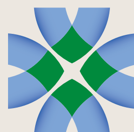

Bankwell
FINANCIAL GROUP

ANNUAL REPORT 2013

FOUR LIKE-MINDED BANKS CAME TOGETHER TO CREATE A HIGH-PERFORMING COMMUNITY BANK THAT ENABLES PEOPLE, BUSINESSES AND COMMUNITIES TO THRIVE.

Bank smart. Bank local. Bank well.

Bankwell was formed with a simple idea – to build on the legacies of four hometown banks and to create a single institution that excels at serving the financial needs of customers and local businesses. Our name represents our unwavering commitment to forge creative, stronger-than-ever ties with our customers, employees, shareholders and communities…so that everyone can *bank well.*

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To our Valued Shareholders,

The year 2013 was a defining and highly productive one for Bankwell, as we unleashed our earnings potential and made great strides toward our goals for growth. We merged our two banks, The Bank of New Canaan and The Bank of Fairfield, completed our first acquisition, and launched our new brand – ***Bankwell.***

We excelled in virtually all aspects of our business in 2013, and I am pleased to report that the Company ended the year with record earnings. Net income increased by $4 million to $5.2 million – a record high – and a 325% increase over net income of $1.2 million at the end of 2012. At year end, assets totaled $780 million, a 28% increase over December 31, 2012; total loans were $632 million, a $102 million increase year-over-year; and deposits grew by 43% to $662 million, up $199 million year-over-year. Along with strong loan growth, our credit quality remained an industry standout.

We continued to invest in our people and our capabilities in 2013. We launched several new business lines, Bankwell Investment Services, and a new suite of Cash Management services. To make banking more convenient for our customers, we were pleased to introduce Mobile Banking, so now you can bank anywhere with us.

In November, we completed our first acquisition, adding The Wilton Bank to the Bankwell family. A natural complement to our footprint, The Wilton Bank brought immediate accretion to our earnings stream. As I write this letter, we recently announced a definitive agreement to acquire Quinnipiac Bank & Trust Company. With their excellent reputation, Quinnipiac Bank & Trust will provide a strong foundation upon which to build our presence in the surrounding New Haven markets.

We attribute this growth to an overwhelming response to the Bank's commitment to provide a private-banking style experience, combined with technology know-how. Bankwell is positioned to succeed. We have the product depth and technology of the big banks, complemented with the personal service of a neighborhood bank.

We have been fortunate to have had the guidance and support of two outstanding Boards of Directors over the last five years, each comprised of local business and community leaders. When we merged our banks in September, we consolidated those boards to create one Bankwell board. I would like to take this opportunity to extend my gratitude to all of the board members

Continued >

"We excelled in virtually all aspects of our business in 2013, and I am pleased to report that the Company ended the year with record earnings."

Peyton R. Patterson

"We are very excited that SNL Financial named Bankwell Financial Group one of its top performing community banks in 2013, ranked #34 of 100 banks nationwide."

Peyton R. Patterson

who served tirelessly during their tenure on our former boards, and also to recognize three Bankwell Financial Group board members who are retiring. We have been especially fortunate to have Merrill Jay Forgotson, Brock Saxe and Hugh Halsell as longstanding key constituents of our organization. They will be missed both personally and professionally.

On April 4, 2014, we filed an S-1 Registration Statement with the Securities and Exchange Commission. The S-1 is for the Company's initial public offering (IPO). Although Bankwell is currently owned by several hundred shareholders, it has never been a "public company" with its securities registered and regular reporting to the SEC. That will change with the IPO. We plan to complete the IPO by the end of May, and expect the process to result in new capital and a broader shareholder base to support our strategic growth plan.

We enter 2014 with continued momentum and energy to make the Company increasingly profitable and successful, as well as relevant to the customers and communities we serve. The response to Bankwell has been very encouraging, and it inspires us to ensure that our current customers continue to *bank well*. With the launch of our new brand and our integration complete, we are focused on performance and growth. We are very excited about the opportunities that lie ahead, including future expansion into new markets and creating value for our shareholders.

I'd like to personally thank our Bankwell employees and directors for the successes of 2013. Very importantly, I'd also like to thank all of the shareholders of Bankwell Financial Group.

Sincerely,

Peyton R. Patterson
President and Chief Executive Officer

Peyton R. Patterson (center) with Michele Johnson, Ernest J. Verrico, Gail E.D. Brathwaite, Heidi DeWyngaert, Diane Knetzger, and Christine Chivily (left to right)

Bankwell Financial Group

Executive Management Team

Peyton R. Patterson
President & Chief Executive Officer

Ernest J. Verrico, Sr.
Executive Vice President,
Chief Financial Officer,
Assistant Corporate Secretary

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

Michele Johnson
Vice President,
Chief Risk Officer

Heidi S. DeWyngaert
Executive Vice President,
Chief Lending Officer

Diane Knetzger
Senior Vice President,
Director of Marketing

Christine Chivily
Vice President,
Interim Chief Credit Officer

Bankwell Financial Group Financial Highlights

(dollars in 000's except per share data)

	December 31,				
	2013	2012	2011	2010	2009
STATEMENT OF CONDITION					
Total assets	$779,618	$610,016	$477,355	$395,708	$328,160
Gross portfolio loans	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
STATEMENT OF INCOME AND EXPENSE					
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
Noninterest income	4,722	345	1,134	1,695	896
Noninterest expenses	22,119	17,858	14,601	13,331	10,555
Income (loss) before income tax or benefit	7,345	1,871	3,201	721	(1,101)
Net income (loss)	5,161	1,214	2,204	507	(830)
Basic earnings (loss) per common share	1.46	0.39	0.72	0.10	(0.51)
Diluted earnings (loss) per common share	1.44	0.38	0.71	0.09	(0.50)
FINANCIAL RATIOS					
Tier I capital (1)					
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 I risk-based capital (1)					
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 risk-based capital (1)					
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%
Net interest margin, tax equivalent basis	3.94%	4.11%	4.27%	4.12%	3.73%
Return on average assets	0.77%	0.22%	0.50%	0.14%	-0.29%
Return on average equity	8.17%	2.40%	5.03%	1.33%	-2.47%
Allowance for loan losses to total loans	1.33%	1.50%	1.74%	1.87%	1.70%
Nonperforming assets to total assets	0.23%	0.81%	0.78%	0.57%	0.75%

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

2013 Overview

Financial Results

2013 was a transformational year for Bankwell, as we continued our high-growth organic strategy and completed our first acquisition of The Wilton Bank. Bankwell Financial Group ended the year with assets totaling $780 million, a 28% increase over December 31, 2012, and an increase in net income of 325% year-over-year, to $5.2 million, versus $1.2 million at the end of 2012.

