



November 15, 2010

Dear Shareholder,

As we draw to the close of another challenging year, we are pleased to report record earnings for BNC Financial Group, Inc. (the Company), as evidenced by our consolidated profit of \$439 thousand for the first nine months of 2010 – a \$1.4 million improvement over last year's loss of \$934 thousand. The Bank of New Canaan (BNC) continues to show consistently solid performance, The Bank of Fairfield (TBF) is moving rapidly toward profitability, and the resounding response from the Stamford community following the July opening of our new division of BNC, Stamford First Bank, has far exceeded our expectations.

We firmly believe that our overall steady growth reflects the strength of our community banking model and our continued ability to provide needed financing to the individuals and businesses in the communities we serve. At a time when business lending opportunities have become increasingly scarce and our margins have been compressed, we have worked diligently to maximize the yield on our loans, while maintaining the integrity of our credit quality and an outstanding relationship with our customers.

The enclosed financial highlights show the individual nine-month results for each Bank as well as the Company's consolidated results. We believe it is easier to track the results of our multibank strategy if you review each Bank's performance in addition to the consolidated results of the Company.

#### **THE BANK OF NEW CANAAN:**

The Bank of New Canaan had a strong third quarter in 2010. Some of BNC's financial highlights for the first nine months of 2010 versus 2009 are:

- In the first nine months of 2010, we added \$853 thousand to our allowance for loan loss versus \$825 thousand for 2009. This increased the Bank's allowance to \$4.05 million or 1.98% of gross loans.
- Our net income for the first nine months was \$1,048 thousand, versus 2009's net income of \$636 thousand. This is a 65% increase from last year.
- Year over year, our net interest margin increased by 53 basis points.
- Our credit quality remains excellent, with total Non-Performing Assets (NPAs) at 2.01% of total assets. One of these loans, a \$3.5 million commercial credit, was moved from Non-Performing Loans (NPLs) to Other Real Estate Owned (a non-performing asset) in September. The Bank is confident that the property will be sold within the near future at

or near our carrying balance. All NPLs have been analyzed for potential losses and specific reserves have been allocated to cover any potential losses.

- With a Tier 1 Capital to Total Asset ratio of 8.29%, we remain strong and well capitalized.

### **THE BANK OF FAIRFIELD:**

While 70% of the more than 130 U.S. banks that have failed during 2010 were de novo banks, The Bank of Fairfield stands in sharp contrast. Having just marked its second anniversary, the Bank is about to turn the corner to profitability. This is primarily due to the response by the community to a hometown bank and the inherent value that we provide there, and we are grateful to our many customers and supporters. TBF's highlights for the nine months of 2010 include:

- \$74.7 million in assets;
- \$61.2 million in gross loans;
- \$62.8 million in deposits;
- \$9.8 million in capital;
- A net loss of \$332 thousand which included \$280 thousand in allowance for loan loss expense and a tax benefit of \$166 thousand dollars;
- An Allowance for Loan Losses equal to 2.01% of its outstanding loans; and
- A Tier I Capital to total Asset ratio of 12.52%

### **BNC FINANCIAL GROUP:**

In a year that has presented more challenges than our economy has seen in a quarter of a century, our organization has been able to turn these difficult times into a number of opportunities, as evidenced by the year-over-year financial highlights for the Company's consolidated results:

- Our total assets increased by 20.2% to \$354.6 million.
- Our gross loans increased by 12.8% to \$266.2 million.
- Our Net Interest Margin increased to 4.15%.

The third quarter of 2010 has been a busy one for the Company with the following significant developments:

1) On July 29<sup>th</sup>, we opened Stamford First Bank (SFB) as a division of The Bank of New Canaan at 612 Bedford Street in Stamford. Bob Palermo, formerly a commercial lender at The Bank of New Canaan, was promoted to Divisional President of that Bank, and at the end of the third quarter, SFB had nine employees. I am pleased to report that the response to the new bank has exceeded anything we had anticipated. A Grand Opening and ribbon cutting by the Mayor of Stamford on September 29<sup>th</sup> evidenced firsthand the enthusiastic response by the community. By the end of September, after just two months in operation, SFB had \$29 million in deposits and \$2 million in gross loans. We expect SFB to exhibit strong growth for the year.

2) Last month, the FDIC released its 2010 report of bank rankings by deposit market share. The Bank of New Canaan held its position as second of nine banks in New Canaan and demonstrated the strongest growth of the three banks that showed positive gains in that market. The Bank of Fairfield more than doubled its market share to 3.54% in Fairfield, after less than two years in

operation, and was one of only several banks to show any increase in market share in that community. The Company climbed the ladder in a Fairfield County ranking as well, showing a gain of almost 2%. Unlike many of our competitors, we have emerged from 2008 stronger than ever and poised for additional market share growth. We attribute this to the fact that we stayed faithful to our vision of providing value to the communities we serve and helping our customers succeed.

3) In the area of technology, we brought two new ATMs to market during the third quarter of 2010, one at the Cherry Street branch of The Bank of New Canaan and the other at Stamford First Bank. These new state-of-the-art ATMs have the enhanced ability to accept checks and cash without deposit slips and print receipts with digital check imaging for our customers' convenience.

4) We are continuing with plans to conduct a capital raise before the end of the year through a Private Placement. The Company is raising capital primarily to support the organization's forecasted growth trends and long-term strategic plan, and the capital raise will focus on shareholders who are Accredited Investors as well as potential shareholders from the Stamford market.

In summary, 2010 has been a year of change. Interest rates have gone down, people are unemployed, housing prices have fallen and many storefronts are still dark in the communities we serve. The performance of our organization over the last several years has been remarkable because it has been achieved during the sharpest, most volatile economic downturn we have experienced since our organization's inception. In spite of the challenging environment, however, we have grown and we continue to grow, by selling what sets us apart – our customer service, including the willingness to listen to customers and the ability to respond to their needs. We believe that relationships now are more important than ever. We have to work through very difficult economic times by adhering to the fundamentals of what has made us successful to date. We are confident in our vision and our values and we believe that our talented team members know how to continue to help our customers succeed.

As always, we are thankful to our shareholders for your continued support and confidence. If you have not visited our new bank in Stamford, or availed yourself of any of our banks' services, we invite you to do so. We value your input and invite you to call or stop by to discuss any thoughts or questions you might have on any of these issues.

Very Truly Yours,



Merrill Jay Forgotson  
Chief Executive Officer