Bankwell Financial Group, Inc.
Form 424B4
May 16, 2014
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-195080
PROSPECTUS
2,702,703 Shares

Common Stock
This prospectus relates to the initial public offering and sale of Bankwell Financial Group, Inc.'s common stock. We are offering 2,702,703 shares of our common stock.
Prior to this offering, there has been no established public market for our common stock. The common stock has been approved for listing on the Nasdaq Global Market under the symbol "BWFG."
The Secretary of the United States Treasury, our Series C preferred shareholder, may, from time to time, offer and sell up to 10,980 shares of our Series C preferred stock. The Series C preferred shareholder is not offering any shares of Series C preferred stock in connection with this offering of our common stock. If and when any sales occur, we will not receive any proceeds from the sale of Series C preferred stock by the U.S. Treasury. There is no established public market for our Series C preferred stock. We will use reasonable best efforts to list, or make available for quotation, our Series C preferred stock, if and when any shares of Series C preferred stock are offered and sold.
We are an "emerging growth company" under the federal securities laws and will be subject to reduced public company reporting requirements.
Please see "Risk Factors" beginning on page 19, for a discussion of certain risks that you should consider before making an investment decision to purchase our common stock.

	Per Share	Total
Initial public offering price of common stock	$ 18.00	$ 48,648,654
Underwriting discount (1)	$ 1.08	$ 2,918,919
Proceeds to us, before expenses	$ 17.08	$ 46,163,255

(1)

- The Underwriting Discount for shares sold to our directors and executive officers, including through the Directed Share Program, is $0.18 per share. See "Underwriting" for additional information regarding the underwriting discounts and certain expenses payable to the underwriters by us.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.
The shares of our common stock and our preferred stock are not savings accounts, deposits, or other obligations of our bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation, or the FDIC, or any other

governmental agency.

The underwriters expect to deliver the shares of our common stock against payment on May 20, 2014.

SANDLER O'NEILL + PARTNERS, L.P.	Keefe, Bruyette & Woods A Stifel Company

Prospectus dated May 15, 2014

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ABOUT THIS PROSPECTUS

We, and the underwriters have not authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus by or on behalf of us to which we have referred you. We, and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the distribution of this prospectus applicable to those jurisdictions.

For further information, please see the section of this prospectus entitled "Where You Can Find More Information."

Industry and Market Data

Industry and market data used in this prospectus has been obtained from independent industry sources and publications available to the public, sometimes with a subscription fee, as well as from research reports prepared for other purposes. We did not commission the preparation of any of the sources or publications referred to in this prospectus. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. We have not independently verified the data obtained from these sources. Forward-looking information obtained from these sources is subject to the same qualifications and the additional uncertainties regarding the other forward-looking statements in this prospectus. Trademarks used in this prospectus are the property of their respective owners, although for presentational convenience we may not use the ® or the ™ symbols to identify such trademarks.

Implications of Being an Emerging Growth Company

Under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, as a company with less than $1.0 billion in revenues during our last fiscal year, we qualify as an "emerging growth company." An emerging growth company may take advantage of reduced regulatory and reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we may present only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations;
- we are exempt from the requirement to obtain an attestation and report from our auditors on management's assessment of our internal control over financial reporting under the Sarbanes-Oxley Act of 2002;
- we are permitted to provide less extensive disclosure about our executive compensation arrangements; and
- we are not required to give our shareholders non-binding advisory votes on executive compensation or golden parachute arrangements.

We may take advantage of these provisions for up to five years unless we earlier cease to be an emerging growth company. We will cease to be an emerging growth company if we have more than $1.0 billion in annual gross revenues, have more than $700.0 million in market value of our common stock held by non-affiliates as of any June 30 before that time, or issue more than $1.0 billion of non-convertible debt in a three-year period. We may choose to take advantage of some but not all of these reduced burdens. We have elected in this prospectus to take advantage of scaled disclosure relating to executive compensation arrangements.

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The JOBS Act also permits an "emerging growth company" such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have "opted out" of this provision. As a result, we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

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PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making an investment decision to purchase our securities in this offering. You should read the entire prospectus carefully, including the section entitled "Risk Factors," our consolidated financial statements, and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus, before making an investment decision to purchase our securities. Unless we state otherwise or the context otherwise requires, references in this prospectus to "we," "our," "us," "Bankwell" and the "Company" refer to Bankwell Financial Group, Inc., a Connecticut corporation, and its consolidated subsidiaries.

Company Overview

We are a bank holding company, headquartered in New Canaan, Connecticut and offer a broad range of financial services through our banking subsidiary, Bankwell Bank, or the Bank, a Connecticut state commercial bank founded in 2002. Our primary market is the greater Fairfield County, Connecticut area, which we serve from our main banking office located in New Canaan, Connecticut and five other branch offices located throughout the Fairfield County area. According to the U.S. Department of Commerce Bureau of Economic Analysis data for 2012, Fairfield County is located in the second wealthiest metropolitan statistical area in the United States. As of December 31, 2013, on a consolidated basis, we had total assets of approximately $779.6 million, total loans of approximately $632.0 million, total deposits of approximately $661.5 million, and shareholders' equity of approximately $69.5 million.

We are committed to becoming the premier "Hometown" bank in Fairfield County and its surrounding areas. In 2011, the Commercial Record's Annual Readers Poll named us the No. 1 community bank in Connecticut. We believe that our market exhibits highly attractive demographic attributes and presents favorable competitive dynamics, thereby offering long-term opportunities for growth. We have a history of building long-term customer relationships and attracting new customers through what we believe is our superior customer service and our ability to deliver a diverse product offering. In addition, we believe that our strong capital position and extensive local ownership, coupled with a highly respected and experienced executive management team and board of directors, give us instant credibility with our customers and potential customers in our market. Our focus is on building a franchise with meaningful market share and consistent revenue growth complemented by operational efficiencies that we believe will produce attractive risk-adjusted returns for our shareholders.

Our History and Growth

Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan (including a separate division, Stamford First Bank) and The Bank of Fairfield, which were subsequently merged and rebranded as "Bankwell Bank." It was chartered with a commitment to building the premier community bank in the markets we serve. We began operations in April 2002 with an initial capitalization of $8.6 million. Our net interest margin was 3.94% at December 31, 2013, compared to a high of 4.27% for the year ended December 31, 2011, in spite of industry-wide downward pressure driven by loan volume and a historically low interest rate environment. In November 2013, we acquired The Wilton Bank, and it was merged into Bankwell Bank.

Our financial and operational highlights include the following:

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- Growing our total assets to approximately $779.6 million at December 31, 2013, from $247.0 million at December 31, 2008, representing a 26% compound annual growth rate; our noninterest bearing deposits to approximately $118.6 million at December 31, 2013 from $36.9 million at December 31, 2008, representing a compound annual growth rate of 26%; and our total deposits to approximately $661.5 million at December 31, 2013 from $170.7 million at December 31, 2008, representing a compound annual growth rate of 31%;

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- Growing our total loans outstanding to approximately $632.0 million at December 31, 2013 from $197.8 million at December 31, 2008, representing a 26% compound annual growth rate; and at December 31, 2013, commercial real estate loans comprised 50% of the total loan portfolio compared to 22% at December 31, 2008, representing a 49% compound annual growth rate;

- Maintaining high credit quality in our loan portfolio as a result of our disciplined underwriting. Our highest annual rate of net loan charge-offs to average loans over the past five years was 0.18% in 2009, and our average annual rate of net loan charge-offs to average loans from December 31, 2008 to December 31, 2013 was 0.08%. Additionally, our average ratio of nonperforming assets to total assets was 0.63% for the five years ended December 31, 2013 and was 0.23% at December 31, 2013. The ratio of total past due loans to total loans at December 31, 2013 was 0.73%;

- Making continued progress in revenue improvements and operational efficiencies by entering new lines of business with commercial mortgage loan sales, merging the banks together and completing a core system conversion and reducing our efficiency ratio year-over-year from 82.76% for the year ended December 31, 2012 to 75.72% for the year ended December 31, 2013;

- Achieving revenue momentum including an increase in our noninterest income from $345 thousand for the year ended December 31, 2012 to $4.7 million for the year ended December 31, 2013, which represents 16% of total revenue compared to 2% for the year ended December 31, 2012;

- Expanding our footprint and solidifying our presence in Fairfield County, with the acquisition of The Wilton Bank, complementing our full branch offices in New Canaan, Fairfield and Stamford, Connecticut and plans to establish a new branch in Norwalk, Connecticut in the second quarter of 2014, and expansion into Bridgeport, Connecticut, with a loan production office; and

- Launching Bankwell Investment Services, a new wealth management services division in October 2013. Through an agreement with an investment brokerage firm, we are providing on-site wealth management specialists to provide advice and support to individuals and businesses, which we expect will also increase our fee income.

Our Competitive Strengths

We believe that we are especially well-positioned to create value for our shareholders as a result of the following competitive strengths:

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- Our Market. Our current market is defined as the greater Fairfield County area, which is part of the fourth most affluent metropolitan statistical area in the United States, the Bridgeport-Stamford-Norwalk, Connecticut Metropolitan Statistical Area, or MSA, according to the U.S. Department of Commerce. The Stamford market area includes numerous affluent suburban communities of professionals who work at the 16 Fortune 500 companies headquartered in Connecticut or commute into New York City, approximately 50 miles from our headquarters, and many small to mid-sized businesses which support these communities. Fairfield County is the wealthiest county in Connecticut, with a 2008 – 2012 median household income of $82,614 according to estimates from United States Census Bureau. We believe that this market has economic and competitive dynamics that are favorable to executing our growth strategy.

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- Experienced and Respected Management Team with a Proven and Successful Track Record. Our executive management team, led by Peyton R. Patterson, is comprised of seasoned professionals with significant banking experience, a history of high performance at local financial institutions and success in identifying, acquiring and integrating financial institutions. Ms. Patterson has over 25 years of commercial banking experience, previously serving as Chairman, President and Chief Executive Officer at NewAlliance Bancshares, an approximately $9 billion asset bank headquartered in New Haven, Connecticut which was acquired by First Niagara Financial Group, Inc. in 2011. Our senior management team also includes Heidi S. DeWyngaert, Executive Vice President, Chief Lending Officer (nine years with us), Ernest J. Verrico, Sr., Executive Vice President, Chief Financial Officer (four years with us), Gail E.D. Brathwaite, Executive Vice

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President, Chief Operating Officer (formerly worked with Ms. Patterson for nine years at NewAlliance, one year with us), Diane Knetzger, Senior Vice President, Director of Marketing (nine years with us) and Christine A. Chivily, our Chief Credit Officer designee (one year with us).

- Dedicated Board of Directors with Strong Community Involvement. Our board of directors is comprised of a group of local business leaders who understand the need for strong community banks that focus on serving the financial needs of their customers. One of our directors, Frederick R. Afragola, was instrumental in our organization and growth. Mr. Afragola was the Chief Executive Officer and President of The Bank of New Canaan from its opening in 2002 until his retirement in 2008 and played an integral role in building our foundation and guiding our growth. The interests of our executive management team and directors are aligned with those of our shareholders through common stock ownership. At May 12, 2014, our directors and officers beneficially owned approximately 49% of our common stock. Certain of our directors and executive officers have purchased an aggregate of $7.8 million in shares of our common stock in this offering. At the initial public offering price of $18.00 per share, our directors and executive officers purchased an aggregate of 434,611 of the 2,702,703 shares in this offering and will own approximately 36% of our outstanding common stock following this offering. By capitalizing on the close community ties and business relationships of our executive management team and directors, we are positioned to continue taking advantage of the market opportunity present in our primary market.

- Strong Capital Position. At December 31, 2013, we had a 7.45% tangible common equity ratio, and the Bank had a 7.91% Tier 1 leverage ratio and a 9.49% Tier 1 risk-based ratio. We believe that our ability to attract capital has facilitated our growth and is an integral component to the execution of our business plan. See "Non-GAAP Financial Measures."

- Scalable Operating Platform. We provide banking technology, including remote deposit capture, internet banking and mobile banking, to provide our customers with the most choices and to create a scalable platform to accommodate our future growth aspirations. We believe that our advanced technology combined with responsive and personal service provides our customers with a superior banking experience.

Our Business Strategy

We seek to position ourselves as the "Hometown" bank and the banking provider of choice in our highly attractive market area, and to serve as a locally based alternative to our larger competitors through:

- Responsive, Customer-Centric Products and Services and a Community Focus. We offer a broad array of products and services which we customize to allow us to focus on building long-term relationships with our customers through high-quality, responsive and personal customer service. By focusing on the entire customer relationship, we build the trust of our customers which leads to long-term relationships and generates our organic growth. In addition, we are committed to meeting the needs of the communities that we serve. Our employees are involved in many civic and community organizations which we support through sponsorships. As a result, customers and potential customers within our market know about us and frequently interact with our employees which allows us to develop long-term customer relationships without extensive advertising.

- Strategic Acquisitions. To complement our organic growth, we focus on strategic acquisitions in or around our existing markets that further our objectives. We believe there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden and will likely need to partner with an institution like ours. On March 31, 2014, we entered into a merger agreement with Quinnipiac Bank & Trust Company, or Quinnipiac. Total consideration for the acquisition is expected to be comprised of our common stock (75%) and cash (25%). Quinnipiac has one branch located in Hamden, Connecticut, and has applied for a second branch in the neighboring town of North Haven. We expect the transaction to close in the third quarter of 2014, subject to the requisite approval of the shareholders of Quinnipiac, required regulatory approvals (including approval of Quinnipiac's branch application for a branch in North Haven), and

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satisfaction of other customary closing conditions. We intend to continue to seek and evaluate other potential acquisitions that can provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile.

- Utilization of Efficient and Scalable Infrastructure. We employ a systematic and calculated approach to increasing our profitability and improving our efficiencies. We have recently improved our operating infrastructure particularly in the areas of technology, data processing, compliance and personnel. We believe that our scalable infrastructure provides us with an efficient operating platform from which to grow in the near term and without incurring significant incremental noninterest expenses, while continuing to deliver our high-quality, responsive customer service, which will enhance our ability to grow and increase our returns.

- Disciplined Focus on Risk Management. Effective risk management is a key component of our strong corporate culture. We use our strong risk management infrastructure to monitor our existing loan and investment securities portfolios, support operational decision-making and improve our ability to generate earning assets with strong credit quality. To maintain our strong credit quality, we use a comprehensive underwriting process and we seek to maintain a diversified loan portfolio and a conservative investment securities portfolio. Board-approved policies contain approval authorities, as appropriate, and are reviewed at least annually. We have a Risk Management Steering Committee comprised of executive officers who oversee new business initiatives and other activities that warrant oversight of risk and related mitigants. Internal review procedures are performed regarding anti-money laundering and consumer compliance requirements. We have a Chief Risk Officer who reports directly to the Chair of our Audit Committee.

Recent Developments

Financial Highlights for the First Quarter of 2014. The following is a discussion of certain unaudited financial information as of and for the three months ended March 31, 2014, all of which is preliminary in nature and based upon currently available information. The following quarterly results are also subject to revision based upon actual results, the review of those results by our independent auditors and an audit by our independent auditors of our annual results for the year ending December 31, 2014. Accordingly, we cannot assure you that upon completion of our review and the review of our independent auditors, we will not report materially different financial results than those set forth below. In addition, you should not assume that our operating results for the three months ended March 31, 2014 will be indicative of our operating results for the entire year ending December 31, 2014.

At March 31, 2014, total assets were $812.1 million, a $32.4 million or 4% increase over December 31, 2013. Total loans outstanding and total deposits continued to show momentum during the first quarter and totaled $657.2 million and $679.2 million, respectively at March 31, 2014. Our credit quality remained strong, with nonperforming assets to total assets of 0.36% and the allowance for loan losses to total loans was 1.31%. Total shareholders' equity at March 31, 2014 and December 31, 2013 was $71.1 million and $69.5 million, respectively. Tangible book value was $15.79 per share at March 31, 2014 compared to $15.46 per share at December 31, 2013 and the ratio of tangible common equity was 7.35% and 7.45%, respectively, at March 31, 2014 and December 31, 2013.

Net income was $1.1 million for the first quarter of 2014, compared to $1.0 million for the first quarter of 2013 and $1.4 million for the fourth quarter of 2013. The quarters ended March 31, 2014 and December 31, 2013 included the following merger and acquisition related items:

- In the first quarter of 2014, merger and acquisition related expenses of $141 thousand, or $93 thousand net of tax, were recorded, primarily reflecting costs related to our agreement to purchase Quinnipiac Bank and Trust Company signed on March 31, 2014. Exclusive of these expenses, net income for the first quarter of 2014 would have been $1.2 million.

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- In the fourth quarter of 2013, in connection with The Wilton Bank acquisition on November 5, 2013, a bargain purchase gain of $1.3 million and merger and acquisition related expenses of $844 thousand, or $776 thousand net of tax, were realized. Exclusive of these items, net income for the fourth quarter of 2013 would have been $585 thousand.

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For the three months ended March 31, 2014, we had net interest income of $7.1 million, an increase of $1.1 million, or 17%, over the three months ended March 31, 2013. Our net interest margin for the three months ended March 31, 2014 and 2013 was 3.97% and 4.16%, respectively. Included in the net interest margin for the quarters ended March 31, 2014 and 2013 was income related to the payoff of loans, which contributed five basis points and ten basis points, respectively. We also experienced growth in our non-interest income, which totaled $769 thousand for the three months ended March 31, 2014 representing 10% of our total revenue (sum of net interest income and noninterest income), up from $284 thousand, or 4% of total revenue, for the three months ended March 31, 2013.

Expansion Activities. On March 31, 2014, we entered into a merger agreement with Quinnipiac. Quinnipiac has one branch located in Hamden, Connecticut, and has applied for a second branch in the neighboring town of North Haven. Both towns are in New Haven County, Connecticut, which will represent a new market for us. At December 31, 2013, Quinnipiac had approximately $100 million in assets, $87 million in deposits and loans of $83 million.

Total consideration for the acquisition is expected to be comprised of our common stock (75%) and cash (25%). The total consideration to be paid to Quinnipiac shareholders, based on the closing price of a share of our common stock on the OTC Bulletin Board, or OTCBB, on March 31, 2014, is approximately $15 million. Pursuant to the merger agreement, each outstanding share of Quinnipiac will be converted at the election of the holder into the right to receive 0.56 shares of our common stock, or $12.00 in cash, subject to pro rata adjustments to meet the proportion of stock and cash consideration described above. Outstanding options to purchase Quinnipiac shares, totaling 109,000 as of March 31, 2014, will be exchanged for options in our common stock adjusted for the 0.56 fixed exchange ratio. The exercise price per share of our common stock under the new option shall be equal to the exercise price per share of Quinnipiac common stock subject to the Quinnipiac stock option divided by the 0.56 fixed exchange ratio. Outstanding warrants held by founders of Quinnipiac, totaling 122,500 as of March 31, 2014, will be automatically converted into a warrant to purchase 0.56 shares of our common stock for $17.86. Upon consummation of the transaction, Quinnipiac will be merged into Bankwell Bank.

Upon effectiveness of the merger, we have agreed to increase the number of our directors and of the directors of Bankwell Bank by one to add one director from the Quinnipiac board of directors, who will be selected by our board of directors after consulting with Quinnipiac. Additionally, upon consummation of the transaction, we agreed to make change of control payments to Quinnipiac's President and Chief Executive Officer, Mark A. Candido, in an amount equal to $331,021, and to Quinnipiac's Chief Lending Officer and Executive Vice President, Richard R. Barredo, in an amount equal to $300,425. We intend to file a Form S-4 Registration Statement in connection with the proposed transaction and issuance of our common stock to Quinnipiac shareholders. We expect the transaction to close in the third quarter of 2014, subject to the requisite approval of the shareholders of Quinnipiac, required regulatory approvals (including approval of Quinnipiac's branch application for the branch in North Haven), and satisfaction of other customary closing conditions.

On November 5, 2013, we acquired The Wilton Bank for approximately $5.0 million in cash, and merged The Wilton Bank into Bankwell Bank. The acquisition added one branch, approximately $25.1 million in loans, $64.2 million in deposits and expanded our presence in Fairfield County. In addition, we plan to open a new branch in Norwalk, Connecticut in the second quarter of 2014, which will further expand our footprint in Fairfield County.

Capital Raising Activities. In the third quarter of 2013, we raised approximately $6.2 million in additional capital through the sale of 370,000 shares, approximately 9.5% of our issued shares of common stock, to an institutional investor, or the Institutional Investor. In connection with this private placement, we granted the Institutional Investor a preemptive right to participate in any private or public offering of shares of our common stock by us, including this offering, until September 30, 2016. We have provided the Institutional Investor with notice of its ability to exercise its preemptive rights in connection with this offering in accordance with the relevant agreement.

Series C Preferred Stock Piggyback Registration. We are a participant in the United States Treasury's Small Business Lending Fund Program, or SBLF. As part of the SBLF, we issued to the Secretary of the United States Treasury, or the Treasury, 10,980 shares of our Senior Non-Cumulative Perpetual Preferred

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Stock, Series C, no par value, or Series C preferred stock. We agreed to provide the holders of our Series C preferred stock, currently only the Treasury, or the Selling Shareholder, with "piggyback" registration rights to certain offerings of our securities, including this offering. On April 3, 2014, the Treasury exercised its piggyback registration rights and, as a result, we have included the Treasury's Series C preferred stock in this registration statement.

Risk Factors

There are a number of risks that should be considered before making an investment in this offering. These risks are discussed more fully in the section entitled "Risk Factors" beginning on page 19 of this prospectus. These risks include but are not limited to the following:

- Our business may be adversely affected by general business and economic conditions.
- We rely heavily on our management team and could be adversely affected by the unexpected loss of key officers.
- At December 31, 2013, approximately 75%, or $332 million, of our commercial loans, were originated in the last four years. As such, our loan portfolio is relatively unseasoned and could increase risk of credit defaults in the future. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio.
- The success of acquisition transactions, including the acquisition of Quinnipiac, if it is consummated, and of The Wilton Bank, will depend on our ability to successfully combine the target banking institution's business with our business, and, if we experience difficulties with the integration process, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected.
- The additional capital raised in this offering will be deployed to support our growth plans. There is no guarantee that our growth initiatives will be as successful as our historic organic growth has been.
- Our interest rate sensitivity profile was liability sensitive as of December 31, 2013, which will result in our income decreasing more in a rising rate environment than a falling rate environment.
- We operate in a highly regulated environment, which could restrain our growth and profitability.

Additional Information

Our principal executive office is located at 220 Elm Street, New Canaan, Connecticut 06840, and our telephone number is (203) 652-6300. Our website address is www.mybankwell.com. The information contained on or accessible through our website is not a part of or incorporated by reference into this prospectus.

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THE OFFERING

Securities offered
2,702,703 shares of common stock.
Securities offered as a percentage of outstanding shares of common stock
70%.
Common stock outstanding after closing of this offering
6,579,096 shares of common stock.
Use of proceeds
We intend to use the net proceeds of this offering for general corporate purposes which may include maintaining liquidity at the holding company, supporting organic growth and funding future asset growth and continued expansion of our business through acquisitions of branches, whole financial institutions and related lines of business (including the acquisition of Quinnipiac). For additional information, see "Use of Proceeds."
We will not receive any proceeds from the sale of our shares of Series C preferred stock by the Selling Shareholder.
Dividend policy — Common Stock
We have never paid cash dividends to holders of our common stock. We believe payment of dividends on a regular basis is an appropriate way to enhance shareholder value in the long term. Any future determinations relating to our dividend policy will be made at the discretion of our board of directors depending upon our capital needs, dividend-paying capacity, our results of operations, financial condition, liquidity needs, regulatory restrictions, restrictions imposed by our preferred stock and other factors that our board of directors deems relevant. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. For additional information, see "Dividend Policy."
Dividend policy — Preferred Stock
The Series C preferred stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate was subject to fluctuation on a quarterly basis during the first ten quarters during which the Series C preferred stock was outstanding, based upon changes in the level of Qualified Small Business Lending or QSBL of the Bank. The current dividend rate is 1%. For additional information, see "Description of Our Capital Stock — Preferred Stock — Series C Preferred Stock — Dividends."
Listing
We have been approved to list our common stock on the Nasdaq Global Market under the trading symbol "BWFG."

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Purchases by Officers and Directors

Certain of our directors and executive officers have purchased an aggregate of $7.8 million in shares of our common stock in this offering. At the initial public offering price of $18.00 per share, our directors and executive officers purchased an aggregate of 434,611 of the 2,702,703 shares in this offering. Shares so purchased by our directors and officers in this offering will be subject to the lock-up provisions described in "Underwriting — Lock-Up Agreements." Collectively, our directors and executive officers own 1,916,147 shares of our common stock, or 49% of our outstanding common stock, as of May 12, 2014. Beneficial ownership by directors and officers after this offering will be 2,350,758 shares, or 36% of our outstanding common stock following this offering.

Directed Share Program

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the common stock offered hereby for sale to our employees, business associates and related persons. We have offered these shares to the extent permitted under applicable regulations in the United States through a directed share program. The number of shares of our common stock available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. Any directed shares not purchased will be offered by the underwriters to the general public on the same terms as the other shares of our common stock offered hereby. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act of 1933, as amended, in connection with the sale of shares through the directed share program.

Risk factors

An investment in our securities involves risks. See "Risk Factors" beginning on page 19, for a discussion of factors that you should carefully consider before making an investment decision.

The number of shares of common stock to be outstanding after this offering is based on 3,876,393 shares of common stock outstanding as of December 31, 2013 and excludes the following:

- 208,568 shares of our common stock issuable upon the exercise of outstanding stock options as of December 31, 2013, at a weighted average exercise price of $16.67 per share (of which 188,852 shares subject to options have vested);
- 304,460 shares of our common stock issuable upon the exercise of outstanding warrants with a fixed exercise price of $14.00 as of December 31, 2013; and
- 49,840 shares of our common stock reserved for issuance in connection with stock awards that remain available for issuance under our stock incentive plans as of December 31, 2013.

Unless expressly indicated or the context requires otherwise, all information in this prospectus:

- does not attribute to any director, officer, or principal shareholder any purchases of shares of our common stock in this offering.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF BANKWELL FINANCIAL GROUP, INC.

You should read the selected historical consolidated financial and operating data set forth below in conjunction with the sections titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Capitalization,” as well as the consolidated financial statements and the related notes included elsewhere in this prospectus. The selected historical financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, except for the selected ratios, has been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected historical financial data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009, except for the selected ratios, has been derived from our audited consolidated financial statements not included in this prospectus. Our results of operations are not necessarily indicative of our results of operations that may be expected for future performance. 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. The performance, asset quality and capital ratios are unaudited and derived from the financial statements as of and for the periods presented. Average balances have been computed using daily averages.

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(Dollars in thousands, except per share data)	At or For the Years Ended December 31, 2013	2012	2011	2010	2009
Statements of Income:					
Interest and dividend income	$ 28,092	$ 24,397	$ 20,587	$ 16,877	$ 13,950
Interest expense	2,765	3,192	2,870	3,209	3,651
Net interest income	25,327	21,205	17,717	13,668	10,299
Provision for loan losses	585	1,821	1,049	1,311	1,741
Net interest income after provision for loan losses	24,742	19,384	16,668	12,357	8,558
Noninterest income	4,722	345	1,134	1,695	896
Noninterest expense	22,119	17,858	14,601	13,331	10,555
Income (loss) before income tax	7,345	1,871	3,201	721	(1,101)
Income tax expense (benefit)	2,184	657	997	214	(271)
Net income (loss)	5,161	1,214	2,204	507	(830)
Preferred stock dividends and net accretion	111	132	206	261	427
Net income (loss) available to common shareholders	$ 5,050	$ 1,082	$ 1,998	$ 246	$ (1,257)
Per Share Data:					
Basic earnings (loss) per share	$ 1.46	$ 0.39	$ 0.72	$ 0.10	$ (0.51)
Diluted earnings (loss) per share	1.44	0.38	0.71	0.09	(0.50)
Book value per share (end of	15.58	14.50	13.85	12.81	12.51

	At or For the Years Ended December 31,				
period) (a)					
Tangible book value per share (end of period) (a) (b)	15.46	14.50	13.85	12.81	12.51
Shares outstanding (end of period) (a)	3,754,253	2,797,200	2,758,200	2,756,200	2,450,349
Weighted average shares outstanding – basic	3,395,779	2,768,000	2,757,000	2,531,000	2,447,000
Weighted average shares outstanding – diluted	3,451,393	2,865,000	2,811,000	2,588,000	2,492,000
Performance Ratios:					
Return on average assets (c)	0.77 %	0.22 %	0.50 %	0.14 %	(0.29)%
Return on average common shareholders' equity (b) (c)	9.89 %	3.07 %	6.70 %	0.75 %	(4.04)%
Return on average shareholders' equity (c)	8.17 %	2.40 %	5.03 %	1.33 %	(2.47)%
Average shareholders' equity to average assets	9.32 %	9.34 %	10.01 %	10.37 %	11.70 %
Net interest margin	3.94 %	4.11 %	4.27 %	4.12 %	3.73 %
Efficiency ratio (b)	75.72 %	82.76 %	78.50 %	84.93 %	94.28 %
Asset Quality Ratios:					
Total past due loans to total loans (d)	0.73 %	0.75 %	1.01 %	0.79 %	2.68 %
Nonperforming loans to total loans (d) (e)	0.16 %	0.75 %	1.01 %	0.79 %	0.96 %
Nonperforming assets to total assets (e)	0.23 %	0.81 %	0.78 %	0.57 %	0.75 %

	At or For the Years Ended December 31,				
Allowance for loan losses to nonperforming loans	835.69 %	200.84 %	171.88 %	239.23 %	177.83 %
Allowance for loan losses to total loans (d)	1.33 %	1.50 %	1.74 %	1.87 %	1.70 %
Net charge-off's to average loans (d)	0.03 %	0.07 %	0.02 %	0.09 %	0.18 %
Statements of Financial Condition:					
Total assets	$ 779,618	$ 610,016	$ 477,355	$ 395,708	$ 328,160
Gross portfolio loans (d)	632,012	530,050	369,294	288,425	257,268
Investment securities	42,413	46,412	94,972	58,152	34,060
Deposits	661,545	462,081	367,115	309,137	244,215
Borrowings	44,000	91,000	58,000	44,000	46,000
Total equity	69,485	51,534	49,188	40,354	35,695
Capital Ratios:					
Tier 1 capital to average assets (f)					
Bankwell Bank	7.91 %	— %	— %	— %	— %
The Bank of New Canaan	— %	7.88 %	8.71 %	8.15 %	8.48 %
The Bank of Fairfield	— %	8.39 %	11.30 %	13.25 %	16.54 %
Tier 1 capital to risk-weighted assets (f)					
Bankwell Bank	9.49 %	— %	— %	— %	— %
The Bank of New Canaan	— %	9.09 %	11.07 %	11.86 %	12.24 %
The Bank of Fairfield	— %	10.80 %	13.66 %	16.41 %	22.46 %
Total capital to risk-weighted assets (f)					
Bankwell Bank	10.74 %	— %	— %	— %	— %
The Bank of New Canaan	— %	10.34 %	12.33 %	13.12 %	13.50 %
The Bank of Fairfield	— %	12.05 %	14.91 %	17.10 %	23.26 %

	At or For the Years Ended December 31,									
Total shareholders' equity to total assets	8.91	%	8.45	%	10.30	%	10.20	%	10.88	%
Tangible common equity ratio (b)	7.45	%	6.65	%	8.00	%	8.93	%	9.34	%

(a)

- Excludes preferred stock and unvested restricted stock awards.

(b)

- This measure is not a measure recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See "Non-GAAP Financial Measures" for a description of this measure and a reconciliation of this measure to its most directly comparable GAAP measure.

(c)

- Calculated based on net income before preferred stock dividends and net accretion.

(d)

- Calculated using the principal amounts outstanding on loans.

(e)

- Nonperforming assets consist of nonperforming loans and other real estate owned.

(f)

- Represents bank ratios. During 2013, The Bank of New Canaan and The Bank of Fairfield were merged into Bankwell Bank.

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SELECTED HISTORICAL FINANCIAL DATA OF THE WILTON BANK

You should read the selected historical financial and operating data set forth below in conjunction with the financial statements and the related notes included elsewhere in this prospectus. The selected historical financial data as of and for the years ended December 31, 2012 and 2011, except for the selected ratios, has been derived from The Wilton Bank's audited financial statements included elsewhere in this prospectus. The selected historical financial data for the years ended December 31, 2010 and 2009, except for the selected ratios, has been derived from The Wilton Bank's audited financial statements not included in this prospectus. The selected historical earnings data for the nine months ended September 30, 2013 and 2012 and the selected historical financial condition data as of September 30, 2013, has been derived from The Wilton Bank's unaudited financial statements included elsewhere in this prospectus, and The Wilton Bank's selected historical financial condition data as of September 30, 2012, has been derived from unaudited financial statements not included in this prospectus. The selected historical financial data for the nine months ended September 30, 2013 and 2012 has not been audited but, in the opinion of management, contains all adjustments (consisting of only normal or recurring adjustments) necessary to present fairly The Wilton Bank's financial position and results of operations for such periods in accordance with GAAP. The Wilton Bank's results of operations for the nine months ended September 30, 2013 are not necessarily indicative of future results of operations or performance. The performance, asset quality and capital ratios are unaudited and derived from the financial statements as of and for the periods presented. Average balances have been computed using daily averages.

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(Dollars in thousands, except per share data)	At or For the Nine Months Ended September 30,		At or For the Years Ended December 31,			
	2013	2012	2012	2011	2010	2009
Statements of Income:						
Interest and dividend income	$1,278	$1,497	$1,954	$2,034	$2,619	$4,364
Interest expense	106	133	177	244	397	807
Net interest income	1,172	1,364	1,777	1,790	2,222	3,557
Provision for loan losses	—	-	—	900	560	3,200
Net interest income after provision for loan losses	1,172	1,364	1,777	890	1,662	357
Noninterest income	194	205	278	1,061	273	276
Noninterest expense	2,851	2,705	3,796	3,870	3,842	3,485
Loss before income tax	(1,485)	(1,136)	(1,741)	(1,919)	(1,907)	(2,852)
Income tax expense (benefit)	—	—	—	1,351	(391)	(1,124)
Net loss	$(1,485)	$(1,136)	$(1,741)	$(3,270)	$(1,516)	$(1,728)
Per Share Data:						
Basic loss per share	$(3.98)	$(3.05)	$(4.67)	$(8.77)	$(4.07)	$(4.61)
Diluted loss per share	(3.98)	(3.05)	(4.67)	(8.77)	(4.07)	(4.61)
Book value per share (end of period)	17.55	23.15	21.53	26.20	34.97	38.79
Shares outstanding (end of period)	481,245	481,245	481,245	481,245	481,245	481,245
Weighted average shares outstanding – basic	372,985	372,985	372,985	372,985	372,985	372,985
Weighted average shares	372,985	372,985	372,985	372,985	372,985	375,260

	At or For the Nine Months Ended September 30,		At or For the Years Ended December 31,			
outstanding – diluted						
Annualized Performance Ratios:						
Return on average assets	(2.70)%	(2.09)%	(2.38)%	(4.17)%	(1.66)%	(1.77)%
Return on average common shareholders' equity	(27.02)%	(16.49)%	(19.32)%	(28.85)%	(10.74)%	(10.97)%
Return on average shareholders' equity	(27.02)%	(16.49)%	(19.32)%	(28.85)%	(10.74)%	(10.97)%
Average shareholders' equity to average assets	9.99 %	12.67 %	12.34 %	14.44 %	15.44 %	16.18 %
Net interest margin	2.42 %	2.89 %	2.80 %	2.57 %	2.71 %	4.06 %
Asset Quality Ratios:						
Total past due loans to total loans (a)	23.80 %	23.87 %	22.05 %	31.50 %	39.09 %	12.91 %
Nonperforming loans to total loans	23.78 %	23.67 %	21.60 %	31.37 %	39.09 %	12.91 %
Nonperforming assets to total assets (b)	12.92 %	17.21 %	13.85 %	20.72 %	25.26 %	9.96 %
Allowance for loan losses to nonperforming loans	12.42 %	12.72 %	15.31 %	10.06 %	10.39 %	32.94 %
Allowance for loan losses to total loans	2.95 %	3.01 %	3.31 %	3.16 %	4.06 %	4.25 %
Net charge-off's to average loans	0.73 %	0.43 %	0.50 %	3.52 %	2.29 %	3.05 %
Statements of Financial Condition:						
Total assets	$69,599	$72,249	$76,124	$76,412	$84,285	$95,360
Gross portfolio loans	29,857	37,766	33,656	41,330	50,067	66,199

	At or For the Nine Months Ended September 30,		At or For the Years Ended December 31,			
Investment securities	1,024	1,000	1,032	2,499	8,036	8,067
Deposits	62,694	63,382	67,881	66,448	70,982	80,539
Borrowings	—	—	—	—	—	—
Total equity	6,546	8,636	8,031	9,772	13,044	14,555

(a)

- Calculated using the principal amounts outstanding on loans.

(b)

- Nonperforming assets consist of nonperforming loans and other real estate owned.

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SUMMARY SELECTED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed consolidated financial data combines data from the historical consolidated statements of income of Bankwell and the historical statements of income of The Wilton Bank, giving effect to the merger of The Wilton Bank into Bankwell Bank.

The unaudited pro forma combined condensed statement of income data for the year ended December 31, 2013 combines data from the historical consolidated statement of income of Bankwell for the year ended December 31, 2013 and the historical statement of income of The Wilton Bank for the year to date period ended November 5, 2013, the acquisition date, giving effect to the merger as if it had been consummated on January 1, 2013. The unaudited pro forma combined condensed statement of income data for the year ended December 31, 2012 combine the historical consolidated statement of income of Bankwell for the year ended December 31, 2012 and the historical statement of income of The Wilton Bank for the year ended December 31, 2012, giving effect to the merger as if it had been consummated on January 1, 2012.

The unaudited pro forma condensed consolidated financial data give effect to the merger using acquisition accounting as required by accounting principles generally accepted in the United States of America.

The unaudited pro forma condensed consolidated financial data are provided for informational purposes only. The pro forma unaudited consolidated financial data presented are not necessarily indicative of the actual results that might have been achieved for the periods or dates indicated, nor are they necessarily indicative of the future results of the combined company following the consummation of the merger. The unaudited pro forma financial data are based on estimates and assumptions set forth below.

The pro forma unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto of each of Bankwell and The Wilton Bank contained elsewhere in this prospectus.

The unaudited pro forma net earnings (loss) assumptions are qualified by the statements set forth under this caption and should not be considered indicative of the market value of Bankwell's common stock or the actual results of operations of Bankwell for any period. Such pro forma data may be materially affected by the actual expenses incurred in connection with the merger with The Wilton Bank.

The pro forma condensed consolidated financial data do not reflect adjustments for estimated transaction costs or cost savings expected to be realized from the elimination of certain expenses and from synergies expected to be created or the costs to achieve such cost savings or synergies. No assurance can be given that cost savings or synergies will be realized. Income taxes do not reflect the amounts that would have resulted had Bankwell and The Wilton Bank filed consolidated income tax returns during the periods presented. Such entries will be recorded as incurred, are non-recurring and are thus not reflected in the calculations of pro forma income (loss).