We continued to demonstrate strong revenue growth, which totaled $30.0 million at year-end 2013, up $8.4 million or 39% over revenue of $21.6 million at year-end 2012. At December 31, 2013, non-interest income represented 16% of total revenue, versus 2% at the end of the previous year, the increase a result of gains on sales of loans, depositor service charge income and The Wilton Bank acquisition. Our net interest margin remained an industry standout at 3.94%.

We maintained our momentum of strong loan growth in 2013, which totaled $632 million at year-end – a $102 million or 19% increase over December 31, 2012. Superior credit quality remained a benchmark of our performance in 2013, with NPAs at a year-end low of .23%. Maintaining strong credit quality and consistent underwriting standards are at the heart of what sets us apart from our competitors. Our vigilance for underwriting, combined with rigorous account monitoring throughout the economic cycle, make us one of the nation's top financial institutions for credit quality.

In addition to our focus on Commercial Real Estate, we strengthened our commitment to Commercial and Industrial lending during 2013. We hired two new C&I lenders and implemented a full SBA lending program to include providing 504 and 7A loans.

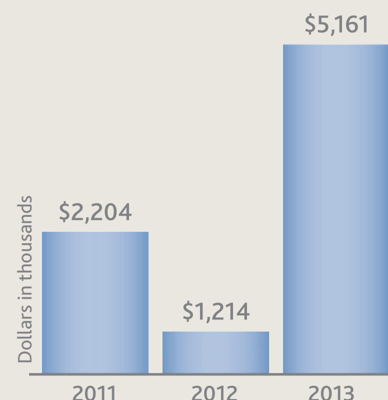
Deposit growth was strong, as deposits increased 43% to $662 million at December 31, 2013, up $199 million year-over-year. This growth was the result of strong performance in each of the markets we serve, as well as The Wilton Bank acquisition. We attribute this success to an overwhelming response to the Bank's commitment to provide a private-banking style experience, technology know-how and active support in our communities.

Rigorous expense management is, of course, the other part of the earnings formula. Last year we reduced non-interest expenses for the year, exclusive of merger expenses related to the acquisition of The Wilton Bank. Our efficiency ratio for 2013 was 75.72%, down from 82.76% in 2012.

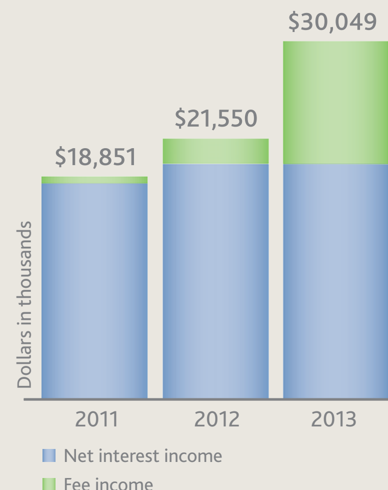
Capital Growth

To continue our strategic growth, whether organic or through acquisition, we need sufficient capital to fund our expansion. On April 4, 2014, we filed an S-1 Registration Statement with the Securities and Exchange Commission. The S-1 is for the Company's initial public offering (IPO). Although Bankwell is currently owned by several hundred shareholders, it has never been a "public company" with its securities registered, and regular reporting to the SEC. That will change

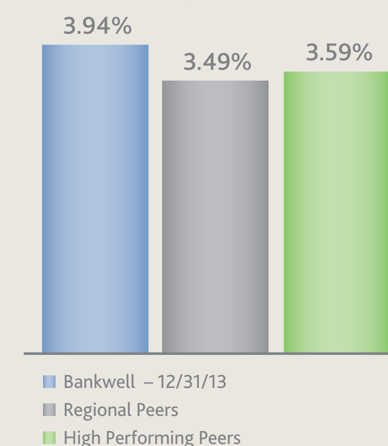
Net Income Increased 325%



Revenues Increased 39%

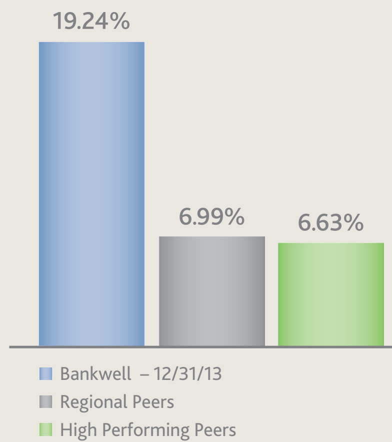


Net Interest Margin vs. Peers*

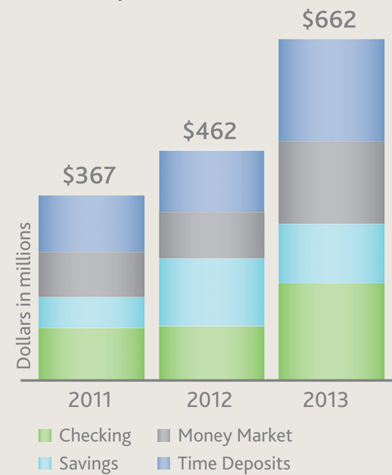


*Source: Thomson Reuters Bank Insight, 2014
Regional Peer Group includes all publicly traded banks and bank holding companies with total assets between $200 million and $1 billion as of 9/30/2013 headquartered in the states of CT, MA, NJ, NY and RI. Regional High Performing peer groups include those members of the Regional Peer Group that also fell within the 75th percentile in terms of return on average equity for the nine months ended 9/30/2013.

