighted Assets	$ 38,849	10.34%	$ 30,048	8.00%	$ 37,560	10.00%
Tier 1 Capital to Risk-Weighted Assets	34,138	9.09%	15,024	4.00%	22,536	6.00%
Tier 1 Capital to Average Assets	34,138	7.88%	17,325	4.00%	21,656	5.00%
December 31, 2011						
Total Capital to Risk-Weighted Assets	$ 34,930	12.33%	$ 22,666	8.00%	$ 28,332	10.00%
Tier 1 Capital to Risk-Weighted Assets	31,373	11.07%	11,333	4.00%	16,999	6.00%
Tier 1 Capital to Average Assets	31,373	8.71%	14,411	4.00%	18,013	5.00%

The capital amounts and ratios for TBF at December 31, 2012 and 2011, were as follows:

	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012						
Total Capital to Risk-Weighted Assets	$ 14,809	12.05%	$ 9,829	8.00%	$ 12,287	10.00%
Tier 1 Capital to Risk-Weighted Assets	13,268	10.80%	4,915	4.00%	7,372	6.00%
Tier 1 Capital to Average Assets	13,268	8.39%	6,327	4.00%	7,909	5.00%
December 31, 2011						
Total Capital to Risk-Weighted Assets	$ 13,927	14.91%	$ 7,471	8.00%	$ 9,339	10.00%
Tier 1 Capital to Risk-Weighted Assets	12,754	13.66%	3,736	4.00%	5,603	6.00%
Tier 1 Capital to Average Assets	12,754	11.30%	4,516	4.00%	5,645	5.00%

Restrictions on dividends

The ability of the Company to pay dividends depends, in part, on the ability of the Banks' to pay dividends to the Company. In accordance with State of Connecticut Banking Rules and Regulations, regulatory approval is required to pay dividends in excess of the individual Bank's earnings retained in the current year plus retained earnings from the previous two years. At December 31, 2012, no dividends may be declared by the Banks' without prior regulatory approval. The Banks' are also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, similar to those available to unrelated customers. Changes in loans outstanding to such related parties during 2012, 2011 and 2010 were as follows:

(In thousands)	2012	2011	2010
Balance, beginning of year	$ 5,098	$ 5,315	$ 8,134
Additional loans	3,769	218	1,076
Repayments	(3,607)	(435)	(3,895)
Balance, end of year	$ 5,260	$ 5,098	$ 5,315

Related party deposits aggregated approximately $26,961,000, $21,628,000 and $25,505,000 at December 31, 2012, 2011 and 2010, respectively.

During 2012, 2011 and 2010, the Company paid approximately $94,000, $117,000 and $316,000, respectively, to related parties for services provided to the Company. The payments were primarily for consulting and legal services, but in 2010 included property maintenance fees and a real estate commission in connection with the sale of foreclosed real estate.

The Company leases space and provides certain administrative services to the Banks', which the Company is compensated for. Additionally, BNCFG provides the operations and support for BNC and TBF's banking activities, which BNCFG is compensated for. All related intercompany accounts and transactions have been eliminated in consolidation.

Corporate information

Shareholders

For help in transferring ownership, address changes,
or lost or stolen stock certificates, please contact:
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948
www.rtco.com

Stock Symbols

BNFI – Common Stock – Initial Offering

Stock Quotes

Keefe, Bruyette & Woods, Inc.
Ms. Colleen Smith, Vice President
787 Seventh Avenue, 4th Floor, New York, NY 10019
(212) 887-8901

Shareholder Contact

BNC Financial Group, Inc.
Ms. Peyton R. Patterson or Mr. Ernest J. Verrico, Sr.
220 Elm Street, New Canaan, CT 06840
(203) 652-0166

Independent Auditors

Whittlesley & Hadley, PC
147 Charter Oak Avenue, Hartford, CT 06106

Locations

BNC Financial Group, Inc.
Executive Office
220 Elm Street, Suite 100, New Canaan, CT 06840
203-652-0166

The Bank of New Canaan
Main Office
208 Elm Street, New Canaan, CT 06840
(203) 972-3838

Cherry Street Branch
156 Cherry Street, New Canaan, CT 06840
(203) 966-7080

Stamford First Bank
A Division of The Bank of New Canaan
612 Bedford Street, Stamford, CT 06901
(203) 391-5777

The Bank of Fairfield
Main Office
2150 Post Road, Fairfield CT 06824
(203) 659-7600

Black Rock Turnpike Branch
2248 Black Rock Turnpike, Fairfield, CT 06825
(203) 659-7610

The Bank of New Canaan Loan Production Office
855 Main Street, Suite 700
Bridgeport, CT 06604
(203) 683-6363

220 ELM ST, NEW CANAAN, CT 06840
(203) 652-0166

The Bank of New Canaan and The Bank of Fairfield are Members of the FDIC and Equal Housing Lenders.