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December 31, 2013 Pro Forma Statement of Income Data. The following table presents pro forma statement of income information for the year ended December 31, 2013.
Bankwell Financial Group
Pro Forma Income Statement Data
For the Year Ended December 31, 2013

In thousands, except per share data	**Bankwell Financial Group**	**The Wilton Bank**	**Pro Forma Merger Adjustments**	**Pro Forma Combined**
Interest and dividend income	$ 28,092	$ 1,355	$ 478 (1)	$ 29,925
Interest expense	2,765	119	—	2,884
Net interest income	25,327	1,236	478	27,041
Provision for loan losses	585	—	—	585
Net income after provision for loan losses	24,742	1,236	478	26,456
Noninterest income	3,389 (2)	369	—	3,758
Noninterest expense	21,211 (3)	3,294	89 (4)	24,594
Income (loss) before income tax expense	6,920	(1,689)	389	5,620
Income tax expense (benefit)	2,184	(574) (5)	132 (5)	1,742
Net income (loss)	$ 4,736	$ (1,115)	$ 257	$ 3,878
Preferred stock dividends	(111)	—	—	(111)
Net income (loss) attributable to common shareholders	$ 4,625	$ (1,115)	$ 257	$ 3,767
Weighted average shares outstanding				
Basic	3,395	373		3,395
Diluted	3,451	373		3,451
Net earnings (loss) per common share, pro forma				
Basic	$ 1.34	$ (2.99)		$ 1.09
Diluted	$ 1.32	$ (2.99)		$ 1.07

(1)

- Adjustment to interest income represents amortization of the accretable portion of the credit mark adjustments for loans. The credit mark is being amortized using the interest method over the projected lives of the related loans. The total credit mark of $2.9 million is comprised of accretable and nonaccretable discounts totaling $1.4 million and $1.5 million, respectively, which was applied to loans totaling $14.5 million with projected lives of 3 to 36 months.

(2)

- Noninterest income excludes a one-time gain of $1.3 million recorded in conjunction with the acquisition, representing the amount that the net assets exceeded the amount paid.

(3)

- Noninterest expense excludes one-time merger and acquisition related expenses of $908 thousand.

(4)

- Adjustment to noninterest expense represents amortization of the core deposit intangible of $499 thousand over 9.3 years based on the double declining balance method of amortization.

(5)

- Income tax expense is based on Bankwell's Federal marginal rate of 34%.

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December 31, 2012 Pro Forma Statement of Income Data. The following table presents pro forma statement of income information for the year ended December 31, 2012.
Bankwell Financial Group
Pro Forma Income Statement Data
For the Year Ended December 31, 2012

In thousands, except per share data	Bankwell Financial Group	The Wilton Bank	Pro Forma Merger Adjustments	Pro Forma Combined
Interest and dividend income	$ 24,397	$ 1,954	$ 574 (1)	$ 26,925
Interest expense	3,192	177	—	3,369
Net interest income	21,205	1,777	574	23,556
Provision for loan losses	1,821	—	—	1,821
Net income after provision for loan losses	19,384	1,777	574	21,735
Noninterest income	345	278	—	623
Noninterest expense	17,858	3,796	107 (2)	21,761
Income (loss) before income tax expense	1,871	(1,741)	467	597
Income tax expense (benefit)	657	(592) (3)	159 (3)	224
Net income (loss)	$ 1,214	$ (1,149)	$ 308	$ 373
Preferred stock dividends	(132)	—	—	(132)
Net income (loss) attributable to common shareholders	$ 1,082	$ (1,149)	$ 308	$ 241
Weighted average shares outstanding				
Basic	2,768	373		2,768
Diluted	2,865	373		2,865
Net earnings (loss) per common share, pro forma				
Basic	$ 0.39	$ (3.08)		$ 0.09
Diluted	$ 0.38	$ (3.08)		$ 0.08

(1)

- Adjustment to interest income represents amortization of the accretable portion of the credit mark adjustments for loans. The credit mark is being amortized using the interest method over the projected lives of the related loans. The total credit mark of $2.9 million is comprised of accretable and nonaccretable discounts totaling $1.4 million and $1.5 million, respectively, which was applied to loans totaling $14.5 million with projected lives of 3 to 36 months.

(2)

- Adjustment to noninterest expense represents amortization of the core deposit intangible of $499 thousand over 9.3 years based on the double declining balance method of amortization.

(3)

- Income tax expense is based on Bankwell's Federal marginal rate of 34%.

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RATIO OF COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS TO EARNINGS

The following table presents the ratio of our combined fixed charges and preferred stock dividends to earnings for the periods indicated.

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Fixed Charges			
Interest expense, including deposits	$ 2,765	$ 3,192	$ 2,870
Estimate of interest in rental expense	11	17	22
Preferred stock dividends (1)	158	203	299
Total fixed charges	$ 2,934	$ 3,412	$ 3,191
Earnings			
Income before provision for income taxes	$ 7,345	$ 1,871	$ 3,201
Add: Fixed charges	2,934	3,412	3,191
Total earnings	$ 10,279	$ 5,283	$ 6,392
Ratio of earnings to combined fixed charges and preferred stock dividends, including deposit expense	3.50	1.55	2.00

(1)

- Preferred stock dividends used in the ratio consist of the amount of pre-tax earnings required to pay the dividends on outstanding preferred stock.

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Fixed Charges			
Interest expense, excluding deposits	$ 532	$ 825	$ 847
Estimate of interest in rental expense	11	17	22
Preferred stock dividends (1)	158	203	299
Total fixed charges	$ 701	$ 1,045	$ 1,168
Earnings			
Income before provision for income taxes	$ 7,345	$ 1,871	$ 3,201
Add: Fixed charges	701	1,045	1,168
Total earnings	$ 8,046	$ 2,916	$ 4,369
Ratio of earnings to combined fixed charges and preferred stock dividends, excluding deposit expense	11.48	2.79	3.74

(1)

- Preferred stock dividends used in the ratio consist of the amount of pre-tax earnings required to pay the dividends on outstanding preferred stock.

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NON-GAAP FINANCIAL MEASURES

We identify "efficiency ratio," "tangible common equity ratio," "tangible book value per share" and "total revenue" as "non-GAAP financial measures." In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our statements of income, balance sheet or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this prospectus should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this prospectus may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this prospectus when comparing such non-GAAP financial measures.

Efficiency ratio is defined as noninterest expenses, net of foreclosed real estate expenses divided by our operating revenue, which is equal to net interest income plus noninterest income excluding gains and losses on sales of securities and foreclosed real estate. Also excluded are one-time gains and expenses related to merger and acquisition related activities. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility that is associated with certain one-time items and other discrete items that are unrelated to our core business.

Tangible common equity is defined as total shareholders' equity, excluding preferred stock, less goodwill and other intangible assets. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in common shareholders' equity exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing both common equity and assets while not increasing our tangible common equity or tangible assets. In connection with our acquisition of The Wilton Bank on November 5, 2013, we recorded a core deposit intangible asset, the balance of which was $481 thousand at December 31, 2013. The acquisition transaction resulted in a bargain purchase gain, therefore, no goodwill was recorded.

Tangible common equity ratio is defined as the ratio of tangible common equity divided by total assets less goodwill and other intangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. We believe that the most directly comparable GAAP financial measure is total shareholders' equity to total assets.

Tangible book value per share is defined as book value, excluding the impact of goodwill and other intangible assets, if any, divided by shares of our common stock outstanding.

Total revenue is defined as the sum of net interest income before provision of loan losses and noninterest income.

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The information provided below presents a reconciliation of each of our non-GAAP financial measures to the most directly comparable GAAP financial measure.

	Years Ended December 31,		
	2013	2012	2011
	(Dollars in thousands, except per share data)		
Efficiency Ratio			
Noninterest expense	$ 22,119	$ 17,858	$ 14,601
Less: foreclosed real estate expenses	7	9	—
Less: merger and acquisition related expenses	908	—	—
Adjusted noninterest expense (numerator)	$ 21,204	$ 17,849	$ 14,601
Net interest income	$ 25,327	$ 21,205	$ 17,717
Noninterest income	4,722	345	1,134
Less: gains (losses) on sales of securities	648	(18)	250
Less: gains on sale of foreclosed real estate	63	—	—
Less: gain on bargain purchase	1,333	—	—
Adjusted operating revenue (denominator)	$ 28,005	$ 21,568	$ 18,601
Efficiency ratio	75.72 %	82.76 %	78.50 %
Tangible Common Equity and Tangible Common Equity/Tangible Assets			
Total shareholders' equity	$ 69,485	$ 51,534	$ 49,188
Less: preferred stock	10,980	10,980	10,980
Common shareholders' equity	58,505	40,554	38,208
Less: Intangible assets	481	—	—
Tangible common shareholders' equity	$ 58,024	$ 40,554	$ 38,208
Total assets	$ 779,618	$ 610,016	$ 477,355
Less: Intangible assets	481	—	—
Tangible assets	$ 779,137	$ 610,016	$ 477,355
Tangible common shareholders' equity to tangible assets	7.45 %	6.65 %	8.00 %
Tangible Book Value per Share			
Total shareholders' equity	$ 69,485	$ 51,534	$ 49,188
Less: preferred stock	10,980	10,980	10,980
Common shareholders' equity	58,505	40,554	38,208
Less: Intangible assets	481	—	—
Tangible common shareholders' equity	$ 58,024	$ 40,554	$ 38,208
Common shares issued	3,876,393	2,846,700	2,788,200
Less: shares of unvested restricted stock	122,140	49,500	30,000
Common shares outstanding	3,754,253	2,797,200	2,758,200
Book value per share	$ 15.58	$ 14.50	$ 13.85
Less: effects of intangible assets	0.12	—	—
Tangible book value per share	$ 15.46	$ 14.50	$ 13.85
Total Revenue			
Net interest income	$ 25,327	$ 21,205	$ 17,717
Add: noninterest income	4,722	345	1,134
Total revenue	$ 30,049	$ 21,550	$ 18,851
Noninterest income as a percentage of total revenue	15.71 %	1.60 %	6.02 %

	Years Ended December 31,		
Return on Average Common Shareholders' Equity			
Net income	$ 5,161	$ 1,214	$ 2,204
Total average shareholders' equity	$ 63,142	$ 50,572	$ 43,852
Less: average preferred stock	10,980	10,980	10,980
Average common shareholders' equity	$ 52,162	$ 39,592	$ 32,872
Return on average common shareholders' equity	9.89 %	3.07 %	6.70 %

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RISK FACTORS
Investing in our securities involves a significant degree of risk. You should carefully consider the following risk factors, in addition to the other information contained in this prospectus, before deciding to invest in our securities. Any of the following risks which actually occur could have a material adverse effect on our business, financial condition, results of operations, future prospects and cash flows. As a result, your investment will be subject to investment risk, and you could lose all or part of your investment.
Risks Relating to Our Business
As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.
Our businesses and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries, including uncertainty over the stability of the euro currency, could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.
We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.
The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. Finally, many of our loans are made to middle market businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and future prospects.
Our allowance for loan losses may not be adequate to absorb losses inherent in our loan portfolio, which could have a material adverse effect on our financial condition and results of operations.
We maintain an allowance for loan losses to provide for nonperforming loans. Maintaining an adequate allowance for loan losses is critical to our financial results and condition. The level of our allowance for loan losses reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the allowance for loan losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes.

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Inaccurate management assumptions, continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. In addition, our regulators, as an integral part of their examination process, review our loans and the adequacy of our allowance for loan losses and may direct us to make additions to our allowance for loan losses based on their judgments about information available to them at the time of their examination. Further, if actual charge-offs in future periods exceed the amounts allocated to our allowance for loan losses, we may need additional provision for loan losses to restore the adequacy of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could have a material adverse effect on our business, financial condition, results of operations and future prospects.

At December 31, 2013, our allowance for loan losses as a percentage of total loans was 1.33% and as a percentage of total non-accrual loans was 835.69%. Although we believe that our allowance for loan losses is adequate to cover known and probable incurred losses included in the portfolio, we cannot assure you that we will not further increase our allowance for loan losses or that our regulators will not require us to increase it. Either of these occurrences could adversely affect our earnings. If delinquencies and defaults increase, we could experience an increase in delinquencies and charge-offs and we may be required to increase our allowance for loan losses, which could materially adversely affect our business, financial condition, results of operations and prospects.

Our concentration of large loans to certain borrowers may increase our credit risk.

Our growth over the last several years has been partially attributable to our ability to originate and retain loans. Many of these loans have been made to a small number of borrowers, resulting in a high concentration of large loans to certain borrowers. We have established an informal, internal limit on loans to one borrower, principal or guarantor of $9.1 million. However, we may, under certain circumstances, consider going above this internal limit in situations where we are confident that (1) the loan to value ratio, other characteristics or the structure of the loan is such that it is a lower risk than standard, (2) we will be able to sell to another institution some portion of the relationship debt as either a whole loan or participation, (3) there is sufficient diversification in the ownership structure of the proposed borrowing entity that the involvement of one party to whom we have extended other debt will not significantly negatively impact the proposed loan's performance in a downturn or (4) the proposed loan is secured by particularly strong collateral, for example, a commercial real estate loan secured by strong tenants with long-term leases, thereby reducing the reliance on the principals of the borrowing entity. As of December 31, 2013, our five largest relationships ranged from approximately $8.0 million to $14.0 million, and comprised in the aggregate, approximately 7% of our loan portfolio. In addition to other typical risks related to any loan, such as deterioration of the collateral securing the loans, this high concentration of borrowers presents a risk to our lending operations. If any of one of these borrowers becomes unable to repay their loan obligations for any reason, our nonperforming loans and our allowance for loan losses could increase significantly, which could adversely and materially affect our business, financial condition and results of operations.

Our commercial real estate loan, commercial loan and construction loan portfolios expose us to risks that may be greater than the risks related to our other mortgage loans.

Our loan portfolio includes non-owner-occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties, as well as real estate construction and development loans. As of December 31, 2013, our non-owner-occupied commercial real estate loans totaled $226.5 million, or 36% of our total loan portfolio. There were no nonperforming non-owner-occupied commercial real estate loans as of December 31, 2013. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These

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loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a 1 – 4 family residential property because there are fewer potential purchasers of the collateral. Additionally, non-owner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on non-owner-occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Commercial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent take-out financing and the builder's ability to ultimately sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans. Unexpected deterioration in the credit quality of our commercial real estate loan, commercial loan or construction loan portfolios would require us to increase our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition, results of operations and future prospects.

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

As a result of our growth over the past recent years, a large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. As of December 31, 2013, we had $443.7 million in commercial loans outstanding. Approximately 75%, or $332 million, of these loans, were originated in the last four years. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge-offs and the ratio of nonperforming assets in the future. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. If delinquencies and defaults increase, we could experience an increase in delinquencies and charge-offs and we may be required to increase our allowance for loan losses, which could materially adversely affect our business, financial condition, results of operations and prospects.

A prolonged downturn in the real estate market could result in losses and adversely affect our profitability.

As of December 31, 2013, approximately 85% of our loan portfolio was composed of commercial and consumer real estate loans. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. The recent recession has adversely affected real estate market values across the country, and values may continue to decline. A further decline in real estate values could further impair the value of our collateral and our ability to sell the collateral upon any foreclosure, which would likely require us to increase our

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provision for loan losses. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re-value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability could be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to interest rate risk that could negatively impact our profitability.

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. Our interest sensitivity profile was liability sensitive as of December 31, 2013, meaning that we estimate our net interest income would decrease more from rising interest rates than from falling interest rates.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the U.S. Federal Reserve Board, or the Federal Reserve, or the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore net income, could be adversely affected. While there is a low probability that interest rates will decline materially from current levels, a continuation of the current levels of historically low interest rates could cause the spread between our loan yields and our deposit rates paid to compress our net interest margin and our net income could be adversely affected. Further, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to our allowance for loan losses, each of which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

Our business is concentrated in Fairfield County, Connecticut, and we are more sensitive than our more geographically diversified competitors to adverse changes in the local economy.

We conduct substantially all of our operations in Fairfield County, Connecticut. Substantially all of the real estate loans in our loan portfolio are secured by properties located in Fairfield County and a smaller number in the New York metropolitan area. In addition, as of December 31, 2013, approximately 97% of the loans in our loan portfolio (measured by dollar amount) were made to borrowers who live or conduct business in the New York metropolitan area. We compete against a number of financial institutions who maintain significant operations located outside of the New York metropolitan area and outside the State of Connecticut. Accordingly, any regional or local economic downturn, or natural or man-made disaster, that affects Connecticut or the New York metropolitan area or existing or prospective property or borrowers in Connecticut or the New York metropolitan area may affect us and our profitability more significantly and more adversely than our more geographically diversified competitors, which could cause a material adverse effect on our business, financial condition, results of operations and prospects.

Strong competition within our market area could reduce our profits and slow growth.

Competition in the financial services industry in our market and the surrounding area is strong. Numerous commercial banks, savings banks and savings associations maintain offices or are headquartered in or near our primary market area. Commercial banks, savings banks, savings associations, money market

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funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders compete with us for various segments of our business. These competitors often have far greater resources than we do and are able to conduct more intensive and broader based promotional efforts to reach both commercial and individual customers.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and personalized services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could reduce our profitability. We derive a majority of our business from our primary market area, of Fairfield County, Connecticut, which includes the Town of New Canaan and the neighboring communities of the Town of Wilton and the City of Stamford and the Town of Fairfield and the neighboring communities of Easton, Weston and Westport. Our failure to compete effectively in our primary market could cause us to lose market share and could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are a community bank and our ability to maintain our reputation is critical to the success of our business.

We are a community bank, and our reputation is one of the most valuable components of our business. In September 2013, following the merger of The Bank of Fairfield into The Bank of New Canaan, we combined these brands as well as Stamford First Bank under one single name, Bankwell Bank. Although we believe that operating under a single name will help us to achieve operational efficiencies, strengthen our brand and grow our institution, there can be no assurance that this brand change will be successful or that integration of the banks will not compromise customer confidence or provide marketing opportunities for our competitors. We strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We may not be able to execute our management team’s growth strategy.

As part of our management team’s growth strategy, we intend to use a portion of the net proceeds from this initial public offering to pursue a business plan focused on the development and growth of our franchise in our existing market and surrounding areas. In addition to pursuing organic growth, a significant element of our management team’s strategy will be to acquire other branches, whole financial institutions or related lines of business. Subject to regulatory approvals and other closing conditions, we anticipate consummating the acquisition of Quinnipiac in the third quarter of 2014. We intend to actively seek potential acquisition opportunities following the completion of this offering. There are numerous risks that may make it difficult for us to execute this growth strategy and we cannot assure you that we will be successful in executing any part of our management team's strategy or that we will be able to maintain our historical rate of growth. Challenges we will face include obtaining regulatory approvals with respect to acquisitions, assuring that we will not become subject to regulatory actions in the future that could restrict our growth, identifying appropriate targets for acquisitions, negotiating acquisitions on terms that are acceptable to us, and encountering competition for acquisitions from financial institutions and other entities with similar business strategies that have greater financial resources, relevant experience and more personnel than us. Accordingly, there can be no assurance that we will be successful in completing future acquisitions at all or on terms that are acceptable to us. Our ability to grow will be limited if we are unable to successfully make acquisitions in the future.

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Some institutions we may acquire may have distressed assets and there can be no assurance that we would be able to realize the value we predict from these assets or that we would make sufficient provision for future losses in the value of, or accurately estimate the future write-downs taken in respect of, these assets.

The decline in home prices in many markets across the United States and weakening general economic conditions may result in increases in delinquencies and losses in the loan portfolios and other assets of financial institutions that we may acquire in amounts that exceed our initial forecasts developed during the due diligence investigation prior to acquiring those institutions. In addition, the allowance for loan losses of institutions we may acquire may prove inadequate or be negatively affected, and asset values may be impaired, in the future due to factors we cannot predict, including significant deterioration in economic conditions and further declines in collateral values and credit quality indicators. Any of these events could adversely affect the financial condition, liquidity, capital position and value of any institutions that we acquire and of the bank as a whole.

We may not be able to overcome the integration and other risks associated with acquisitions, which could adversely affect our growth and profitability.

We may from time to time consider acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability. Our acquisition activities could be material to our business and involve a number of risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- intense competition from other banking organizations and other inquirers for acquisitions;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short-term effect on our results of operations;
- losing key employees and customers as a result of an acquisition that is poorly received;

- significant problems relating to the conversion of the financial and customer data of the entity;
- inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition;
- diversion of our management's attention and resources;
- integration of acquired customers into our financial and customer product systems; or
- risks of impairment to goodwill or other than temporary impairment.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions, and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our profitability, return on equity and return on assets, our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects. Further, if we experience difficulties with the integration process, the anticipated benefits of the

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investment or acquisition transaction may not be realized fully or at all or may take longer to realize than expected. Additionally, we may be unable to recognize synergies, operating efficiencies and/or expected benefits within expected timeframes or at all, or within expected cost projections.

As a result of an investment or acquisition transaction, we may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on our financial condition and results of operations, which could cause you to lose some or all of your investment.

We must conduct due diligence investigations of target institutions we intend to acquire. Intensive due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. Even if we conduct extensive due diligence on a target institution with which we combine, this diligence may not reveal all material issues that may affect a particular target institution, and factors outside the control of the target institution and outside of our control may later arise. If, during our diligence process, we fail to identify issues specific to a target institution or the environment in which the target institution operates, we may be forced to later write down or write off assets, restructure our operations, or incur impairment or other charges that could result in our reporting losses. These charges may also occur if we are not successful in integrating and managing the operations of the target institution with which we combine. In addition, charges of this nature may cause us to violate net worth or other covenants to which we may be subject as a result of assuming preexisting debt held by a target institution or by virtue of our obtaining debt financing.

We may not realize all of the anticipated benefits of the acquisition of The Wilton Bank.

We acquired The Wilton Bank on November 5, 2013, and we will need to successfully combine and integrate the operations of The Wilton Bank into our existing operations in order to fully realize the benefits of this acquisition. The combination and integration of separate businesses is a complex, costly and time-consuming process. As a result, we will be required to devote significant management attention and resources to integrating the business and operations of The Wilton Bank into our existing business, which may divert the attention of our executive officers and management from day-to-day operations. If the integration of The Wilton Bank into our existing operations is not implemented effectively, we may not realize all of the expected benefits of the transaction. If we fail to meet the challenges involved in integrating successfully the operations of The Wilton Bank into our existing business or otherwise fail to realize any of the anticipated benefits of the transaction we could experience an interruption of, or a loss of momentum in, our business activities, which could harm our results of operations. In addition, in integrating The Wilton Bank into our existing operations, we may experience unanticipated problems, expenses, liabilities, competitive responses, loss of client relationships, and diversion of management's attention.

Even if the operations of The Wilton Bank are integrated successfully into our business, we may not fully realize the expected benefits of the transaction, including the synergies, cost savings, or growth opportunities. These benefits may not be achieved within the anticipated time frame, or at all. As a result, we cannot assure you that the acquisition of The Wilton Bank will result in the realization of the full benefits anticipated from the transaction.

Resources could be expended in considering or evaluating potential acquisitions that are not consummated, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another business.

We anticipate that the process of identifying and investigating institutions for potential acquisitions and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific acquisition transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific target institution, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event will result in a loss to us of the related costs incurred, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another institution.

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Our lending limit may restrict our growth and prevent us from effectively implementing our business strategy.
We are limited in the amount we can loan to a single borrower by the amount of our capital. Under Connecticut banking law, the total direct or indirect liabilities of any one obligor that are not fully secured, however incurred, to any Connecticut bank, exclusive of such bank's investment in the investment securities of such obligor, shall not exceed at the time incurred 15% of the equity capital and reserves for loan and lease losses of such bank. The total direct or indirect liabilities of any one obligor that are fully secured, however incurred, to any Connecticut bank, exclusive of such bank's investment in the investment securities of such obligor, shall not exceed at the time incurred 10% of the equity capital and reserves for loan and lease losses of such bank, provided this limitation shall be separate from and in addition to the limitation on liabilities that are not fully secured. We have also established an informal, internal limit on loans to one borrower of $9.1 million. Based upon our current capital levels and our informal, internal limit on loans, the amount we may lend both in the aggregate and to any one borrower is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. If we are unable to compete effectively for loans from our target customers, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.
Regulatory changes allowing the payment of interest on commercial accounts may negatively affect our deposits and our net interest income.
Our noninterest-bearing commercial accounts lower our cost of funds. One of the changes imposed by The Dodd-Frank Act permits the payment of interest on such accounts, which was previously prohibited. If we determine to make available interest-bearing commercial accounts, this will increase our interest expense and our cost of funds and, as a result, decrease our net interest income which would adversely impact our results of operations.
We are dependent on our executive management team and other key employees and we could be adversely affected by the unexpected loss of their services.
We are led by an experienced core management team with substantial experience in the market that we serve, and our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. In particular, we believe that retaining the services and skills of our management team, including Ms. Patterson, Ms. DeWyngaert, Ms. Brathwaite and Mr. Verrico is important to our success. The unexpected loss of services of any of these or other key personnel could have an adverse impact on us because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could cause a material adverse effect on our business, financial condition, results of operations and prospects.
The fair value of our investment securities can fluctuate due to factors outside of our control.
As of December 31, 2013, the fair value of our investment securities portfolio was approximately $42.4 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

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We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including government-sponsored entities, about the mortgage loans and the manner in which they were originated. Whole loan sale agreements require us to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

Our financial results depend on management’s selection of accounting methods and certain assumptions and estimates.

Our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with Accounting Principles Generally Accepted in the United States, or GAAP, and with general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of related revenues and expenses. Certain accounting policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported. They require management to make subjective or complex judgments, estimates or assumptions, and changes in those estimates or assumptions could have a significant impact on our consolidated financial statements. These critical accounting policies include the allowance for loan losses, accounting for income taxes, the determination of fair value for financial instruments and accounting for stock-based compensation. Because of the uncertainty of estimates involved in these matters, we may be required to significantly increase the allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided, significantly increase our accrued tax liability or otherwise incur charges that could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, and other financial intermediaries. Further, our private banking channel relies on relationships with a number of other financial institutions for referrals. As a result, declines in the financial condition of, or even rumors or questions about, one or more financial institutions, financial service companies or the financial services industry generally, may lead to market-wide liquidity, asset quality or other problems and could lead to losses or defaults by us or by other institutions. These problems, losses or defaults could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We rely on third parties to provide key components of our business infrastructure, and failure of these parties to perform for any reason could disrupt our operations.

Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and

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possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face various technological risks that could adversely affect our business.

We rely on communication and information systems to conduct business. Potential failures, interruptions or breaches in system security could result in disruptions or failures in our key systems, such as general ledger, deposit or loan systems. The risk of electronic fraudulent activity within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting bank accounts and other customer information is on the rise. We have developed policies and procedures aimed at preventing and limiting the effect of failure, interruption or security breaches, including cyber-attacks of information systems; however, there can be no assurance that these incidences will not occur, or if they do occur, that they will be appropriately addressed. The occurrence of any failures, interruptions or security breaches, including cyber-attacks of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or subject us to civil litigation and possible financial liability, any of which could have an adverse effect on our results of operation and financial condition.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, our borrowers, other vendors and our employees.

When we originate mortgage loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the borrower, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from them. We have controls and processes designed to help us identify misrepresented information in our loan origination operations. We cannot assure you, however, that we have detected or will detect all misrepresented information in our loan originations.

Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and adversely affect our business.

We necessarily collect, use and hold personal and financial information concerning individuals and businesses with which we have a banking relationship. Threats to data security, including unauthorized access, and cyber-attacks, rapidly emerge and change, exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with customer expectations and statutory and regulatory privacy and other requirements. It is difficult or impossible to defend against every risk being posed by changing technologies, as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber-criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and our other employees and vendors could prove inadequate. We could also experience a breach due to intentional or negligent conduct on the part of employees or other internal sources, software bugs or other technical malfunctions, or other causes. As a result of any of these threats, our customer accounts may become vulnerable to account takeover schemes or cyber-fraud. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware.

A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs, and reputational damage, any of which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

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We are subject to environmental liability risk associated with our lending activities.

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and future prospects.

Risks Applicable to the Regulation of our Industry

We operate in a highly regulated environment, which could have a material and adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects.

Banking is highly regulated under federal and state law. We are subject to extensive regulation and supervision that governs almost all aspects of our operations. As a registered bank holding company, we are subject to supervision, regulation and examination by the Federal Reserve. As a commercial bank chartered under the laws of Connecticut, the Bank is subject to supervision, regulation and examination by the State of Connecticut Department of Banking and the FDIC.

The primary goals of the bank regulatory system are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the FDIC's Deposit Insurance Fund and bank depositors, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin "unsafe or unsound" practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, and, with respect to banks, terminate our charter, terminate our deposit insurance or place the Bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

Compliance with the myriad laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, such as the Dodd-Frank Act, could make compliance more difficult or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Connecticut Department of Banking periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a regulatory agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded

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that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and future prospects.

The Bank's FDIC deposit insurance premiums and assessments may increase.

The deposits of the Bank are insured by the FDIC up to legal limits and, consequently, subject it to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses. The Deposit Insurance Fund has been put under significant pressure as a result of the financial crisis that began in 2008. The FDIC increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions, in order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could materially and adversely affect our business, financial condition, results of operations and prospects.

New capital rules that were recently issued generally require insured depository institutions and their holding companies to hold more capital. The impact of the new rules on our financial condition and operations is uncertain but could be materially adverse.

On July 2, 2013, the Federal Reserve adopted a final rule for the Basel III capital framework and, on July 9, 2013, the OCC also adopted a final rule and the FDIC adopted the same provisions in the form of an "interim final rule." These rules substantially amend the regulatory risk-based capital rules applicable to us. The rules phase in over time beginning in 2015 and will become fully effective in 2019. The rules apply to the Company as well as the Bank.

The final rules increase capital requirements and generally include two new capital measurements that will affect us, a risk-based common equity Tier 1 ratio and a capital conservation buffer. Common Equity Tier 1 (CET1) capital is a subset of Tier 1 capital and is limited to common equity (plus related surplus), retained earnings, accumulated other comprehensive income and certain other items. Other instruments that have historically qualified for Tier 1 treatment, including non-cumulative perpetual preferred stock, are consigned to a category known as Additional Tier 1 capital and must be phased out over a period of nine years beginning in 2014. The rules permit bank holding companies with less than $15 billion in assets (such as us) to continue to include trust preferred securities and non-cumulative perpetual preferred stock issued before May 19, 2010 in Tier 1 capital, but not CET1. Tier 2 capital consists of instruments that have historically been placed in Tier 2, as well as cumulative perpetual preferred stock.

The final rules adjust all three categories of capital by requiring new deductions from and adjustments to capital that will result in more stringent capital requirements and may require changes in the ways we do business. Among other things, the current rule on the deduction of mortgage servicing assets from Tier 1 capital has been revised in ways that are likely to require a greater deduction than we currently make and that will require the deduction to be made from CET1. This deduction phases in over a three-year period from 2015 through 2017. We closely monitor our mortgage servicing assets, and we expect to maintain our mortgage servicing asset at levels below the deduction thresholds by a combination of sales of portions of these assets from time to time either on a flowing basis as we originate mortgages or through bulk sale transactions. Additionally, any gains on sale from mortgage loans sold into securitizations must be deducted in full from CET1. This requirement phases in over three years from 2015 through 2017. Under the earlier rule and through 2014, no deduction is required.

Beginning in 2015, our minimum capital requirements will be (i) a CET1 ratio of 4.5%, (ii) a Tier 1 capital (CET1 plus Additional Tier 1 capital) of 6% (up from 4%) and (iii) a total capital ratio of 8% (the current requirement). Our leverage ratio requirement will remain at the 4% level now required. Beginning in 2016, a capital conservation buffer will phase in over three years, ultimately resulting in a requirement of 2.5% on top of the CET1, Tier 1 and total capital requirements, resulting in a required CET1 ratio of 7%, a Tier 1 ratio of 8.5%, and a total capital ratio of 10.5%. Failure to satisfy any of these three capital requirements will result in limits on paying dividends, engaging in share repurchases and paying

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discretionary bonuses. These limitations will establish a maximum percentage of eligible retained income that could be utilized for such actions. While the final rules will result in higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to us.

In addition to the higher required capital ratios and the new deductions and adjustments, the final rules increase the risk weights for certain assets, meaning that we will have to hold more capital against these assets. For example, commercial real estate loans that do not meet certain new underwriting requirements must be risk-weighted at 150%, rather than the current 100%. There are also new risk weights for unsettled transactions and derivatives. We also will be required to hold capital against short-term commitments that are not unconditionally cancelable; currently, there are no capital requirements for these off-balance sheet assets. All changes to the risk weights take effect in full in 2015.

In addition, in the current economic and regulatory environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers, could result in management modifying our business strategy and could limit our ability to make distributions, including paying dividends or buying back our shares.

The federal banking agencies have proposed new liquidity standards that could result in our having to lengthen the term of our funding, restructure our business lines by forcing us to seek new sources of liquidity for them, and/or increase our holdings of liquid assets.

As part of the Basel III capital process, the Basel Committee on Banking Supervision has finalized a new liquidity standard, a liquidity coverage ratio, which requires a banking organization to hold sufficient "high quality liquid assets" to meet liquidity needs for a 30 calendar day liquidity stress scenario. A net stable funding ratio, which imposes a similar requirement over a one-year period, is under consideration. The U.S. banking regulators have proposed a liquidity coverage ratio for systemically important banks. Although the proposal would not apply directly to us, the substance of the proposal may inform the regulators' assessment of our liquidity. We could be required to reduce our holdings of illiquid assets, which may adversely affect our results and financial condition.

The Bank may become subject to further reporting requirements under FDIC regulations.

We will be subject to further reporting requirements under the rules of the FDIC for the fiscal year in which the Bank's total assets exceed $1.0 billion, including a requirement for management to prepare a report that contains an assessment by management of the Bank's effectiveness of internal control structure and procedures for financial reporting as of the end of such fiscal year. In addition, we will be required to obtain an independent public accountant's attestation report concerning its internal control structure over financial reporting. The rules for management to assess the Bank's internal controls over financial reporting are complex, and require significant documentation, testing and possible remediation. The effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and will cause a diversion of management's time and other internal resources. If the Bank cannot favorably assess the effectiveness of its internal controls over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank's internal controls, the price of our common stock as well as investor confidence could be adversely affected and we may be subject to additional regulatory scrutiny.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act, or CRA, and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

Various laws impose nondiscriminatory lending requirements on financial institutions, including the CRA, the Equal Credit Opportunity Act and the Fair Housing Act. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Financial institutions are required to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate under The Bank Secrecy Act, The USA PATRIOT ACT of 2001 and certain other laws and regulations. Significant civil penalties can be assessed by a variety of regulators and governmental agencies for violations of these laws and regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

Risks Related to Investing in Our Capital Stock

An active, liquid market for our common stock may not develop or be sustained following this offering.

Prior to this offering, the market for our common stock has been illiquid and the stock did not trade frequently. Our common stock has been approved for listing on Nasdaq, but we may be unable to meet continued listing standards. In addition, an active, liquid trading market for our common stock may not develop or be sustained following this offering. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace and independent decisions of willing buyers and sellers of our common stock, over which we have no control. Without an active, liquid trading market for our common stock, shareholders may not be able to sell their shares at the volume, prices and times desired. Moreover, the lack of an established market could materially and adversely affect the value of our common stock.

An active trading market for the Series C preferred stock may not develop or be maintained.

The Series C preferred stock is not currently listed on any security exchange or available for quotation on any national quotation system. We will use reasonable best efforts to list, or make available for quotation, the Series C preferred stock in the future, if and when any shares of Series C preferred stock are offered and sold. An active trading market for the Series C preferred stock may not develop, or if developed, may not be maintained. If an active market does not develop and is not maintained, the market value and liquidity of the Series C preferred stock may be materially and adversely affected.

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;

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- publication of research reports about us, our competitors, or the financial services industry generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;

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- operating and stock price performance of companies that investors deemed comparable to us;
- future issuances of our common stock or other securities;
- additions or departures of key personnel;
- proposed or adopted changes in laws, regulations or policies affecting us;
- perceptions in the marketplace regarding our competitors and/or us;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the financial services industry.

The stock market and, in particular, the market for financial institution stocks, have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

The market price of our common stock could decline significantly due to actual or anticipated issuances or sales of our securities in the future.

Actual or anticipated issuances or sales of substantial amounts of our common stock following this offering could cause the market price of our common stock to decline significantly and make it more difficult for us to sell equity or equity-related securities in the future at a time and on terms that we deem appropriate. The issuance of any shares of our common stock in the future also would, and equity-related securities could, dilute the percentage ownership interest held by shareholders prior to such issuance. All 2,702,703 of the shares of common stock sold in this offering will be freely tradable, except that any shares purchased by our "affiliates" (as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act) may be resold only in compliance with the limitations described under "Shares Eligible For Future Sale." The remaining 3,876,393 outstanding shares of our common stock will be deemed to be "restricted securities" as that term is defined in Rule 144, and may be resold in the U.S. only if they are registered for resale under the Securities Act or an exemption, such as Rule 144, is available.

We also intend to file a registration statement on Form S-8 under the Securities Act to register an aggregate of approximately 584,614 shares of common stock issued or reserved for future issuance under our stock incentive plan. We may issue all of these shares without any action or approval by our shareholders, and these shares, once issued (including upon exercise of outstanding options), will be available for sale into the public market, subject to the restrictions described above, if applicable, for affiliate holders.

We have significant investors whose individual interests may differ from yours.

In the third quarter of 2013, we completed a private placement of our common stock to the Institutional Investor. As a result of this private placement, a significant portion, approximately 9.5%, of our outstanding equity is currently held by the Institutional Investor. In addition, we granted the Institutional Investor a preemptive right to participate in any private or public offering of shares of our common stock by us, including this offering, until September 30, 2016. We have provided the Institutional Investor with notice of its ability to exercise its preemptive rights in connection with this offering in accordance with the relevant agreement. The exercise by the Institutional Investor of their preemptive right may impair our ability to raise funds, or adversely affect the terms on which we are able to raise funds, as we may not be able to offer to new investors the quantity of our stock that they may desire to purchase. The interests of these funds could conflict with the interests of our other shareholders, including you, and any

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future transfer by these funds of their shares of common stock to other investors who have different business objectives could have a material adverse effect on our business, results of operations, financial condition, future prospects and the market value of our common stock.

Our current management and board of directors have significant control over our business.

As of May 12, 2014, our directors and executive officers beneficially owned an aggregate of 1,916,147 shares, or approximately 49%, of our issued and outstanding shares of voting stock. Following the closing of this offering, our directors and executive officers will beneficially own approximately 36% of our outstanding common stock, based on purchases of $7.8 million, or 434,611 shares at the initial public offering price of $18.00 per share. Consequently, our directors and executive officers, acting together, may be able to significantly affect the outcome of the election of directors and the potential outcome of other matters submitted to a vote of our shareholders, such as mergers, the sale of substantially all of our assets and other extraordinary corporate matters. The interests of these insiders could conflict with the interest of our shareholders, including you.

We are an “emerging growth company,” and the reduced reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although we could lose that status sooner if our gross revenues exceed $1.0 billion, if we issue more than $1.0 billion in non-convertible debt in a three year period, or if the market value of our common stock held by non-affiliates exceeds $700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions, or if we choose to rely on additional exemptions in the future. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Investors in this offering will experience immediate and substantial dilution in the tangible book value of their investment in our common stock.