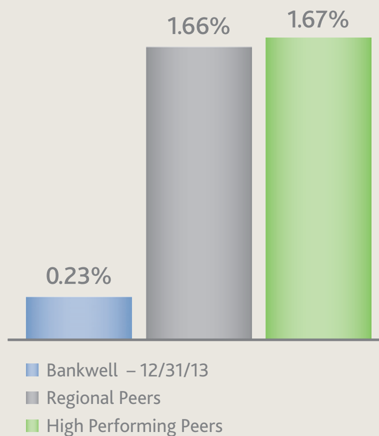
Loan Growth vs. Peers*



Record Deposit Growth



NPAs/Total Assets vs. Peers*



*Source: Thomson Reuters Bank Insight, 2014
Regional Peer Group includes all publicly traded banks and bank holding companies with total assets between $200 million and $1 billion as of 9/30/2013 headquartered in the states of CT, MA, NJ, NY and RI. Regional High Performing peer groups include those members of the Regional Peer Group that also fell within the 75th percentile in terms of return on average equity for the nine months ended 9/30/2013.

with the IPO. We plan to complete the IPO by the end of May, and expect the process to result in new capital and a broader shareholder base to support our strategic growth plan. (This Report is not an offering of the IPO shares).

Focus on Profitable Growth

Since 2002, The Bank of New Canaan, The Bank of Fairfield and Stamford First Bank have been serving the banking and borrowing needs of individuals and businesses in Fairfield County. Our legacy as the gold standard of community banks has earned us a ranking of the "#1 Community Bank in Connecticut" by the *Commercial Record*. In September 2013, our banks merged to become the holding company Bankwell Financial Group and one bank – Bankwell. We believe this was an important step to create a consistent brand across our six branch locations; leverage our resources, including our $9.1 million lending limit; and maximize efficiencies within our organization.

In November, we completed our acquisition of The Wilton Bank, a like-minded community bank contiguous to our market area. The Wilton Bank merger was immediately accretive to earnings. On April 1, 2014, we announced a definitive agreement to merge with Quinnipiac Bank & Trust Company in Hamden, Connecticut. This acquisition will serve as the foundation for our expansion into New Haven County.

In early 2014, we relocated our Fairfield branches to two brand new locations that provide customers with enhanced facilities, improved parking and drive-up convenience. In August, we plan to open a branch on Westport Avenue in Norwalk, and we project that we will add an additional branch in Fairfield County in the fourth quarter of 2014.

Investing in Our Franchise

People and Capabilities

Fairfield County is a highly competitive marketplace and every day we are up against some of the largest banks in the country as well as small community banks. It is a dynamic growth area for small to medium sized businesses. That being said, we rank in the top ten for deposit share in each market we serve, and rose to a position of 13th from 17th overall in Fairfield County as reported in the FDIC's annual market share report.

2013 was a year in which we made significant investments in both our people and capabilities. We launched a new platform of online services for individuals and businesses, which includes mobile banking and a full suite of cash management services to help businesses efficiently manage their finances and maximize cash flow. We also upgraded to a new core system.

To complement our full range of deposit products and services, we launched Bankwell Investment Services in October 2013, with an investment services firm,

Kingston Wealth Management Group, LLC, and a broker/dealer, Investacorp, Inc. Our two new Financial Consultants provide local consumers and businesses with a diverse offering of insurance products, portfolio and wealth management services and more.

Investing in our franchise is an important element of "building a better bank" for our customers and employees. Our team is one of the best in banking and they are why we will continue to deliver on the promise of this institution.

Community Commitment

As a community bank, we have a shared stake in the local economy, business environment and overall quality of life. We see how community involvement is not only good for the community but also good for business. We have seen the difference that one institution can make – in a child's life, for a family, across a neighborhood and more.

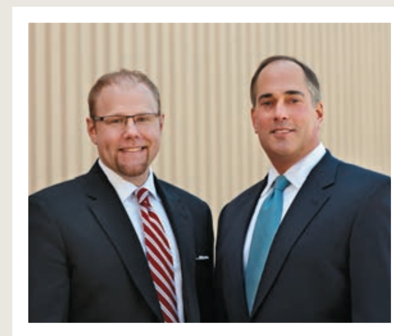
To say we are a community bank is saying that the people who work here live in the same cities and towns as our customers. It means that the bankers who evaluate and make a decision about a loan application will know firsthand where that business is located. And it means that we understand how the local economy, business environment and overall quality of life impacts individuals and small businesses alike.

You see the evidence of our commitment to community in how we make decisions, in our nimbleness and responsiveness and how we conduct ourselves every day. We give practical and meaningful support to organizations across our marketplace.

Our connection to our communities puts both our resources and imagination to work. We begin with friendly, private banking style service, local decision making and a genuine and tangible commitment to our communities. Our communities trust this commitment to be accountable and generous in supporting local development and social programs that can enhance the quality of life in our neighborhoods.

Bankwell is that kind of institution. We have big goals and big ideas to achieve them. When we find a situation in which we can make a difference, we find several ways to help. Bankwell is committed to nurture and support organizations that serve the people of Connecticut, and we are actively involved in mentoring, volunteering or providing financial support to more than 120 organizations.

In every aspect of our business, we have made managing risk an enterprise-wide effort and the bedrock of our culture.



Top: Shelly Hirn, Director of Cash Management Services (left) and Branch Manager Elizabeth Buzzeo with Chris West of West Construction

Center: Bankwell Investment Services Financial Consultants Louis J. Czerwinski (left) and Stephen Greenhut

Bottom: Top performers Bob Hagan, Vicky Maccaro and Jeff Ruden are recognized for their accomplishments in 2013.

Thriving Assets: Our People and our New Brand

In 2013, we combined our banks – The Bank of New Canaan, The Bank of Fairfield and Stamford First Bank – and acquired a neighboring bank, The Wilton Bank. As we brought these four entities together, we thought long and hard about how we wanted to position ourselves for the future. We wanted a brand that reflected our core values, highlighted our differentiation, and provided a platform for growth and expansion. We want to be a bank where our customers, staff and communities prosper and consistently have a positive banking experience – where they can ***bank well.***

The name **Bankwell** was introduced across all our markets in early September 2013, including advertising and direct communication with customers during the period of integration, and new signage and interiors at our branch and ATM sites. We worked closely with our communities and municipal officials to reassure them that our community character and commitments would be strengthened by our merger. At the heart of our new identity is a tagline that sums up what we want customers to experience…

Bank smart, bank local, bank well.

We think we will succeed and grow as a leading community bank because our focus is on the human dimension of the banking relationship.

Employee pride in "living the brand"

Our employees played a key role in developing the Bankwell brand, and we recognized that it is their pride and enthusiasm that delivers on our brand promise each day. To generate awareness and align employees with our vision, we established the "Well Done" awards for those employees who stand out for their excellence in living the brand. We believe that the quality of our team and the seamless delivery of our products and services are the best way to leverage our strengths and communicate our new brand.

How a local company found their niche… and the taste of success!

“Being able to work so closely with a bank that really understands our needs for our business – as well as share our vision for the company – is extremely important to us.”

Debra Ponzek and Greg Addonizio
Co-owners, Aux Délices

Aux Délices is the brainchild of husband and wife team Greg Addonizio and Debra Ponzek. The couple opened their first store in Riverside, Connecticut in 1995, and the opening was warmly welcomed by a clientele seeking finely crafted specialty foods and freshly baked desserts. “Greg and I really love the idea of making peoples’ lives easier by providing healthy convenient food for our customers to take home,” said Debra. Following the success of the Riverside store, Debra and Greg established a second location in downtown Greenwich in 2000, a Darien shop in 2004, and a Westport location in 2012.

Aux Délices has had their business checking account with Bankwell for years, and Bankwell has also provided financing and a line of credit for Greg and Debra to expand their franchise over the years, most recently to support their expansion into Westport. “Being able to work so closely with a bank that really understands our needs for our business – as well as share our vision for the company – is extremely important to us,” says Debra.

“Greg and I look forward to continuing our partnership with Bankwell. With their history of supporting local entrepreneurial businesses, we are confident they will strengthen our business in the years to come. “

Helping a new customer take his business to the next level.

Elvex Corporation is a leading designer and manufacturer of quality safety equipment solutions, headquartered in Bethel, Connecticut. For 35 years, the company has provided a broad range of safety products including safety eyewear, head, face, hearing protection as well as a full line of chain saw protective clothing to millions of workers in a variety of businesses that include mining, construction, forestry, chemical, manufacturing, and more. Elvex products are sold by hundreds of distributors in the United States and distributed in 60 countries throughout the world.

Elvex president, Jeff Begoon acquired 50% of Elvex in 2010, and he was looking for a bank to work with him to acquire the balance of the company in 2012. He put the credit facility out to bid with some major money center banks and also with Bankwell, who he had heard was "very user-friendly, and quite flexible."

"After outlining the company situation and basic terms of the loans we were seeking with the bank president and senior lending officer," Jeff says, "we all agreed that the bank would be a perfect fit for Elvex. After verifying the financial information and company operations during an expedited due diligence period, the bank agreed to provide the financing for the acquisition."

"It was extremely refreshing to find a local banker who understands entrepreneurs and middle-market business owners," says Jeff, "If there is any way a bank can simplify or streamline the lending process, it basically makes the choice easy. It's great to have a local banker who understands and believes in what you are doing and invests in you to help you move the company forward."

"It was extremely refreshing to find a local banker who understands entrepreneurs and middle-market business owners."

Jeff Begoon
President, Elvex

We've made it our business to invest in the power of education.

"We came to Bankwell looking for a checking account, and we got a financial, strategic and community partner."

Clif McFeely
Founder and CEO, Future 5

In 2009, Clif McFeely founded *Future 5* and began to attract supporters and volunteers who all shared a simple vision: that all of Stamford's high school students should be connected to their full life's potential, regardless of income or family circumstances. *Future 5's* mission connects these students to a better education and career path, as well as a life-altering network of ongoing support. The *Future 5* program strengthens a student's self-esteem through character-building workshops, college and job preparation programs, and one-on-one coaching, so that students develop the motivation and a game-plan for achievement in school and life.

"We came to Bankwell looking for a checking account, and we got a financial, strategic and community partner," notes McFeely. "In the beginning, Bankwell provided mentoring and financial support. Then Bankwell hired one of our students, who has thrived as a result of the career opportunity the bank provided and is now pursuing an Associate's Degree at Norwalk Community College. Most recently, Bankwell has aligned with *Future 5* as a strategic partner, helping us plan for our next phase of growth."

In the words of McFeely, "When I look around at what we've built, I see an excitement for learning and growth that is electric. I can feel the students' excitement. Being able to offer such a wide range of opportunities to our students is an amazing gift, and I am appreciative to all our supporters in the community for helping it grow."

Bankwell Financial Group

Board of Directors

Blake Drexler
Chairman
Partner
Five Mile Ventures
Rowayton, CT

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

Frederick Afragola
Chairman Emeritus
Founder
Frame Advisors
New Canaan, CT

George Bauer
Retired
Wilton, CT

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

Eric Dale
Partner
Robinson & Cole, LLP
Stamford, CT

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

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

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

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

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

Victor Liss
Retired
Stratford, CT

Peyton R. Patterson
President & Chief
Executive Officer
Bankwell Financial Group

We extend a heartfelt thanks to our recently retired Directors

Hugh Halsell
Brotherhood & Higley
Real Estate
New Canaan, CT

Merrill Jay Forgotson
Retired
Westport, CT

T. Brock Saxe
Chairman
Tombrock Corporation
New Canaan, CT

WHITTLESEY & HADLEY, P.C.