We expect the public offering price of our common stock in this offering to be higher than the tangible book value per share of our common stock immediately following this offering. Therefore, if you purchase shares in the offering, you will experience immediate and substantial dilution in net tangible book value per share in relation to the price that you paid for your shares. The dilution as a result of the offering will be $2.06 per share, based on the initial offering price of $18.00 per share, and our pro forma net tangible book value of $15.94 per share as of December 31, 2013. Accordingly, if we were liquidated at our pro forma net tangible book value, you would not receive the full amount of your investment.

Securities analysts may not initiate or continue coverage on our common stock, which could adversely affect the market for our common stock.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts, and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

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We have broad discretion to use the proceeds to us of this offering and our use of those proceeds may not yield a favorable return on your investment.

We have broad discretion in applying the net proceeds we receive from the offering. We expect to use the net proceeds to us of this offering for general corporate purposes, which may include, among other things, funding loans and purchasing investment securities through our bank subsidiary. We may also use the net proceeds to fund acquisition opportunities, including the proposed acquisition of Quinnipiac. Our management has broad discretion over how these proceeds are used and could spend the proceeds in ways with which you may not agree. In addition, we may not use the net proceeds to us from this offering effectively or in a manner that increases our market value or enhances our profitability. We have not established a timetable for the effective deployment of the net proceeds to us, and we cannot predict how long it will take to deploy these proceeds. Investing the net proceeds to us in securities until we are able to deploy these proceeds will provide lower yields than we generally earn on loans, which may have an adverse effect on our profitability.

The rights of holders of our common stock are subordinate to the rights of the holders of our Series C preferred stock and any debt securities that we may issue and may be subordinate to the holders of any other class of preferred stock that we may issue in the future.

In August 2011, we issued 10,980 shares of our Series C preferred stock to the U.S. Treasury in connection with our participation in the Small Business Lending Fund program. These shares have rights that are senior to our common stock. Holders of the Series C preferred stock are entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate is fixed at 1%. After four and one half years from issuance, the dividend rate will increase to 9%.

We must make payments on the preferred stock as described in the paragraph above before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the Series C preferred stock must be satisfied in full before any distributions can be made to the holders of our common stock. Our board of directors has the authority to issue debt securities or an aggregate of up to 89,020 shares of preferred stock, and to determine the terms of each issue of preferred stock, without shareholder approval. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will also be senior to our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital raising efforts is uncertain. Thus, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

Holders of Series C preferred stock have limited voting rights.

The holders of Series C preferred stock will have no voting rights except with respect to certain fundamental changes in the terms of the Series C preferred stock and certain other matters and as may be required by applicable law. If dividends on the Series C preferred stock are not paid in full for five quarterly dividend periods, whether or not consecutive, the holders of the Series C preferred stock will have the right to appoint a non-voting observer on our board of directors. Further, if dividends are not paid in full for six quarterly dividend periods, whether or not consecutive, the total number of positions on our board of directors will automatically increase by two and the holders of the Series C preferred stock, acting as a class, will have the right to elect two individuals to serve in the new director positions. These rights and the terms of such directors will end when we have paid in full all accrued and unpaid dividends and paid dividends for at least four consecutive dividend periods.

We do not intend, and face regulatory restrictions on our ability, to pay dividends on shares of our common stock in the foreseeable future.

We have not paid any dividends on our common stock since inception, and we do not intend to pay dividends for the foreseeable future. Instead, we anticipate that all of our future earnings will be used for working capital, to support our operations and to finance the growth and development of our business. In

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addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. For example, our ability to pay cash dividends is limited by Federal Reserve Board policy, our capital position and the ability of the Bank to pay cash dividends to us. Connecticut law prohibits the Bank from paying cash dividends except from retained net profits, as defined by statute, for the past two full years and that portion of the current year. In addition, under the SBLF, we are subject to restrictions on the payment of dividends. Finally, because the Bank is our only material asset, our ability to pay dividends to our shareholders depends on our receipt of dividends from the Bank, which is also subject to restrictions on dividends as a result of banking laws, regulations and policies. Accordingly, shares of common stock should not be purchased by persons who need or desire dividend income from their investment.

The Series C preferred stock is subject to various prohibitions and other restrictions on our payment of dividends.

Our ability to pay dividends on the Series C preferred stock is restricted by Federal Reserve Board supervisory policies and guidance. Dividends may not be paid if historical or projected earnings are not sufficient.

Our board of directors may decide not to declare any dividends on the Series C preferred stock.

Our board of directors or any authorized committee of our board of directors may decide not to declare a dividend on the Series C preferred stock in respect of any dividend period. In such case, the holders of Series C preferred stock will have no right to receive any dividend for such period, and we will have no obligation to pay such a dividend, regardless of whether any dividends are declared for any subsequent dividend periods. Although we have been paying dividends on the Series C preferred stock, our board of directors may in the future deem that we either do not have the ability or face circumstances which may make it advisable for us not to declare and pay such dividends.

If we redeem the Series C preferred stock, holders of Series C preferred stock may not be able to reinvest the redemption proceeds in a comparable investment at the same or a greater rate of return.

We have the right to redeem the Series C preferred stock, in whole or in part, at our option at any time, subject to prior regulatory approval. If we choose to redeem the Series C preferred stock, we are likely to do so if we are able to obtain a lower cost of capital. If prevailing interest rates are relatively low if or when we choose to redeem the Series C preferred stock, holders of Series C preferred stock generally will not be able to reinvest the redemption proceeds in a comparable investment at the same or greater rate of return.

Fulfilling our public company financial reporting and other regulatory obligations will be expensive and time consuming, and it may strain our resources.

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and will be required to implement specific corporate governance practices and adhere to a variety of reporting requirements under the rules and regulations of the SEC and NASDAQ, and will incur additional costs associated with such reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. We will also be required to file annual, quarterly and current reports with respect to our business and financial condition. Compliance with these requirements will place significant additional demands on our management, and on our accounting, financial and information systems and will increase our legal and accounting compliance costs. These additional efforts may strain our resources and divert management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, as part of the sale of 370,000 shares of our common stock to the Institutional Investor in September, 2013, we have agreed to comply with certain disclosure requirements of Rule 144 under the Securities Act. If we fail to comply with such requirements at any time up to one year after consummation of this offering, we will have to pay the Institutional Investor, upon such failure and for each subsequent period of 30 days during each the failure persists, liquidated damages of 2% of the aggregate subscription price of approximately $6.2 million paid by them, plus monthly interest of 1.5% in case of delayed payment of the liquidated damages amount.

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Our corporate governance documents, and certain corporate and banking laws applicable to us, could make a takeover more difficult.

Certain provisions of our articles of incorporation and bylaws, and corporate and federal banking laws, could make it more difficult for a third party to acquire control of our organization or conduct a proxy contest, even if those events were perceived by many of our shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- enable our board of directors to issue additional shares of authorized, but unissued capital stock;
- enable our board of directors to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors;
- prohibit shareholder action by written consent in lieu of a meeting;
- enable our board of directors to increase the number of persons serving as directors and to fill the vacancies created as a result;
- restrict voting rights by shareholders owning more than ten percent of our voting stock, in connection with the adoption or amendment of bylaws and with certain amendments to our certificate of incorporation;
- impose board approval requirements for the acquisition of ten percent or more of our voting stock or any offer for such acquisition;
- do not provide for cumulative voting rights; and
- require advance notice for director nominations and other shareholder proposals.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our shareholders might otherwise receive a premium over the market price of our shares.

An investment in our preferred stock or common stock is not an insured deposit and is subject to risk of loss.

Any shares of our preferred stock or common stock you purchase in this offering will not be savings accounts, deposits or other obligations of any of our bank or non-bank subsidiaries and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or the Securities Act, and Section 21E of the Exchange Act. These statements are often, but not always, made with the words or phrases such as “may,” “should,” “believe,” “likely result in,” “expect,” “would” “intend,” “could,” “predict,” “poten “continue,” “will,” “anticipate,” “seek,” “estimate,” “plan,” “projection,” and “outlook” or the negative version of those words similar words of a forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these forward-looking statements. Important factors that may cause actual results to differ from those contemplated by these forward-looking statements include, but are not limited to, those disclosed under “Risk Factors” on page 19 as well as the following factors:

•

• local, regional and national business or economic conditions may differ from those expected;

•

• we are subject to credit risk and could incur losses in our loan portfolio;

•

• our allowance for loan losses may not be adequate to absorb loan losses;

•

• changes in real estate values could also increase our credit risk;

•

• we could experience changes in our key management personnel;

•

• we may not be able to successfully execute our management team’s strategic initiatives;

•

• our ability to successfully execute our growth initiatives such as branch openings and acquisitions;

•

• volatility and direction of market interest rates;

•

• increased competition within our market area may limit our growth and profitability;

•

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- the effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies;
- changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Accounting Oversight Board or the Financial Accounting Standards Board;
- changes in law and regulatory requirements (including those concerning taxes, banking, securities and insurance); and
- further governmental intervention in the U.S. financial system.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this prospectus. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be approximately $44.9 million, after deducting estimated underwriting discounts and offering expenses. Certain of our directors and executive officers have purchased $7.8 million in shares of our common stock in this offering at the initial public offering price.

We intend to use the net proceeds to us from the offering for general corporate purposes, which may include maintaining liquidity at the holding company, providing equity capital to the Bank to fund balance sheet growth or working capital needs, our working capital needs, and funding acquisitions of branches, whole financial institutions and related lines of businesses in or around our existing market that further our objectives (including the acquisition of Quinnipiac). We have not specifically allocated the amount of net proceeds to us that will be used for these purposes and our management will have broad discretion over how these proceeds are used. Although we may, from time to time in the ordinary course of our business evaluate potential acquisitions, other than the recent acquisition of The Wilton Bank and the proposed acquisition of Quinnipiac, we do not have any arrangements, agreements or understandings relating to any acquisitions. See “Prospectus Summary — Recent Developments.”

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DIVIDEND POLICY

We have not paid cash dividends on our common stock since our inception. Our board of directors has no present intention for us to pay cash dividends on our common stock in the foreseeable future. The declaration and payment of future dividends is at the sole discretion of our board of directors and the amount, if any, depends upon our results of operations, financial condition, liquidity and capital needs of the Company and the Bank and other factors, including, among other things, general economic conditions and restrictions arising from federal banking as well as Connecticut laws and regulations to which we and the Bank are subject. For example, our ability to pay cash dividends is limited by Federal Reserve Board policy, our capital position and the ability of the Bank to pay cash dividends to us. Connecticut law prohibits the Bank from paying cash dividends except from retained net profits, as defined by statute, for the past two full years and that portion of the current year. The Series C preferred stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1. The dividend rate was subject to fluctuation on a quarterly basis during the first ten quarters during which the Series C preferred stock was outstanding, based upon changes in the level of QSBL of the Bank. The dividend rate is 1%.

Because we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our shareholders depends, in large part, upon our receipt of dividends from the Bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies.

The present and future dividend policy of the Bank is subject to the discretion of its board of directors.

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CAPITALIZATION

The following table sets forth our capitalization, including regulatory capital ratios, on a consolidated basis, as of December 31, 2013

- on an actual basis; and
- on an as adjusted basis to give effect to our receipt of the net proceeds of approximately $44.9 million from the sale of 2,702,703 shares of our common stock in this offering, after deducting the estimated underwriting discounts and offering expenses.

You should read the following table in conjunction with "Summary — Selected Historical Consolidated Financial Data of Bankwell Financial Group, Inc.," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Our Capital Stock — Preferred Stock — Series C Preferred Stock" and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of December 31, 2013	
Shareholders' equity:	**Actual**	**As Adjusted**
	(Dollars in thousands, except per share data)	
Common stock, no par value, 10,000,000 shares authorized; 3,876,393 shares issued, and 6,579,096 shares issued, as adjusted	52,105	97,018
Preferred Stock, no par value, 10,980 shares authorized Series C, 10,980 shares issued, actual and as adjusted	10,980	10,980
Retained earnings	5,976	5,976
Accumulated other comprehensive income	424	424
Book value per share	$ 15.58	16.02
Tangible book value per share (1) (2)	$ 15.46	15.94
Total Shareholders' Equity	69,485	114,398
Capital Ratios:		
Total shareholders' equity to total assets	8.91 %	13.87 %
Tangible common equity to tangible assets (1)	7.45 %	12.49 %
Tier 1 leverage capital ratio	9.15 %	14.83 %
Tier 1 risk-based capital ratio	11.07 %	18.03 %
Total risk-based capital ratio	12.32 %	19.28 %

(1) This measure is not a measure recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See "Non-GAAP Financial Measures" for a description of this measure and a reconciliation of this measure to its most directly comparable GAAP measure.

(2) Excludes 122,140 shares of unvested restricted stock awards.

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The number of shares of common stock issued, actual and as adjusted, in the table above excludes the following shares as of December 31, 2013:

- 208,568 shares of our common stock issuable upon the exercise of outstanding stock options as of December 31, 2013 at a weighted average exercise price of $16.67 per share (of which options to purchase 188,852 shares have vested);
- 304,460 shares of our common stock issuable upon the exercise of outstanding warrants at a fixed exercise price of $14.00 as of December 31, 2013; and
- 49,840 shares of our common stock reserved for issuance in connection with stock awards that remain available for issuance under our stock incentive plans as of December 31, 2013.

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DILUTION

If you invest in our common stock, your ownership interest will be diluted by the amount by which the initial offering price per share paid by the purchasers of common stock in this offering exceeds the as adjusted net tangible book value per share of our common stock immediately following this offering. As of December 31, 2013, our net tangible book value was approximately $58.0 million or $15.46 per share. As adjusted net tangible book value per share represents common shareholders' equity less intangible assets, divided by the number of shares of common stock outstanding, giving effect to the sale of shares of our common stock in this offering.

Our as adjusted net tangible book value, as of December 31, 2013 would have been approximately $102.9 million, or $15.94 per share based on 6,456,956 shares of common stock issued and outstanding, after giving effect to the sale by us of shares of our common stock in this offering at the initial public offering price, after deducting the estimated underwriting discounts and offering expenses.

The following table illustrates the calculation of the amount of dilution per share as of December 31, 2013 that a purchaser of our common stock in this offering will incur given the assumptions above:

Initial public offering price		$ 18.00
Net tangible book value per common share as of December 31, 2013	$ 15.46	
Increase in net tangible book value per common share attributable to new investors	$ 0.48	
As adjusted net tangible book value per common share		$ 15.94
Dilution per common share to new investors from offering		$ 2.06

This represents an immediate increase in the net tangible book value of $0.48 per share to existing shareholders and an immediate dilution in the net tangible book value of $2.06 per share to the new investors who purchase our common stock in this offering.

The following table summarizes the total consideration paid to us and the average price paid per share by existing shareholders and investors purchasing common stock in this offering. This information is presented on an as-adjusted basis as of December 31, 2013, after giving effect to our sale of 2,702,703 shares of common stock in this offering at the initial public offering price.

	Shares Purchased/Issued		**Total Consideration**		**Average Price per Share**
	Number	**Percent**	**Amount**	**Percent**	
Shareholders as of December 31, 2013	3,429,623	55.93 %	$ 47,838,378	49.58 %	$ 13.95
New investors in this offering	2,702,703	44.07 %	$ 48,648,654	50.42 %	$ 18.00
Total	6,132,326	100.00%	$ 96,487,032	100.00%	$ 15.73

The foregoing calculations are based on 3,876,393 shares outstanding as of December 31, 2013, and exclude the following shares as of December 31, 2013:

•

- 208,568 shares of our common stock issuable upon the exercise of outstanding stock options as of December 31, 2013 at a weighted average exercise price of $16.67 per share (of which options to purchase 188,852 shares have vested);

•

- 304,460 shares of our common stock issuable upon the exercise of outstanding warrants at a fixed exercise price of $14.00 as of December 31, 2013;

- 49,840 shares of our common stock reserved for issuance in connection with stock awards that remain available for issuance under our stock incentive plans as of December 31, 2013; and

- 122,140 shares of unvested restricted stock.

Certain of our directors and executive officers have purchased an aggregate of $7.8 million in shares of our common stock in this offering at the initial public offering price.

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SELLING SECURITY HOLDER

The table below sets forth information concerning the resale of the Series C preferred stock by the Treasury. We will not receive any proceeds from the sale of any Series C preferred stock sold by the Treasury. Our operations are regulated by various U.S. governmental authorities, including in certain respects by Treasury. Other than through its role as a regulator and the acquisition of the Series C preferred stock, Treasury has not held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years. Treasury acquired the Series C preferred stock as part the Small Business Lending Fund to encourage banks to increase lending to small businesses by offering low cost capital to qualified issuers.

The table below sets forth information with respect to the number of shares of Series C preferred stock beneficially owned by the Treasury as of May 12, 2014, the number of the shares of Series C preferred stock that may be offered by the Treasury from time to time in the future, and the number of Series C preferred stock owned by the Treasury after such sale, assuming all of the shares of Series C preferred stock offered by the Treasury are sold. The Treasury is not offering any shares of Series C preferred stock in this offering of our common stock. The percentages below are calculated based on 10,980 shares of Series C preferred stock issued and outstanding as of May 12, 2014.

	Beneficial Ownership Prior to the Offering (1)			**Beneficial Ownership After the Sale (1)**	
Name and Address of Beneficial Owner	**Number of Preferred Shares Beneficially Owned**	**Percent**	**Number of Preferred Shares Being Offered**	**Number of Preferred Shares Beneficially Owned**	**Percent**
United States Department of the Treasury 1500 Pennsylvania Avenue, N.W. Washington, D.C. 20220	10,980	100%	10,980	0	0%

(1)

- In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of Series C preferred stock over which such person has voting or investment power and of which such person has the right to acquire beneficial ownership within 60 days.

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PRICE RANGE OF OUR COMMON STOCK

Prior to this offering, our common stock has not been listed on a national securities exchange. As a result, there has been no regular market for our common stock, which has been illiquid and infrequently traded. As of May 12, 2014, there were approximately 411 holders of record of our common stock.

We anticipate that this offering and the listing of our common stock on the Nasdaq Global Market will result in a more active trading market for our common stock. However, we cannot assure you that a liquid trading market for our common stock will develop or be sustained after this offering. You may not be able to sell your shares quickly or at the market price if trading in our common stock is not active. See the section of this prospectus titled "Underwriting" for more information regarding our arrangements with the underwriters and the factors considered in setting the initial public offering price.

Prior to this offering, our common stock has been quoted on the OTC Bulletin Board, or OTCBB, under the symbol "BWFG." The following table sets forth the high and low bid prices per share for the calendar quarters indicated for our common stock on the OTCBB based upon information provided by OTCBB or other reliable sources. There is no assurance that trading in our common stock will be at prices similar to those at which our common stock has been traded. High and low bid prices reported on the OTCBB reflect inter-dealer quotations without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

	Company Common Stock	
	High	**Low**
2014		
2 nd Quarter through May 12	$ 22.00	$ 21.00
1 st Quarter	22.00	18.80
2013		
4 th Quarter	22.00	19.00
3 rd Quarter	23.00	19.00
2 nd Quarter	23.00	20.00
1 st Quarter	22.00	13.50
2012		
4 th Quarter	14.00	13.25
3 rd Quarter	13.80	12.50
2 nd Quarter	14.90	12.50
1 st Quarter	15.50	13.00

On May 12, 2014, the last sales price reported on the OTCBB was $21.70. Since the trading volume in our common stock is low, sale prices may not be indicative of the market value of our common stock.

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BUSINESS

General

We are a bank holding company, headquartered in New Canaan, Connecticut and offer a broad range of financial services through our banking subsidiary, Bankwell Bank, a Connecticut state non-member bank founded in 2002. Our primary market is the greater Fairfield County, Connecticut area, which we serve from our main banking office located in New Canaan, Connecticut and five other branch offices located throughout the Fairfield County area. According to the U.S. Department of Commerce, Fairfield County is located in the fourth wealthiest metropolitan statistical area in the United States. As of December 31, 2013, on a consolidated basis, we had total assets of approximately $779.6 million, total loans of approximately $632.0 million, total deposits of approximately $661.5 million, and shareholders' equity of approximately $69.5 million.

We are committed to becoming the premier "Hometown" bank in Fairfield County and its surrounding areas. In 2011, the Commercial Record's Annual Readers Poll named us the No. 1 community bank in Connecticut. We believe that our market exhibits highly attractive demographic attributes and presents favorable competitive dynamics, thereby offering long-term opportunities for growth. We have a history of building long-term customer relationships and attracting new customers through what we believe is our superior customer service and our ability to deliver a diverse product offering. In addition, we believe that our strong capital position and extensive local ownership, coupled with a highly respected and experienced executive management team and board of directors, give us instant credibility with our customers and potential customers in our market. Our focus is on building a franchise with meaningful market share and consistent revenue growth complemented by operational efficiencies that we believe will produce attractive risk-adjusted returns for our shareholders.

Our History and Growth

Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan (including a separate division, Stamford First Bank) and The Bank of Fairfield, which were subsequently merged and rebranded as "Bankwell Bank." It was chartered with a commitment to building the premier community bank in the market we serve. We began operations in April 2002 with an initial capitalization of $8.6 million. Since December 31, 2008, Bankwell has experienced significant growth, with $434.2 million in loan growth and $490.8 million in deposit growth, for compound annual growth rates of 26% and 31%, respectively, through December 31, 2013. Our net interest margin was 3.94% at December 31, 2013, compared to a high of 4.27% for the year ended December 31, 2011, in spite of industry-wide downward pressure driven by loan volume and a historically low interest rate environment. In November 2013, we acquired The Wilton Bank, and it was merged into Bankwell Bank. On March 31, 2014, we entered into a merger agreement with Quinnipiac, pursuant to which we will acquire Quinnipiac. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Bankwell Financial Group, Inc. — Quinnipia Acquisition" for additional information.

With the efforts of our strong management team, we continued our growth and maintained a strong track record of performance through the recent economic recession. From December 31, 2008 through December 31, 2013, our total assets grew from $247.0 million to approximately $779.6 million; our loans outstanding grew from $197.8 million to approximately $632.0 million and our noninterest bearing deposits grew from $36.9 million to approximately $118.6 million. We believe this growth was driven by our ability to provide superior service to our customers and our financial stability. This loan growth was achieved while maintaining our focus on our strong underwriting standards, which has been reflected in our low net charge-off levels. Our return on average common equity improved from (1.4%) to 9.89% over the same period.

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Business Strategy

We are focused on becoming the "Hometown" bank and banking provider of choice in our highly attractive market area through:

- Responsive, Customer-Centric Products and Services and a Community Focus. We offer a broad array of products and services which we customize to allow us to focus on building long-term relationships with our customers through high-quality, responsive and personal customer service. By focusing on the entire customer relationship, we build the trust of our customers which leads to long-term relationships and generates our organic growth. In addition, we are committed to meeting the needs of the communities that we serve. Our employees are involved in many civic and community organizations which we support through sponsorships. As a result, customers and potential customers within our market know about us and frequently interact with our employees which allows us to develop long-term customer relationships without extensive advertising.

- Strategic Acquisitions. To complement our organic growth, we focus on strategic acquisitions in or around our existing markets that further our objectives. We believe there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden and will likely need to partner with an institution like ours. On March 31, 2014, we entered into a merger agreement with Quinnipiac. Total consideration for the acquisition is expected to be comprised of our common stock (75%) and cash (25%). Quinnipiac has one branch located in Hamden, Connecticut, and has applied for a second branch in the neighboring town of North Haven. We expect the transaction to close in the third quarter of 2014, subject to the requisite approval of the shareholders of Quinnipiac, required regulatory approvals (including approval of Quinnipiac's branch application for a branch in North Haven), and satisfaction of other customary closing conditions. As we evaluate potential acquisitions, we will continue to seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile.

- Utilization of Efficient and Scalable Infrastructure. We employ a systematic and calculated approach to increasing our profitability and improving our efficiencies. We recently upgraded our operating infrastructure particularly in the areas of technology, data processing, compliance and personnel. We believe that our scalable infrastructure provides us with an efficient operating platform from which to grow in the near term, and without incurring significant incremental noninterest expenses, while continuing to deliver our high-quality, responsive customer service, which will enhance our ability to grow and increase our returns.

- Disciplined Focus on Risk Management. Effective risk management is a key component of our strong corporate culture. We use our strong risk management infrastructure to monitor our existing loan and investment securities portfolios, support operational decision-making and improve our ability to generate earning assets with strong credit quality. To maintain our strong credit quality, we use a comprehensive underwriting process and we seek to maintain a diversified loan portfolio and a conservative investment securities portfolio. Board-approved policies contain approval authorities, as appropriate, and are reviewed at least annually. We have a Risk Management Steering Committee comprised of executive officers who oversee new business initiatives and other activities that warrant oversight of risk and related mitigants. Internal review procedures are performed regarding anti-money laundering and consumer compliance requirements.

Our Chief Risk Officer reports directly to the Chair of our Audit Committee.

Our Competitive Strengths

We believe that we are especially well-positioned to create value for our shareholders as a result of the following competitive strengths:

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- Our Market. Our current market is defined as the greater Fairfield County area, which is part of the fourth most affluent metropolitan statistical area in the United States, the Bridgeport-Stamford-Norwalk, Connecticut MSA, according to the U.S. Department of Commerce. The Stamford market area includes numerous affluent suburban communities of

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professionals who work and commute into New York City, approximately 50 miles from our headquarters, and many small to mid-sized businesses which support these communities. Fairfield County is the wealthiest county in Connecticut, with a 2008 – 2012 median household income of $82,614 according to estimates from United States Census Bureau. We believe that this market has economic and competitive dynamics that are favorable to executing our growth strategy.

- Experienced and Respected Management Team with a Proven and Successful Track Record. Our executive management team, led by Peyton R. Patterson, is comprised of seasoned professionals with significant banking experience, a history of high performance at local financial institutions and success in identifying, acquiring and integrating financial institutions. Ms. Patterson has over 25 years of commercial banking experience, previously serving as Chairman, President and Chief Executive Officer at NewAlliance Bancshares, an approximately $9 billion asset bank headquartered in New Haven, Connecticut which was acquired by First Niagara Financial Group, Inc. in 2011. Our senior management team also includes Heidi S. DeWyngaert, Executive Vice President, Chief Lending Officer (nine years with us), Ernest J. Verrico, Sr., Executive Vice President, Chief Financial Officer (four years with us), Gail E.D. Brathwaite, Executive Vice President, Chief Operating Officer (formerly worked with Ms. Patterson for nine years at NewAlliance, one year with us), Diane Knetzger, Senior Vice President, Director of Marketing (nine years with us) and Christine A. Chivily, our Chief Credit Officer designee (one year with us).

- Dedicated Board of Directors with Strong Community Involvement. Our board of directors is comprised of a group of local business leaders who understand the need for strong community banks that focus on serving the financial needs of their customers. One of our directors, Frederick R. Afragola was instrumental in our organization and growth. Mr. Afragola was the Chief Executive Officer and President of The Bank of New Canaan from its opening in 2002 until his retirement in 2008 and played an integral role in building our foundation and guiding our growth. The interests of our executive management team and directors are aligned with those of our shareholders through common stock ownership. As of May 12, 2014, our directors and officers beneficially owned approximately 49% of our common stock. They have purchased an aggregate of $7.8 million of common stock in this offering. By capitalizing on the close community ties and business relationships of our executive management team and directors, we are positioned to continue taking advantage of the market opportunity present in our primary market.

- Strong Capital Position. At December 31, 2013, we had a 7.45% tangible common equity ratio, and the Bank had a 7.91% tier 1 leverage ratio and a 9.49% tier 1 risk-based ratio. We believe that our ability to attract capital has facilitated our growth and is an integral component to the execution of our business plan.

- Scalable Operating Platform. We provide banking technology, including remote deposit capture, internet banking and mobile banking, to provide our customers with maximum flexibility and create a scalable platform to accommodate our future growth aspirations. We believe that our advanced technology combined with responsive and personal service provides our customers with a superior banking experience.

Our Market

Our banking offices are located in Fairfield County, Connecticut, which includes some of the most affluent areas in the United States and is part of the Bridgeport-Stamford-Norwalk, Connecticut MSA, the fourth most affluent MSA in the United States according to the U.S. Department of Commerce. We believe this area represents one of the more robust economic regions in the country.

Our market area is a demographically diverse area, which includes affluent suburban communities of professionals who work at the 16 Fortune 500 companies headquartered in Connecticut or commute into New York City, approximately 50 miles from our headquarters. From a small business perspective, in 2010 Connecticut ranked 27th in the nation in the number of business establishments with less than 500 employees (over 70,000 businesses) according to the United States Census Bureau. Many small to mid-sized

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businesses support these communities and create a highly attractive demographic landscape in which to operate. Fairfield County, where we are headquartered, is the wealthiest county in Connecticut, with a 2008 – 2012 median household income of $82,614 according to estimates from United States Census Bureau.

During 2008 – 2012, over 89% of Fairfield County adult residents were high school graduates, with 44% having a bachelor's degree or higher according to the American Community Survey provided by the United States Census Bureau. Ten Fairfield County high schools ranked in the top 1,000 high schools in the nation for 2013, according to Newsweek magazine. For the years 2008 – 2012, over 69% of Fairfield County residents owned their own home, according to the United States Census Bureau. The median value of owner-occupied housing units was $447,500 according to the United States Census Bureau.

According to data from the FDIC, the Fairfield County market area is served by 399 bank and thrift branches, and total deposits in our primary market area are approximately $34.9 billion as of June 30, 2013. Over 53% of the deposits, as of June 30, 2013, in our market area were controlled by banks in excess of $50 billion in assets. In the twelve month period ended June 30, 2013, we grew our deposit base by $109.5 million, or 26.2%, representing a 21.7% increase in our market share.

We believe that our primary market is a long-term, attractive market for the types of products and services that we offer. Given Fairfield County's close proximity to New York City and the vibrant business community located in Fairfield County, we anticipate that this market will continue to support our projected growth. We believe that the population and business concentrations within our primary markets provide attractive opportunities to grow our business.

Our Products and Services

We offer our clients a broad range of deposit and loan products, including personal and business checking accounts, retirement accounts, money market accounts, time and savings accounts at competitive interest rates, online and mobile banking, cash management, Popmoney® Person to Person transfers, a personal Visa® Debit Card Purchase Rewards Program, an online personal financial management tool and safe deposit boxes. In addition, to attract the business of consumer and business customers, we also provide a broad array of other banking services, including a full suite of cash management services for businesses, wire transfers, stop payments, e-statements, self-service coin counting and notary services. We also offer remote deposit capture banking, which allows business and professional customers to use a desktop scanner to scan and transmit checks for deposit, reducing time and cost.

The following is a summary of our deposits as of December 31, 2013:

Type	**Total Deposits (dollars in thousands)**	**Number of Accounts**
Checking	$ 118,618	4,326
NOW	73,652	1,053
Money Market	164,579	1,744
Savings	107,692	2,826
Time	197,004	2,282
Total Deposits	$ 661,545	12,231

Checking consists of both retail and business products. We offer retail customers a range of checking products, including Free Checking, Personal Interest Checking and Tiered Rate Checking, all of which provide our retail clients with No-Fee ATM Banking Nationwide, a free first order of checks, Free Online and Mobile Banking and Bill Pay Services and the option of E-statements and Debit Purchase Rewards. We offer noninterest bearing checking accounts. We also offer interest-bearing checking to our attorney, IOLTA and sole proprietorship accounts. NOW accounts consist of retail accounts that have minimum balance requirements. Money market accounts consist of products that provide a market rate of interest to depositors but have limited check-writing capabilities. Our savings accounts for personal and business are statement savings accounts. Time deposits consist of certificates of deposit, including those held in IRA

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accounts, generally with maturities ranging from three months to five years and brokered certificates of deposit which are used primarily for asset liability management purposes. We also offer a suite of cash management services for businesses, and Remote Deposit Capture.

Deposits serve as the primary source of funding for our interest-earning assets, and also generate noninterest revenue through insufficient funds fees, stop payment fees, safe deposit rental fees, card income, including foreign ATM fees and credit and debit card interchange and other miscellaneous fees. In addition, we generate additional noninterest revenue associated with residential loan origination and sale, loan servicing, late fees and merchant services.

We offer personal and commercial business loans on a secured and unsecured basis, revolving lines of credit, commercial mortgage loans, and residential mortgages on both primary and secondary residences, home equity loans, bridge loans and other personal purpose loans. We are not and have not been a participant in the sub-prime lending market.

Commercial loans are loans made for business purposes and are secured by collateral such as marketable securities held by or under the control of the Bank, business assets including accounts receivable, inventory and equipment and liens on commercial and residential real estate. Commercial construction loans are loans to finance the construction of commercial or residential properties secured by first liens on such properties. Commercial real estate loans include loans secured by first liens on completed commercial properties, including multi-family properties, to purchase or refinance such properties. Residential mortgages include loans secured by first liens on residential real estate, and are generally made to new or existing customers of the Bank to purchase or refinance primary and secondary residences. Home equity loans and lines of credit include loans secured by first or second liens on residential real estate for primary or secondary residences. Consumer loans are made to individuals who qualify for auto loans, cash reserve, credit cards and installment loans.

The following table sets forth loan origination activity:

	For the Years Ended December 31,					
	2013			2012		
(Dollars in thousands)		**Total Loans**	**Number of Loans**		**Total Loans**	**Number of Loans**
Real estate loans:						
Residential	$	52,798	51	$	65,862	79
Commercial		100,075	80		133,956	92
Construction		46,237	30		21,064	13
Home equity loans		2,272	5		1,885	7
		201,382	166		222,767	191
Commercial business loans		75,622	70		58,131	73
Consumer loans		461	6		50	5
Total loans	$	277,465	242	$	280,948	269

Our business model includes using industry best practices for community banks, including personalized service, state-of-the-art technology and extended hours. We believe this will generate deposit accounts with somewhat larger average balances than are found at many other financial institutions. We also use pricing techniques in our efforts to attract banking relationships having larger than average balances.

Lending Activities

General. Our primary lending focus is to serve commercial and middle-market businesses and their executives, high net worth individuals, not-for-profit organizations and consumers with a variety of financial products and services, while maintaining strong and disciplined credit policies and procedures. We offer a full array of commercial and retail lending products to serve the needs of our customers. Commercial lending products include owner-occupied commercial real estate loans, commercial real estate investment loans, commercial loans (such as business term loans, equipment financing and lines of credit)

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to small and mid-sized businesses and real estate construction and development loans. Retail lending products include residential mortgage loans, home equity lines of credit and consumer installment loans. Our retail lending products are offered to the community in general and as an accommodation to our commercial customers, and their executives and employees. We focus our lending activities on loans that we originate from borrowers located in our market. We have established an informal, internal lending limit of $9.1 million to one borrower (the statutory maximum is 15% of our unimpaired capital and surplus for unsecured loans and an additional 10% of our unimpaired capital and surplus for fully secured loans).

We market our lending products and services to qualified borrowers through conveniently located banking offices, relationship networks and high touch personal service. We target our business development and marketing strategy primarily on small to medium businesses with between $500,000 and $20 million in annual revenue. Our relationship managers actively solicit the business of companies entering our market areas as well as long-standing businesses operating in the communities we serve. We seek to attract new lending customers through professional service, relationship networks, competitive pricing and innovative structure, including the utilization of federal and state tax incentives. We pride ourselves on smart, efficient underwriting and timely decision making for new loan requests due to our leaner approval structure and local decision-making. We believe this gives us a competitive advantage over larger institutions that are not as nimble.

Total loans before deferred loan fees were $632.0 million at December 31, 2013. Since December 31, 2008, total loans have increased $434.2 million from $197.8 million, reflecting expansion of our branch network, including $25.1 million of acquired loans from The Wilton Bank. The following table summarizes the composition of our loan portfolio for the dates indicated.

	At December 31,					
	2013		2012		2011	
(Dollars in thousands)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Real estate loans:						
Residential	$ 155,874	24.66 %	$ 144,288	27.22 %	$ 104,754	28.37 %
Commercial	316,533	50.08	284,763	53.72	173,951	47.10
Construction	51,545	8.16	33,148	6.26	40,422	10.95
Home equity loans	13,892	2.20	11,030	2.08	14,815	4.01
	537,844	85.10	473,229	89.28	333,942	90.43
Commercial business loans	93,566	14.80	56,764	10.71	35,041	9.49
Consumer loans	602	0.10	57	0.01	311	0.08
Total loans	$ 632,012	100.00%	$ 530,050	100.00%	$ 369,294	100.00%

	At December 31,			
	2010		2009	
(Dollars in thousands)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio

	At December 31,					
Real estate loans:						
Residential	$	104,053	36.08%	$	117,386	45.63%
Commercial		111,271	38.58		71,829	27.92
Construction		38,072	13.20		41,703	16.21
Home equity loans		16,657	5.77		17,091	6.64
		270,053	93.63		248,009	96.40
Commercial business loans		17,713	6.14		9,016	3.51
Consumer loans		659	0.23		243	0.09

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	At December 31,			
	2010		2009	
(Dollars in thousands)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Total loans	$ 288,425	100.00%	$ 257,268	100.00%

Commercial loans. We offer a wide range of commercial loans, including business term loans, equipment financing and lines of credit to small and midsized businesses. Our target commercial loan market is retail and professional establishments and small- to medium-sized businesses. Total commercial business loans comprise 15% of our total loan portfolio, of which 5% represents lines of credit. The terms of these loans vary by purpose and by type of underlying collateral. The commercial loans primarily are underwritten on the basis of the borrower's ability to service the loan from cash flow. We make equipment loans with conservative margins generally for a term of ten years or less, supported by the useful life of the equipment, at fixed or variable rates, with the loan fully amortizing over the term. Loans to support working capital typically have terms not exceeding one year and usually are secured by accounts receivable, inventory and personal guarantees of the principals of the business and often by the commercial real estate of the borrower. For loans secured by accounts receivable or inventory, principal typically is repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal is typically due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness. Risks associated with our commercial loan portfolio include those related to the strength of the borrower's business, which may be affected not only by local, regional and national market conditions, but also changes in the borrower's management and other factors beyond the borrower's control; those related to fluctuations in value of any collateral securing the loan; and those related to terms of the commercial loan, which may include balloon payments that must be refinanced or paid off at the end of the term of the loan. Our commercial loan portfolio presents a higher risk profile than our consumer real estate and consumer loan portfolios.

Commercial real estate loans. We offer real estate loans for commercial property that is owner-occupied as well as commercial property owned by real estate investors. Commercial loans that are secured by owner-occupied commercial real estate and primarily collateralized by operating cash flows are also included in this category of loan. Commercial real estate loan terms generally are limited to ten years or less, although payments may be structured on a longer amortization basis of 20 to 25 years. The interest rates on our commercial real estate loans may be fixed or adjustable, although rates typically are not fixed for a period exceeding five to ten years. We generally charge an origination fee for our services. We typically require personal guarantees from the principal owners of the business or real estate supported by a review of the principal owners' personal financial statements. Risks associated with commercial real estate loans include fluctuations in the value of real estate, the overall strength of the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrower's management. We make efforts to limit our risk by analyzing borrowers' cash flow and collateral value as well as all of the sponsors' investment activities. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner-occupied offices/warehouses/production facilities, office buildings, industrial, mixed-use residential/commercial, retail centers and multifamily properties. At December 31, 2013, owner occupied and non-owner occupied commercial real estate loans represented 14% and 36% of our total loan portfolio, respectively. Our commercial real estate loan portfolio presents a higher risk profile than our consumer real estate and consumer loan portfolios.