Certified Public Accountants/Consultants

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Hartford, Connecticut 06103-3509

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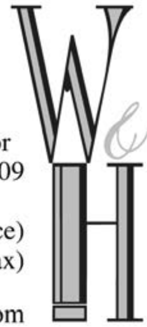

REPORT OF INDEPENDENT AUDITORS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Bankwell Financial Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of Bankwell Financial Group, Inc. and subsidiaries at December 31, 2013 and 2012, and the results of its operations and its cash flows for the each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Whittlesey & Hadley, P.C.

Hartford, Connecticut
March 25, 2014

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

(Dollars in thousands, except share data)

	December 31,	
	2013	2012
ASSETS		
Cash and due from banks (Note 3)	$ 82,013	$ 28,927
Held to maturity investment securities, at amortized cost (Note 6)	13,816	5,354
Available for sale investment securities, at fair value (Note 6)	28,597	41,058
Loans held for sale	100	-
Loans receivable (net of allowance for loan losses of $8,382 and $7,941 at December 31, 2013 and 2012, respectively) (Notes 7 and 18)	621,830	520,792
Foreclosed real estate	829	962
Accrued interest receivable	2,360	2,109
Federal Home Loan Bank stock, at cost (Note 10)	4,834	4,442
Premises and equipment, net (Note 8)	7,060	2,518
Bank-owned life insurance	10,031	-
Other intangible assets	481	-
Deferred income taxes, net (Note 12)	5,845	2,798
Other assets	1,822	1,056
Total assets	$ 779,618	$ 610,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits (Note 9)		
Noninterest bearing deposits	$ 118,618	$ 78,120
Interest bearing deposits	542,927	383,961
Total deposits	661,545	462,081
Advances from the Federal Home Loan Bank (Note 10)	44,000	91,000
Accrued expenses and other liabilities	4,588	5,401
Total liabilities	710,133	558,482
Commitments and contingencies (Note 11)		
Stockholders' equity (Notes 2, 14 and 17)		
Preferred stock, senior noncumulative perpetual, Series C, no par; 10,980 shares issued at December 31, 2013 and 2012, respectively; liquidation value of $1,000 per share	10,980	10,980
Common stock, no par value; 10,000,000 shares authorized, 3,876,393 and 2,846,700 shares issued at December 31, 2013 and 2012, respectively	52,105	38,117
Retained earnings	5,976	926
Accumulated other comprehensive income - net unrealized gains on available for sale securities, net of taxes	424	1,511
Total stockholders' equity	69,485	51,534
Total liabilities and stockholders' equity	$ 779,618	$ 610,016

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2013, 2012 and 2011

(Dollars in thousands, except per share amounts)

	December 31,		
	2013	2012	2011
Interest income			
Interest and fees on loans	$ 26,599	$ 22,329	$ 17,621
Interest and dividends on securities	1,409	2,033	2,919
Interest on cash and cash equivalents	84	35	47
Total interest income	28,092	24,397	20,587
Interest expense			
Interest expense on deposits	2,233	2,367	2,023
Interest on Federal Home Loan Bank advances	532	825	847
Total interest expense	2,765	3,192	2,870
Net interest income	25,327	21,205	17,717
Provision for loan losses	585	1,821	1,049
Net interest income after provision for loan losses	24,742	19,384	16,668
Noninterest income			
Gains and fees from sales of loans	2,020	18	547
Gain on bargain purchase	1,333	-	-
Net gain (loss) on sale of available for sale securities	648	(18)	250
Service charges and fees	495	345	337
Gain on sale of foreclosed real estate, net	63	-	-
Other	163	-	-
Total noninterest income	4,722	345	1,134
Noninterest expense			
Salaries and employee benefits	11,565	9,426	8,506
Occupancy and equipment	3,707	3,004	2,428
Professional services	1,595	1,546	715
Data processing	1,333	1,202	865
Marketing	928	333	342
Merger and acquisition related expenses	908	-	-
FDIC insurance	333	365	472
Director fees	304	366	288
Amortization of intangibles	18	-	-
Foreclosed real estate	7	9	-
Other	1,421	1,607	985
Total noninterest expense	22,119	17,858	14,601
Income before income tax expense	7,345	1,871	3,201
Income tax expense	2,184	657	997
Net income	$ 5,161	$ 1,214	$ 2,204
Preferred stock dividends	(111)	(132)	(206)
Net income attributable to common stockholders	$ 5,050	$ 1,082	$ 1,998
Earnings per common share - basic	$ 1.46	$ 0.39	$ 0.72
Earnings per common share - diluted	1.44	0.38	0.71

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	December 31,		
	2013	2012	2011
Net income	$ 5,161	$ 1,214	$ 2,204
Net unrealized holding (loss) gain on available for sale securities during the period	(1,129)	1,130	1,272
Reclassification adjustment for (gain) loss realized in income	(648)	18	(250)
Net change in unrealized (loss) gain	(1,777)	1,148	1,022
Tax effect	690	(447)	(397)
Other comprehensive income	(1,087)	701	625
Total comprehensive income	$ 4,074	$ 1,915	$ 2,829