Construction loans. Our construction portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in our market. Construction and development loans are generally made with a term of one to two years and interest is paid monthly. The ratio of the loan principal to the value of the collateral, as established by independent appraisal, typically will not exceed industry standards. Loan proceeds are disbursed based on the percentage of completion and only after the project has been inspected by an

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experienced construction lender or third-party inspector. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk and change in market trends. We are also exposed to risk based on the ability of the construction loan borrower to finance the loan or sell the property upon completion of the project, which may be affected by changes in market trends since the time that we funded the construction loan.

Consumer real estate loans. We offer first lien one-to-four family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. We also originate for resale one-to-four family mortgage loans, which are classified as loans held for sale until sold to investors. Although our consumer real estate loan portfolio presents lower levels of risk than our commercial, commercial real estate and construction loan portfolios, we are exposed to risk based on fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship.

Consumer loans. We offer consumer loans as an accommodation to our existing customers, but do not market consumer loans to persons who do not have a pre-existing relationship with us. As of December 31, 2013, our consumer loans represented less than 1% of our total loan portfolio. We do not expect our consumer loans to become a material component of our loan portfolio at any time in the foreseeable future. Although we do not engage in any material amount of consumer lending, our consumer loans, which are underwritten primarily based on the borrower's financial condition and, in many cases, are unsecured credits, subject us to risk based on changes in the borrower's financial condition, which could be affected by numerous factors, including those discussed above.

Credit Policy and Procedures

General. We adhere to what we believe are disciplined underwriting standards, but also remain cognizant of the need to serve the credit needs of customers in our primary market areas by offering flexible loan solutions in a responsive and timely manner. We also seek to maintain a broadly diversified loan portfolio across customer, product and industry types. However, our lending policies do not provide for any loans that are highly speculative, subprime, or that have high loan-to-value ratios. These components, together with active credit management, are the foundation of our credit culture, which we believe is critical to enhancing the long term value of our organization to our customers, employees, shareholders and communities.

We have a service-driven, relationship-based, business-focused credit culture, rather than a price-driven, transaction-based culture. Accordingly, substantially all of our loans are made to borrowers located or operating in our primary market with whom we have ongoing relationships across various product lines. The limited number of loans secured by properties located in out-of-market areas that we have made are generally to borrowers who are well-known to us. These borrowers typically have strong deposit relationships with the Bank.

Credit concentrations. In connection with the management of our credit portfolio, we actively manage the composition of our loan portfolio, including credit concentrations. We monitor borrower, loan product and industry concentrations on at least a quarterly basis. Loan product concentrations are reviewed annually in conjunction with the portfolio's credit quality and the business plan for the coming year. All concentrations are monitored by our Chief Credit Officer and our Loan Committee. We have also established an informal, internal limit on loans to one borrower, principal or guarantor of $9.1 million. Our top 20 borrowing relationships range in exposure from $4.9 million to $13.8 million and are monitored on an on-going basis.

Loan approval process. We seek to achieve an appropriate balance between prudent, disciplined underwriting, on the one hand, and flexibility in our decision-making and responsiveness to our customers, on the other hand. Our credit approval policies have a tiered approval process, with larger exposures referred to the Bank's internal loan committee and the Loan Committee, as appropriate, based on the size of the loan. Smaller exposures are approved under a three-signature system. Loans with policy exceptions require the next higher level of approval authority, the highest of which is the Loan Committee, depending on dollar amount. These authorities are periodically reviewed and updated by our board of directors. We believe that our credit approval process provides for thorough underwriting and efficient decision making.

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Credit risk management. Credit risk management involves a partnership between our relationship managers and our credit approval, credit administration and collections personnel. Portfolio monitoring and early problem recognition are an important aspect of maintaining our high credit quality standards. Past due reports are reviewed daily, as well as insurance and tax payment monitoring. Our evaluation and compensation program for our relationship managers includes significant goals that we believe motivate the relationship managers to focus on high quality credit consistent with our strategic focus on asset quality.

It is our policy to review all commercial loans in excess of $300 thousand on an annual basis, or more frequently through the receipt of interim financial statements and borrowing base certificates. Our policies require rapid notification of delinquency and prompt initiation of collection actions. Relationship managers, credit administration personnel and senior management proactively support collection activities in order to maximize accountability and efficiency.

As part of these annual review procedures, we analyze recent financial statements of the property and/or borrower to determine the current level of occupancy, revenues and expenses and to investigate any deterioration in the value of the real estate collateral or in the borrower's financial condition. Upon completion, we update the risk rating grade assigned to each loan. Relationship managers are encouraged to bring potential credit issues to the attention of our Chief Credit Officer immediately upon any sign of deterioration in the performance of the borrower. We maintain a list of loans that receive additional attention if we believe there may be a potential credit risk via our Watch List report.

Loans that are downgraded are reviewed by our Chief Credit Officer, while classified loans undergo a detailed quarterly analysis prepared by the lending officer and reviewed by management and our internal loan committee. This review includes an evaluation of the market conditions, the property's trends, the borrower and guarantor status, the level of reserves required and loan accrual status. Additionally, we have an independent, third-party review performed on our loan grades and our credit administration functions each year. Finally, we perform an annual stress test of our commercial real estate portfolio, in which we evaluate the impact on the portfolio of declining economic conditions, including lower rental rates, lower occupancy rates, higher interest rates and lower resulting valuations. Management reviews these reports and presents them to our Loan Committee. These asset review procedures provide management with additional information for assessing our asset quality.

Deposits

Deposits are our primary source of funds to support our earning assets. We offer traditional depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposits at the Bank are insured by the FDIC up to statutory limits. We price our deposit products with a view to maximizing our share of each customer's financial services business, and our loan pricing gives value to deposits from our loan customers.

We have built out a network of six deposit-taking branch offices and attracted significant transaction account business through our relationship-based approach. As a result of our significant deposit growth in transaction accounts, which we define as demand, NOW and money market deposits, we have achieved a favorable deposit mix between transaction accounts and certificates of deposit.

Investment Services

On October 15, 2013, we launched Bankwell Investment Services, which provides a range of services, including, but not limited to: 401k rollover planning, retirement planning, asset allocation planning, financial planning, business planning, estate planning, mutual funds, fixed and variable annuities, exchange traded funds, separate managed accounts, stocks and bonds, traditional and Roth IRAs and brokerage certificates of deposits. These services are handled through Kingston Wealth Management Group and Investacorp, Inc. and are not obligations of Bankwell and are not endorsed nor recommended by us. We earn a fixed percentage of the revenue generated on products sold through Kingston Wealth Management Group and Investacorp, Inc., net of commissions paid to the financial advisors. These products and services are not savings accounts, deposits, or other obligations of the Bank and are not insured or guaranteed by the FDIC or any other governmental agency.

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Investments
We manage our investment portfolio primarily for liquidity purposes, with a secondary focus on returns through the use of a liquidity portfolio and an earnings portfolio. Our liquidity portfolio's primary purpose is to provide adequate liquidity necessary to meet any reasonable decline in deposits and any anticipated increase in the loan portfolio. The majority of these securities are classified as available-for-sale. Our earnings portfolio's primary purpose is to generate earnings adequate to provide and contribute to stable income and to generate a profitable return while minimizing risk. The majority of these securities are classified as held-to-maturity. Additionally, our investment portfolio is used to provide adequate collateral for various regulatory or statutory requirements and to manage our interest rate risk. We invest in a variety of high-grade securities, including government agency securities, government guaranteed mortgage backed securities, highly rated corporate bonds and municipal securities. We regularly evaluate the composition of this category as changes occur with respect to the interest rate yield curve. Although we may sell investment securities from time to time to take advantage of changes in interest rate spreads, it is our policy not to sell investment securities unless we can reinvest the proceeds at a similar or higher spread, so as not to take gains to the detriment of future income.
The investment policy is reviewed annually by our board of directors. Overall investment goals are established by our board of directors, Chief Executive Officer, Chief Financial Officer and our asset/liability management committee, or ALCO. Our board of directors has delegated the responsibility of monitoring our investment activities to ALCO. Day-to-day activities pertaining to the investment portfolio are conducted within our accounting department under the supervision of our Chief Financial Officer.
Competition
The financial services industry in our market and the surrounding area is highly competitive. We compete with commercial banks, savings banks, savings associations, money market funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders in various segments of our business. Many of these competitors have more assets, capital and lending limits, and resources than we do and may be able to conduct more intensive and broader based promotional efforts to reach both commercial and individual customers. Competition for deposit products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.
We focus our marketing efforts on small to medium-sized businesses, professionals and individuals and their employees. This focus includes retail, service, wholesale distribution, manufacturing and international businesses. We attract these customers based on relationships and contacts that our management and our board of directors have within and beyond the market area. We do not expect to compete with large institutions for the primary banking relationships of large corporations. Rather, we compete for niches in this business segment and for the consumer business of employees of such entities. Many of our larger commercial bank competitors have greater name recognition and offer certain services that we do not. However, we believe that our presence in our primary market area and focus on providing superior service to professionals at small to medium sized businesses and individual employees of such businesses are instrumental to our success.
We emphasize personalized banking services and the advantage of local decision-making in our banking businesses, and this emphasis has been well received by the public in our market area. We derive a majority of our business from our local market area which includes its primary market area of Fairfield County, Connecticut.
Small Business Lending Fund Program
Since 2011, we have participated in the Small Business Lending Fund program, or SBLF, offered by the United States Department of the Treasury, a dedicated investment fund designed to encourage lending to small businesses by providing capital to qualified community banks and community development loan funds with assets of less than $10 billion. In connection with SBLF, the Treasury purchased shares of our preferred stock on August 4, 2011 for an aggregate purchase price of approximately $10,980,000. We used the proceeds from the SBLF funding to repurchase the preferred stock issued by us to the Treasury in connection with its Capital Purchase Program, as well as to provide additional capital to the Bank, allowing

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the Bank to expand its small business lending programs. In July, 2013, we were ranked first by the Treasury on its list of top performing banks across the nation that participated in SBLF with the highest growth in qualified small business loans (as defined by the Treasury). As a result of our success in making loans through the program, we were allowed to repay the funds at a 1% interest rate. The SBLF funds must be repaid by February 4, 2016 or the interest rate on the preferred stock will automatically increase to 9% per year.

Description of Property

The Bank's main office is located at 208 Elm Street in New Canaan, Connecticut. The property is leased by us until 2016, with three remaining five-year renewal options. In July 2012, we leased additional space adjacent to 208 Elm Street at 220 Elm Street primarily for our executive management offices. The initial term expires in 2018, with one five-year renewal option.

We also lease office space for each of our branch offices in New Canaan, Norwalk, Stamford and Fairfield, Connecticut, and our loan production office in Bridgeport. The leases for our facilities have terms expiring at dates ranging from 2015 to 2028, although certain of the leases contain options to extend beyond these dates. We own the Wilton branch office. We believe that our current facilities are adequate for our current level of operations.

Each lease is at market rate based on similar properties in the applicable market area. We believe that we have the necessary infrastructure in place to support our projected growth.

Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, future prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

Enterprise Risk Management

We place significant emphasis on risk mitigation as an integral component of our organizational culture. We believe that our emphasis on risk management is manifested in our solid asset quality statistics. Risk management with respect to our lending philosophy focuses, among other things, on structuring credits to provide for multiple sources of repayment, coupled with strong underwriting undertaken by experienced bank officers and credit policy personnel. We perform quarterly loan impairment analyses on criticized loans and criticized asset action plans for those borrowers who display deteriorating financial conditions in order to monitor those relationships and implement corrective measures on a timely basis to minimize losses. In addition, we perform an annual stress test of our commercial real estate portfolio, in which we evaluate the impact on the portfolio of declining economic conditions, including lower rental rates, lower occupancy rates and lower resulting valuations. The stress test focuses only on the cash flow and valuation of the properties and ignores the liquidity, net worth and cash flow of any guarantors related to the credits.

We also focus on risk management in other areas throughout our organization. We have created the position of Chief Risk Officer to oversee the Risk Management function and formulated a risk management Steering Committee. We currently outsource our asset/liability management process to a reputable third party and on a quarterly basis, we run the full interest rate risk model. Results of the model are reviewed and validated by our ALCO. Additionally, we are in the process of strengthening our regulatory compliance and internal control procedures.

Intellectual Property

We do not hold any patents, trademarks, licenses, franchises or concessions materially important to us, other than those required or granted by regulatory authorities.

Full Time Employees

At December 31, 2013, we had a total of 107 full-time equivalent employees. None of our employees are subject to a collective bargaining agreement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — BANKWELL FINANCIAL GROUP, INC.

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes contained elsewhere in this prospectus. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." We assume no obligation to update any of these forward-looking statements.

General

The following discussion and analysis presents our results of operations and financial condition on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the Bank.

As a bank holding company, we generate most of our revenue from interest on loans and investments and fee-based revenues. Our primary source of funding for our loans is deposits. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance primarily through our net interest margin, efficiency ratio, ratio of allowance for loan losses to total loans, return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Overview

Bankwell Financial Group, Inc. is a bank holding company headquartered in New Canaan, Connecticut. Through our wholly owned subsidiary, Bankwell Bank, or the Bank, we serve small and medium-sized businesses and retail customers in greater Fairfield County, Connecticut. We have a history of building long-term customer relationships and attracting new customers through what we believe is our strong customer service and our ability to deliver a diverse product offering.

During 2013, we experienced record earnings with strong momentum in our deposit and loan growth. Total revenues increased by 39% over 2012 reflecting a strong net interest margin of 3.94% (a performance ratio measuring net interest income as a percentage of average interest-earning assets) and noninterest income gains of 1,269%. At December 31, 2013, total assets were $779.6 million, an increase of $169.6 million, or 28%, from December 31, 2012. Net loans increased $101.0 million, or 19%, after reflecting sales of $72.6 million, since December 31, 2012. Net loans totaled $621.8 million at December 31, 2013 and deposits totaled $661.5 million, up by $199.4 million, or 43%, for the same period. During fiscal year 2012, assets increased 28% to $610.0 million and loans and deposits increased 44% and 26%, respectively, from December 31, 2011.

We are focused on becoming the "Hometown" bank in the market we serve. We aim to generate long-term growth for our shareholders and are undertaking several key strategic initiatives to achieve this objective. Over the past 24 months, these strategic initiatives have included:

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- Augmenting our management team with a new Chief Executive Officer and Chief Operating Officer;

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- Acquiring The Wilton Bank adding approximately $70.9 million of assets and approximately $64.2 million of deposits to our balance sheet.

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- Hiring new lending officers and supporting growth in our commercial business lending function;

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- Completing a core system conversion, which we believe will provide operating efficiencies and cost savings and broader product capabilities in future periods; and

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- Adding cash management services and launching Bankwell Investment Services through an agreement with an investment brokerage firm to provide on-site wealth management specialists who can generate fee-based revenue.

The primary measures we use to evaluate and manage our financial results are set forth in the table below. Although we believe these measures are meaningful in evaluating our results and financial condition, they may not be directly comparable to similar measures used by other financial services companies and may not provide an appropriate basis to compare our results or financial condition to the results or financial condition of our competitors. The following table sets forth the key financial measures we use to evaluate the success of our business and our financial position and operating performance.

	Key Financial Measures (a) At or For the Years Ended December 31,		
(Dollars in thousands, except per share data)	**2013**	**2012**	**2011**
Selected balance sheet measures:			
Total assets	$ 779,618	$ 610,016	$ 477,355
Gross portfolio loans (b)	632,012	530,050	369,294
Deposits	661,545	462,081	367,115
Borrowings	44,000	91,000	58,000
Total equity	69,485	51,534	49,188
Selected statement of income measures:			
Total revenue (c)	30,049	21,550	18,851
Net interest income before provision for loan losses	25,327	21,205	17,717
Income before income tax	7,345	1,871	3,201
Net income	5,161	1,214	2,204
Basic earnings per share	1.46	0.39	0.72
Diluted earnings per share	1.44	0.38	0.71
Other financial measures and ratios:			
Return on average assets (d)	0.77 %	0.22 %	0.50 %
Return on average common shareholders' equity (d)	9.89 %	3.07 %	6.70 %
Net interest margin	3.94 %	4.11 %	4.27 %
Efficiency ratio (c)	75.72 %	82.76 %	78.50 %
Tangible book value per share (end of period) (c)(e)	$ 15.46	$ 14.50	$ 13.85
Net charge-off's to average loans (b)	0.03 %	0.07 %	0.02 %
Nonperforming assets to total assets (f)	0.23 %	0.81 %	0.78 %
Allowance for loan losses to nonperforming loans	835.69 %	200.84 %	171.88 %
Allowance for loan losses to total loans (b)	1.33 %	1.50 %	1.74 %

(a)

- We have derived the selected balance sheet measures as of December 31, 2013 and 2012 and the selected statement of income measures for the years ended December 31, 2013, 2012 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We have derived the selected balance sheet measures as of December 31, 2011 from our audited consolidated statement of financial condition not included in this prospectus. The other financial measures and ratios are unaudited and derived from the financial statements as of and for the years presented. Average balances have been computed using daily averages. Our historical results may not be indicative of our results for any future period.

(b)

- Calculated using the principal amounts outstanding on loans.

(c)

- This measure is not a measure recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See “Non-GAAP Financial Measures” for a description of this measure and a reconciliation of this measure to its most directly comparable GAAP measure.

(d)

- Calculated based on net income before preferred stock dividends and net accretion.

(e)

- Excludes preferred stock and unvested restricted stock awards.

(f)

- Nonperforming assets consist of nonperforming loans and other real estate owned.

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Quinnipiac Acquisition
On March 31, 2014, we entered into a merger agreement with Quinnipiac. Quinnipiac has one branch located in Hamden, Connecticut, and has applied for a second branch in the neighboring town of North Haven. Both towns are in New Haven County, Connecticut, which will represent a new market for us. At December 31, 2013, Quinnipiac had approximately $100 million in assets, $87 million in deposits and loans of $83 million.
Total consideration for the acquisition is expected to be comprised of our common stock (75%) and cash (25%). The total consideration to be paid to Quinnipiac shareholders, based on the closing price of a share of our common stock on the OTCBB on March 31, 2014, is approximately $15 million. Pursuant to the merger agreement, each outstanding share of Quinnipiac will be converted at the election of the holder into the right to receive 0.56 shares of our common stock, or $12.00 in cash, subject to pro rata adjustments to meet the proportion of stock and cash consideration described above. Outstanding options to purchase Quinnipiac shares, totaling 109,000 as of March 31, 2014, will be exchanged for options in our common stock adjusted for the 0.56 fixed exchange ratio. The exercise price per share of our common stock under the new option shall be equal to the exercise price per share of Quinnipiac common stock subject to the Quinnipiac stock option divided by the 0.56 fixed exchange ratio. Outstanding warrants held by founders of Quinnipiac, totaling 122,500 as of March 31, 2014, will be automatically converted into a warrant to purchase 0.56 shares of our common stock for $17.86. Upon consummation of the transaction, Quinnipiac will be merged into Bankwell Bank.
Upon effectiveness of the merger, we have agreed to increase the number of our directors and of the directors of Bankwell Bank by one, to add one director from the Quinnipiac board of directors, who will be selected by our board of directors after consulting with Quinnipiac. Additionally, upon consummation of the transaction, we agreed to make change of control payments to Quinnipiac's President and Chief Executive Officer, Mark A. Candido, in an amount equal to $331,021 and to Quinnipiac's Chief Lending Officer and Executive Vice President, Richard R. Barredo, in an amount equal to $300,425. We intend to file a Form S-4 Registration Statement in connection with the proposed transaction and issuance of Company common stock to Quinnipiac shareholders. We expect the transaction to close in the third quarter of 2014, subject to the requisite approval of the shareholders of Quinnipiac, required regulatory approvals (including approval of Quinnipiac's branch application for a branch in North Haven), and satisfaction of other customary closing conditions.
The Wilton Bank Acquisition
On November 5, 2013, we acquired all of the outstanding common shares of The Wilton Bank. The Wilton Bank was a state chartered commercial bank located in Wilton, Connecticut, which operated as one branch. As a result of the transaction, The Wilton Bank merged into the Bank. This business combination expanded our presence in Fairfield County and enhanced opportunities for businesses, customer relationships, employees and the communities we serve. In July 2010, The Wilton Bank agreed to the issuance of a formal, written consent agreement, or the Consent Agreement, with the FDIC and the Connecticut Department of Banking. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1 capital ratio at least equal to 12% of total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Wilton Bank was in compliance with all terms except the Tier 1 capital ratio as of the acquisition date, at which time the Consent Agreement ceased to apply and is not binding on us. As a result of a decline in their business and regulatory restrictions, The Wilton Bank had not been profitable since 2008. Without these regulatory restrictions, we expect to be able to effectively deploy and use The Wilton Bank's excess liquidity. On the acquisition date, The Wilton Bank had shareholders' equity of $6.3 million, with a book value per share of $17.00. As part of the acquisition, The Wilton Bank shareholders received $13.50 per share resulting in an aggregate deal value of $5.0 million. In accordance with applicable accounting guidance, the amount paid was allocated to the fair value of the net assets acquired, with any excess amounts recorded as goodwill. If the fair value of the net assets is greater than the amount paid, the excess amount is recorded to noninterest income as a gain on the purchase. We recorded a gain of $1.3 million in conjunction with the

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acquisition, representing the amount that the net assets exceeded the amount paid. Fair values of certain balance sheet items were cash of $35.9 million, loans of $25.1 million and deposits of $64.2 million. The results of The Wilton Bank's operations have been included in our Consolidated Statement of Income from the acquisition date.

Earnings Overview

2013 Earnings Summary

Our net income for the year ended December 31, 2013 was $5.2 million, an increase of $3.9 million, or 325%, compared to the year ended December 31, 2012. Our returns on average equity and average assets for the year ended December 31, 2013, were 8.17% and 0.77%, respectively, compared to 2.40% and 0.22%, respectively for same period in 2012. Net income available to common shareholders for the year ended December 31, 2013, was $5.1 million, or $1.44 per diluted share, compared to net income available to common shareholders of $1.1 million, or $0.38 per diluted share, for the year ended December 31, 2012.

Our strong improvement in net income for 2013 compared to 2012 was due primarily to strong commercial loan growth, solid asset quality metrics, sales of investment securities and efforts to diversify our revenue sources through sales of commercial loans for the first time during 2013. The increase in net income reflects these factors through increases in net interest income and noninterest income as well as a lower provision for loan losses, partially offset by higher noninterest expenses. While our net interest income increased due to strong loan growth and a reduction in our cost of funds, our net interest margin decreased 17 basis points to 3.94% for the year ended December 31, 2013 compared to the year ended December 31, 2012 reflecting the current interest rate environment in which market yields on new loan growth have been below the average yield of the existing portfolio. The increase in noninterest expenses was mainly due to higher salaries and employee benefits, reflecting staffing additions and higher incentive accruals, occupancy and equipment expense, attributable to costs related to branch relocations and investments in technology and equipment as well as marketing expenses, including our rebranding efforts. Additionally, in connection with our purchase of The Wilton Bank, we recorded a bargain purchase gain in the amount of $1.3 million, which more than offset the merger and acquisition-related expenses of $908 thousand that we recognized in 2013.

Our efficiency ratio was 75.72% for the year ended December 31, 2013 compared to 82.76% for the year ended December 31, 2012. The improvement in our efficiency ratio was attributable to our increased operating leverage as we continued to grow our asset base and expand our noninterest income sources despite increases in our noninterest expense. See "Non-GAAP Financial Measures" for a reconciliation of efficiency ratio to comparable GAAP financial measures.

2012 Earnings Summary

Our net income for the year ended December 31, 2012, was $1.2 million, a decrease of $1.0 million, or 45%, from net income of $2.2 million for the year ended December 31, 2011 due primarily to costs tied to a number of our strategic initiatives and a higher provision for loan losses, mostly offset by higher net interest income. Our returns on average equity and average assets for the year ended December 31, 2012 were 2.4% and 0.22%, respectively, compared to 5.03% and 0.50%, respectively for the year ended December 31, 2011. Net income available to common shareholders was $1.1 million, or $0.38 per diluted share for the year ended December 31, 2012, compared to $2.0 million, or $0.71 per diluted share for the year ended December 31, 2011.

Our net interest income for the year ended December 31, 2012, increased by $3.5 million, or 20% over net interest income for the year ended December 31, 2011, due primarily to growth in average loan balances. Our net interest margin was 4.11% for the year ended December 31, 2012, compared to net interest margin of 4.27% reported in 2011. The decrease in net interest margin was due primarily to the effect of the lower interest rate environment. Our provision for loan losses for the year ended December 31, 2012, was $1.8 million, an increase of $772 thousand from our provision for loan losses for 2011, reflecting our significant loan growth during 2012. In 2012, net charge-offs totaled $305 thousand, or 0.07% of total average loans, compared to $64 thousand, or 0.02% of total average loans in 2011.

Our noninterest income for the year ended December 31, 2012 decreased by $789 thousand, or 70%, from noninterest income for 2011. This decrease was primarily attributable to lower gains and fees from

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sales of loans and investment securities tied to low levels of loan sale activity and prior year gains on sales of securities. Our noninterest expenses for the year ended December 31, 2012, increased by $3.3 million, or 22%, compared to noninterest expense for 2011 due, in large part, to the commencement of various strategic initiatives to support our future growth plans. These strategic initiatives generated several non-recurring expenses involving salaries and operations as we hired a new Chief Executive Officer prior to the departure of our former Chief Executive Officer, we made a strong commitment to elevating our technology platform, and we engaged consultants to support efforts to grow our community bank model. Additionally, we experienced an operating loss related to wire fraud during 2012 of $478 thousand, which we have since partially recovered. Our income tax expense was $657 thousand for the year ended December 31, 2012, representing a decrease of $340 thousand from income tax expense for 2011. The effective tax rate for the year ended December 31, 2012 was 35.1%, compared to 31.1% for the year ended December 31, 2011, primarily due to increased state tax expense and share-based compensation expense.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of our operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees and late charges. The following tables and discussion present net interest income on a fully taxable equivalent, or FTE basis, by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. We convert tax-exempt income to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages and, for loans, only include performing loans. Average balances of non-performing loans for the years ending December 31, 2013, 2012 and 2011 totaling $2.9 million, $4.5 million and $2.9 million, respectively have been excluded. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which we have ceased to accrue interest. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

Year ended December 31, 2013 compared to year ended December 31, 2012

FTE net interest income for the years ended December 31, 2013 and 2012 was $25.7 million and $21.6 million, respectively. Our net interest margin declined 17 basis points to 3.94% for the year ended December 31, 2013, compared to the same period in 2012 due primarily to the effects of the low interest rate environment. While we have experienced significant growth in average loan balances, in the current low interest rate environment, market yields on new loan originations are below the average yield of our existing loan portfolio. Due to the combined effect of new loan growth and the runoff of higher yielding loan balances, we anticipate that interest rates on total earning assets will continue to decline. The impact of this trend is likely to exceed the benefit to be realized in reduced funding costs, resulting in modestly lower net interest margin results in the near term.

FTE basis interest income for the year ended December 31, 2013 increased by $3.7 million to $28.5 million, or 15%, compared to FTE basis interest income for the year ended December 31, 2012 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were $651.7 million for the year ended December 31, 2013, up by $126.7 million from the year ended December 31, 2012. The average balance of total loans increased $122.4 million, or 27%, contributing $5.9 million to the increase in interest income. Commercial real estate loan average balances grew by $62.2 million due to strong origination activity reflecting our ability to source quality opportunities and continued economic improvement in our market. Partially offsetting the increase in interest income due to volume was a 33 basis point decrease in the weighted average yield earned on our loan portfolio due to a lower interest rate environment, which caused a reduction of $1.6 thousand in interest income. Total average balance of securities for the year ended December 31, 2013 decreased by $15.4 million, or 27%, from the same period in 2012, reflecting maturities, principal paydowns and sales of $9.4 million of longer-term U.S. Government and agency obligations, partially offset by our purchase of municipal bonds.

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Interest expense for the year ended December 31, 2013, was reduced by $427 thousand, or 13%, compared to interest expense for 2012 due to a continued reduction in our funding costs resulting from the sustained low interest rate environment. The weighted average cost of deposits declined 13 basis points to 0.43% due to our measured approach of reducing deposit rates while still experiencing significant deposit growth. The weighted average cost of Federal Home Loan Bank of Boston, or FHLBB, advances declined by 57 basis points to 0.76%, also reflecting the low interest rate environment as higher cost advances matured or were paid off and new advances were utilized. Average funding liabilities for the year ended December 31, 2013, increased by $112.1 million, or 23%, from the year ended December 31, 2012, primarily due to higher average balances of $36.6 million in time deposits, $26.0 million in money market accounts and $17.6 million in noninterest-bearing deposits.

The following table compares the average balances and yields earned on interest-earning assets and the average balances and weighted average rates paid on our funding liabilities for the years ended December 31, 2013 and 2012.

	Average Balance		**Change**		**Rate**		**Change**
Years Ended December 31,	**2013**	**2012**	**$**	**%**	**2013**	**2012**	**%**
(Dollars in thousands)							
Earning assets							
Cash and Fed funds sold	$ 35,599	$ 16,933	$ 18,666	110%	0.24%	0.21 %	0.03 %
Securities (1)	40,932	56,321	(15,389)	(27)	4.31	4.20	0.11
Loans: (2)							
Commercial real estate	299,142	236,934	62,208	26	5.06	5.45	(0.39)
Residential real estate	152,498	119,960	32,538	27	3.66	4.02	(0.36)
Construction (3)	38,073	34,177	3,896	11	4.63	5.13	(0.50)
Commercial business	69,252	44,220	25,032	57	5.34	5.36	(0.02)
Home equity	11,287	12,789	(1,502)	(12)	3.74	3.64	0.10
Consumer	308	80	228	285	5.98	12.50	(6.52)
Total loans	570,560	448,160	122,400	27	4.66	4.99	(0.33)
Federal Home Loan Bank stock	4,624	3,615	1,009	28	0.36	0.49	(0.13)
Total earning assets	$ 651,715	$ 525,029	$ 126,686	24 %	4.37%	4.72 %	(0.35)%
Funding liabilities							
Deposits:							
NOW	40,554	$ 31,490	$ 9,064	29 %	0.12%	0.14 %	(0.02)%
Money market	116,323	90,342	25,981	29	0.45	0.68	(0.23)
Savings	117,388	102,641	14,747	14	0.46	0.82	(0.36)
Time	158,996	122,350	36,646	30	0.72	0.71	0.01
Total interest-bearing	433,261	346,823	86,438	25	0.52	0.68	(0.16)
Noninterest-bearing	96,009	78,453	17,556	22	—	—	—
Total deposits	529,270	425,276	103,994	24	0.43	0.56	(0.13)
Federal Home Loan Bank advances	69,912	61,836	8,076	13	0.76	1.33	(0.57)
	$ 599,182	$ 487,112	$ 112,070	23 %	0.47%	0.66 %	(0.19)%

	Average Balance	Change	Rate	Change
Total funding liabilities				

(1)

- Average balances and yields for securities are based on amortized cost

(2)

- Average balances and yields for loans exclude nonperforming loans

(3)

- Includes commercial and residential real estate construction loans

Year ended December 31, 2012 compared to year ended December 31, 2011

FTE net interest income totaled $21.6 million for the year ended December 31, 2012, compared to $18.1 million for the same period in 2011. Our net interest margin declined 16 basis points to 4.11% in 2012 from 4.27% in 2011, primarily due to a 23 basis point reduction in the weighted average yield on our interest-earning assets, a result of the low interest rate environment on new asset growth and refinancing activity. Interest income for the year ended December 31, 2012, increased by $3.5 million, or 19%, compared to interest income for the 2011 fiscal year due to a $4.7 million increase in loan portfolio earnings, which was primarily in our commercial real estate portfolio and due to an increase in our average loan balances.

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Average interest-earning assets were $525.0 million for the year ended December 31, 2012, representing an increase of $101.9 million from average interest-earning assets for 2011. During 2012, the average balance of total loans increased $126.4 million, or 39%, contributing $6.7 million of the increase in net interest income. Commercial real estate loan average balances grew by $96.4 million in 2012 due to strong origination activity reflecting our ability to source quality opportunities, the expansion of the number of lenders and continued economic improvement in our market. Partially offsetting the increase due to volume was a 49 basis point decrease in the weighted average yield earned on our loan portfolio due to the lower interest rate environment, which caused a decline of $2.0 million in net interest income. Total average securities for the year ended December 31, 2012 decreased by $24.3 million, or 30%, from 2011, largely reflecting sales of longer-term U.S. Government and agency obligations.

Interest expense increased by $322 thousand, or 11%, during 2012, due primarily to a $71.2 million increase in the average balance of interest-bearing deposits. Average funding liabilities for the year ended December 31, 2012 increased by $96.0 million, or 25%, from 2011, reflecting increases of $37.4 million and $29.4 million, respectively, in savings and money market deposits and $17.4 million in FHLBB advances. The weighted average rate paid on total funding liabilities, which includes noninterest-bearing deposits, was 0.66% for the year ended December 31, 2012, a seven basis point reduction from 2011. During 2012, the weighted average cost of FHLBB advances declined by 58 basis points to 1.33%, reflecting the sustained low interest rate environment, while the weighted average cost of deposits declined two basis points to 0.56%, reflecting our focus on deposit growth versus a cost reduction strategy.

The following table compares the average balances and yields earned on interest-bearing assets and weighted averages rates paid on our funding liabilities for the years ended December 31, 2012 and 2011.

Years Ended December 31,	**Average Balance**		**Change**		**Rate**		**Change**
	2012	**2011**	**$**	**%**	**2012**	**2011**	**%**
(Dollars in thousands)							
Earning assets							
Cash and Fed funds sold	$ 16,933	$ 17,401	$ (468)	(3)%	0.21 %	0.27 %	(0.06)%
Securities (1)	56,321	80,586	(24,265)	(30)	4.20	4.03	0.17
Loans: (2)							
Commercial real estate	236,934	140,536	96,398	69	5.45	6.00	(0.55)
Residential real estate	119,960	96,244	23,716	25	4.02	4.95	(0.93)
Construction (3)	34,177	34,118	59	0	5.13	5.57	(0.44)
Commercial business	44,220	35,246	8,974	25	5.36	5.63	(0.27)
Home equity	12,789	15,223	(2,434)	(16)	3.64	3.36	0.28
Consumer	80	393	(313)	(80)	12.50	10.43	2.07
Total loans	448,160	321,760	126,400	39	4.99	5.48	(0.49)
Federal Home Loan Bank stock	3,615	3,364	251	7	0.49	0.30	0.19
Total earning assets	$ 525,029	$ 423,111	$ 101,918	24 %	4.72 %	4.95 %	(0.23)%
Funding liabilities							
Deposits:							
NOW	$ 31,490	$ 30,288	$ 1,202	4 %	0.14 %	0.14 %	— %
Money market	90,342	60,941	29,401	48	0.68	0.83	(0.15)
Savings	102,641	65,223	37,418	57	0.82	0.81	0.01
Time	122,350	119,207	3,143	3	0.71	0.79	(0.08)

	Average Balance		Change		Rate		Change
Total interest-bearing	346,823	275,659	71,164	26	0.68	0.73	(0.05)
Noninterest-bearing	78,453	70,964	7,489	11	—	—	—
Total deposits	425,276	346,623	78,653	23	0.56	0.58	(0.02)
Federal Home Loan Bank advances	61,836	44,452	17,384	39	1.33	1.91	(0.58)
Total funding liabilities	$ 487,112	$ 391,075	$ 96,037	25 %	0.66 %	0.73 %	(0.07)%

(1)

- Average balances and yields for securities are based on amortized cost

(2)

- Average balances and yields for loans exclude nonperforming loans

(3)

- Includes commercial and residential real estate construction loans

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Average balance sheet, FTE basis interest income, interest expense, average yields earned and rates paid

The following table presents average balance sheet information, FTE basis interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2013, 2012 and 2011. Tax-exempt income is converted to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages and, for loans, only include performing balances. Average balances of non-performing loans for the years ended December 31, 2013, 2012 and 2011 totaling $2.9 million, $4.5 million and $2.9 million, respectively have been excluded. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which we have ceased to accrue interest. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

	Years ended December 31,								
	2013			2012			2011		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Assets:									
Cash and Fed funds sold	$35,599	$84	0.24%	$16,933	$35	0.21 %	$17,401	$47	0.27 %
Securities (1)	40,932	1,766	4.31	56,321	2,366	4.20	80,586	3,249	4.03
Loans: (2)									
Commercial real estate	299,142	15,124	5.06	236,934	12,919	5.45	140,536	8,434	6.00
Residential real estate	152,498	5,577	3.66	119,960	4,826	4.02	96,244	4,766	4.95
Construction (3)	38,073	1,763	4.63	34,177	1,752	5.13	34,118	1,899	5.57
Commercial business	69,252	3,699	5.34	44,220	2,370	5.36	35,246	1,983	5.63
Home equity	11,287	423	3.74	12,789	465	3.64	15,223	511	3.36
Consumer	308	18	5.98	80	10	12.50	393	41	10.43
Total loans	570,560	26,604	4.66	448,160	22,342	4.99	321,760	17,634	5.48
Federal Home Loan Bank stock	4,624	17	0.36	3,615	18	0.49	3,364	10	0.30
Total earning assets	651,715	$28,471	4.37%	525,029	$24,761	4.72 %	423,111	$20,940	4.95 %
Other assets	17,782			16,297			15,166		
Total assets	$669,497			$541,326			$438,277		
Liabilities and shareholders' equity:									
Deposits:									
Noninterest-bearing	$96,009	$—	— %	$78,453	$—	— %	$70,964	$—	— %
NOW	40,554	49	0.12	31,490	45	0.14	30,288	44	0.14
Money market	116,323	498	0.45	90,342	612	0.68	60,941	506	0.83
Savings	117,388	543	0.46	102,641	846	0.82	65,223	527	0.81
Time	158,996	1,143	0.72	122,350	864	0.71	119,207	946	0.79
Total deposits	529,270	2,233	0.43	425,276	2,367	0.56	346,623	2,023	0.58
Federal Home Loan Bank advances	69,912	532	0.76	61,836	825	1.33	44,452	847	1.91
	599,182	$2,765	0.47%	487,112	$3,192	0.66 %	391,075	$2,870	0.73 %

	Years ended December 31,					
Total funding liabilities						
Other liabilities	7,173		3,642		3,350	
Shareholders' equity	63,142		50,572		43,852	
Total liabilities and shareholders' equity	$669,497		$541,326		$438,277	
Net interest income (4)		$25,706		$21,569		$18,070
Interest rate spread		3.90%		4.06 %		4.22 %
Net interest margin (5)		3.94%		4.11 %		4.27 %

(1)

- Average balances and yields for securities are based on amortized cost.

(2)

- Average balances and yields for loans exclude nonperforming loans.

(3)

- Includes commercial and residential real estate construction loans.

(4)

- The adjustment for securities and loans taxable equivalency was $379 thousand, $364 thousand and $353 thousand, respectively, for the years ended December 31, 2013, 2012 and 2011.