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	Preferred Stock	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2011	$ 5,037	$ 37,286	$ (2,154)	$ 185	$ 40,354
Net income	-	-	2,204	-	2,204
Other comprehensive income, net of tax	-	-	-	625	625
Issuance of Series C preferred stock	10,980	-	-	-	10,980
Redemption of Series A preferred stock	(4,797)	-	-	-	(4,797)
Redemption of Series B preferred stock	(240)	-	-	-	(240)
Preferred stock dividends	-	-	(206)	-	(206)
Stock based compensation expense	-	250	-	-	250
Capital from exercise of stock options	-	18	-	-	18
Balance at December 31, 2011	10,980	37,554	(156)	810	49,188
Net income	-	-	1,214	-	1,214
Other comprehensive income, net of tax	-	-	-	701	701
Preferred stock dividends	-	-	(132)	-	(132)
Stock based compensation expense	-	563	-	-	563
Balance at December 31, 2012	10,980	38,117	926	1,511	51,534
Net income	-	-	5,161	-	5,161
Other comprehensive loss, net of tax	-	-	-	(1,087)	(1,087)
Preferred stock dividends	-	-	(111)	-	(111)
Stock based compensation expense	-	343	-	-	343
Capital from exercise of stock options	-	467	-	-	467
Capital from private placement	-	13,178	-	-	13,178
Balance at December 31, 2013	$ 10,980	$ 52,105	$ 5,976	$ 424	$ 69,485

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities			
Net income	$ 5,161	$ 1,214	$ 2,204
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums and discounts on investment securities	97	130	126
Provision for loan losses	585	1,821	1,049
Benefit from deferred taxes	(357)	(777)	(404)
Net (gain) loss on sales of available for sale securities	(648)	18	(250)
Depreciation and amortization	666	612	541
Loan principal sold	(72,589)	(575)	(46,035)
Proceeds from sales of loans	74,509	1,765	48,823
Net gain on sales of loans	(2,020)	(18)	(547)
Equity-based compensation	343	563	250
Net amortization (accretion) of purchase accounting adjustments	(80)	-	-
Gain on sale of foreclosed real estate	(63)	-	-
Gain on bargain purchase	(1,333)	-	-
Net change in:			
Deferred loan fees	479	539	344
Accrued interest receivable	(185)	206	(745)
Other assets	(502)	(1,432)	274
Accrued expenses and other liabilities	(1,114)	4,101	835
Net cash provided by operating activities	2,949	8,167	6,465
Cash flows from investing activities			
Proceeds from principal repayments on available for sale securities	723	1,103	1,143
Proceeds from principal repayments on held to maturity securities	180	480	233
Net proceeds from sales and calls of available for sale securities	10,514	54,973	31,979
Purchases of available for sale securities	-	(6,997)	(69,026)
Purchase of held to maturity securities	(7,623)	-	-
Purchase of bank-owned life insurance	(10,031)	-	-
Acquisition, net of cash paid	30,883	-	-
Net increase in loans	(77,004)	(162,026)	(80,704)
Purchases of premises and equipment	(908)	(684)	(96)
Purchase of Federal Home Loan Bank stock	(134)	(1,034)	(84)
Proceeds from sale of foreclosed real estate	1,693	-	-
Net cash used by investing activities	(51,707)	(114,185)	(116,555)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS- *(Continued)*

For Years Ended December 31, 2013, 2012 and 2011

(In thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from financing activities			
Net change in time certificates of deposit	$ 66,538	$ (230)	$ (1,265)
Net change in other deposits	68,772	95,216	59,243
Net (repayments) proceeds from short term FHLB advances	(47,000)	33,000	14,000
Proceeds from issuance of Series C preferred stock	-	-	10,980
Redemption of Series A preferred stock	-	-	(4,797)
Redemption of Series B preferred stock	-	-	(240)
Proceeds from issuance of common stock	13,178	-	-
Exercise of options	467	-	18
Dividends paid on preferred stock	(111)	(132)	(206)
Net cash provided by financing activities	101,844	127,854	77,733
Net increase (decrease) in cash and cash equivalents	53,086	21,836	(32,357)
Cash and cash equivalents:			
Beginning of year	28,927	7,091	39,448
End of period	$ 82,013	$ 28,927	$ 7,091
Supplemental disclosures of cash flows information:			
Cash paid for:			
Interest	$ 2,527	$ 3,208	$ 2,952
Income taxes	2,872	1,984	866
Acquisition of noncash assets and liabilities:			
Assets acquired	34,869	-	-
Liabilities assumed	(64,446)	-	-
Noncash investing and financing activities			
Loans transferred to foreclosed real estate	52	962	-

See notes to consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Bankwell Financial Group, Inc. (the "Company" or "Bankwell") is a federally-chartered bank-holding company located in New Canaan, Connecticut. The Company offers a broad range of financial services through its banking subsidiary, Bankwell Bank, (the "Bank"). Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan ("BNC") and The Bank of Fairfield ("TBF"). In September 2013, The Bank of New Canaan and The Bank of Fairfield were merged and rebranded as "Bankwell Bank." In November 2013, the Bank acquired The Wilton Bank, which added one branch and approximately $25.1 million in loans and $64.2 million in deposits. See Note 4, *Mergers and Acquisitions*, for further information on the acquisition.

The Bank is a Connecticut state charted commercial bank, founded in 2002, whose deposits are insured under the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank provides a full range of banking services to commercial and consumer customers, primarily concentrated in the Fairfield County region of Connecticut, with branch locations in New Canaan, Stamford, Fairfield, and Wilton, Connecticut.

Basis of consolidated financial statement presentation

The consolidated financial statements as of and for the years ending December 31, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. Such policies have been followed on a consistent basis.

Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through March 25, 2014, the date upon which the Company's consolidated financial statements were available to be issued. No subsequent events were identified that would have required a change to the consolidated financial statements or disclosure in the notes to the consolidated financial statements, other than as disclosed in Note 19, *Subsequent Events*.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to deferred taxes, the fair values of financial instruments and the determination of the allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions.

Principles of consolidation

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

Significant concentrations of credit risk

Most of the Company's activities are with customers located within Fairfield County and the surrounding region of Connecticut, and declines in property values in these areas could significantly impact the Company. The Company has significant concentrations in commercial real estate. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.

Cash and cash equivalents and statement of cash flows

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

Investment securities

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

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

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

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

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

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

Bank owned life insurance

The investment in bank owned life insurance ("BOLI") represents the cash surrender value of life insurance policies on the lives of certain Bank employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income, and are not subject to income taxes. The financial strength of the insurance carrier is reviewed prior to the purchase of BOLI and annually thereafter.

Federal Home Loan Bank stock

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

Loans held for sale

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

Loans may be sold with servicing rights released or retained. At the time of the sale, management determines the value of any retained servicing rights, which represents the present value of the differential between the contractual servicing fee and adequate compensation, defined as the fee a sub-servicer would require to assume the role of servicer, after considering the estimated effects of prepayments. If material, a portion of the gain on the sale of the loan is recognized as due to the value of the servicing rights, and a servicing asset is recorded.

Loans receivable

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

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

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

Modifications to a loan are considered to be a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. Debt may be bifurcated with separate terms for each tranche of the restructured debt. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

If a performing loan is restructured into a TDR it remains in performing status. If a nonperforming loan is restructured into a TDR, it continues to be carried in nonaccrual status. Initially, all TDRs are reported as impaired. Nonaccrual classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months. TDR's are reported as such for at least one year from the date of restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring and the loan is not deemed to be impaired based on the modified terms.

Appraisals for real estate collateral dependent loans are obtained from independent third parties on whom we review their professional qualifications on an annual basis. Updated appraisals are obtained when a loan is in the process of collection, which is typically when the loan changes to nonaccrual status, or when warranted by other deterioration in the borrower's credit status. A large portion of our real estate loan portfolio has been originated in past four years, thereby reflecting post 2008 financial crisis market values. If necessary, and taken in conjunction with other credit factors, adjustments are made to appraisal values when determining our allowance for loan losses.

Acquired loans

Loans that the Company acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves 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.

For loans which meet the criteria stipulated in Accounting Standards Codification ("ASC") 310-30, "*Loans and Debt Securities Acquired with Deteriorated Credit Quality,*" the Company recognizes an accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. After the initial acquisition, the Company continues to evaluate whether the timing and the amount of cash to be collected are reasonably estimated. Subsequent significant increases in cash flows the Company expects to collect will first reduce previously recognized valuation allowance and then be reflected prospectively as an increase to the level yield. Subsequent decreases in expected cash flows may result in the loan being considered impaired. Interest income is not recognized to the extent that the net investment in the loan would increase to an amount greater than the estimated payoff amount.

For ASC 310-30 loans, the expected cash flows reflect anticipated prepayments, determined on a loan by loan basis, according to the anticipated collection plan of these loans. Prepayments result in the recognition of the nonaccretable balance as current period yield. Changes in prepayment assumptions may change the amount of interest income and principal expected to be collected. The expected prepayments used to determine the accretable yield are consistent between the cash flows expected to be collected and projections of contractual cash flows so as to not affect the nonaccretable difference.

For loans that do not meet the ASC 310-30 criteria, the Company accretes interest income on a level yield basis using the contractually required cash flows. The Company subjects loans that do not meet the ASC 310-30 criteria to ASC Topic 450, "Contingencies", by collectively evaluating these loans for an allowance for loan loss, using the same methodology as loans originated by the Company.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. The Company has determined that it can reasonably estimate future cash flows on the Company's current portfolio of acquired loans that are past due 90 days or more, and on which the Company is accruing interest and the Company expects to fully collect the carrying value of the loans.

Allowance for loan losses

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

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

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

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

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

Interest and fees on loans

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

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

Foreclosed real estate

Assets acquired through deed in lieu or loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation and amortization is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from 3 to 39 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

Income taxes

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

Related party transactions

The Company's Directors, Officers and their affiliates have been customers of and have had transactions with the Banks, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposits accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other customers who are not Directors or Officers.

Stock compensation

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

Earnings per share

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings. Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered to participate with common stock in undistributed earnings for purposes of computing EPS.

The Company's unvested restricted stock awards are participating securities, and therefore, are included in the computation of both basic and diluted earnings per common share. EPS is calculated using the two-class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

Comprehensive income

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

Fair values of financial instruments

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

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

Investment securities: Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The fair value of securities is further classified in accordance with the framework specified in GAAP as discussed in Note 16, *Fair Value Measurements*.

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

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

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

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

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

Recent accounting pronouncements

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

Accounting Standards Update No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure ("ASU 2014-04)

The Update clarifies that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. Management does not believe the amendments will have a material impact on the Company's Consolidated Financial Statements.

Accounting Standards Update No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11")

This Update states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in ASU 2013-11 are effective for nonpublic entities for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. Management does not expect the implementation of this update to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2013-10, Derivatives and Hedging (Topic 815), Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes ("ASU No. 2013-10")

This Update permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. Prior to the amendments in this ASU, only U.S. Treasury and the LIBOR swap rates were considered benchmark interest rates. Including the Fed Funds Effective Swap Rate (OIS) as an acceptable U.S. benchmark interest rate in addition to U.S. Treasury and LIBOR rates provides a more comprehensive spectrum of interest rates to be utilized as the designated benchmark interest rate risk component under the hedge accounting guidance. The amendments in ASU 2013-10 are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Management does not expect the implementation of this update to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2013-02 - Other Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02")

In February 2013, the FASB issued ASU 2013-02, to supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011). The amendments require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments in ASU 2013-02 are effective prospectively for nonpublic entities for reporting periods beginning after December 15, 2013. Management does not expect the implementation of this update to have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2011-11 - Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11")

In December 2011, the FASB issued ASU 2011-11, enhancing disclosures about offsetting assets and liabilities by requiring improved information about financial instruments and derivative instruments that are either: (1) offset in accordance with certain rights to set off conditions prescribed by current accounting guidance; or (2) subject to an enforceable master netting agreement or similar agreement, irrespective of whether they are offset in accordance to current accounting guidance. The amendments in ASU No. 2011-11 were effective for annual reporting periods beginning on or after January 1, 2013. This information will enable users of an entity's financial statements to evaluate the effects or potential effects of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The implementation of this update did not have a material effect on the Company's consolidated financial statements.