(5)

- Net interest income as a percentage of total earning assets.

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Effect of changes in interest rates and volume of average earning assets and average interest-bearing liabilities

The following table shows the extent to which changes in interest rates and changes in the volume of average earning assets and average interest-bearing liabilities have affected net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of change in each.

	Year Ended December 31, 2013 vs 2012 Increase (Decrease)			**Year Ended December 31, 2012 vs 2011 Increase (Decrease)**		
(In thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest and dividend income:						
Cash and Fed funds sold	$ 44	$ 5	$ 49	$ (1)	$ (11)	$ (12)
Securities	(662)	62	(600)	(1,014)	131	(883)
Loans:						
Commercial real estate	3,198	(993)	2,205	5,318	(833)	4,485
Residential real estate	1,220	(469)	751	1,049	(989)	60
Construction	189	(178)	11	4	(151)	(147)
Commercial business	1,337	(8)	1,329	485	(98)	387
Home equity	(56)	14	(42)	(86)	40	(46)
Consumer	16	(8)	8	(38)	7	(31)
Total loans	5,904	(1,642)	4,262	6,732	(2,024)	4,708
Federal Home Loan Bank stock	4	(5)	(1)	1	7	8
Total change in interest and dividend income	5,290	(1,580)	3,710	5,718	(1,897)	3,821
Interest expense:						
Deposits:						
NOW	12	(8)	4	2	(1)	1
Money market	148	(262)	(114)	212	(106)	106
Savings	108	(411)	(303)	308	11	319
Time	263	16	279	24	(106)	(82)
Total deposits	531	(665)	(134)	546	(202)	344
Federal Home Loan Bank advances	97	(390)	(293)	275	(297)	(22)
Total change in interest expense	628	(1,055)	(427)	821	(499)	322
Change in net interest income	$ 4,662	$ (525)	$ 4,137	$ 4,897	$ (1,398)	$ 3,499

Provision for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of our allowance for loan losses which, in turn, is based on such interrelated factors as the composition of our loan portfolio and its inherent risk characteristics, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain our allowance for loan losses and reflects management's best estimate of probable losses inherent in our loan portfolio at the balance sheet date.

Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A provision for loan losses will be recorded for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date. As of and for the year ended December 31, 2013, there was no provision or allowance for loan losses related to the loan portfolio that we acquired from The Wilton Bank on November 5, 2013 for this reason.

The provision for loan losses for the year ended December 31, 2013 was $585 thousand compared to a $1.8 million provision for loan losses for the year ended December 31, 2012. The lower 2013 provision for loan losses is attributable to the low level of net charge-offs, nonperforming and past due loans and an

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overall improvement in our credit quality. The 2012 provision for loan losses reflected increases in net charge-offs, nonaccrual loans, and troubled debt restructured loans as well as significant growth in our commercial loan portfolio compared to 2011. The provision charged to earnings in 2011 was $1.0 million. For a more detailed discussion of our allowance for loan losses methodology, see "— Allowance for Loan Losses."

Noninterest Income

Noninterest income is a component of our revenue and is comprised primarily of fees generated from loan and deposit relationships with our customers, fees generated from sales and referrals of loans and gains on sales of our investment securities. The following table compares noninterest income for the years ended December 31, 2013, 2012 and 2011.

	Years Ended December 31,			**2013 / 2012 Change**		**2012 / 2011 Change**	
(Dollars in thousands)	**2013**	**2012**	**2011**	**$**	**%**	**$**	**%**
Service charges and fees	$ 495	$ 345	$ 337	$ 150	43 %	$ 8	2 %
Gains and fees from sales and referrals of loans	2,020	18	547	2,002	11,122	(529)	(97)
Gain on bargain purchase	1,333	—	—	1,333	100	—	—
Net gain (loss) on available for sale securities	648	(18)	250	666	3,700	(268)	(107)
Gain on sale of foreclosed real estate	63	—	—	63	100	—	—
Other	163	—	—	163	100	—	—
Total noninterest income	$ 4,722	$ 345	$ 1,134	$ 4,377	1,269 %	$ (789)	(70)%

Year ended December 31, 2013 compared to year ended December 31, 2012

Noninterest income totaled $4.7 million for the year ended December 31, 2013, compared to $345 thousand for the year ended December 31, 2012. This increase was primarily due to gains we recorded on sales of commercial loans and available for sale securities as well as a one-time bargain purchase gain of $1.3 million recorded in connection with our acquisition of The Wilton Bank.

Service charges and fees. We earn fees from our customers for deposit-related services. For the year ended December 31, 2013, service charges and fees totaled $495 thousand. The increase of $150 thousand, or 43%, over the year ended December 31, 2012 was primarily due to increases in ATM and debit card fees and non-sufficient fund charges caused by an increase in our pricing schedule at the beginning of 2013 and, to a lesser extent, higher volume levels.

Gains and fees from sales and referrals of loans. Loan sales are dependent on origination volume and are sensitive to interest rates, housing and market conditions. During the year ended December 31, 2013, we recorded income of $1.8 million on the sale of $65.0 million of commercial mortgage loans, $93 thousand on the sale of $1.0 million of small business administration commercial loans and $84 thousand on sales of residential mortgage loans. We sold the loans described above in response to favorable market conditions as well as our desire to reduce our ratio of commercial mortgage loans to total risk-based capital. As part of the commercial mortgage loan sales, we incurred fees to a third party of $258 thousand, which were recorded under professional fees in noninterest expense.

Gain on bargain purchase. We recorded a gain of $1.3 million in conjunction with our acquisition of The Wilton Bank. In accordance with applicable accounting guidance, the amount paid is allocated to the fair value of the net assets acquired, with any excess amounts recorded as goodwill. If the fair value of the net assets is greater than the

amount paid, the excess amount is recorded to noninterest income as a gain on the purchase.
Net gain (loss) on sale of available for sale securities. We sell available-for-sale investment securities from time to time for various business purposes, including funding loan demand and managing asset / liability sensitivity. Net gains on the sale of available-for-sale securities totaled $648 thousand for the year ended

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December 31, 2013 compared to a net loss of $18 thousand for the same period in 2012 due to market conditions at the time as well as the type of securities sold. Investment grade securities were sold in the first half of the year to shorten the duration of the portfolio and to capitalize on favorable market conditions.
Gain on sale of foreclosed real estate. During 2012, we took possession of two properties that we later sold in 2013. In addition, in 2013 we sold a foreclosed property that we attained in our acquisition of The Wilton Bank. Net gains on the sale of foreclosed real estate of $63 thousand were recorded in 2013, reflecting these sales.
Other. We recorded other income of $163 thousand during the year ended December 31, 2013, primarily reflecting the partial recovery of a wire fraud loss, which occurred in 2012. The increase in other income also reflected earnings on bank-owned life insurance and rental income of $31 thousand and $18 thousand, respectively. In the fourth quarter of 2013, we purchased $10 million of bank-owned life insurance on certain employees and recorded income representing the increase in the cash surrender value of the policies. Included in the acquisition of The Wilton Bank was the building, of which a portion is rented.
Year ended December 31, 2012 compared to year ended December 31, 2011
Noninterest income totaled $345 thousand in 2012, a decrease of $789 thousand from 2011. This decrease was due primarily to low levels of loan sale activity and a decrease in prior year gains on sales of securities, while income from service charges and fees remained level.
Service charges and fees. For the year ended December 31, 2012, service charges and fees earned on deposit related services totaled $345 thousand compared to $337 thousand for the year ended December 31, 2011.
Gains and fees from sales and referrals of loans. Gains from sales of loans totaled $18 thousand for the year ended December 31, 2012 compared to $547 thousand for the year ended December 31, 2011. The lower 2012 gains from sales of loans were due to lower residential mortgage loan sales, which we attribute to the fact that new mortgage loan originations during 2012 were primarily adjustable-rate products, which are held in portfolio and not sold in the secondary market, reflecting current consumer trends.
Net gain (loss) on sale of available-for-sale securities. For the year ended December 31, 2012, available for sale securities were sold, which resulted in a net loss recorded to earnings of $18 thousand. This compared to net gains of $250 thousand recorded for the year ended December 31, 2011.
Noninterest Expense
The following table compares noninterest expense for the years ended December 31, 2013, 2012 and 2011.

	Years Ended December 31,			**2013 / 2012 Change**		**2012 / 2011 Change**	
(Dollars in thousands)	**2013**	**2012**	**2011**	**$**	**%**	**$**	**%**
Salaries and employee benefits	$ 11,565	$ 9,426	$ 8,506	$ 2,139	23 %	$ 920	11 %
Occupancy and equipment	3,707	3,004	2,428	703	23	576	24
Professional services	1,595	1,546	715	49	3	831	116
Data Processing	1,333	1,202	865	131	11	337	39
Marketing	928	333	342	595	179	(9)	(3)
Merger and acquisition related expenses	908	—	—	908	100	—	—
FDIC insurance	333	365	472	(32)	(9)	(107)	(23)

	Years Ended December 31,			2013 / 2012 Change		2012 / 2011 Change	
Director fees	304	366	288	(62)	(17)	78	27
Foreclosed real estate	7	9	—	(2)	(22)	9	100
Amortization of intangibles	18	—	—	18	100	—	—
Other	1,421	1,607	985	(186)	(12)	622	63
Total noninterest expense	$ 22,119	$ 17,858	$ 14,601	$ 4,261	24 %	$ 3,257	22 %

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Year ended December 31, 2013 compared to year ended December 31, 2012

Noninterest expense was $22.1 million for the year ended December 31, 2013, compared to $17.9 million for the year ended December 31, 2012. The increase of $4.3 million, or 24%, largely reflects our ongoing strategic initiative efforts that began in 2012. These efforts have included hiring of some of our senior management team, evaluating and investing in core systems, maximizing core competencies, assessing loan and fee income diversification avenues and exploring alternative investment strategies to prepare for future growth. Additionally, we recorded one-time expenses of $908 thousand related to our The Wilton Bank acquisition.

Salaries and employee benefits. Salaries and employee benefit costs are the largest component of noninterest expense and include employee payroll expense, equity and non-equity incentive compensation, health insurance, benefit plans and payroll taxes. Salaries and employee benefits increased by $2.1 million, or 23%, for the year ended December 31, 2013 compared to the same period in 2012, largely reflecting higher staffing levels and incentive accruals. Staffing increased to 106 full-time employees at December 31, 2013 from 85 at December 31, 2012, which included a new Chief Operating Officer position in April 2013 and the opening of a loan production office in July 2012. Additionally, the costs of employee benefits have risen significantly including a $243 thousand, or 73%, increase in medical and dental expenses.

Occupancy and equipment. Rent, depreciation and maintenance costs comprise the majority of occupancy and equipment expenses, which increased by $703 thousand, or 23%, in the year ended December 31, 2013, compared to the year ended December 31, 2012. The increase primarily related to costs associated with the relocation of two branch locations, which included approximately $300 thousand of fixed asset write-offs, a loan production office opened in July 2012, expansion of the corporate premises and investments related to technology and other equipment.

Professional services. Professional services include legal, audit and professional fees paid to external parties. For the year ended December 31, 2013 professional services increased by $49 thousand, or 3%, compared to the year ended December 31, 2012. The 2013 expense also reflects commercial mortgage loan sale fees of $258 thousand.

Data processing. Data processing expense for our core systems totaled $1.3 million for the year ended December 31, 2013, compared to $1.2 million for the year ended December 31, 2012.

Marketing. Marketing expenses for the years ended December 31, 2013 and 2012 totaled $928 thousand and $333 thousand, respectively. In addition to supporting loan and deposit growth, the increase of $595 thousand, or 179%, also reflects costs associated with consolidating and rebranding The Bank of New Canaan and The Bank of Fairfield under a single entity with the Bankwell Bank name. BNC Financial Group was also rebranded as Bankwell Financial Group. These changes became effective in September 2013.

FDIC insurance. We are subject to risked-based assessment fees by the FDIC for deposit insurance. For the years ended December 31, 2013 and 2012, FDIC insurance expense was $333 thousand and $365 thousand, respectively.

Director fees. Director fees totaled $304 thousand for the year ended December 31, 2013 and $366 thousand for the year ended December 31, 2012, representing fees paid to the boards of directors for BNC Financial Group, The Bank of New Canaan and The Bank of Fairfield. Upon the merger of the Bank of New Canaan and The Bank of Fairfield in September 2013, the boards of directors of the banks were also merged.

Foreclosed real estate. Expenses related to properties acquired through foreclosure or repossession are included in foreclosed real estate costs. For the years ended December 31, 2013 and 2012, foreclosed real estate expenses were $7 thousand and $9 thousand, respectively.

Amortization of intangibles. In conjunction with our The Wilton Bank acquisition, we recorded a core deposit intangible asset of $499 thousand, which is being amortized over 9.3 years on a double declining balance basis. Amortization expense for the year ended December 31, 2013 was $18 thousand.

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Merger and acquisition related expenses. Merger and acquisition related expenses primarily relate to legal, consulting, system conversion, severance and marketing expenses incurred as a result of our The Wilton Bank acquisition. For the year ended December 31, 2013, these expenses totaled $908 thousand.

Other. These expenses include costs for insurance, communications, supplies, education and training, business development activities and other operations. For the years ended December 31, 2013 and 2012, other noninterest expenses totaled $1.4 million and $1.6 million, respectively, reflecting our strategic and organic growth.

Year ended December 31, 2012 compared to year ended December 31, 2011

Noninterest expense was $17.9 million for the year ended December 31, 2012, an increase of $3.3 million, or 22%, compared to noninterest expense for the year ended December 31, 2011. Excluding a 2012 non-recurring wire fraud loss of $478 thousand, recorded in other expenses, noninterest expenses increased $2.8 million, or 19%, largely reflecting costs tied to a number of our strategic initiatives.

Salaries and employee benefits. Salaries and employee benefits totaled $9.4 million for the year ended December 31, 2012, an increase of $920 thousand, or 11%, compared to salary and employee benefits for 2011. This increase largely reflects costs related to higher staffing levels to support strategic growth. We hired our new CEO in the second quarter 2012, first in an interim role, and she then transitioned to full-time CEO in September 2012. The year-over-year increase in costs was also due to the dissolution of our former CEO's employment agreement.

Occupancy and equipment. Occupancy and equipment costs increased by $576 thousand in 2012 compared to 2011, reflecting increased rental expenses, occupancy and equipment maintenance costs. These increased costs primarily related to a new loan production office that we opened in July 2012, expansion of our corporate premises as well as investments related to technology and other equipment.

Professional services. Professional services increased by $831 thousand, or 116%, in 2012 compared to 2011, reflecting higher consulting and legal expenses to support certain strategic initiatives, including evaluating core systems, maximizing our core competencies, assessing our loan and fee income diversification initiatives and exploring alternative investment strategies.

Data processing. Costs associated with investment in our technology platform were reflected in data processing fees, which increased by $337 thousand, or 39%, in 2012 compared to 2011, primarily due to higher website and application fee expenses.

Marketing. Marketing expenses for the years ended December 31, 2012 and 2011 totaled $333 thousand and $342 thousand, respectively, and primarily consist of advertising expenses to promote our loan and deposit products.

Director fees. Director fees totaled $366 thousand for the year ended December 31, 2012 and $288 thousand for the year ended December 31, 2011, representing fees paid to the boards of directors for the Company, The Bank of New Canaan and The Bank of Fairfield. The year over year increase primarily reflected an increase in the number of meetings held.

FDIC insurance. FDIC insurance expense for the year ended December 31, 2012, declined by $107 thousand, or 23%, from the year ended December 31, 2011, reflecting lower assessment rates and a statutory change in the calculation method that was effective for the second quarter of 2011.

Other. The largest component of the $622 thousand increase in other expenses in 2012 compared to 2011 was a $478 thousand charge related to a wire fraud loss. Excluding this fraud loss, which management believes to be non-recurring in nature, other expenses increased by $144 thousand reflecting increases in business development expenses, courier and dues and subscription expenses.

Income Taxes

Income tax expense for the years ended December 31, 2013, 2012 and 2011 totaled $2.2 million, $657 thousand and $997 thousand, respectively. The effective tax rates for the years ended December 31, 2013, 2012 and 2011, were 29.7%, 35.1% and 31.1%, respectively. The decrease in the effective tax rate for the year ended December 31, 2013 reflects increases in nontaxable income, including the gain realized on our The

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Wilton Bank acquisition. The increase in the effective tax rate for the year ended December 31, 2012, reflects increased state tax expense and increased equity-based compensation expense, partially offset by increases in municipal interest income and the change in the valuation allowance.

Our net deferred tax asset at December 31, 2013, was $5.8 million, compared to $2.8 million, at December 31, 2012. The increase in the deferred tax asset at December 31, 2013 is primarily related to net operating loss carryforwards and purchase accounting adjustments related to the acquisition of The Wilton Bank as well as the decrease in the deferred tax liability related to the net unrealized gain on available for sale securities, which decreased by $692 thousand from $963 thousand at December 31, 2012 to $271 thousand at December 31, 2013. At December 31, 2013 and 2012, a valuation allowance against the deferred tax benefits of the state operating loss carry forwards and other state deferred tax assets totaled $682 thousand and $182 thousand, respectively, reflecting that it is more likely than not that some of these deferred tax assets will not be realized. At December 31, 2013, there were federal net operating loss carry forwards of approximately $3.5 million and approximately $6.0 million net operating loss carryforwards for state tax purposes. See Note 12 to our Consolidated Financial Statements included elsewhere in this prospectus for further information regarding income taxes.

Financial Condition

Summary

Total assets at December 31, 2013 were $779.6 million, an increase of $169.6 million, or 28%, from the December 31, 2012 balance of $610.0 million. This increase was primarily due to our The Wilton Bank acquisition as well as organic growth. Net loans were $621.8 million at December 31, 2013, up by $101.0 million from December 31, 2012, reflecting acquired loans of $24.1 million and growth in the commercial business and commercial real estate loan portfolios of $30.5 million and $25.8 million, respectively. Cash balances increased by $53.1 million during 2013, reflecting acquired balances and proceeds from loan sales in the fourth quarter. Also in the fourth quarter of 2013, we purchased $10.0 million of bank-owned life insurance to diversify our revenue sources and yield tax-free earnings. Total liabilities at December 31, 2013 were $710.1 million, an increase of $151.6 million from the December 31, 2012 balance of $558.5 million. This increase was primarily due to an increase in deposits of $199.5 million, consisting of organic growth of $135.3 million and the acquired balances of $64.2 million, as well as a decrease in FHLBB borrowings of $47.0 million. Shareholders’ equity totaled $69.5 million at December 31, 2013, an increase of $18.0 million, or 35%, from December 31, 2012, largely due to approximately $13.2 million of proceeds from our two capital raises, and net income of $5.2 million. The Bank exceeded the regulatory minimum capital levels to be considered well-capitalized with total risk-based capital of 10.74% at December 31, 2013. The Bank also had Tier 1 risk-based capital of 9.49% Tier 1 capital to average assets ratio of 7.91% at December 31, 2013.

Loan Portfolio

We originate commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within our market of Fairfield County and the surrounding Connecticut region. Our loan portfolio is the largest category of our earning assets.

Total loans before deferred loan fees were $632.0 million at December 31, 2013, up by $102.0 million, or 19%, from December 31, 2012, and up by $262.7 million, or 71%, from December 31, 2011. Since December 31, 2007, total loans have increased $487.1 million from $144.9 million. This growth reflects the expansion of our branch network, including our The Wilton Bank acquisition. Commercial real estate loans have experienced the most significant growth, complemented by increases in the residential real estate and commercial business loan portfolios. The acquired loans were recorded at fair value with no carryover of the related allowance for credit losses. The balance of acquired loans at December 31, 2013 was $24.1 million.

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The following table compares the composition of our loan portfolio for the dates indicated:

	At December 31,					2013 / 2012 Change	2012 / 2011 Change
	2013			2012	2011		
(In thousands)	Originated	Acquired	Total				
Real estate loans:							
Residential	$ 155,874	$ —	$ 155,874	$ 144,288	$ 104,754	$ 11,586	$ 39,534
Commercial	305,823	10,710	316,533	284,763	173,951	31,770	110,812
Construction	44,187	7,358	51,545	33,148	40,422	18,397	(7,274)
Home equity loans	9,625	4,267	13,892	11,030	14,815	2,862	(3,785)
	515,509	22,335	537,844	473,229	333,942	64,615	139,287
Commercial business loans	92,173	1,393	93,566	56,764	35,041	36,802	21,723
Consumer loans	225	377	602	57	311	545	(254)
Total loans	$ 607,907	$ 24,105	$ 632,012	$ 530,050	$ 369,294	$ 101,962	$ 160,756

Primary loan categories

Residential real estate. Residential real estate loans increased by $11.6 million, or 8%, year-over-year, in 2013, and by $39.5 million, or 38%, year-over-year, in 2012, and amounted to $156.1 million, representing 25% of total loans at December 31, 2013. We originate residential real estate mortgages for our loan portfolio and for sale in the secondary market. Loans may be sold with servicing retained or released. The mix and volume of residential mortgage loan originations vary in response to changes in market interest rates and customer preferences. During the years ended December 31, 2013 and 2012, the majority of our mortgage originations were comprised of adjustable-rate loans for our loan portfolio. The improving economy, sustained low interest rate environment and increased marketing efforts are all key factors in our ongoing strategy to grow our portfolio of residential real estate loans.

Interest only adjustable-rate mortgage loans comprise 37% of residential real estate loans and 9% of total loans. These loans are underwritten to the same standards as amortizing residential mortgage loans and generally have the same risk profile. We do not believe that these loans present any special risk due, in part, to borrower demographic (geographic location and per capita income), the high percentage of current appraisal values and our performance of stress testing prior to converting to an amortizing loan.

Commercial real estate. Commercial real estate loans were $316.5 million and represented 50% of our total loan portfolio, at December 31, 2013, a net increase of $31.8 million, or 11%, from December 31, 2012. Partially offsetting strong origination activity was the sale of $65.0 million of commercial real estate loans during 2013. We enacted these sales to reduce our ratio of commercial real estate loans to total risk-based capital and to take advantage of favorable market conditions. During 2012, commercial real estate loans grew by $110.8 million, or 64%, from December 31, 2011. Commercial real estate loan growth during these periods largely reflects experienced lenders in the marketplace and the ability to source quality opportunities, the expansion of the number of lenders with the opening of our Bridgeport, Connecticut loan production office in July 2012 as well as enhanced lending to existing customers and continued economic improvement in our market. Commercial real estate loans are secured by a variety of property types, including office buildings, retail facilities, commercial mixed use and multi-family dwellings.

Commercial business. Commercial business loans were $92.2 million and represented 15% of our total loan portfolio at December 31, 2013, compared to $56.8 million and 11%, of the total portfolio at December 31, 2012 and $35.0

million and 9%, of the total loan portfolio at December 31, 2011. Over the past two years our commercial business loan portfolio has almost tripled, largely reflecting our commitment to this segment, including small business lending. Commercial business loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion and are generally secured by assignments of corporate assets, real estate and personal guarantees of the business owners.

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Construction. Construction loans were $51.5 million at December 31 2013, up by $18.4 million from December 31, 2012, with $33.6 million attributable to commercial construction and $17.9 million attributable to residential construction. Construction loans totaled $33.1 million at December 31, 2012, of which $23.4 million were commercial construction and $9.6 million were residential construction. At December 31, 2011, construction loans totaled $40.4 million, with $22.1 million in commercial construction and $18.3 million in residential construction. Commercial construction loans consist of commercial development projects, such as condominiums, apartment building and single-family subdivisions as well as office buildings, retail and other income producing properties and land loans, while residential construction loans are to individuals to finance the construction of residential dwellings for personal use.

Home equity. Home equity loans increased by $2.9 million, or 26%, during the year ended December 31, 2013 and totaled $13.9 million at December 31, 2013. The increase from the December 31, 2012 balance of $11.0 million primarily reflected loans acquired from The Wilton Bank. Total home equity loans consist of home equity lines of credit, which are secured by owner-occupied one- to four-family residential properties.

Consumer. Consumer loans totaled $602 thousand at December 31, 2013 compared to $57 thousand at December 31, 2012, reflecting loans acquired from The Wilton Bank. Consumer loans are secured by passbook or certificate accounts, or automobiles, as well as unsecured personal loans and overdraft lines of credit.

We evaluate the appropriateness of our underwriting standards in response to changes in national and regional economic conditions, including such matters as market interest rates, energy prices, trends in real estate values, and employment levels. Based on our assessment of these matters, underwriting standards and credit monitoring activities are enhanced from time to time in response to changes in these conditions.

The following table presents an analysis of the maturity of our commercial real estate, construction and commercial business loan portfolios as of December 31, 2013.

	December 31, 2013			
(In thousands)	**Commercial real estate**	**Construction**	**Commercial business**	**Total**
Amounts due:				
One year or less	$ 16,645	$ 15,598	$ 14,706	$ 46,949
After one year:				
One to five years	93,496	35,947	37,520	166,963
Over five years	206,392	—	41,340	247,732
Total due after one year	299,888	35,947	78,860	414,695
Total	$ 316,533	$ 51,545	$ 93,566	$ 461,644

The following table presents an analysis of the interest rate sensitivity of our commercial real estate, construction and commercial business loan portfolios due after one year of December 31, 2013.

	December 31, 2013		
	Interest Rate		
(In thousands)	**Adjustable**	**Fixed**	**Total**
Commercial real estate	$ 95,783	$ 204,105	$ 299,888

	December 31, 2013		
Construction	14,154	21,793	35,947
Commercial business	42,702	36,158	78,860
Total loans due after one year	$ 152,639	$ 262,056	$ 414,695

Asset Quality

We actively manage asset quality through our underwriting practices and collection operations. Our board of directors monitors credit risk management through two committees, the loan committee and the audit committee. The loan committee has primary oversight responsibility for the credit granting function

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including approval authority for credit granting policies, review of management's credit granting activities and approval of large exposure credit requests. The audit committee oversees management's systems and procedures to monitor the credit quality of our loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the allowance for loan losses. These committees report the results of their respective oversight functions to our board of directors. In addition, our board of directors receives information concerning asset quality measurements and trends on a monthly basis. While we continue to adhere to prudent underwriting standards, our loan portfolio is not immune to potential negative consequences arising as a result of general economic weakness such as, a prolonged downturn in the housing market on a national scale. Decreases in real estate values could adversely affect the value of property used as collateral for loans. In addition, adverse changes in the economy could have a negative effect on the ability of borrowers to make scheduled loan payments, which would likely have an adverse impact on earnings.

We have established credit policies applicable to each type of lending activity in which we engage. We evaluate the creditworthiness of each customer and, in most cases, extend credit of up to 80% for retail loans and 75% for commercial loans 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, we ordinarily require the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. Private mortgage insurance is required for that portion of the residential loan in excess of 80% of the appraised value of the property.

Credit risk management involves a partnership between our relationship managers and our credit approval, credit administration and collections personnel. Disciplined underwriting, portfolio monitoring and early problem recognition are important aspects of maintaining our high credit quality standards and low levels of nonperforming assets since our inception in 2002.

Acquired Loans. Loans acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are initially recorded at fair value without recording an allowance for loan losses. Determining the fair value of the loans is determined using market participant assumptions in estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield," is accreted into interest income over the life of the loans using the effective yield method. Accordingly, acquired loans are not subject to classification as nonaccrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized and not to contractual interest payments. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. As such, chargeoffs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to the acquisition. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses.

At December 31, 2013, all acquired loans relate to our The Wilton Bank acquisition, which we completed on November 5, 2013. These acquired loans were classified as accruing and no new provision for loan losses was recorded for the year ended December 31, 2013. Select asset quality metrics presented below distinguish between the "originated" portfolio and the "acquired" portfolio.

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Nonperforming Assets. Nonperforming assets include nonaccrual loans and property acquired through foreclosures or repossession. The following tables present nonperforming assets and additional asset quality data for the dates indicated:

	At December 31, 2013		
(In thousands)	**Originated**	**Acquired**	**Total**
Nonaccrual loans:			
Real estate loans:			
Residential	$ 1,003	$ —	$ 1,003
Commercial	—	—	—
Construction	—	—	—
Home equity loans	—	—	—
Commercial business loans	—	—	—
Consumer loans	—	—	—
Total non accrual loans	$ 1,003	$ —	$ 1,003
Property acquired through foreclosure or repossession, net	—	829	829
Total nonperforming assets	$ 1,003	$ 829	$ 1,832
Nonperforming assets to total assets	0.13 %	0.11 %	0.23 %
Nonaccrual loans to total loans	0.16 %	0.00 %	0.16 %
Total past due loans to total loans	0.16 %	15.02%	0.73 %
Accruing loans 90 days or more past due	$ —	$ 3,620	$ 3,620

	At December 31,			
(In thousands)	**2012**	**2011**	**2010**	**2009**
Nonaccrual loans:				
Real estate loans:				
Residential	$ 2,137	$ 2,166	$ 974	$ 974
Commercial	1,817	307	—	—
Construction	—	1,175	1,300	1,489
Home equity loans	—	90	—	—
Commercial business loans	—	—	—	—
Consumer loans	—	—	—	—
Total non accrual loans	$ 3,954	$ 3,738	$ 2,274	$ 2,463
Property acquired through foreclosure or repossession, net	962	—	—	—
Total nonperforming assets	$ 4,916	$ 3,738	$ 2,274	$ 2,463
Nonperforming assets to total assets	0.81 %	0.78 %	0.57 %	0.75 %
Nonaccrual loans to total loans	0.75 %	1.01 %	0.79 %	0.96 %
Total past due loans to total loans	0.75 %	1.01 %	0.79 %	2.68 %
Accruing loans 90 days or more past due	$ —	$ —	$ —	$ —

The preceding 2013 table excludes acquired loans that are accounted for as purchased credit impaired loans, which totaled $3.6 million at December 31, 2013. Such loans otherwise meet our definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. These loans are, however, 90 days or more past due and reflected as such in the table. The

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discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are accounted for on either a pool or individual basis and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

Nonperforming assets totaled $1.8 million and represented 0.23% of total assets at December 31, 2013, compared to $4.9 million and 0.80% of total assets at December 31, 2012. Nonperforming assets at December 31, 2011, consisted entirely of nonaccrual loans and represented 0.78% of total assets.

Nonaccrual loans totaled $1.0 million at December 31, 2013, a decrease of $3.0 million, or 75%, from December 31, 2012, due to the payoff of two loans. Foreclosed real estate was $829 thousand at December 31, 2013, consisting of four residential lots that were acquired in our The Wilton Bank acquisition. The balance of $962 thousand at December 31, 2012 reflected two construction properties, a single-family residential home and a residential condominium project. We sold both properties during 2013.

Nonaccrual Loans.   Loans greater than 90 days past due are put on nonaccrual status. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent interest payments received on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. 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. Total nonaccrual loans were $1.0 million at December 31, 2013, consisting of one residential real estate mortgage loan.

The net change in nonaccrual residential real estate loans during 2013 was a net decrease of $1.1 million, reflecting the full payoff of a mortgage loan in March 2013 upon the settlement of an estate. At December 31, 2013, the balance of $1.0 million reflects one residential property, which is part of an estate currently going through the probate process. At December 31, 2013, there was a specific loss allocation of $39 thousand for this nonaccrual residential real estate loan.

At December 31, 2013, there were no commercial real estate loans on nonaccrual status compared to one loan totaling $1.8 million at December 31, 2012. This decrease was due to the payoff of the $1.8 million loan in June 2013, which included a modest charge-off of $166 thousand.

At December 31, 2013, there were no commitments to lend additional funds to any borrower on nonaccrual status. Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the years ended December 31, 2013, 2012 and 2011 was $23 thousand, $276 thousand and $133 thousand, respectively. The amount of actual interest income recognized on these loans was $8 thousand, $113 thousand and $76 thousand for the years ended December 31, 2013, 2012 and 2011, respectively.

Past Due Loans.   When a loan is 15 days past due, we send the borrower a late notice. We also contact 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, we mail the borrower a letter reminding the borrower of the delinquency, and attempt 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, we 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 our board of directors each month. Generally, loans greater than 90 days past due are put on nonaccrual status. The delinquency status of acquired loans accounted for as purchased credit impaired loans are determined in accordance with their contractual repayment terms. At December 31, 2013, accruing purchased credit impaired loans greater than 90 days past due totaled $3.6 million.

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The following table presents past due loans as of December 31, 2013 and 2012:

(In thousands)	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater Than 90 Days	Total Past Due
As of December 31, 2013				
Originated Loans				
Residential real estate	$ —	$ —	$ 1,003	$ 1,003
Total originated loans	—	—	1,003	1,003
Acquired Loans				
Commercial real estate	—	—	796	796
Construction	—	—	2,508	2,508
Commercial business	—	—	316	316
Total acquired loans	—	—	3,620	3,620
Total loans	$ —	$ —	$ 4,623	$ 4,623
As of December 31, 2012				
Residential real estate	$ —	$ —	$ 2,137	$ 2,137
Commercial real estate	—	—	1,817	1,817
Commercial business	40	—	—	40
Total	$ 40	$ —	$ 3,954	$ 3,994

At December 31, 2013, total past due loans totaled $4.6 million and consisted of one originated loan for a residential property in the midst of the probate process and 14 acquired loans. The past due acquired loans primarily consist of residential construction loans including a four unit condominium property and a single family residence. As of December 31, 2012, total past due loans were $4.0 million, of which 99% consisted of nonaccrual loans and $40 thousand, or 1%, consisted of an accruing commercial business loan 31 – 60 days past due.

Troubled Debt Restructurings. Loans are considered restructured in a troubled debt restructuring when we have granted concessions to a borrower due to the borrower's financial condition that we otherwise would not have considered. These concessions may include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, rather than aggressively enforcing the collection of the loan, may benefit us by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status.

Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. Through December 31, 2013, all troubled debt restructured loans were accruing at the time of the restructure.

Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement. As of December 31, 2013 there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

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The following table presents information on troubled debt restructured loans.

	At December 31,				
(In thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Accruing troubled debt restructured loans:					
Residential real estate	$ 864	$ 864	$ —	$ —	$ —
Commercial real estate	—	194	203	2,218	5,403
Construction	—	—	—	1,415	—
Home equity	97	—	—	—	—
Commercial business	642	794	57	—	—
Accruing troubled debt restructured loans	1,603	1,852	260	3,633	5,403
Nonaccrual troubled debt restructured loans:					
Commercial real estate	—	—	—	—	2,463
Nonaccrual troubled debt restructured loans	—	—	—	—	2,463
Total troubled debt restructured loans	$ 1,603	$ 1,852	$ 260	$ 3,633	$ 7,866

As of December 31, 2013 and 2012, loans classified as troubled debt restructurings totaled $1.6 million and $1.9 million, respectively. During 2013, there was a modest decrease in the balance of troubled debt restructurings of $249 thousand reflecting a paydown and declassification from troubled debt restructured status of two commercial business loans as well as a payoff of a commercial real estate loan. These decreases were partially offset by our addition of a home equity loan, which totaled $97 thousand at December 31, 2013. At the time of the troubled debt restructuring, the home equity loan had a balance of approximately $246 thousand, however we received a significant principal paydown late in 2013. The $1.6 million balance at December 31, 2013 consists of three loans. The largest troubled debt restructured loan is a residential real estate loan, which included a modification of certain payment terms and a below market interest rate reduction on the portion of the loan which exceeded 80% of the loan to value ratio. The second largest troubled debt restructured loan is a commercial business loan secured by business assets and included the modification of certain payment terms to extend the loan amortization period and a below market interest rate reduction.

Potential Problem Loans. We classify certain loans as “special mention,” “substandard,” or “doubtful,” based on criteria consistent with guidelines provided by our banking regulators. Potential problem loans represent loans that are currently performing, but for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. These loans are not included in the amounts of nonaccrual or restructured loans presented above. We cannot predict the extent to which economic conditions or other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. We have identified approximately $9.1 million in potential problem loans at December 31, 2013. Potential problem loans are assessed for loss exposure using the methods described in Note 7 to our Consolidated Financial Statements contained elsewhere in this prospectus under the caption “Credit Quality Indicators.”

We expect the levels of non-performing assets and potential problem loans to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with our degree of success in resolving problem assets. We take a proactive approach with respect to the identification and resolution of problem loans. However, given the current state of the U.S. economy and, more specifically, the real estate market, the level of non-performing assets may increase in future periods.

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses, or the allowance, necessarily involves a high degree of judgment. We use a methodology to systematically measure the amount of estimated loan loss exposure inherent in our loan portfolio for purposes of establishing a sufficient allowance for loan

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losses. We evaluate the adequacy of the allowance at least quarterly, and in determining our allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of our allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates and subsequent recoveries, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. See additional discussion regarding our allowance for loan losses under the caption "— Critical Accounting Policies and Estimates."

Our allowance for loan losses is our best estimate of the probable loan losses inherent in our loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans.

Our general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that it is probable that the loan will not be repaid according to its original contractual terms, including principal and interest. Full or partial charge-offs on collateral dependent impaired loans are recognized when the collateral is deemed to be insufficient to support the carrying value of the loan. We do not recognize a recovery when an updated appraisal indicates a subsequent increase in value of the collateral.

Our charge-off policies, which comply with standards established by our banking regulators, are consistently applied from period to period. Charge-offs are recorded on a monthly basis, as incurred. Partially charged-off loans continue to be evaluated on a monthly basis and additional charge-offs or loan loss provisions may be recorded on the remaining loan balance based on the same criteria.

The estimation of loan loss exposure inherent in our loan portfolio includes, among other procedures, identification of loss allocations for individual loans deemed to be impaired in accordance with GAAP, and loss allocation factors for non-impaired loans based on historical loss experience, credit grade, delinquency factors, value of underlying collateral, concentrations of credit, and economic conditions. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze historical loss experience in the various portfolios over periods deemed to be relevant to the inherent risk of loss in the respective portfolios as of the balance sheet date. Revisions to loss allocation factors are not retroactively applied.

The methodology we use to measure the amount of estimated loan loss exposure includes an analysis of individual loans deemed to be impaired. Impaired loans are loans for which it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. For collateral dependent loans, we may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from our knowledge of circumstances associated with the property.

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The following table presents the activity in our allowance for loan losses and related ratios:

	For the Years Ended December 31,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Balance at beginning of period	$ 7,941	$ 6,425	$ 5,440	$ 4,380	$ 3,050
Charge-offs:					
Residential real estate	—	(261)	—	—	—
Commercial real estate	(166)	—	—	—	—
Construction	—	(60)	(84)	(254)	—
Home equity	—	—	—	—	(410)
Consumer	(4)	(5)	—	(6)	(7)
Total charge-offs	(170)	(326)	(84)	(260)	(417)
Recoveries:					
Consumer	26	21	20	9	6
Total recoveries	26	21	20	9	6
Net charge-offs	(144)	(305)	(64)	(251)	(411)
Provision charged to earnings	585	1,821	1,049	1,311	1,741
Balance at end of period	$ 8,382	$ 7,941	$ 6,425	$ 5,440	$ 4,380
Net charge-offs to average loans	0.03 %	0.07 %	0.02 %	0.10 %	0.18 %

At December 31, 2013, our allowance for loan losses was $8.4 million and represented 1.33% of total loans, compared to $7.9 million and 1.50% of total loans, at December 31, 2012. The $441 thousand net increase in the allowance for loan losses comprised an increase in the general reserve of $554 thousand, partially offset by a decrease of $113 thousand in the specific reserve for impaired loans. The decrease in the specific reserve was primarily due to the payoff of a $1.8 million commercial real estate loan in June 2013, which had an associated allowance of $249 thousand. For the years ended December 31, 2013, 2012 and 2011, the provision for loan losses charged to earnings totaled $585 thousand, $1.8 million and $1.0 million, respectively. Net charge-offs for the year ended December 31, 2013 were $144 thousand and represented 0.03% of average loans, primarily reflecting a charge-off associated with an impaired commercial real estate loan that was paid off. For the year ended December 31, 2012, net charge-offs were $305 thousand and represented 0.07% of average loans, primarily reflecting a $261 thousand charge-off in conjunction with the restructuring of a residential real estate loan as a troubled debt restructured loan.

The carrying amount of total impaired loans at December 31, 2013 was $3.7 million and consisted of one loan residential mortgage on nonaccrual status, one commercial mortgage that was downgraded to substandard at year-end and three performing troubled debt restructured loans. This compares to a carrying amount of $4.1 million for total impaired loans at December 31, 2012. The amount of allowance for loan losses related to impaired loans was $145 thousand and $258 thousand, respectively, at December 31, 2013 and 2012.

The following tables present the allocation of the allowance for loan losses and the percentage of these loans to total loans. The allocation below is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of any future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb any losses in any category.

	At December 31,					
	2013		2012		2011	
(Dollars in thousands)	**Amount**	**Percent of Loan Portfolio**	**Amount**	**Percent of Loan Portfolio**	**Amount**	**Percent of Loan Portfolio**
Residential real estate	$ 1,310	24.66 %	$ 1,230	27.22 %	$ 1,290	28.37 %
Commercial real estate	3,616	50.08	3,842	53.72	2,519	47.10
Construction	1,032	8.16	929	6.25	1,007	10.95
Home equity	190	2.20	220	2.08	274	4.01
Commercial business	2,225	14.80	1,718	10.71	1,317	9.49
Consumer	9	0.10	2	0.01	11	0.08
Unallocated	—	—	—	—	7	—
Total allowance for loan losses	$ 8,382	100.00%	$ 7,941	100.00%	$ 6,425	100.00%

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	At December 31,			
	2010		2009	
(Dollars in thousands)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Residential real estate	$ 1,053	36.08 %	$ 627	45.63 %
Commercial real estate	1,806	38.58	906	27.92
Construction	951	13.20	974	16.21
Home equity	313	5.77	268	6.64
Commercial business	744	6.14	248	3.51
Consumer	20	0.23	4	0.09
Unallocated	553	—	1,353	—
Total allowance for loan losses	$ 5,440	100.00 %	$ 4,380	100.00 %

The allocation of the allowance for loan losses at December 31, 2013 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at December 31, 2013 is appropriate to cover probable losses.

Investment Securities

We manage our investment securities portfolio to provide a readily available source of liquidity for balance sheet management, to generate interest income and to implement interest rate risk management strategies. Investment securities are designated as either available-for-sale, held to maturity or trading at the time of purchase. We do not currently maintain a portfolio of trading securities. Investment securities available-for-sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Investment securities available-for-sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Investment securities held to maturity are reported at amortized cost.

The amortized cost and fair value of investment securities as of the dates indicated are presented in the following table:

	At December 31,					
	2013		2012		2011	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:						
U.S Government and agency obligations	$ 5,997	$ 5,688	$ 5,997	$ 6,005	$ 41,598	$ 41,749
State agency and municipal obligations	11,605	12,132	17,036	18,531	17,829	19,198
Corporate bonds	9,166	9,566	13,681	14,556	25,365	24,981
Government mortgage-backed securities	1,133	1,211	1,872	1,966	2,955	3,143
Total securities available for sale	$ 27,901	$ 28,597	$ 38,586	$ 41,058	$ 87,747	$ 89,071

	At December 31,											
Securities held to maturity:												
U.S Government and agency obligations	$	1,021	$	1,019	$	—	$	—	$	—	$	—
State agency and municipal obligations		11,461		11,461		3,903		3,903		3,962		3,962
Corporate bonds		1,000		973		1,000		904		1,000		843
Government mortgage-backed securities		334		362		451		485		939		999
Total securities held to maturity	$	13,816	$	13,815	$	5,354	$	5,292	$	5,901	$	5,804

At December 31, 2013, the carrying value of our investment securities portfolio totaled $42.4 million and represented 5% of total assets, compared to $46.4 million and 8% of total assets at December 31, 2012. This decrease of $4.0 million, or 9%, primarily reflects sales and calls of available-for-sale state agency and municipal obligations and corporate bonds, partially offset by the purchase of a held to maturity municipal bond. At December 31, 2013, we held a municipal bond issued by Stamford Housing Authority, which had

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amortized cost and fair value of $7.6 million and represented 11% of shareholder's equity. Sales of available-for-sale securities reflected our strategy to reduce the duration of the portfolio. Realized gains of $648 thousand, recorded in noninterest income, resulted from security sales totaling $9.4 million during the year ended December 31, 2013.

The net unrealized gain position on our investment portfolio at December 31, 2013 and 2012 was $695 thousand and $2.4 million, respectively and included gross unrealized losses of $349 thousand and $118 thousand, respectively, as of December 31, 2013 and 2012. The gross unrealized losses at December 31, 2013 were concentrated in U.S. Government and agency obligations reflecting interest rate fluctuation. At December 31, 2012, gross unrealized losses were concentrated in corporate bonds and reflected the low interest rate environment as spreads tightened subsequent to purchasing these securities. At December 31, 2013, we determined that there had been no deterioration in credit quality subsequent to purchase and believes that all unrealized losses are temporary. All of our investment securities are investment grade.

The following tables summarize the amortized cost and weighted average yield of debt securities in our investment securities portfolio as of December 31, 2013 and 2012, based on remaining period to contractual maturity. Information for mortgage-backed securities is based on the final contractual maturity dates without considering repayments and prepayments.

At December 31, 2013	**Due Within 1 Year**		**Due 1 – 5 Years**		**Due 5 – 10 Years**		**Due After 10 Years**	
(Dollars in thousands)	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Available for Sale:								
U.S. Government and agency obligations	$ —	— %	$ 1,000	1.29%	$ 4,997	1.51%	$ —	— %
State agency and municipal obligations	—	—	—	—	3,125	4.07	8,480	4.20
Corporate bonds	1,019	6.38	8,147	4.05	—	—	—	—
Government mortgage-backed securities	—	—	—	—	—	—	1,133	5.23
Total available for sale securities	$ 1,019	6.38%	$ 9,147	3.74%	$ 8,122	2.49%	$ 9,613	4.32%
Held to Maturity:								
U.S. Government and agency obligations	$ —	— %	$ 1,021	1.38%	$ —	— %	$ —	— %
State agency and municipal obligations	—	—	—	—	—	—	11,461	4.50
Corporate bonds	—	—	—	—	1,000	2.90	—	—
Government mortgage-backed securities	—	—	—	—	—	—	334	5.50
Total held to maturity securities	$ —	— %	$ 1,021	1.38%	$ 1,000	2.90%	$ 11,795	4.53%

At December 31, 2012 (Dollars in thousands)	Due Within 1 Year		Due 1 – 5 Years		Due 5 – 10 Years		Due After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale:								
U.S. Government and agency obligations	$ —	— %	$ —	— %	$ 5,997	1.47 %	$ —	— %
State agency and municipal obligations	—	—	—	—	3,631	3.92	13,405	4.25
Corporate bonds	499	4.80	11,113	3.72	2,069	4.97	—	—
Government mortgage-backed securities	—	—	—	—	—	—	1,872	5.12
Total available for sale securities	$ 499	4.80 %	$ 11,113	3.72 %	$ 11,697	2.85 %	$ 15,277	4.36 %
Held to Maturity:								
State agency and municipal obligations	$ —	— %	$ —	— %	$ —	— %	$ 3,903	4.25 %
Corporate bonds	—	—	—	—	1,000	2.00	—	—
Government mortgage-backed securities	—	—	—	—	—	—	451	5.50
Total held to maturity securities	$ —	— %	$ —	— %	$ 1,000	2.00 %	$ 4,354	4.38 %

Bank Owned Life Insurance or BOLI

BOLI amounted to $10.0 million as of December 31, 2013, reflecting our purchase of $10.0 million in life insurance coverage in the fourth quarter of 2013. The purchase of life insurance policies results in an income-earning asset on our consolidated balance sheet that provides monthly tax-free income to us and also provides a means to mitigate increasing employee benefit costs. We expect to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. BOLI is included in our Consolidated Balance Sheets at its cash surrender value. Increases in the cash surrender value are reported as a component of noninterest income in our Consolidated Statements of Income.

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Sources of Funds

Our sources of funds include deposits, brokered certificates of deposit, FHLBB borrowings and proceeds from the sales, maturities and payments of loans and investment securities. Total deposits represented 85% of our total assets at December 31, 2013. While scheduled loan and securities repayments are a relatively stable source of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain.

Deposits

We offer a wide variety of deposit products and rates to consumer and business customers consistent with FDIC regulations. Our pricing committee meets regularly to determine pricing and marketing initiatives. In addition to being an important source of funding for us, deposits also provide an ongoing stream of fee revenue.

We participate in the Certificate of Deposit Account Registry Service, or CDARS, program. We use CDARS to place customer funds into certificate of deposit accounts issued by other participating banks. These transactions occur in amounts that are less than FDIC insurance limits to ensure that deposit customers are eligible for FDIC insurance on the full amount of their deposits. Reciprocal amounts of deposits are received from other participating banks that do the same with their customer deposits, and, to a lesser extent, we also execute one-way buy transactions. CDARS deposits are considered to be brokered deposits for bank regulatory purposes. We consider the reciprocal deposit balances to be in-market deposits as distinguished from traditional out-of-market brokered deposits.

Time deposits may also be generated through the use of a listing service. We subscribe to a listing service, accessible to financial institutions, in which we may advertise our time deposit rates in exchange for a set subscription fee. Interested financial institutions then contact us directly to acquire a time certificate of deposit. There is no third party brokerage service involved in this transaction.

The following table sets forth the composition of our deposits for the dates indicated.

	At December 31,							
	2013				2012		2011	
(Dollars in thousands)	Originated	Acquired	Total	Percent	Amount	Percent	Amount	Percent
Noninterest-bearing demand	$102,530	$16,088	$118,618	17.93 %	$78,120	16.91 %	$74,735	20.36 %
NOW	61,560	12,092	73,652	11.13	33,722	7.30	29,036	7.91
Money Market	143,033	21,546	164,579	24.88	94,090	20.36	81,202	22.12
Savings	99,225	8,467	107,692	16.28	136,101	29.45	61,864	16.85
Time certificates of deposit	158,071	9,369	167,440	25.31	75,466	16.33	83,346	22.70
CDARS	29,564	—	29,564	4.47	44,582	9.65	36,932	10.06
Total deposits	$593,983	$67,562	$661,545	100.00%	$462,081	100.00%	$367,115	100.00%

Total deposits were $661.5 million at December 31, 2013, an increase of $199.4 million, or 43%, from balance at December 31, 2012. Of the total increase, $67.6 million, or 15%, was attributable to our The Wilton Bank acquisition and $131.8 million, or 28%, was attributable to growth in all deposit categories except savings accounts.

Time deposits, excluding CDARS, increased by $92.0 million, or 122%, from year-end 2012, reflecting new certificate of deposit products with nine to twelve-month and one to three-year maturities as well as deposits generated through the listing service. Time deposits were $167.4 million at December 31, 2013 compared to the December 31, 2012 balance of $75.5 million and CDARS deposits were $29.6 million at December 31, 2013 compared to $44.6 million at December 31, 2012. Reciprocal customer deposits comprised $27.6 million, or 93%, of our total CDARS balance at December 31, 2013.

During 2013, money market accounts increased $70.5 million, or 75%, reflecting promotions for our premium money market accounts including an attractive guaranteed rate for six months. Noninterest-bearing demand deposits grew by $40.5 million, or 52%, and NOW accounts increased $39.9 million, or 118% due, in part, to product promotions and increased efforts to cross-sell our products. Savings accounts were $107.7 million at December 31, 2013, down by

$28.4 million, or 21%, from December 31, 2012.

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At December 31, 2013 and 2012, time deposits and CDARS, with a denomination of $100 thousand or more totaled $150.8 million and $91.7 million, respectively, maturing during the periods indicated in the table below:

	December 31,	
(In thousands)	**2013**	**2012**
Maturing:		
• Within 3 months	$ 71,221	$ 59,060
After 3 but within 6 months	22,236	6,062
After 6 months but within 1 year	40,204	11,505
After 1 year	17,152	15,038
	$ 150,813	$ 91,665

Borrowings

The Bank is a member of the FHLBB, which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLBB, and borrowings are collateralized by qualifying assets not otherwise pledged (principally single-family residential mortgage loans and securities). The maximum amount of credit that the FHLBB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. The Bank had satisfied its collateral requirement at December 31, 2013.

We utilize advances from the FHLBB as part of our overall funding strategy and to meet short-term liquidity needs. Total FHLBB advances were $44.0 million at December 31, 2013 compared to $91.0 million at December 31, 2012. The decrease of $47.0 million, or 52%, reflects less demand for FHLBB borrowings due to strong deposit growth during 2013.

Advances payable to the FHLBB include short-term advances with original maturity dates of one year or less. The following table sets forth certain information concerning short-term FHLBB advances as of and for the periods indicated in the following table:

(Dollars in thousands)	**Year Ended December 31,**		
As of and for the period ending:	**2013**	**2012**	**2011**
Average amount outstanding during the period	$ 39,167	$ 29,250	$ 10,417
Amount outstanding at end of period	12,000	51,000	29,000
Highest month end balance during the period	60,000	51,000	36,000
Weighted average interest rate at end of period	0.41 %	0.21 %	0.17 %
Weighted average interest rate during the period	0.28 %	0.23 %	0.24 %

See Note 10 to our Consolidated Financial Statements included elsewhere in this prospectus for additional information on borrowings.

Liquidity and Capital Resources

Liquidity Management

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Our primary source of liquidity is deposits, which funded approximately 79% of our total average assets in 2013 and 2012. While our generally preferred funding strategy is to attract and retain low cost deposits, our ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term advances and other borrowings), cash flows from our investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.

Our and the Bank's liquidity positions are monitored daily by management. The Bank's board of directors has authorized our ALCO, as ALCO for the Bank's board of directors. ALCO establishes guidelines to ensure maintenance of prudent levels of liquidity. ALCO reports to the Bank's board of directors, as well as our board of directors.

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The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. We employ a stress testing methodology to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. The Bank has established collateralized borrowing capacity with the Federal Reserve Bank of Boston and also maintains additional collateralized borrowing capacity with the FHLBB in excess of levels used in the ordinary course of business. Our sources of liquidity include cash, unpledged investment securities, borrowings from the FHLBB and the brokered deposit market. At December 31, 2013, our liquidity sources totaled $424.1 million and represented 54% of total assets, compared to $194.0 million and 32% of total assets at December 31, 2012 and $125.1 million and 26% of total assets at December 31, 2011.

The following table shows our available liquidity, by source, as of the dates indicated.

	December 31,		
(In thousands)	**2013**	**2012**	**2011**
Available cash	$ 81,888	$ 28,777	$ 6,941
Unpledged investment securities	2,536	5,426	34,737
Net borrowing capacity	339,681	159,801	83,464
Total liquidity	$ 424,105	$ 194,004	$ 125,142

Changes in the balances of our sources of liquidity have largely resulted from funding new loan growth primarily from increases in our deposits, and proceeds from commercial mortgage loan sales and our investment securities portfolio, including calls, maturities and sales of available-for-sale investment securities that have not been fully reinvested. Using deposits to fund loan growth has allowed us to reduce our balance of and reliance on borrowings from the FHLBB, which has in turn, increased our borrowing capacity. Also increasing our borrowing capacity is an increase in available mortgage loans to be pledged as collateral, reflecting growth in our residential and commercial mortgage loan portfolios. The decrease in our unpledged investment securities relates to our deliberate reduction of the investment securities portfolio. Our available cash has increased reflecting acquired balances from The Wilton Bank and the timing of the receipt of proceeds from sales of commercial real estate loans and to cover higher operating expenses as we grow.

Capital Resources

Total shareholders' equity was $69.5 million at December 31, 2013, compared to $51.5 million at December 31, 2012. The $18.0 million, or 35%, increase primarily reflected proceeds of $13.2 million from our two capital raises, as well as net income of $5.2 million for the year ended December 31, 2013 and a decrease of $1.1 million in the fair value of available for sale securities, largely resulting from securities sales. The ratio of total equity to total assets was 8.91% at December 31, 2013, which compares to 8.45% at December 31, 2012. Tangible book value per common share at December 31, 2013 and 2012 was $15.46 and $14.50, respectively.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the 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 Bank 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. At December 31, 2013, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. The Company's two bank subsidiaries, Bank of New Canaan and The Bank of Fairfield, were

merged together as Bankwell Bank in
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September 2013. The following Tier 1 leverage ratios represent Bankwell Bank at December 31, 2013 and a combined ratio for Bank of New Canaan and The Bank of Fairfield in prior years. The Tier 1 leverage ratio (Tier 1 capital to average assets) was 7.91%, 8.02%, 9.33%, 9.23% and 10.05%, respectively at December 31, 2013, 2012, 2011, 2010 and 2009.

In 2011, we elected to participate in the Treasury's Small Business Lending Fund Program, or 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 our ability to lend to small businesses, which will in turn help stimulate the economy and promote job growth.

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

Our shareholders are entitled to dividends when and if declared by our board of directors out of funds legally available. Connecticut law prohibits us from paying cash dividends except from our net profits, which are defined by state statutes. The payment of dividends is subject to additional restrictions in connection with our Series C Preferred Stock. In the years ended December 31, 2013, 2012 and 2011, we declared and paid cash dividends on our Series C Preferred Stock of $111 thousand, $132 thousand and $206 thousand, respectively. To date, we have not declared or paid dividends on our common stock. We did not repurchase any of our common stock during the years ended December 31, 2013, 2012 or 2011.

Contractual Obligations

The following table summarizes our contractual obligations to make future payments as of December 31, 2013. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

(In thousands)	Total	Payments Due by Period Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Contractual Obligations:					
FHLB advances	$ 44,000	$ 22,000	$ 2,000	$ 20,000	$ —
Operating lease agreements	10,897	1,718	2,910	2,079	4,190
Time deposits with stated maturity dates	197,004	173,265	18,001	5,738	—
Total contractual obligations	$ 251,901	$ 196,983	$ 22,911	$ 27,817	$ 4,190

Off-Balance Sheet Instruments

In the normal course of business, we are a party to financial instruments with off-balance sheet risk to meet the financing needs of our 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 we have in particular classes of financial instruments.

We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Bank minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Commitments to extend credit totaled $117.9 million and $104.8 million, respectively at December 31, 2013 and 2012. The following table summarizes our commitments to extend credit as of the dates indicated. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. We manage our

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liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that we will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

As of December 31, 2013	Amount of Commitment Expiration per Period				
(In thousands)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Other Commitments:					
Loan commitments	$ 61,633	$ 35,236	$ 7,528	$ 5,267	$ 13,602
Undisbursed construction loans	44,670	7,613	6,600	—	30,457
Unused home equity lines of credit	11,575	143	823	1,061	9,548
Total other commitments	$ 117,878	$ 42,992	$ 14,951	$ 6,328	$ 53,607

As of December 31, 2012	Amount of Commitment Expiration per Period				
(In thousands)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Other Commitments:					
Loan commitments	$ 39,339	$ 11,828	$ 4,679	$ 7,077	$ 15,755
Undisbursed construction loans	54,705	26,601	6,350	5,748	16,006
Unused home equity lines of credit	10,714	127	—	—	10,587
Total other commitments	$ 104,758	$ 38,556	$ 11,029	$ 12,825	$ 42,348

Recently Issued Accounting Pronouncements

See Note 1 to our Consolidated Financial Statements contained elsewhere in this prospectus for details of recently issued accounting pronouncements and their expected impact on our financial statements.

Asset/Liability Management and Interest Rate Risk

An effective asset/liability management process must balance the risks and rewards from both short and long-term interest rate risks in determining management strategy and action. Our ALCO facilitates and manages this process with the primary goal of maximizing net income and net economic value over time in changing interest rate environments, subject to board of director approved risk limits. ALCO regularly reviews various earnings at risk scenarios for changes in rates, as well as longer-term earnings at risk greater than five years.

The principal strategies we use to manage interest rate risk include (i) emphasizing the origination, purchase and retention of adjustable rate loans, and the origination and purchase of loans with maturities matched with those of the deposits and borrowings funding the loans, (ii) investing in debt securities with relatively short maturities and/or average lives and (iii) classifying a significant portion of its investment portfolio as available for sale so as to provide sufficient flexibility in liquidity management. By our strategy of limiting the Bank’s risk to rising interest rates, we are also limiting the benefit of falling interest rates.

We measure interest rate risk using simulation analysis to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk, or IRR, is quantified and appropriate strategies are formulated and implemented.

We manage IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles for us. Because income simulations assume that our balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that ALCO could implement in response to rate shifts.

We use net interest income at risk simulation to measure the sensitivity of net interest income to changes in market rates over a forward twelve-month period. This simulation captures underlying product behaviors, such as asset and liability re-pricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) future balance sheet volume and mix assumptions that are management judgments based on estimates and historical experience; (ii) prepayment projections for loans

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and securities that are projected under each interest rate scenario using internal and external mortgage analytics; (iii) new business loan rates that are based on recent new business origination experience; and (iv) deposit pricing assumptions that are based on Office of the Comptroller of the Currency, or OCC, guidelines for non-maturity deposits reflecting the Bank's limited history and management judgment. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

We use two sets of standard scenarios to measure net interest income at risk. For the "core" scenario, rate changes are ramped over a twelve-month horizon based upon a parallel yield curve shift and then maintained at those levels over the remainder of the simulation horizon. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Simulation analysis involves projecting a future balance sheet structure and interest income and expense under the various rate scenarios. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than: 6% for a 100 basis point shift; 12% for a 200 basis point shift; and 18% for a 300 basis point shift.

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning December 31, 2013 and 2012.

Parallel Ramp	**Estimated Percent Change in Net Interest Income At December 31,**	
Rate Changes (basis points)	**2013**	**2012**
-100	(0.73)%	(0.58)%
+200	(3.63)	(5.69)

Parallel Shock	**Estimated Percent Change in Net Interest Income At December 31,**	
Rate Changes (basis points)	**2013**	**2012**
-100	(1.97)%	(1.55)%
+100	(3.18)	(5.10)
+200	(5.93)	(9.92)
+300	(10.20)	(16.56)

The net interest income at risk simulation results indicate that as of December 31, 2013, we are liability sensitive over the twelve-month forecast horizon, reflecting the high concentration of adjustable rate loans in our loan portfolio. At current rate levels and a "static" balance sheet, net interest income is projected to exhibit a slight downward trend as investment and loan cashflow continues to reinvest into current lower rates with minimal relief from funding cost reductions. In a rising rate environment, ALCO estimates that the negative exposure of net interest income compared to the current rate level results from funding cost increases outweighing the benefit of assets repricing into higher yields. If rates were to fall further, ALCO projects that net interest income would trend below the current rate level as funding cost relief quickly becomes exhausted as deposit rates reach their implied floors, while asset yields continue to receive pressure as cashflows would be accelerated by faster prepayment speeds and call options on bonds.

We conduct economic value of equity at risk simulation in tandem with net interest income simulations, to ascertain a longer term view of our interest rate risk position by capturing longer-term re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used in income simulation. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, re-pricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. We conduct non-maturity deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to a periodic review.

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Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.
The following table sets forth the estimated percentage change in our economic value of equity at risk, assuming various shifts in interest rates.

Parallel Shock	Estimated Percent Change in Economic Value of Equity At December 31,	
Rate Changes (basis points)	2013	2012
-100	(4.30)%	(4.39)%
+100	(9.30)	(17.06)
+200	(20.10)	(34.69)
+300	(29.20)	(51.07)

While ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of our balance sheet may change to a different degree than estimated. Simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost time deposits in rising rate scenarios as noted above. Due to the low current level of market interest rates, the banking industry has experienced relatively strong growth in low-cost FDIC-insured core savings deposits over the past several years. ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above.
It should be noted that the static balance sheet assumption does not necessarily reflect our expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The assumed relationship between short-term interest rate changes and core deposit rate and balance changes used in income simulation may differ from ALCO’s estimates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.
Impact of Inflation
Our financial statements and related data contained in this prospectus have been prepared in accordance with GAAP, which require the measure of financial position and operating results in terms of historic dollars, without considering changes in the relative purchasing power of money over time due to inflation.
Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects a financial institution’s cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders’ equity.
Critical Accounting Policies and Estimates

The discussion and analysis of our results of operations and financial condition are based on our consolidated financial statements, which have been prepared in accordance with GAAP and with general

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practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires us to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from our current estimates, as a result of changing conditions and future events. The current economic environment has increased the degree of uncertainty inherent in these significant estimates.

We believe that accounting estimates for the allowance for loan losses, fair values of securities and deferred taxes are particularly critical and susceptible to significant near-term change.

Allowance for Loan Losses

Determining an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. We use a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements:

(1)

- Loss allocations are identified for individual loans deemed to be impaired in accordance with GAAP. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. For collateral dependent loans, management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

(2)

- Loss allocations for non-impaired loans are based on historical loss experience, credit, grade, delinquency factors and other similar credit quality indicators, adjusted for qualitative factors. Qualitative factors include, but are not limited to, the value of underlying collateral, concentrations of credit, current economic conditions, the state of the business cycle and competitive and regulatory issues.

Individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system is described under the caption “Credit quality indicators” in Note 5 of the Notes to Consolidated Financial Statements. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in the commercial loans and commercial mortgage loan portfolios as of the balance sheet date. We adjust loss allocations for various factors including trends in real estate values, trends in rental rates on commercial real estate, and our assessments of credit risk associated with certain industries and an ongoing trend toward larger credit relationships.

Portfolios of more homogeneous populations of loans, including the various categories of residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators and our historical loss experience for each type of credit product. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in residential mortgage and consumer loan portfolios as of the balance sheet date. We periodically update these analyses and adjust the loss allocations for various factors that we believe are not adequately presented in historical loss experience including trends in real estate values, changes in unemployment levels and increases in delinquency levels. These factors are also evaluated taking into account the geographic location of the underlying loans.

(3)

- An unallocated allowance may or may not be required and is for measurement imprecision attributable to uncertainty in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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Because the methodology is based upon historical loss experience and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. As of December 31, 2013, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.
Our Audit Committee of the board of directors is responsible for oversight of the loan review process. This process includes review of the Bank's procedures for determining the adequacy of the allowance for loan losses, administration of its internal credit rating systems and the reporting and monitoring of credit granting standards.
Valuation of Investment Securities
Securities that we have the ability and intent to hold until maturity are classified as held-to-maturity and are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. Securities available for sale are carried at fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. The fair values of securities are based on either quoted market prices, third party pricing services or third party valuation specialists. When the fair value of an investment security is less than its amortized cost basis, we assess whether the decline in value is other-than-temporary. We consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry the issuer operates in.
Future adverse changes in market conditions, continued poor operating results of the issuer, projected adverse changes in cash flows which might impact the collection of all principal and interest related to the security, or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.
Deferred Taxes
We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Significant judgment is exercised in evaluating the amount and timing of recognition of the resulting tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed continually as regulatory and business factors change.
Emerging Growth Company
The JOBS Act permits us, as an "emerging growth company", to take advantage of an extended transition period to comply with new or revised accounting standards and not commence complying with new or revised accounting standards until private companies must do so. Under the JOBS Act, we may make an irrevocable election to "opt out" of that extended transition period and comply with new or revised accounting standards when public companies that are not emerging growth companies must commence complying with those standards. We have elected to "opt out" of the extended transition period.

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THE WILTON BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
This section presents The Wilton Bank management's perspective on The Wilton Bank's financial condition and results of operations. The following discussion and analysis should be read in conjunction with the financial statements and related notes of The Wilton Bank contained elsewhere in this prospectus. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." We assume no obligation to update any of these forward-looking statements.
General
The Wilton Bank is a state chartered commercial bank located in Wilton, Connecticut, whose deposits are insured by the Federal Deposit Insurance Corporation, or the FDIC. The Wilton Bank provides a full range of banking services to commercial and consumer customers, primarily located within its community and the surrounding area. The Wilton Bank is subject to competition from other financial institutions throughout the region. The Wilton Bank is also subject to the regulations of certain federal and state regulatory agencies and undergoes periodic examinations by those regulatory authorities.
The Wilton Bank was acquired by Bankwell Financial Group. Inc., or the Company, on November 5, 2013.
The following discussion and analysis presents The Wilton Bank's results of operations and financial condition for the periods presented.
Overview
Beginning in 2007, softening real estate markets, and generally weak economic conditions led to declines in collateral values and stress on the cash flows of borrowers. As a result of The Wilton Bank's lending concentrations in construction and development loans, The Wilton Bank's loan portfolio was severely affected. These adverse economic conditions continued into 2013 placing further stress on The Wilton Bank's borrowers, resulting in increases in charge-offs, delinquencies and non-performing loans, and in some instances, lower valuations for The Wilton Bank's impaired loans and other real estate owned. During 2013, The Wilton Bank continued to deal with problem assets, both nonaccrual loans and foreclosed real estate, with the effects of the artificially low interest rate environment, with the extremely competitive market for loan originations, and with the shortfall in The Wilton Bank's Tier 1 capital requirement as contained in the Consent Agreement, defined below.
In July 2010, The Wilton Bank agreed to the issuance of a formal, written Consent Agreement with the FDIC and the State of Connecticut Department of Banking, or DOB. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1 capital ratio at least equal to 12% to total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Consent Agreement further provided for certain asset growth restrictions together with the reduction of The Wilton Bank's risk position in certain classified assets, and a restriction on the extension of credit to borrowers whose loans are so criticized.
At September 30, 2013, and December 31, 2012, The Wilton Bank was not in compliance with the Consent Agreement's minimum 12% Tier 1 Capital requirement, however, all other requirements had been met. In December 2012, The Wilton Bank submitted an updated Capital Plan to the FDIC and DOB. The Wilton Bank operated under the updated Capital Plan through the acquisition date of November 5, 2013, at which time the Consent Agreement ceased to apply and was not binding on the surviving bank, Bankwell Bank.
Earnings Overview
As a result of the decline in The Wilton Bank's business and the restrictions imposed by its regulators, The Wilton Bank has not been profitable since 2008. The Wilton Bank has focused on dealing with problem

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loans and foreclosed real estate, continuing to comply with the terms of the Consent Agreement where possible, and decreasing expenses when possible.

2013 Earnings Summary

The Wilton Banks's net loss for the nine months ended September 30, 2013 was $1.5 million, an increase of $349 thousand, or 31%, compared to the first nine months of 2012. The major components of this increase were the $193 thousand decrease in net interest income coupled with the $146 thousand increase in noninterest expense, most notably the $174 thousand increase in professional services as a result of legal and consulting fees related to the implementation of the capital plan.

2012 Earnings Summary

The Wilton Bank's net loss for the year ended December 31, 2012, was $1.7 million, a decrease of $1.6 million from a net loss of $3.3 million for the year ended December 31, 2011. A major component of this decrease was the approximate $1.4 million charge to federal income tax expense in 2011 that established a deferred-tax valuation allowance. Also impacting this decrease was the $900 thousand provision for loan losses in 2011 without such a provision for 2012. In addition, The Wilton Bank recorded a legal settlement recovery to income on its FHLMC auction rate preferred stock of approximately $796 thousand during 2011.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of The Wilton Bank's operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees and late charges. The average balances are principally daily averages and, for loans, include performing and non-performing balances. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which we have ceased to accrue interest. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the nine months ended September 30, 2013 and 2012 and for the years ended December 31, 2012 and 2011.

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	Nine months ended September 30,					
	2013			2012		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield / Rate**	**Average Balance**	**Interest**	**Yield / Rate**
Assets:						
Cash and due from banks	$ 1,979	$ —	— %	$ 1,758	$ —	— %
Interest earning deposits	32,003	117	0.49	23,198	99	0.57
Securities (1)	1,028	2	0.26	1,246	11	1.18
Loans:						
Loans secured by non-residential properties	9,010	310	4.60	10,580	408	5.15
Loans secured by residential properties	7,498	369	6.58	7,771	328	5.64
Construction, development and land loans (2)	11,369	311	3.66	16,052	428	3.56
Commercial and industrial loans	2,538	105	5.53	3,292	167	6.78
Consumer, personal and other loans	1,249	64	6.85	976	56	7.66
Total loans	31,664	1,159	4.89	38,671	1,387	4.79
Total earning assets	64,695	$ 1,278	2.64%	63,115	$ 1,497	3.17%
Other assets	6,835			7,758		
Total assets	$ 73,509			$ 72,631		
Liabilities and shareholders' equity:						
Deposits:						
Noninterest-bearing	$ 14,473	$ —	— %	$ 13,894	$ —	— %
NOW	12,943	5	0.08	11,577	6	0.10
Money market	22,061	49	0.45	20,468	54	0.53
Savings	5,085	3	0.12	5,018	8	0.32
Time	11,391	49	0.87	12,264	65	1.06
Total deposits	65,953	106	0.32	63,221	133	0.42
Federal Home Loan Bank advances	—	—	—	—	—	—
Total funding liabilities	65,953	$ 106	0.32%	63,221	$ 133	0.42%
Other liabilities	209			210		
Shareholders' equity	7,347			9,200		
Total liabilities and shareholders' equity	$ 73,509			$ 72,631		
Net interest income		$ 1,172			$ 1,364	
Interest rate spread			2.32%			2.75%
Net interest margin (3)			2.42%			2.89%

(1)

- Average balances and yields for securities are based on amortized cost.

(2)

- Includes commercial and residential real estate construction.

(3)

- Net interest income as a percentage of total earning assets.

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	Years ended December 31,					
	2012			2011		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield / Rate**	**Average Balance**	**Interest**	**Yield / Rate**
Assets:						
Cash and due from banks	$ 1,824	$ —	— %	$ 1,650	$ —	— %
Interest earning deposits	24,076	134	0.56	17,514	92	0.53
Securities (1)	1,222	14	1.15	6,019	62	1.03
Loans:						
Loans secured by non-residential properties	10,526	541	5.14	10,129	575	5.68
Loans secured by residential properties	7,883	411	5.21	9,600	397	4.14
Construction, development and land loans (2)	15,510	558	3.60	21,173	536	2.53
Commercial and industrial loans	3,196	214	6.70	4,444	300	6.75
Consumer, personal and other loans	1,093	82	7.50	905	72	7.96
Total loans	38,208	1,806	4.73	46,251	1,880	4.06
Total earning assets	63,506	$ 1,954	3.08%	69,784	$ 2,034	2.91%
Other assets	7,711			7,017		
Total assets	$ 73,041			$ 78,451		
Liabilities and shareholders' equity:						
Deposits:						
Noninterest-bearing	$ 14,009	$ —	— %	$ 13,056	$ —	— %
NOW	11,669	9	0.08	13,099	10	0.08
Money market	20,755	73	0.35	22,365	100	0.45
Savings	5,057	10	0.20	4,560	12	0.26
Time	12,319	85	0.69	13,806	122	0.88
Total deposits	63,809	177	0.28	66,886	244	0.36
Federal Home Loan Bank advances	—	—	—	—	—	—
Total funding liabilities	63,809	$ 177	0.28%	66,886	$ 244	0.36%
Other liabilities	222			251		
Shareholders' equity	9,010			11,314		
Total liabilities and shareholders' equity	$ 73,041			$ 78,451		
Net interest income		$ 1,777			$ 1,790	
Interest rate spread			2.80%			2.55%
Net interest margin (3)			2.80%			2.57%

(1)

- Average balances and yields for securities are based on amortized cost.

(2)

- Includes commercial and residential real estate construction.

(3)

- Net interest income as a percentage of total earning assets.

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Effect of changes in interest rates and volume of average earning assets and average interest-bearing liabilities

The following table shows the extent to which changes in interest rates and changes in the volume of average earning assets and average interest-bearing liabilities have affected net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of change in each.

	Nine Months Ended Sept. 30, 2013 vs 2012 Increase (Decrease)			Year Ended December 31, 2012 vs 2011 Increase (Decrease)		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Interest earning deposits	$ 29	$ (11)	$ 18	$ 36	$ 6	$ 42
Securities	(2)	(7)	(9)	(56)	8	(48)
Loans:						
Loans secured by non-residential properties	(57)	(41)	(98)	24	(58)	(34)
Loans secured by residential properties	(13)	54	41	(50)	64	14
Construction, development and land loans	(118)	1	(117)	(38)	60	22
Commercial and industrial loans	(34)	(28)	(62)	(84)	(2)	(86)
Consumer, personal and other loans	13	(5)	8	14	(4)	10
Total loans	(209)	(19)	(228)	(134)	60	(74)
Total change in interest and dividend income	(182)	(37)	(219)	(154)	74	(80)
Interest expense:						
Deposits:						
NOW	1	(2)	(1)	(1)	—	(1)
Money market	5	(10)	(5)	(7)	(20)	(27)
Savings	—	(5)	(5)	2	(4)	(2)
Time	(4)	(12)	(16)	(12)	(25)	(37)
Total deposits	2	(29)	(27)	(18)	(49)	(67)
Total change in interest expense	2	(29)	(27)	(18)	(49)	(67)
Change in net interest income	$ (184)	$ (8)	$ (192)	$ (136)	$ 123	$ (13)

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Net interest income for the nine months ended September 30, 2013 and 2012 was $1.2 million and $1.4 million, respectively. The Wilton Bank's net interest margin (net interest income as a percentage of average interest-earning assets) declined 47 basis points to 2.42% for the nine month period ended September 30, 2013, compared to 2.89% for the same period in 2012. The major component of this decrease was the $227 thousand dollar decrease in interest and fees on loans, mainly as a result of lower average balances outstanding.

Interest income for the nine months ended September 30, 2013 decreased by $220 thousand to $1.3 million or 15%, from the comparative 2012 period. This decrease was mainly attributable to the $227 thousand decrease in loan income from $1.4 million in the 2012 period to $1.2 million on the 2013 period.

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Average loan balances decreased $7.0 million from $38.7 million in the 2012 period to $31.7 million in the 2013 period. This decrease was partially mitigated by the decrease in average nonaccrual loans outstanding, which is a component of average loans. There was a decrease of $3.1 million from $9.7 million in the 2012 period to $6.6 million in the 2013 period. In addition, there was an $18 thousand, or 18%, increase in income on interest earning deposits, mainly as a result of the $8.8 million increase in average balances outstanding from $23.2 in the 2012 period to $32.0 million in the 2013 period.

Interest expense for the nine months ended September 30, 2013, decreased by $27 thousand, or 20%, over interest expense for the comparative 2012 period. This decrease was mainly the result of the continued overall lower interest rate pricing on deposits, coupled with the lower interest rate repricing on time deposits as they matured. The average rate paid for deposits decreased 0.10% from 0.42% in the 2012 period, to 0.32% in the 2013 period. This decrease occurred despite the fact that average interest-bearing liabilities increased $2.2 million from $49.3 million in the 2012 period to $51.5 million in the 2013 period, reflecting the lower interest rate environment.

Year ended December 31, 2012 compared to year ended December 31, 2011

Net interest income totaled $1.8 million for the years ended December 31, 2012 and 2011. Net interest margin increased 23 basis points to 2.80% in 2012 from 2.57% in 2011, primarily due to the decrease in average nonaccrual loan balances loans during 2012, which were approximately $6.6 million lower than the 2011 period.

Interest income for the year ended December 31, 2012 decreased by $80 thousand to $2.0 million, or 4%, from interest income for 2011. This decrease was mainly attributable to the $74 thousand decrease in loan income from $1.9 million in 2011 to $1.8 million in 2012. Average loan balances decreased $8.1 million from $46.3 million in 2011 to $38.2 million in 2012. This decrease was partially mitigated by the decrease in average nonaccrual loans outstanding, which is a component of average loans. There was a decrease of $6.6 million from $16.3 million in 2011 to $9.7 million in 2012. In addition, there was a $42 thousand, or 46%, increase in 2012 compared to 2011 in income on interest earning deposits, mainly as a result of the $6.6 million increase in average balances outstanding from $17.5 million in 2011 to $24.1 million in 2012.

Interest expense for the year ended December 31, 2012 decreased by $67 thousand, or 27%, compared to interest expense for 2011. This decrease was mainly the result of overall lower interest rate pricing on deposits, coupled with the lower interest rate repricing on time deposits as they matured. The average rate paid for deposits decreased 0.08% from 0.36% in 2011, to 0.28% in 2012. Average earning deposits decreased $4.0 million from $53.8 million in 2011 to $49.8 million in 2012.

Provision for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of The Wilton Banks's allowance for loan losses which, in turn, is based on such interrelated factors as the composition of its loan portfolio and its inherent risk characteristics, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain The Wilton Bank's allowance for loan losses and reflects its management's best estimate of probable losses inherent in its loan portfolio at the balance sheet date.

There was no provision for loan losses recorded for the nine months ended September 30, 2013 and 2012, reflecting the aggressive loan write-downs and charge-offs that had been previously taken. For the years ended December 31, 2012 and 2011, the provision for loan losses was $0 and $900 thousand, respectively. Loans charged off in 2011 totaled $1.6 million, as compared to $193 thousand for 2012.

Noninterest Income

Noninterest income is a component of The Wilton Bank's revenue and is primarily comprised primarily of fees generated from loan and deposit relationships with customers. The following table compares noninterest income for the nine months ended September 30, 2013 and 2012 and for the years ended December 31, 2012 and 2011.

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(Dollars in thousands)	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Years Ended December 31, 2012	Years Ended December 31, 2011	2013 / 2012 Nine Months Change $	2013 / 2012 Nine Months Change %	2012 / 2011 Year Change $	2012 / 2011 Year Change %
Service charges and fees	$ 65	$ 74	$ 101	$ 93	$ (9)	(12)%	$ 8	9 %
Recovery from legal settlement	—	—	—	796	—	—	(796)	(100)
Other	129	130	177	172	(1)	(1)	5	3
Total noninterest income	$ 194	$ 204	$ 278	$ 1,061	$ (10)	(5)%	$ (783)	(74)%

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Noninterest income totaled $194 thousand for the nine months ended September 30, 2013, compared to $204 thousand for the same period in 2012. The decrease primarily reflects a decrease of $9 thousand in service charges and fees.

Service charges and fees. The Wilton Bank earns fees from customers for deposit-related services. For the nine months ended September 30, 2013, service charges and fees totaled $65 thousand. The decrease of $9 thousand, or 12%, over the nine months ended September 30, 2012 mainly reflects an $8 thousand decrease in non-sufficient fund charges.

Other. For the nine months ended September 30, 2013, other noninterest income totaled $129 thousand, compared to $130 thousand for the same period in 2012. A major component of other income is rental income, which totaled $83 thousand for both 2013 and 2012 periods.

Year ended December 31, 2012 compared to year ended December 31, 2011

Noninterest income totaled $278 thousand in 2012, a decline of $783 thousand from 2011, primarily reflecting a $796 thousand recovery from a legal settlement received in 2011.

Service charges and fees. For the year ended December 31, 2012, service charges and fees totaled $101 thousand. The increase of $8 thousand, or 9%, over the year ended December 31, 2011 reflects an increase in NSF charges of $10 thousand.

Recovery from legal settlement. During 2008, The Wilton Bank recorded other-than-temporary impairments totaling $1.6 million on its investments in auction rate preferred securities collateralized by Freddie Mac preferred stock. During 2009, The Wilton Bank sold all of its Freddie Mac preferred stock at an additional loss of $28 thousand. During 2011, The Wilton Bank received a settlement of $796 thousand related to these losses.

Other. For the years ended December 31, 2012 and 2011 other noninterest income totaled $177 thousand and $172 thousand, respectively. A major component of other income is rental income, which totaled $114 thousand and $105 thousand, respectively for the years ended December 31, 2012 and 2011.

Noninterest expense

The following table compares noninterest expense for the nine months ended September 30, 2013 and 2012 and for the years ended December 31, 2012 and 2011.

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(Dollars in thousands)	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Years Ended December 31, 2012	Years Ended December 31, 2011	2013 / 2012 Nine Months Change $	2013 / 2012 Nine Months Change %	2012 / 2011 Year Change $	2012 / 2011 Year Change %
Salaries and employee benefits	$ 1,241	$ 1,232	$ 1,624	$ 1,758	$ 9	1 %	$ (134)	(8)%
Loss and expenses on foreclosed real estate, net	192	251	495	335	(59)	(24)	160	48
Professional services	427	253	394	397	174	69	(3)	(1)
Occupancy and equipment	245	253	339	327	(8)	(3)	12	4
Insurance	163	150	201	203	13	9	(2)	(1)
Data processing	150	120	161	151	30	25	10	7
FDIC insurance	116	117	154	178	(1)	(1)	(24)	(13)
Non-accrual loan expenses, net of recoveries	2	(26)	(22)	56	28	108	(78)	(139)
Other	315	355	450	465	(40)	(11)	(15)	(3)
Total noninterest expense	$ 2,851	$ 2,705	$ 3,796	$ 3,870	$ 146	5 %	$ (74)	(2)%

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Noninterest expense was $2.9 million for the nine months ended September 30, 2013, compared to $2.7 million for the nine months ended September 30, 2012. The increase of $146 thousand, or 5%, was mainly due to the increase in professional services.

Salaries and employee benefits. Salaries and employee benefit costs are the largest component of noninterest expense and include employee payroll expense, health insurance, benefit plans and payroll taxes. Salaries and employee benefits increased by $9 thousand, for the nine months ended September 30, 2013 compared to the same period in 2012.

Loss and expenses on foreclosed real estate, net. Expenses related to properties acquired through foreclosure or repossession are included in foreclosed real estate costs. For the nine months ended September 30, 2013 and 2012, the net loss and expenses on foreclosed real estate were $192 thousand and $251 thousand, respectively. These charges not only reflect the actual cost of holding and maintaining these properties, but also any gain or loss on disposition and charges to income based on reevaluations of the value of the real estate. For the 2012 period, writedowns in value of other real estate owned totaled $53 thousand, compared to $240 thousand for the 2013 period.

Professional services. Professional services include legal, audit and professional fees paid to external parties. For the nine months ended September 30, 2013 professional services increased by $174 thousand, or 69%, compared to the nine months ended September 30, 2012, primarily reflecting higher consulting and legal expenses related to compliance with the Consent Agreement and merger expenses.

Occupancy and equipment. Depreciation, real estate tax and maintenance costs make up the majority of occupancy and equipment expenses, which decreased by $8 thousand, or 3%, totaling $245 thousand in the nine months ended September 30, 2013, compared to $253 thousand for the nine months ended September 30, 2012.

Insurance. Insurance expense, which consists of financial institution bond and director and officer and related liability insurance, totaled $163 thousand and $150 thousand for the nine months ended September 30, 2013 and 2012, respectively. These costs were up substantially from prior years reflecting the increased costs associated with The Wilton Bank operating under a Consent Agreement.

Data processing. Data processing expense for our core systems totaled $150 thousand for the nine months ended September 30, 2013, compared to $120 thousand for the nine months ended September 30, 2012. This 25% increase is mainly attributable to a contract surcharge while operating in a month-to-month fashion.

FDIC insurance. The Wilton Bank is subject to risked-based assessment fees by the FDIC for deposit insurance. For the nine months ended September 30, 2013 and 2012, FDIC insurance expense was $116 thousand and $117 thousand, respectively.

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Non-accrual loan expenses, net of recoveries. Non-accrual loan expense totaled $2 thousand and ($26) thousand for the nine months ended September 30, 2013 and 2012, respectively.
Other. These expenses include costs for communications, supplies, education and training, business development activities and other operations. For the nine months ended September 30, 2013 and 2012, other noninterest expenses totaled $315 thousand and $355 thousand, respectively. The $40 thousand decrease was attributable to a number of expenses, such as printing, supplies, meetings and other items, and was influenced by the merger discussions between The Wilton Bank and the Company.
Year ended December 31, 2012 compared to year ended December 31, 2011
Noninterest expense was $3.8 million for the year ended December 31, 2012, a decrease of $74 thousand, or 2%, compared to 2011.
Salaries and employee benefits. Salaries and employee benefits totaled $1.6 million for the year ended December 31, 2012, a decrease of $134 thousand, or 8%, compared to 2011.
Loss and expenses on foreclosed real estate, net. For the years ended December 31, 2012 and 2011, foreclosed real estate expenses were $495 thousand and $335 thousand, respectively. These charges not only reflect the actual cost of holding and maintaining these properties, but also any charges to income based on reevaluations of the value of the real estate. For 2011, write-downs in value of other real estate owned totaled $281 thousand, compared to $280 thousand for 2012.
Professional services. Professional services decreased by $3 thousand for 2012, totaling $394 thousand and $397 thousand for the 2012 and 2011 years, respectively.
Occupancy and equipment. Occupancy and equipment costs increased by $12 thousand in 2012, from $327 thousand in 2011 to $339 thousand in 2012, mainly reflecting increased building expenses.
Insurance. Insurance expense, which consists of financial institution bond and director and officer and related liability insurance, totaled $201 thousand and $203 thousand for the years ended December 31, 2012 and 2011, respectively. These costs were up substantially from prior years reflecting the increased costs associated with The Wilton Bank operating under the Consent Agreement.
Data processing. Data processing expense for The Wilton Bank’s core systems totaled $161 thousand for the year ended December 31, 2012, compared to $151 thousand for the year ended December 31, 2011, mainly as a result of increased usage of service offered.
FDIC insurance. FDIC insurance expense for the year ended December 31, 2012, declined by $24 thousand, or 13%, from the year ended December 31, 2011, reflecting lower assessment rates and a statutory change in the calculation method that was effective for the second quarter of 2011.
Non-accrual loan expenses, net of recoveries. Non-accrual loan expense totaled ($22) thousand and $56 thousand for the years ended December 31, 2012 and 2011, respectively.
Other. Other expense for the year ended December 31, 2012, declined by $15 thousand, or 3%, from $465 thousand for the year ended December 31, 2011, to $450 thousand for 2012.
Income Taxes
Income tax expense for the year ended December 31, 2011was $1.4 million; during 2012 there was no provision or benefit. In 2011, The Wilton Bank established a deferred-tax valuation allowance against its net deferred tax assets. Due to the magnitude of The Wilton Bank’s losses, management concluded that it was more-likely-than-not that The Wilton Bank would be unable to realize its deferred tax assets related to net operating losses and accordingly established this valuation allowance equal to 100% of its deferred tax assets.
Financial Condition
Summary
In July 2010, The Wilton Bank agreed to the issuance of a the Consent Agreement with the FDIC and the DOB. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1

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capital ratio at least equal to 12% to total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Consent Agreement further provided for certain asset growth restrictions together with the reduction of Wilton Bank's risk position in certain classified assets, and a restriction on the extension of credit to borrowers whose loans are so criticized.

At September 30, 2013 and December 31, 2012, The Wilton Bank was not in compliance with the Consent Agreement's minimum 12% Tier 1 Capital requirement, however all other requirements had been met. In December 2012, The Wilton Bank submitted an updated Capital Plan to the FDIC and DOB, which The Wilton Bank operated under through the acquisition date of November 5, 2013, at which time the Consent Agreement ceased to apply and was not binding on the surviving bank, Bankwell.

Total assets at September 30, 2013 were $69.6 million, a decrease of $6.5 million, or 9%, from the December 31, 2012 balance of $76.1 million, mainly reflecting a decrease in gross loans outstanding of $3.8 million, or 11%. There was also a decrease in other real estate owned of $1.4 million, or 42%, from $3.3 million at December 31, 2012 to $1.9 million at September 30, 2013. Net loans were $28.9 million at September 30, 2013, a decrease of $3.6 million from the $32.5 million at December 31, 2012. There were declines in all loan categories with the largest decline occurring in loans secured by nonresidential properties with a decline of $1.4 million, or 14%.

Total liabilities at September 30, 2013 were $63.1 million, a decrease of $5.0 million from the December 31, 2012 balance of $68.1 million, reflecting a decrease in deposits of $5.2 million. Shareholders' equity totaled $6.5 million at September 30, 2013, a decrease of $1.5 million, or 19%, from December 31, 2012, largely reflecting the net loss for the period.

Loan Portfolio

The Wilton Bank originates commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within the market of Fairfield County and surrounding region of Connecticut.

Total loans before deferred loan fees were $29.9 million at September 30, 2013, a decrease of $3.8 million, or 11%, from the $33.7 million at December 31, 2012, a decrease of $11.4 million, or 28%, from the balance at December 31, 2011. Since December 31, 2007, total loans have decreased $30.2 million from $60.1 million, reflecting the weak economy in which The Wilton Bank was operating, the highly competitive market for new loans and The Wilton Bank's efforts in dealing with its problem loans. Construction loans have experienced the most significant downturn mainly due to the economic downturn and related factors and the fact that The Wilton Bank had a concentration in this area. Construction loans were down $7.7 million, or 42%, and $807 thousand, or 7%, from December 31, 2011 and 2012, respectively.

The following table compares The Wilton Bank's loan portfolio for the dates indicated:

	At September 30,		At December 31,			
	2013		2012		2011	
(Dollars in thousands)	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Real estate loans:						
Loans secured by residential properties	$ 6,861	22.98 %	$ 7,951	23.62 %	$ 8,129	19.67 %
Loans secured by non-residential properties	8,873	29.72	10,298	30.60	10,684	25.85
Construction, development and land loans	10,539	35.30	11,347	33.71	18,204	44.04
	26,273	88.00	29,596	87.93	37,017	89.56
	2,400	8.04	2,692	8.00	3,599	8.71

	At September 30, 2013		At December 31,			
Commercial and industrial loans						
Consumer, personal and other loans	1,184	3.96	1,368	4.07	714	1.73
Total loans	$ 29,857	100.00%	$ 33,656	100.00%	$ 41,330	100.00%

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Primary loan categories

Loans secured by residential properties. Residential real estate loans decreased by $1.1 million, or 14%, in the nine month period ended September 30, 2013 compared to the same period in 2012, and by $178 thousand, or 2% year-over-year, in fiscal year 2012, and totaled $6.9 million, or 23% of total loans, at September 30, 2013. The Wilton Bank does not originate traditional residential real estate loans for the purchase of real estate. The majority of The Wilton Bank's residential real estate portfolio consists of loans collateralized by residential real estate.

Loans secured by non-residential properties. Commercial real estate loans were $8.9 million and represented 30% of the total portfolio, at September 30, 2013, a net decrease of $1.4 million, or 14%, from December 31, 2012. During 2012, commercial real estate loans decreased by $386 thousand, or 4%, from December 31, 2011. Commercial real estate loans are secured by a variety of property types, including office buildings, retail facilities, commercial mixed use and multi-family dwellings.

Commercial and industrial loans. Commercial business loans were $2.4 million and represented 8% of the total loan portfolio at September 30, 2013, compared to $2.7 million, or 8% of the total portfolio, at December 31, 2012 and $3.6 million, or 9% of the total loan portfolio, at December 31, 2011. Commercial business loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion and are generally secured by assignments of corporate assets, real estate and personal guarantees of the business owners.

Construction, development and land loans. Construction loans were $10.5 million at September 30, 2013, a decrease of $808 thousand from December 31, 2012, with the majority outstanding attributable to residential construction. Construction loans totaled $11.3 million at December 31, 2012 and $18.2 million at December 31, 2011. Residential construction loans are made to finance the construction of residential dwellings.

Consumer, personal and other loans. Consumer loans totaled $1.2 million at September 30, 2013 compared to $1.4 million at December 31, 2012, reflecting loans secured by passbook or certificate accounts, or automobiles, as well as unsecured personal loans and overdraft lines of credit.

The following table presents an analysis of the maturity of our commercial real estate, construction and commercial business loan portfolios as of September 30, 2013 and December 31, 2012.

	September 30, 2013			
(In thousands)	**Loans Secured by Non-Residential Properties**	**Construction, Development and Land Loans**	**Commercial and Industrial Loans**	**Total**
Amounts due:				
One year or less	$ 417	$ 7,604	$ 1,334	$ 9,355
After one year:				
One to five years	711	900	1,066	2,677
Over five years	7,745	2,035	—	9,780
Total due after one year	8,456	2,935	1,066	12,457
Total	$ 8,873	$ 10,539	$ 2,400	$ 21,812

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(In thousands)	December 31, 2012 Loans Secured by Non-Residential Properties	Construction, Development and Land Loans	Commercial and Industrial Loans	Total
Amounts due:				
One year or less	$ 1,113	$ 7,667	$ 1,131	$ 9,911
After one year:				
One to five years	631	1,473	1,561	3,665
Over five years	8,554	2,207	—	10,761
Total due after one year	9,185	3,680	1,561	14,426
Total	$ 10,298	$ 11,347	$ 2,692	$ 24,337

The following table presents an analysis of the interest rate sensitivity of our commercial real estate, construction and commercial business loan portfolios due after one year of September 30, 2013 and December 31, 2012.

	September 30, 2013			December 31, 2012		
	Interest Rate			Interest Rate		
(In thousands)	Adjustable	Fixed	Total	Adjustable	Fixed	Total
Loans secured by non-residential properties	$ 5,092	$ 3,364	$ 8,456	$ 5,288	$ 3,897	$ 9,185
Construction, development and and land loans	2,935	—	2,935	3,613	67	3,680
Commercial and industrial loans	—	1,066	1,066	—	1,561	1,561
Total loans due after one year	$ 8,027	$ 4,430	$ 12,457	$ 8,901	$ 5,525	$ 14,426

Asset Quality

Nonperforming Assets. Nonperforming assets include nonaccrual loans and property acquired through foreclosures or repossession. The following table presents nonperforming assets and additional asset quality data for the dates indicated:

(In thousands)	At September 30, 2013	At December 31, 2012	2011
Nonaccrual loans:			
Real estate loans:			
Loans secured by residential properties	$ 1,398	$ 1,083	$ 1,550
Loans secured by non-residential properties	502	453	520
Construction, development and land loans	4,573	5,387	10,540

	At September 30, 2013	At December 31,	
Commercial and industrial loans	554	348	357
Consumer, personal and other loans	71	—	—
Total non accrual loans	$ 7,100	$ 7,271	$ 12,967
Property acquired through foreclosure or repossession, net	1,895	3,270	2,869
Total nonperforming assets	$ 8,995	$ 10,541	$ 15,836
Nonperforming assets to total assets	12.92%	13.85 %	20.72 %
Nonaccrual loans to total loans	23.78%	21.60 %	31.37 %
Total past due loans to total loans	11.12%	10.24 %	15.27 %
Accruing loans 90 days or more past due	$ —	$ —	$ —

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Nonperforming assets, which consists of nonaccrual loans and foreclosed real estate, totaled $9.0 million and represented 13% of total assets at September 30, 2013, compared to $10.5 million and 14% of total assets at December 31, 2012. Nonperforming assets at December 31, 2011 represented 21% of total assets and totaled $15.8 million.
Nonaccrual loans, which comprise the majority of our nonperforming assets, totaled $7.1 million at September 30, 2013, a decrease of $171 thousand, or 2%, from December 31, 2012. At December 31, 2011, nonaccrual loans were $13.0 million. Foreclosed real estate was $1.9 million at September 30, 2013, compared to $3.3 million at December 31, 2012. At December 31, 2011, foreclosed real estate was $2.9 million.
Nonaccrual Loans.   Loans greater than 90 days past due are put on nonaccrual status. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent interest payments received on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. 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. Total nonaccrual loans were $7.1 and $7.3 million at September 30, 2012 and December 31, 2012, respectively. Included in nonaccrual loans at September 30, 2013 and December 31, 2012 and 2011 were $3.8 million, $4.0 million and $6.7 million of loans, respectively, which were performing in accordance with their contractual terms, however, these loans were not returned to accrual status as they had not yet met necessary performance standards.
At September 30, 2013, there were seven construction loans on nonaccrual status totaling $4.6 million compared to eight loans totaling $5.4 million at December 31, 2012.
At September 30, 2013, there were three commercial real estate loans on nonaccrual status totaling $502 thousand compared to two loans totaling $453 thousand, at December 31, 2012.
Nonaccrual commercial business loans totaled $554 thousand at September 30, 2013 and consisted of three loans. There were two commercial business loans on nonaccrual status at December 31, 2012 totaling $348 thousand.
At September 30, 2013, there were no commitments to lend additional funds to any borrower on nonaccrual status.
Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the nine months ended September 30, 2013 and 2012 was $286 thousand and $387 thousand, respectively, and for the years ended December 31, 2012 and 2011 was $358 thousand and $687 thousand, respectively. The amount of actual interest income recognized on these loans was $69 thousand and $107 thousand for the nine months ended September 30, 2013 and 2012, respectively, and $167 thousand and $34 thousand for the years ended December 31, 2012 and 2011, respectively.
Past Due Loans.   When a loan is 15 days past due, The Wilton Bank sends the borrower a late notice. The Wilton Bank 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 Wilton Bank 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 Wilton Bank will send the borrower a final demand for payment and may recommend foreclosure. A report of all loans 30 days or more past due is provided to The Wilton Bank's board of directors each month. Loans greater than 90 days past due are put on nonaccrual status.

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The following table presents past due loans as of September 30, 2013 and 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
As of September 30, 2013				
Construction, development and land loans	$ —	$ —	$ 1,746	$ 1,746
Loans secured by residential properties	—	—	779	779
Loans secured by non-residential properties	—	—	435	435
Commercial and industrial loans	—	—	280	280
Consumer, personal and other loans	7	—	73	80
Total	$ 7	$ —	$ 3,313	$ 3,320
As of December 31, 2012				
Construction, development and land loans	$ —	$ —	$ 2,248	$ 2,248
Loans secured by residential properties	—	—	748	748
Loans secured by non-residential properties	—	—	—	—
Commercial and industrial loans	75	—	300	375
Consumer, personal and other loans	75	—	—	75
Total	$ 150	$ —	$ 3,296	$ 3,446
As of December 31, 2011				
Construction, development and land loans	$ —	$ 1,400	$ 3,736	$ 5,136
Loans secured by residential properties	—	—	718	718
Loans secured by non-residential properties	53	103	—	156
Commercial and industrial loans	300	—	—	300
Consumer, personal and other loans	—	—	—	—
Total	$ 353	$ 1,503	$ 4,454	$ 6,310

At September 30, 2013, total past due loans totaled $3.3 million. Of this total, all of the loans were on nonaccrual status with the exception of one loan for $7 thousand that was past due. As of December 31, 2012, total past due loans were $3.4 million, all of which consisted of nonaccrual loans with the exception of two loans totaling $150 thousand. As of December 31, 2011, all past due loans consisted of nonaccrual loans with the exception of one loan totaling $53 thousand.

Troubled Debt Restructurings. Loans are considered restructured in a troubled debt restructuring when The Wilton Bank has granted concessions to a borrower due to the borrower's financial condition that The Wilton Bank otherwise would not have considered. These concessions may include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, rather than aggressively enforcing the collection of the loan, may benefit The Wilton Bank by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on The Wilton Bank management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term.

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Troubled debt restructurings are reported as such for at least one year from the date of the restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring did not involve a below market rate concession and the loan is not deemed to be impaired based on the terms specified in the restructuring agreement. As of September 30, 2013, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following table presents information on troubled debt restructured loans.

(In thousands)	At Sept. 30, 2013	At December 31, 2012	At December 31, 2011
Accruing troubled debt restructured loans:			
Loans secured by residential properties	$ —	$ 652	$ —
Loans secured by non-residential properties	—	78	93
Construction, development and land loans	224	229	483
Consumer, personal and other loans	252	278	—
Commercial and industrial loans	176	100	—
Accruing troubled debt restructured loans	652	1,337	576
Nonaccrual troubled debt restructured loans:			
Loans secured by residential properties	1,336	743	786
Loans secured by non-residential properties	502	453	418
Construction, development and land loans	3,038	3,144	6,804
Commercial and industrial loans	43	48	57
Nonaccrual troubled debt restructured loans	4,919	4,388	8,065
Total troubled debt restructured loans	$ 5,571	$ 5,725	$ 8,641

As of September 30, 2013 and December 31, 2012, loans classified as troubled debt restructurings totaled $5.6 million and $5.7 million, respectively. During the nine months ended September 30, 2013, there was a decrease of $154 thousand in troubled debt restructurings mainly as a result of principal paydowns, offset by the addition of a commercial business loan of $79 thousand. The $5.6 million balance at September 30, 2013 consists of seventeen loans. The largest troubled debt restructured loan is a construction loan totaling $2.1 million. The second largest troubled debt restructured loans was also a construction loan that totaled $736 thousand.

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses, or the allowance, necessarily involves a high degree of judgment. The Wilton Bank uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in its loan portfolio for purposes of establishing a sufficient allowance for loan losses. The Wilton Bank evaluates the adequacy of the allowance at least quarterly, and in determining The Wilton Bank’s allowance for loan losses, estimates losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of The Wilton Bank’s allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates and subsequent recoveries, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

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The following table presents the activity in and allocation of The Wilton Bank's allowance for loan losses and related ratio of net charge-offs to average loans:

(In thousands)	Construction, Development and Land Loans	Loans Secured by Residential Properties	Loans Secured by Non-Residential Properties	Commercial and Industrial Loans	Consumer, Personal and Other Loans	Unallocated	Total
September 30, 2013							
Beginning balance	$ 283	$ 103	$ 250	$ 114	$ 36	$ 327	$ 1,113
Charge-offs	(225)	—	—	(86)	—	—	(311)
Recoveries	—	80	—	—	—	—	80
Provisions	80	(113)	(114)	140	64	(57)	—
Ending balance	$ 138	$ 70	$ 136	$ 168	$ 100	$ 270	$ 882
Ratio of net charge-offs to average loans							0.73 %
December 31, 2012							
Beginning balance	$ 475	$ 244	$ 268	$ 187	$ 29	$ 102	$ 1,305
Charge-offs	(89)	(24)	—	(80)	—	—	(193)
Recoveries	—	—	—	1	—	—	1
Provisions	(103)	(117)	(18)	6	7	225	—
Ending balance	$ 283	$ 103	$ 250	$ 114	$ 36	$ 327	$ 1,113
Ratio of net charge-offs to average loans							0.50 %
December 31, 2011							
Beginning balance	$ 617	$ 338	$ 234	$ 739	$ 59	$ 47	$ 2,034
Charge-offs	(1,191)	(55)	—	(388)	—	—	(1,634)
Recoveries	1	—	—	3	1	—	5
Provisions	1,048	(39)	34	(167)	(31)	55	900
Ending balance	$ 475	$ 244	$ 268	$ 187	$ 29	$ 102	$ 1,305
Ratio of net charge-offs to average loans							3.52 %

At September 30, 2013, The Wilton Bank's allowance for loan losses was $882 thousand and represented 3% of total loans, compared to $1.1 million and 3% of total loans at December 31, 2012. The $231 thousand net decrease in the allowance for loan losses is comprised of an increase in the general reserve of $139 thousand and a decrease of $370 thousand in the specific reserve for impaired loans. For the nine months ended September 30, 2013 and 2012, and years ended December 31, 2012 and 2011, the only period there was a provision for loan losses charged to earnings was in the year ended December 31, 2011, and that charge totaled $900 thousand. Net charge-offs for the nine months ended September 30, 2013 were $231 thousand or 0.07% of average loans, reflecting charge-offs associated with an impaired construction loan and a commercial business loan.

The carrying amount of total impaired loans at September 30, 2013 was $7.7 million and consisted of twenty loans on nonaccrual status and six performing troubled debt restructured loans. This compares to a carrying amount of $8.7 million for total impaired loans at December 31, 2012. The amount of allowance for loan losses related to impaired loans was $194 thousand and $54 thousand, respectively, at September 30, 2013 and December 31, 2012.

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Investment Securities

The Wilton Bank's investment securities portfolio consists of held-to-maturity U.S. Government agency obligations. The amortized cost and fair value of these securities totaled $1.0 million at September 30, 2013. At December 31, 2012, the amortized cost and fair value of U.S Government agency obligations was $1.0 million. The unrealized position was $3 thousand at both September 30, 2013 and December 31, 2012. These securities have a weighted average yield of 0.26% and an average maturity of 2.2 years at September 30, 2013.

The Wilton Bank made a conscious decision to maintain a higher level of liquidity due to both the difficult economic environment it was operating in and the receipt of the Consent Agreement, thereby letting investment securities run off without replacing them. The Wilton Bank began receiving interest on its balances held at the Federal Reserve Bank, or FRB, in October of 2008. In the current rate environment, The Wilton Bank found it difficult to invest in securities without extending maturities to a time it did not feel comfortable with. The Wilton Bank maintained its excess liquidity at FRB.

Sources of Funds

Sources of funds include deposits and proceeds from the sales, maturities and payments of loans and investment securities. Total deposits represent 90% of total assets at September 30, 2013. While scheduled loan and securities repayments are a relatively stable source of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain.

Deposits

The Wilton Bank offers a wide variety of deposit products and rates to consumer and business customers consistent with FDIC regulations. The Wilton Bank's asset liability committee meets regularly to determine pricing and marketing initiatives. In addition to being an important source of funding for us, deposits also provide an ongoing stream of fee revenue.

The following table sets forth the composition of The Wilton Bank's deposits for the dates indicated.

	At September 30,		**At December 31,**			
	2013		**2012**		**2011**	
(Dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Noninterest-bearing demand	$ 13,422	21.41 %	$ 14,086	20.75 %	$ 15,533	23.38 %
Interest bearing accounts:						
NOW, money market and savings	38,831	61.94	41,481	61.11	38,745	58.31
Time certificates of deposit	10,441	16.65	12,314	18.14	12,170	18.32
Total deposits	$ 62,694	100.00%	$ 67,881	100.00%	$ 66,448	100.00%

Total deposits were $62.7 million at September 30, 2013, a decrease of $5.2 million, or 8%, from the balance at December 31, 2012. This decrease was due to outflows in time deposits, noninterest bearing demand deposits and money market accounts, and savings accounts.

Time deposits decreased by $1.9 million, or 15%, from year-end 2012, reflecting The Wilton Bank's less aggressive pricing stance. Time deposits were $10.4 million at September 30, 2013 compared to the December 31, 2012 balance of $12.3 million.

During the first nine months of 2013, noninterest-bearing demand deposits decreased by $664 thousand, or 5%, and interest bearing demand deposit accounts decreased $2.4 million, or 7%. Savings accounts were $4.9 million at September 30, 2013, a decrease of $290 thousand, or 6%, from December 31, 2012.

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Borrowings
The Wilton Bank is a member of the FHLBB, which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLBB, and borrowings are collateralized by qualifying assets not otherwise pledged (principally securities). The maximum amount of credit that the FHLBB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. Wilton Bank satisfied its collateral requirement at September 30, 2013.
The Wilton Bank did not have any FHLBB advances outstanding at September 30, 2013 or December 31, 2012.
Liquidity and Capital Resources
Liquidity Management
Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. The Wilton Bank's primary source of liquidity is deposits, which funded approximately 87% of total average assets in 2012 and 90% of total average assets for the nine-month period ended September 30, 2013. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term advances and other borrowings), cash flows from our investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.
Capital Resources
Total shareholders' equity was $6.5 million at September 30, 2013, compared to $8.0 million at December 31, 2012. The $1.5 million, or 19%, decrease reflected the net loss of $1.5 million for the first nine months of 2013. The ratio of total equity to total assets was 9.40% at September 30, 2013, which compares to 10.55 at December 31, 2012. Book value per common share at September 30, 2013 and December 31, 2012 was $17.55 and $21.53, respectively.
The Wilton Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the bank's financial statements. The bank 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.
As discussed previously, The Wilton Bank had been operating under a Consent Agreement which made it necessary for it to submit an updated Capital Plan to the FDIC and DOB. The Capital Plan described actions The Wilton Bank will take to return the Tier 1 capital to the minimum required under the Consent Agreement. Subsequent to the 2012 fiscal year-end, the Capital Plan was accepted by The Wilton Bank's regulators.
While the Consent Agreement was in effect, The Wilton Bank did not pay dividends or any other form of payment representing a reduction in capital without the prior written approval of the FDIC and the DOB. In addition to the Consent Agreement, certain other restrictions exist regarding the ability of The Wilton Bank to pay dividends. State of Connecticut Banking Rules and Regulations require regulatory approval to pay dividends in excess of the bank's earnings retained in the current year plus retained earnings from the previous two years. The bank had an accumulated deficit for the three-year period ended December 31, 2012, and therefore is restricted from paying dividends.
Off-Balance Sheet Instruments
In the normal course of business, The Wilton Bank 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

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amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement The Wilton Bank has in particular classes of financial instruments.

The Wilton Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of The Wilton Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Wilton Bank minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Commitments to extend credit totaled $8.1 million as of September 30, 2013 and $11.1 million at December 31, 2012. The following table summarizes The Wilton Bank's commitments to extend credit as of the dates indicated. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Wilton Bank manages its liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that it will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

As of September 30, 2013	**Amount of Commitment Expiration per Period**				
(In thousands)	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Commitments to extend credit:					
Undisbursed home equity lines of credit	$ 3,381	$ 207	$ 490	$ 1,478	$ 1,206
Undisbursed loans secured by real estate	1,982	676	800	—	506
Future loan commitments	481	248	233	—	—
Undisbursed commercial lines of credit	1,699	1,669	30	—	—
Overdraft protection lines	565	—	—	—	565
Total other commitments	$ 8,108	$ 2,800	$ 1,553	$ 1,478	$ 2,277

As of December 31, 2012	**Amount of Commitment Expiration per Period**				
(In thousands)	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Commitments to extend credit:					
Undisbursed home equity lines of credit	$ 3,037	$ 67	$ 363	$ 808	$ 1,799
Undisbursed loans secured by real estate	2,830	444	1,798	—	588
Future loan commitments	2,710	2,710	—	—	—
Undisbursed commercial lines of credit	1,912	1,912	—	—	—
Overdraft protection lines	596	—	—	—	596
Total other commitments	$ 11,085	$ 5,133	$ 2,161	$ 808	$ 2,983

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Interest rate risk management is our primary market risk. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Asset / Liability Management and Interest Rate Risk" herein for a discussion of our management of our interest rate risk.

Inflation Risk Management

Inflation has an important impact on the growth of total assets in the banking industry and causes a need to increase equity capital higher than normal levels in order to maintain an appropriate equity-to-assets ratio. We cope with the effects of inflation by managing our interest rate sensitivity position through our asset/liability management program, and by periodically adjusting our pricing of services and banking products to take into consideration current costs.

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SUPERVISION AND REGULATION

General

The Bank, a Connecticut state-chartered commercial bank, is subject to extensive regulation by the Connecticut Department of Banking, as its chartering agency, and by the FDIC, as its deposit insurer. The Bank's deposits are insured up to applicable limits by the FDIC through the Deposit Insurance Fund. The Bank is required to file reports with, and is periodically examined by, the FDIC and the Connecticut Department of Banking concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other financial institutions. The Company, as a bank holding company, is subject to regulation by and required to file reports with the Connecticut Department of Banking, and the Federal Reserve Board.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This scheme is intended primarily for the protection of the Deposit Insurance Fund and bank depositors, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin "unsafe or unsound" practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil money penalties, remove officers and directors, and, with respect to banks, terminate deposit insurance or place the bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

The following discussion is a summary of the material laws and regulations applicable to our operations, but does not purport to be a complete summary of all applicable laws, rules and regulations. These laws and regulations may change from time to time and the regulatory agencies often have broad discretion in interpreting them. Any change in such laws or regulations, whether by the Connecticut Department of Banking, the FDIC or the Federal Reserve Board could have a material adverse impact on the financial markets in general, and our operations and activities, financial condition, results of operations, growth plans and future prospects specifically.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act has significantly changed the current bank regulatory structure and will affect into the immediate future the lending and investment activities and general operations of depository institutions and their holding companies.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with extensive powers to implement and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings associations including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings associations with more than $10 billion in assets. Banks and savings associations with $10 billion or less in assets will continue to be examined for compliance with federal consumer protection and fair lending laws by their applicable primary federal bank regulators. The Dodd-Frank Act also weakens the federal preemption available for national banks and federal savings associations and gives state attorneys general certain authority to enforce applicable federal consumer protection laws.

The Dodd-Frank Act made many other changes to banking regulation including authorizing depository institutions, for the first time, to pay interest on business checking accounts, requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees, establishing a number of reforms for mortgage originations, requiring bank holding companies and banks to be "well capitalized" and "well managed" in order to acquire banks located outside of their home state, requiring any bank holding company electing to be treated as a financial holding company to be "well capitalized" and "well managed" and authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location.

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The Dodd-Frank Act also broadened the base for the FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that insurance assessments are based on the average consolidated total assets less tangible equity capital of an insured depository institution instead of deposits. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008.

The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a nonbinding vote on executive compensation and so-called "golden parachute" payments, and by authorizing the SEC to promulgate rules that would allow shareholders to nominate and solicit votes for their own candidates using a company's proxy materials.

Many of the provisions of the Dodd-Frank Act are not yet effective, and the Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. It is therefore challenging to predict at this time what impact the Dodd-Frank Act and implementing regulations will have on community banks and their holding companies. Although the substance and scope of many of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the Consumer Financial Protection Bureau, may increase our operating and compliance costs.

Connecticut Banking Laws and Supervision

Connecticut Department of Banking. The Connecticut Department of Banking regulates internal organization as well as the deposit, lending and investment activities of state-chartered banks, including the Bank. The approval of the Connecticut Department of Banking is required for, among other things, the establishment of branch offices and business combination transactions. The Connecticut Department of Banking conducts periodic examinations of Connecticut chartered banks. The FDIC also regulates many of the areas regulated by the Connecticut Department of Banking, and federal law may limit some of the authority provided to Connecticut chartered banks by Connecticut law.

Lending Activities. Connecticut banking laws grant banks broad lending authority. With certain limited exceptions, secured and unsecured loans of any one obligor under this statutory authority may not exceed 10% and 15%, respectively, of a bank's equity capital and allowance for loan losses.

Dividends. The Bank may pay cash dividends out of its net profits. For purposes of this restriction, "net profits" represents the remainder of all earnings from current operations. Further, the total amount of all dividends declared by a bank in any year may not exceed the sum of a bank's net profits for the year in question combined with its retained net profits from the preceding two years. Federal law also prevents an institution from paying dividends or making other capital distributions that, if by doing so, would cause it to become "undercapitalized." The FDIC may limit a bank's ability to pay dividends. No dividends may be paid to a shareholder if such dividends would reduce shareholders' equity below the amount of the liquidation account required by Connecticut regulations. Moreover, the federal agencies have issued policy statements that provide that insured banks should generally only pay dividends out of current operating earnings.

Powers. Connecticut law permits Connecticut banks to sell insurance and fixed and variable rate annuities if licensed to do so by the Connecticut Insurance Department. With the prior approval of the Connecticut Department of Banking, Connecticut banks are also authorized to engage in a broad range of activities related to the business of banking, or that are financial in nature or that are permitted under the Bank Holding Company Act or the Home Owners' Loan Act, both federal statutes, or the regulations promulgated as a result of these statutes. Connecticut banks are also authorized to engage in any activity permitted for a national bank or a federal savings association upon filing notice with the Connecticut Department of Banking unless the Connecticut Department of Banking disapproves the activity.

Assessments. Connecticut banks are required to pay annual assessments to the Connecticut Department of Banking to fund the Connecticut Department of Banking's operations. The general assessments are paid pro-rata based upon a bank's asset size.

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Enforcement. Under Connecticut law, the Connecticut Department of Banking has extensive enforcement authority over Connecticut banks and, under certain circumstances, affiliated parties, insiders, and agents. The Connecticut Department of Banking's enforcement authority includes cease and desist orders, fines, receivership, conservatorship, removal of officers and directors, emergency closures, dissolution and liquidation.

Federal Bank Holding Company Regulation

General. As a bank holding company, we are subject to comprehensive regulation and regular examinations by the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a bank holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under Federal Reserve Board policy which has been codified by the Dodd-Frank Act, a bank holding company must serve as a source of strength for its subsidiary bank. Under this policy, the Federal Reserve Board may require, and has required in the past, a bank holding company to contribute additional capital to an undercapitalized subsidiary bank. A bank holding company must obtain Federal Reserve Board approval before: (1) acquiring, directly or indirectly, ownership or control of any voting securities of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such securities (unless it already owns or controls the majority of such securities); (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company. Under Connecticut banking law, no person may acquire beneficial ownership of more than 10% of any class of voting securities of a Connecticut chartered bank, or any bank holding company of such a bank, without prior notification of, and lack of disapproval by, the Connecticut Department of Banking.

The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by Federal Reserve Board regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the Federal Reserve Board includes, among other things: (1) operating a savings institution, mortgage company, finance company, credit card company or factoring company; (2) performing certain data processing operations; (3) providing certain investment and financial advice; (4) underwriting and acting as an insurance agent for certain types of credit-related insurance; (5) leasing property on a full-payout, non-operating basis; (6) selling money orders, travelers' checks and United States savings bonds; (7) real estate and personal property appraising; (8) providing tax planning and preparation services; (9) financing and investing in certain community development activities; and (10) subject to certain limitations, providing securities brokerage services for customers.

Dividends. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that the bank holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the bank holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends.

Substantially all of our income is derived from, and the principal source of our liquidity is, dividends from the Bank. The ability of the Bank to pay dividends to us is also restricted by federal and state laws, regulations and policies. The Bank may pay cash dividends out of its net profits. For purposes of this restriction, "net profits" represents the remainder of all earnings from current operations. Further, the total amount of all dividends declared by a bank in any year may not exceed the sum of a bank's net profits for the past two fiscal years, plus the portion of the year in which the dividend is paid.

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Under federal law, the Bank may not pay any dividend to us if the bank is undercapitalized or the payment of the dividend would cause it to become undercapitalized. The FDIC may further restrict the payment of dividends by requiring the Bank to maintain a higher level of capital than would otherwise be required for it to be adequately capitalized for regulatory purposes. Moreover, if, in the opinion of the FDIC, the Bank is engaged in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, generally after notice and hearing, it to cease such practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe banking practice. The FDIC has also issued policy statements providing that insured depository institutions generally should pay dividends only out of current operating earnings.

Redemption. Bank holding companies are required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the consolidated net worth of the bank holding company. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order or any condition imposed by, or written agreement with, the Federal Reserve Board. This notification requirement does not apply to any bank holding company that meets the well capitalized standard for commercial banks, is "well managed" within the meaning of the Federal Reserve Board regulations and is not subject to any unresolved supervisory issues.

Federal Bank Regulation

Safety and Soundness. The federal banking agencies, including the FDIC, have implemented rules and guidelines concerning standards for safety and soundness required pursuant to Section 39 of the Federal Deposit Insurance Corporation Improvement Act, or FDICIA. In general, the standards relate to (1) operational and managerial matters; (2) asset quality and earnings; and (3) compensation. The operational and managerial standards cover (a) internal controls and information systems, (b) internal audit systems, (c) loan documentation, (d) credit underwriting, (e) interest rate exposure, (f) asset growth, and (g) compensation, fees and benefits. Under the asset quality and earnings standards, the Bank is required to establish and maintain systems to (i) identify problem assets and prevent deterioration in those assets, and (ii) evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital reserves. Finally, the compensation standard states that compensation will be considered excessive if it is unreasonable or disproportionate to the services actually performed by the individual being compensated. If an insured state-chartered bank fails to meet any of the standards promulgated by regulation, then such institution will be required to submit a plan within 30 days to the FDIC specifying the steps it will take to correct the deficiency. In the event that an insured state-chartered bank fails to submit or fails in any material respect to implement a compliance plan within the time allowed by the federal banking agency, Section 39 of the FDICIA provides that the FDIC must order the institution to correct the deficiency and may (1) restrict asset growth; (2) require the bank to increase its ratio of tangible equity to assets; (3) restrict the rates of interest that the bank may pay; or (4) take any other action that would better carry out the purpose of prompt corrective action. We believe that the Bank has been and will continue to be in compliance with each of the standards as they have been adopted by the FDICIA.

Capital Requirements. The Federal Reserve Board monitors our capital adequacy, on a consolidated basis, and the FDIC and Connecticut Department of Banking monitor the capital adequacy of the Bank.

FDIC and Federal Reserve regulations currently require banks and bank holding companies generally to maintain three minimum capital standards: (1) a Tier I capital to adjusted total assets ratio, or Leverage Capital Ratio, of at least 4% (for certain banking organizations, of at least 3%), (2) a Tier I capital to risk-weighted assets ratio, or Tier I Risk-Based Capital Ratio, of at least 4% and (3) a total risk-based capital (Tier I plus Tier 2) to risk-weighted assets ratio, Total Risk-Based Capital Ratio, of at least 8%. Tier I capital is the sum of common shareholders' equity, qualifying non-cumulative perpetual preferred stock, retained earnings and minority investments in certain subsidiaries, less goodwill and other intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

The FDIC regulations require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of regulatory capital to regulatory risk-weighted

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assets is referred to as a bank's risk-based capital ratio. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items (including recourse obligations, direct credit substitutes and residual interests) to five risk-weighted categories ranging from 0% to 200%, with higher levels of capital being required for the categories perceived as representing greater risk. For example, under the FDIC's risk-weighting system, cash and securities backed by the full faith and credit of the U.S. government are given a 0% risk weight, loans secured by one-to-four family residential properties generally have a 50% risk weight, and commercial loans have a risk weighting of 100%. State non-member banks such as the Bank, must maintain a minimum ratio of total capital to risk-weighted assets of 8%, of which at least one-half must be Tier I capital. Total capital consists of Tier I capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative perpetual preferred stock, qualifying subordinated debt and certain other capital instruments, and a portion of the net unrealized holding gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier I capital. Banks that engage in specified levels of trading activities are subject to adjustments in their risk based capital calculation to ensure the maintenance of sufficient capital to support market risk.

In July 2013, the Federal Reserve Board promulgated a final rule and the FDIC promulgated an interim final rule implementing Basel III, providing for a strengthened set of capital requirements. These new requirements will be effective on January 1, 2015 for us. In general, the new rules revise regulatory capital definitions and minimum ratios, redefine Tier I capital, create a new capital ratio (common equity Tier I risk-based capital ratio), require a capital conservation buffer, revise prompt corrective action thresholds to add a new ratio to these thresholds (discussed in more detail below) and revise risk weighting for certain asset categories and off-balance sheet exposures. Under the new regulations effective January 1, 2015, (1) a new requirement to maintain a ratio of common equity Tier I capital to total risk-based assets of not less than 4.5% will be implemented, (2) the minimum Leverage Capital Ratio for all financial institutions will be at least 4%, (3) the minimum Tier I Risk-Based Capital Ratio has been increased from 4% to 6% and (4) the Total Risk-Based Capital Ratio has been maintained at 8%. In addition, the new regulations will impose certain limitations on dividends, share buybacks, discretionary payments on Tier I instruments and discretionary bonuses to executive officers if the organization fails to maintain a capital conservation buffer of common equity Tier I capital in an amount greater than 2.5% of its total risk-weighted assets. When the capital conservation buffer is fully phased-in, institutions will need to hold an additional 2.5% capital over the percentages listed above. The new regulations will be phased in over a period of time. The capital conservation buffer will be phased-in over a five year period with the full 2.5% requirement starting as of January 1, 2019.

Additionally, under the new regulations, the method for calculating the ratios has been revised to generally enhance risk sensitivity as well as provide alternatives to credit ratings for calculating risk-weighted assets. We are currently reviewing the impact of the revised capital standards on us.

FDICIA required each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family residential loans. The FDIC, along with the other federal banking agencies, has adopted a regulation providing that the agencies will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. The FDIC also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. As mentioned above, in July 2013, the Federal Reserve Board promulgated a final rule and the FDIC promulgated an interim final rule implementing Basel III, providing revised prompt corrective action ratios effective on January 1, 2015.

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Currently, an institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier I risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater. An institution is “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier I risk-based capital ratio of 4% or greater, and generally a leverage ratio of 4% or greater. An institution is “undercapitalized” if it has a total risk-based capital ratio of less than 8%, a Tier I risk-based capital ratio of less than 4%, or generally a leverage ratio of less than 4%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6%, a Tier I risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%. An institution is considered to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%. As of December 31, 2013, Bankwell was a well-capitalized institution.

Under the new regulations effective on January 1, 2015, certain changes to the prompt corrective action ratios will be implemented, including an increase in the Tier I risk-based capital ratios as follows: “well capitalized” an increase from 6% or greater to 8% or greater, “adequately capitalized” an increase from 4% or greater to 6% or greater, “undercapitalized” an increase from less than 4% to less than 6% and “significantly undercapitalized” an increase from less than 3% to less than 4%. Additionally, an institution’s common equity Tier I risk based capital ratio would be required to be 6.5% or greater to be deemed “well capitalized,” 4.5% or greater to be considered “adequately capitalized,” 4.5% or less to be deemed “undercapitalized,” 3% or less to be deemed “significantly undercapitalized” and equal to or less than 2% to be deemed “critically undercapitalized.” Further, if an institution’s ratio of tangible equity to total assets is equal to or less than 2%, the institution would be deemed “critically undercapitalized.”

“Undercapitalized” banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan to regulators. A bank’s compliance with such a plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an “undercapitalized” bank fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” “Significantly undercapitalized” banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. “Critically undercapitalized” institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Liquidity. We are required to maintain a sufficient amount of liquid assets to ensure our safe and sound operation. The final Basel III framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests. Although similar in some respects to liquidity measures historically applied by banks and banking agencies for management and supervisory purposes, the Basel III framework would require specific liquidity tests by rule. On October 24, 2013, the Federal Reserve approved for publication a notice of proposed rulemaking to implement a quantitative liquidity coverage ratio. Comments on the proposal were due January 31, 2014.

Transactions with Affiliates. Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act, or FRA, and the Federal Reserve Board’s Regulation W. In a holding company context, at a minimum, the parent holding company of a bank and any companies which are controlled by such parent holding company is an affiliate of the bank. Generally, Section 23A limits the extent to which the bank or its subsidiaries may engage in “covered transactions” with any one affiliate to 10% of such bank’s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to 20% of capital stock and surplus. The term “covered transaction” includes, among other things, the making of loans or other extensions of credit to an affiliate and the purchase of assets from an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, acceptances on letters of credit issued on behalf of an affiliate. Section 23B requires that covered transactions and a broad list of other specified

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transactions be on terms substantially the same, or no less favorable, to the bank or its subsidiary as similar transactions with non-affiliates. The Dodd-Frank Act has expanded the definition of covered transactions and increased the timing and other aspects of the collateral requirements associated with covered transactions, including an expansion of the covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Loans to Insiders. Further, Section 22(h) of the FRA restricts a depository institution with respect to loans to directors, executive officers, and principal shareholders (or insiders). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the depository institution's total unimpaired capital and unimpaired surplus. Loans to insiders above specified amounts must receive the prior approval of the board of directors. Further, under Section 22(h), loans to directors, executive officers and principal shareholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the depository institution's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers. In addition to enhancing restrictions on insider transactions, the Dodd-Frank Act increases the types of transactions with insiders subject to restrictions, including certain asset sales with insiders.

Enforcement. The FDIC has extensive enforcement authority over insured banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

The FDIC has authority under federal law to appoint a conservator or receiver for an insured bank under limited circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized." The FDIC may also appoint itself as conservator or receiver for an insured state non-member institution under specific circumstances on the basis of the institution's financial condition or upon the occurrence of other events, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; and (4) insufficient capital, or the incurring of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

Insurance of Deposit Accounts. Deposit accounts at the Bank are insured by the Deposit Insurance Fund, generally up to a maximum of $250,000 per separately insured depositor, pursuant to changes made permanent by the Dodd-Frank Act. The FDIC assesses insured depository institutions to maintain the Deposit Insurance Fund. No institution may pay a dividend if in default of its deposit insurance assessment.

Under the FDIC's risk-based assessment system, insured depository institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and other factors. A depository institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments.

On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changed the assessment base used for calculating deposit insurance assessments from deposits to average consolidated total assets less average tangible equity capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule would not significantly alter the total amount of revenue collected from the industry. The range of adjusted assessment rates is now 2.5 to 45 basis points of the new assessment base. The rule is expected to benefit smaller financial institutions, which typically rely more on deposits for funding, and shift more of the burden for supporting the Deposit Insurance Fund to larger financial institutions, which are thought to have greater access to nondeposit funding.

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The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. In setting the assessments necessary to achieve the 1.35% ratio, the FDIC is supposed to offset the effect of the increased ratio on insured institutions with assets of less than $10 billion. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2%.

A material increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that a depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Deposit Operations.   In addition to the regulations above, the Bank's deposit operations are subject to other federal laws applicable to depository accounts, such as the:

- Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Rules and regulations of the various federal banking agencies charged with the responsibility of implementing these federal laws.

Federal Reserve System.   The Federal Reserve Board regulations require depository institutions to maintain noninterest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations generally require that reserves be maintained against aggregate transaction accounts. We are in compliance with these requirements.

Federal Home Loan Bank of Boston (FHLBB).   The Bank is a member of the FHLBB, which is one of the regional Federal Home Loan Banks composing the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLBB, is required to acquire and hold shares of capital stock in the FHLBB. The FHLBB dividend on stock for the fourth quarter of 2013 was 0.37%.

Community Reinvestment Act.   Under the CRA, as amended by FDIC regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the bank's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such bank, including applications to acquire branches and other financial institutions. The CRA requires the FDIC to provide a written evaluation of a bank's CRA performance utilizing a four-tiered descriptive rating system. In particular, the system focuses on three tests:

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- A lending test, to evaluate the bank's record of making loans in its assessment areas;

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- An investment test, to evaluate the bank's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and

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- A service test, to evaluate the bank's delivery of services through its branches, ATMs, and other offices.

Bankwell had a CRA rating of "satisfactory" as of December 31, 2013.

Connecticut has its own statutory counterpart to the CRA which is applicable to the Bank. The Connecticut version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. Connecticut law requires the Connecticut Department of Banking to consider, but not be limited to, a bank's record of performance under Connecticut law in considering any application by the Bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Both The Bank of New Canaan and The Bank of Fairfield received a CRA rating of "satisfactory" in their most recent evaluations under Connecticut law.

Consumer Protection and Fair Lending Regulations. We are subject to a variety of federal and Connecticut statutes and regulations that are intended to protect consumers and prohibit discrimination in the granting of credit. These statutes and regulations provide for a range of sanctions for non-compliance with their terms, including imposition of administrative fines and remedial orders, and referral to the Attorney General for prosecution of a civil action for actual and punitive damages and injunctive relief. Certain of these statutes authorize private individual and class action lawsuits and the award of actual, statutory and punitive damages and attorneys' fees for certain types of violations.

At the federal level, these laws include, among others, the following:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use of consumer credit reports and the provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Real Estate Settlement Procedures Act, governing closing costs and settlement procedures and disclosures to consumers related thereto;

- Servicemembers Civil Relief Act of 2004, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service; and

- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Additional Considerations

Regulatory Enforcement Authority. Federal banking agencies have substantial enforcement authority over the financial institutions that they regulate including, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Except under certain circumstances, federal law requires public disclosure of final enforcement actions by the federal banking agencies.

Incentive Compensation Guidance. The federal banking agencies have released comprehensive guidance on incentive compensation policies focused on ensuring that financial institutions' incentive compensation policies do not undermine the safety and soundness of those institutions by encouraging

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excessive risk taking. The incentive compensation guidance sets expectations for financial institutions concerning their incentive compensation arrangements and related risk-management, control and governance processes. All employees that have the ability to materially affect the risk profile of a financial institution, either individually or as part of a group, are covered by the guidance. The guidance is based upon three core concepts: (1) balanced risk-taking incentives; (2) effective controls and risk management compatibility; and (3) strong corporate governance. Deficiencies in compensation practices that are identified may be incorporated into the institution's supervisory ratings, which can affect the organization's ability to take certain actions, including ability to make acquisitions or take other actions. Enforcement actions by the institution's primary federal banking agency may be initiated if the institution's incentive compensation programs pose a risk to the safety and soundness of the organization.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 generally established a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors. Among other things, the legislation (1) created the Public Company Accounting Oversight Board, which is empowered to set auditing, quality control and ethics standards, to inspect registered public accounting firms, to conduct investigations and to take disciplinary actions, subject to SEC oversight and review; (2) strengthened auditor independence from corporate management by, among other things, limiting the scope of consulting services that auditors can offer their public company audit clients; (3) heightened the responsibility of public company directors and senior managers for the quality of the financial reporting and disclosure made by their companies; (4) adopted a number of provisions to deter wrongdoing by corporate management; (5) imposed a number of new corporate disclosure requirements; (6) adopted provisions which generally seek to limit and expose to public view possible conflicts of interest affecting securities analysts; and (7) imposed a range of new criminal penalties for fraud and other wrongful acts, as well as extended the period during which certain types of lawsuits can be brought against a company or its insiders. The Sarbanes-Oxley Act applies generally to all companies that file or are required to file periodic reports with the SEC under the Exchange Act.

Financial Modernization. The Gramm-Leach-Bliley Act, or the GLB Act, permits greater affiliation among banks, securities firms, insurance companies, and other companies under a type of financial services company known as a "financial holding company." A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The GLB also permits the Federal Reserve Board and the Treasury Department to authorize additional activities for financial holding companies if they are "financial in nature" or "incidental" to financial activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed, and has at least a "satisfactory" CRA rating. A financial holding company must provide notice to the Federal Reserve Board within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. We have not submitted notice to the Federal Reserve Board of our intent to be deemed a financial holding company. However, we are not precluded from submitting a notice in the future should we wish to engage in activities only permitted to financial holding companies.

Privacy Requirements. Under the Gramm-Leach-Bliley Act, or the GLB Act, all financial institutions are required to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties and to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act of 1970, or FCRA, includes many provisions concerning national credit reporting standards and permits consumers, including customers of the Bank, to opt out of information-sharing for marketing purposes among affiliated companies. The Fair and Accurate Credit Transactions Act of 2004 amended certain provisions of FCRA and requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The Bank currently has a privacy protection policy in place and believes such policy is in compliance with the regulations.

The Bank Secrecy Act and Related Anti-Money Laundering and Anti-Terrorist Financing Legislation. The Bank Secrecy Act, or the BSA, and provides, in part, for the facilitation of information sharing among

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governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (1) requiring standards for verifying customer identification at account opening; (2) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (3) reports by nonfinancial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000; (4) filing suspicious activities reports by brokers and dealers if they believe a customer may be violating U.S. laws and regulations; and (5) requiring enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

Title III of the USA PATRIOT Act of 2001 amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Among other things, the USA PATRIOT Act requires all financial institutions, including us, to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provisions of the GLB Act, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign "shell" banks, establishes due diligence and enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA PATRIOT Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution.

The Office of Foreign Assets Control, or OFAC, which is a division of the Treasury Department, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify OFAC. We have established policies and procedures to ensure compliance with the federal anti-laundering provisions.

Proposed Legislation and Regulatory Action. New statutes, regulations and guidance are regularly proposed that contain wide-ranging potential changes to the statutes, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies. Our earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of U.S. government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

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MANAGEMENT

General

Our board of directors is composed of 14 members. The directors are elected by our shareholders at our annual shareholders' meeting for a term of one year and hold office until their successors are duly elected and qualified or until their earlier death, resignation or removal. Our executive officers are appointed by our board of directors and hold office until their successors are duly appointed and qualified.

The board of directors of the Bank consists of 14 members, all of whom are members of our board of directors. As the sole shareholder of the Bank, we elect the directors of the Bank annually for a term of one year, and the directors of the Bank hold office until their successors are elected and qualified. The executive officers of the bank are appointed by the Bank's board of directors and hold office until their successors are duly appointed and qualified or until their earlier death, resignation or removal.

The following table sets forth certain information regarding our directors and executive officers:

Name	Age	Position with Bankwell Financial Group, Inc.	Position with Bankwell Bank	Director of the Company Since
Frederick R. Afragola	72	Director	Director	2013 (1)
George P. Bauer	82	Director	Director	2012
Gail E.D. Brathwaite	54	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer	n/a
Richard Castiglioni	62	Director	Director	2013 (2)
Eric J. Dale	49	Director	Director	2008 (3)
Heidi DeWyngaert	58	Executive Vice President and Chief Lending Officer	President	n/a
Blake S. Drexler	56	Director	Director	2007 (1)
James A. Fieber	59	Director	Director	2007 (1)
Mark Fitzgibbon	44	Director	Director	2009 (2)
William J. Fitzpatrick III	64	Director	Director	2008 (3)
Hugh Halsell III	70	Director	Director	2013 (1)
Daniel S. Jones	75	Director	Director	2007 (1)
Carl R. Kuehner, III	50	Director	Director	2007 (1)
Todd Lampert	50	Director and Corporate Secretary	Director	2007 (1)
Victor S. Liss	77	Director	Director	2008 (3)
Peyton R. Patterson	57	Director, President and Chief Executive Officer	Director and Chief Executive Officer	2012
Ernest J. Verrico, Sr.	58	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer	n/a

(1)

- Director of The Bank of New Canaan from 2001 – 2013. As indicated above, present director of Bankwell Bank.

(2)

- Director of The Bank of New Canaan from 2009 – 2013. As indicated above, present director of Bankwell Bank.

(3)

- Director of The Bank of Fairfield from 2008 – 2013. As indicated above, present director of Bankwell Bank.

Board of Directors

A brief description of the background of each of our directors is set forth below. No director has any family relationship with any other executive officer or director.

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Frederick R. Afragola, Director. Mr. Afragola is Chairman Emeritus of the Bank. He was the formational President and Chief Executive Officer of The Bank of New Canaan from its opening in 2002 until his retirement in 2008. From 2008 to June 2013, Mr. Afragola acted as a consultant through his company, Frame Advisors, LLC. He joined our board of directors in 2013 and served on The Bank of New Canaan's board of directors from its organization. Prior to his role at the Bank, Mr. Afragola was Chief Executive Officer and President of New Canaan Bank and Trust and, subsequently, Chief Executive Officer and President of Summit Bank and has been active in banking since 1994. Mr. Afragola's extensive business experience in banking and otherwise, and his profile in New Canaan, affords our board of directors valuable insight regarding the business and operations of the Bank and the New Canaan community.
George P. Bauer, Director. Mr. Bauer is the Chairman and Chief Executive Officer of GPB Group, Ltd., a Connecticut based investment banking firm, since 1990. Mr. Bauer spent 31 years with IBM Corp., holding executive positions in marketing, finance and business systems, including Chief Financial Officer positions of several IBM divisions. He has significant experience with community banks, serving both as a director and a shareholder. Mr. Bauer joined our board of directors in 2012. Mr. Bauer's financial expertise and knowledge of community banks provide valuable knowledge and insight to our board of directors.
Richard Castiglioni, Esq., Director. Mr. Castiglioni is a partner with the law firm Diserio, Martin, O'Connor & Castiglioni in Stamford, Connecticut, founded in 1983. Mr. Castiglioni is a founding partner of his law firm and head of its litigation department. Mr. Castiglioni has represented banks and the FDIC in litigation matters including foreclosures, workouts and loan restructures for more than 30 years. He joined our board of directors in 2013 and served on the board of The Bank of New Canaan since 2009. As an attorney with experience in business matters and representing banks, Mr. Castiglioni provides our board of directors with significant insight regarding potential legal issues and lending opportunities and resolutions.
Eric J. Dale, Esq., Director. Since 2002, Mr. Dale has been a partner with the law firm Robinson & Cole, LLP in Stamford, Connecticut. He was a director of a public company, Zerotree Technologies, Inc., from 2000 until its merger with e-Media, LLC in 2002. Mr. Dale joined our board of directors in 2008 and served on the board of The Bank of Fairfield from its organization until its merger with The Bank of New Canaan. Mr. Dale's experience as a lawyer in private practice and as general counsel provide our board of directors with valuable insight regarding business and legal matters.
Blake S. Drexler, Director. Mr. Drexler is a portfolio manager with Mariner Capital since 2011. From 2004 – 2011, he was a private equity investor and partner in both 5-Mile Ventures and Great Point Partners, both located in Rowayton, Connecticut. He was previously Managing Director of Derivative Products at Greenwich Capital Markets for 22 years and a member of the Chicago Board of Trade, The Chicago Mercantile Exchange and the Chicago Board Options Exchange. Mr. Drexler joined our board of directors in 2007 and served on the board of The Bank of New Canaan from its organization. Mr. Drexler's financial acumen and experience and his community involvement and leadership skills provide our board of directors with significant knowledge and experience regarding the business and market area of the Bank.
James A. Fieber, Director. Since 2007, Mr. Fieber has been the managing member of Fiebro Acquisitions, LLC and The Fieber Group, LLC, privately held companies that make strategic investments in real estate and other asset classes for its principal partners and investors. Mr. Fieber also has primary investment responsibility for the Fieber Family Office. In that capacity, Mr. Fieber manages various closely held entities. He earned his law degree and MBA from Duke University. Mr. Fieber joined our board of directors in 2007 and served on the board of The Bank of New Canaan since 2001. Mr. Fieber's financial, legal and business expertise are valuable to our board of directors.
Mark Fitzgibbon, Director. Mr. Fitzgibbon is a Principal and Director of research with the investment banking firm, Sandler O'Neill + Partners, LP. He joined Sandler O'Neill in 1995 as an analyst covering regional banking companies. Prior to joining Sandler O'Neill, Mr. Fitzgibbon held analyst positions at Smith Barney and The Boston Company. Mr. Fitzgibbon is a Chartered Financial Analyst. He joined our board of directors in 2009 and served of the board of The Bank of New Canaan since 2009. Mr. Fitzgibbon's knowledge of and familiarity with the banking industry provides valuable insight into the financial services industry.

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William J. Fitzpatrick, III, Director. Since 2008, Mr. Fitzpatrick has been a partner with the law firm, Fitzpatrick, Fray & Bologna, LLC, located in Fairfield, Connecticut. He joined our board of directors in 2008 and served on the board of The Bank of Fairfield from its organization until its merger with The Bank of New Canaan. Mr. Fitzpatrick's legal and real estate knowledge are very useful to our board of director's understanding of lending and branching opportunities.

Hugh Halsell, III, Director. Mr. Halsell is the owner of Brotherhood & Higley Real Estate, a real estate brokerage firm, since 1990. He joined our board of directors in 2013 and served on the board of The Bank of New Canaan from its organization. From 1991 to 1999, Mr. Halsell served as a director of New Canaan Bank and Trust Co., and served as Chairman of the directors' Loan Committee as well as served as a director of Summit Bank and Chairman of the directors' Loan Committee from 1999 to 2002. As the owner of several commercial properties, he is highly knowledgeable about commercial real estate. Mr. Halsell's knowledge of the Bank's community and local real estate matters and involvement in business and civic organizations in the communities in which the Bank serves affords our board of directors significant insight regarding the community's banking needs.

Daniel S. Jones, Director. Mr. Jones is the president of NewsBank, Inc. since 2009, and he serves on the board of Advanced Technology Services, Inc., where he is Chairman of its Compensation Committee. Mr. Jones previously worked as a staff auditor at Haskins & Sells and Vice President of First National Bank. He joined our board of directors in 2007 and served on the board of The Bank of New Canaan from its organization. Mr. Jones previously served as a founder and director of New Canaan Bank and Trust and was the Chairman of its Compensation Committee and a member of its Loan and Audit Committees from 1978 to 1999. In addition, Mr. Jones was a director of Summit Bank and a member of its Compensation Committee from 1999 to 2002. Mr. Jones' business acumen and experience provide our board of directors with useful strategic planning tools.

Carl R. Kuehner, III, Director. Since 2007, Mr. Kuehner has been the Chief Executive Officer of Building and Land Technology, a second-generation real estate development company based in Stamford, Connecticut. He joined our board of directors in 2007 and served on the board of The Bank of New Canaan from its organization. Mr. Kuehner's expertise in real estate finance and business are important to our ability to identify opportunities and risks.

Todd Lampert, Esq., Director and Corporate Secretary. Mr. Lampert is the founder of and has been the managing member of the law firm of Lampert, Toohey & Rucci, LLC located in New Canaan, Connecticut, since its inception in 1993, where he is the head of the litigation department, representing banks and title companies in construction and real estate matters for over 24 years. From 1985 to 1987, Mr. Lampert was a stock broker with Series 7 and Series 63 licenses. He joined our board of directors in 2007 and served on the board of The Bank of New Canaan from its organization. Mr. Lampert's legal and community knowledge provide our board of directors with an understanding of legal and community issues.

Victor S. Liss, Director. Mr. Liss was, from 1992 to 2002, the Vice-Chairman, President and Chief Executive Officer of Trans-Lux Corporation, a public company that is a designer and manufacturer of digital signage display solutions for the financial, sports and entertainment, gaming and leasing markets. From 2002 to 2004, he acted as a consultant to Trans-Lux Corporation. Mr. Liss began his career at Trans-Lux Corporation in 1968, where he served as Treasurer until 1982 and later Chief Financial Officer from 1982 to 1992. Mr. Liss also served as a director of Trans-Lux Corporation from 1988 to 2010. He has served on a number of other boards of public companies and is a certified public accountant and is active in many local professional and charitable organizations. Mr. Liss joined our board of directors in 2008 and was the Chairman of the Board of The Bank of Fairfield from its organization until its merger with The Bank of New Canaan. As a former executive officer of a public company and a certified public accountant, Mr. Liss provides our board of directors with significant experience regarding accounting matters and financial expertise.

Peyton R. Patterson, Director, President and Chief Executive Officer of the Company, Chief Executive Officer of the Bank. Peyton R. Patterson joined the Company in April 2012 as our Chief Strategic Officer and assumed the role of President and Chief Executive Officer of the Company and Chief Executive Officer of The Bank of New Canaan and The Bank of Fairfield in September 2012. Ms. Patterson is also a

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director of the Company and the Bank. Most recently, from 2002 to April 2011, she was Chairman and Chief Executive Officer of NewAlliance Bancshares, Inc., or NewAlliance, headquartered in New Haven, Connecticut. Prior to NewAlliance, Ms. Patterson was the Executive Vice President of Consumer Financial Services for Dime Bancorp, headquartered in New York. Previously, she spent eight years with Chemical Bank and Chase Manhattan as Senior Vice President running their national consumer lending businesses.

Executive Officers who are not Directors

A brief description of the background of each of our executive officers who is not also a director is set forth below. No executive officer has any family relationship, as defined in Item 401 of Regulation S-K, with any other executive officer or director.

Ernest J. Verrico, Sr. Executive Vice President and Chief Financial Officer of the Company and the Bank. Mr. Verrico was named Chief Financial Officer of the Company in September 2009 and Executive Vice President of the Company in 2013, and served as the Chief Operating Officer from 2010 to April, 2013. For the past 30 years, Mr. Verrico has held several executive management positions at First Union National Bank, Cornerstone Bank and Naugatuck Savings Bank. Mr. Verrico spent six years at PricewaterhouseCoopers, an international accounting and consulting firm, in their New York City and Stamford offices, where he specialized in serving bank and financial services clients. Mr. Verrico is a graduate of Iona College.

Heidi S. DeWyngaert, Executive Vice President and Chief Lending Officer of the Company, President of the Bank. Ms. DeWyngaert is a career banker, with over 30 years of commercial real estate and commercial banking experience. Ms. DeWyngaert joined us in 2004. She previously worked for Webster Bank, where she managed the Fairfield County, Connecticut commercial real estate group. Prior to that, she spent 10 years as Vice President of Commercial Real Estate at First Union National Bank. Ms. DeWyngaert received her undergraduate degree from the University of Rochester and her MBA from American University.

Gail E.D. Brathwaite, Executive Vice President and Chief Operating Officer of the Company and the Bank. Ms. Brathwaite joined the Company in April 2013 as Chief Operating Officer with over 30 years of experience in the areas of retail banking, mortgage banking operations, IT, human resources and M&A. Prior to joining the Company, Ms. Brathwaite was President and Chief Executive Officer of G.E.D.B. Consulting, a consulting firm from May 2012 to March 2013. Previously, Ms. Brathwaite was the Executive Vice President and Chief Operating Officer of NewAlliance Bank from 2002 to 2011. Before joining NewAlliance, Ms. Brathwaite was SVP, Director of Branch Administration and Compliance and Loss Control at The Dime Savings Bank in New York. She received her Bachelor of Business Administration degree from Pace University.

Corporate Governance Principles and Board Matters

Our board of directors is committed to developing and maintaining effective, transparent, and accountable corporate governance practices. We have adopted Corporate Governance Guidelines as a set of guiding principles by which govern our affairs and the affairs of the Bank. Our Corporate Governance Guidelines address, among other things, the composition and functions of our board of directors, director independence, compensation of directors, management succession and review, board of director committees and selection of new directors. In addition, our board of directors has adopted a Code of Conduct that applies to all of our directors, officers and employees, as well as a separate Code of Ethics for Principal Executive and Senior Financial Officers, including our Chief Executive Officer and Chief Financial Officer. Upon completion of the offering, our Corporate Governance Guidelines, as well the Code of Conduct and Code of Ethics, will be available on our website. We expect that any amendments to the Code of Ethics, or any waivers of its requirements, will be disclosed on our website, as well as any other means required by the Nasdaq Stock Market rules.

Director Qualifications. We believe the current composition of our board of directors reflects and supports our strategic direction and that our directors bring skills, experience, background and commitment that are relevant to and support our key strategic and operational goals. We seek to continue to strengthen our board of directors when we add new members. Community leadership is an important

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consideration in reviewing and selecting board candidates. Consideration is given to candidates who can provide diversity to our board of directors reflective of the community we serve. Where other criteria in terms of character, skills, experience, track record and commitment are assessed by our Governance Committee, to be equivalent, candidates reflecting such diversity may be given preference. With respect to re-nominations of sitting directors, the Governance Committee and our board of directors considers individual performance as a director and any material changes in the director's professional or job status, or community involvement. The Governance Committee is also guided in this effort by an annual assessment of our directors. A director may not serve on the board of more than four public companies.

We have not adopted a formal policy on diversity. Our board of directors will consider diversity when selecting candidates for future board service. When our board of directors determines there is a need to fill a director position, we begin to identify qualified individuals for consideration. We seek individuals that possess skill sets that a prospective director will be required to draw upon in order to contribute to our board of directors, including professional experience, education, and local knowledge. While education and skills are important factors, we also consider how candidates will contribute to the overall balance of our board of directors, so that we will benefit from directors with different perspectives, varying view points and wide-ranging backgrounds and experiences. We view and define diversity in its broadest sense, which includes gender, ethnicity, education, experience and leadership qualities.

Director Independence. Under the rules of the Nasdaq Stock Market, independent directors must comprise a majority of our board of directors within a specified period of time of this offering. The rules of the Nasdaq Stock Market, as well as those of the SEC, also impose several other requirements with respect to the independence of our directors. Our board of directors has determined that all of our directors except Ms. Patterson are independent for purposes of the Nasdaq Stock Market rules with respect to board of director composition. Shareholders wishing to communicate directly with the independent members of the board of directors may send correspondence to Bankwell Financial Group, Inc., Attn.: Mr. Blake S. Drexler, 220 Elm Street, New Canaan, Connecticut 06840.

Board Leadership. Our board of directors has appointed Mr. Drexler as our Chairman of our board of directors. In prior years, our Chief Executive Officer also served as its Chairman. However, when Mr. Afragola retired as Chief Executive Officer in 2008, we decided that Mr. Drexler, who has over six years' experience serving on our board of directors, was the most suitable person to fill this position. By having another director serve as chairman, Ms. Patterson is able to focus her time on running our operations.

Compensation Committee Interlocks and Insider Participation. Upon closing of this offering, none of the members of our Compensation Committee will be or will have been an officer or employee of the Company or the Bank. In addition, none of our executive officers serves or has served as a member of the board of directors, compensation committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our Compensation Committee.

Risk Oversight. Risk is an inherent part of the business of banking, including credit risk relating to its loans and interest rate risk related to its entire balance sheet. Our board of directors oversees these risks through the adoption of policies and by delegating oversight to certain committees, including the Audit Committee of our board of directors, the Loan Committee, and ALCO. These committees exercise oversight by establishing a corporate environment that promotes timely and effective disclosure, fiscal accountability and compliance with all applicable laws and regulations.

Committees of the Company's Board of Directors

Our board of directors has established standing committees in connection with the discharge of its responsibilities. These committees include the Audit Committee, the Compensation Committee and the Governance Committee. Our board of directors also may establish such other committees as it deems appropriate, in accordance with applicable law and regulations and our corporate governance documents.

Audit Committee. The Audit Committee assists our board of directors in its oversight of our internal accounting and operational controls and regulatory compliance of the Bank. Among other things, the Audit Committee mandates include the following:

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- to assist our board of directors with its oversight of the integrity of our financial statements, financial reporting, processes and systems of internal controls regarding finance, accounting and legal and regulatory compliance;
- to establish qualifications for, select and appoint our independent auditors and internal auditors, pre-approve all audit and non-audit services to be provided, and establish the fees and other compensation to be paid to the independent and internal auditors;
- to oversee and monitor the independence and performance of our independent auditors and internal auditing function;
- to provide oversight of our risk management activities by reviewing the accounting, financial reporting and internal controls practices, as well as the Compliance Policy, Compliance Program and Fair Lending Program of the Bank;
- to establish procedures for the receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters; including confidential, anonymous submissions by employees of concerns regarding accounting, internal controls or