Reclassification

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

2. PREFERRED AND COMMON STOCK

Preferred stock

On February 27, 2009, the Company entered into a Letter Agreement, including a Securities Purchase Agreement (together, the "Purchase Agreement"), with the United States Department of the Treasury (the "Treasury") pursuant to which the Company issued and sold to the Treasury 4,797 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par (the "Series A Preferred Stock"), with a liquidation preference of $1,000 per preferred share, for a total purchase price of $4.8 million and a warrant (the "Warrant") to purchase 240 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, no par (the "Series B Preferred Stock"), with a liquidation preference of $1,000 per preferred share, at an exercise price of $.01. The Warrant had a ten-year term and was immediately exercisable. Immediately following the issuance of the Series A Preferred Stock and the Warrant, the Treasury exercised its rights under the Warrant to acquire 240 shares of the Series B Preferred Stock through a cashless exercise.

The Company allocated the $4.8 million in proceeds received from the Treasury between Series A Preferred Stock and Series B Preferred Stock, assuming that the Preferred Stock would be replaced with a qualifying equity offering and the Preferred Stock would therefore be redeemed at the end of five years. The allocation was recorded assuming a discount rate of 12% on the cash flows of each instrument. The allocation of the proceeds was $4.5 million for Series A Preferred Stock and $291 thousand for Series B Preferred Stock, for total proceeds of $4.8 million. The Series A Preferred Stock and the Series B Preferred Stock were fully amortized and accreted during the year ended December 31, 2009.

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

In 2011, the Company elected to participate in Treasury's Small Business Lending Fund Program ("SBLF"). The SBLF is a $30 billion fund established under the Small Business Jobs Act of 2010 to encourage lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. The SBLF is intended to expend the ability to lend to small businesses, in order to help stimulate the economy and promote job growth.

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

The Series C Preferred stock pays noncumulative dividends. The dividend rate on the Series C Preferred Stock for the initial ten quarterly dividend periods, commencing with the period ended September 30, 2011 and ending with the period ended December 31, 2013, is determined each quarter based on the increase in the Banks' Qualified Small Business Lending over a baseline amount. The Company has paid dividends at a rate of 1.0% since issuance. For the eleventh quarterly dividend payment through four and one-half years after its issuance, the dividend rate on the Series C Preferred Stock will be fixed at the rate in effect at the end of the ninth quarterly dividend period. In the second quarter of 2016, four and one-half years from its issuance, the dividend rate will be fixed at 9.0% per annum.

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

Common stock

On March 23, 2007, BNC completed a secondary offering, begun in October 2006, and raised a total of $15.5 million ($15.4 million, net of expenses). The purpose of the offering was to capitalize the Company and through it, capitalize TBF during its de novo period, and allow for the continued growth of BNC.

On July 10, 2007, BNC began a Private Placement for the sale of Units similar to those offered in the secondary offering. The purpose of the Private Placement was to attract investors from the Town of Fairfield who would be willing to support TBF during its de novo period. The Private Placement raised a total of $1.7 million ($1.6 million, net of expenses). The net proceeds of these funds were added to the Company's capital in the first quarter of 2008.

For both the 2006 Secondary Offering and the 2007 Private Placement, the Company issued 945,789 units and received $17.2 million in total capital ($17.1 million, net of expenses).

On December 20, 2010, the Company completed a Private Placement for the sale of its common stock. The purpose of the offering was to raise additional capital for future growth. The Company issued 300,321 shares and received $4.2 million in total capital ($4.16 million, net of expenses).

On September 30, 2013, the Company completed a Private Placement for the sale of its common stock, which began in the fourth quarter of 2012, for the purpose of raising additional capital for future growth. On January 11, 2013, the Company issued 527,513 shares and received $7.3 million in total capital ($7.3 million, net of expenses) and on September 30, 2013, the Company issued 370,000 shares and received $6.2 million in total capital ($5.9 million, net of expenses).

Regarding the September 30, 2013 issuance of 370,000 shares, the purchaser executed an agreement that, among other things, provides it with "pre-emptive" rights for a period of three years. This entitles the investor to be afforded the opportunity to acquire from the Company, for the same price and on the same terms as such Company securities are offered, in the aggregate up to the amount of such securities required to enable the investor group to maintain its ownership percentage of Company stock (measured immediately prior to such offering).

Dividends

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

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

For the years ended December 31, 2013, 2012 and 2011, the Company declared and paid cash dividends on preferred stock of $111 thousand, $132 thousand, and $206 thousand, respectively. For the years ended December 31, 2013, 2012 and 2011, the Company did not declare or pay dividends on its common stock. The Company did not repurchase any of its common stock during 2013, 2012 or 2011.

3. Restrictions on Cash and Due from Banks

The Bank is required to maintain $125 thousand in the Federal Reserve Bank for clearing purposes.

4. Mergers and Acquisitions

On November 5, 2013, the Company acquired all of the outstanding common shares of The Wilton Bank ("Wilton"). Wilton was a state chartered commercial bank located in Wilton, Connecticut, which operated as one branch. As a result of the transaction, Wilton merged into Bankwell Bank. This business combination expanded the Bank's presence in Fairfield County and enhanced opportunities for businesses, customer relationships, employees and the communities served by the Bank.

On the acquisition date, Wilton had 372,985 outstanding common shares, net of 108,260 shares of treasury stock, and shareholders' equity of $6.3 million. Wilton shareholders received $13.50 per share resulting in a consideration value of $5.0 million.

The results of Wilton's operations are included in the Company's Consolidated Statement of Income from the acquisition date. The Company recorded merger and acquisition expenses totaling $908 thousand during the year ended December 31, 2013.

The assets and liabilities in the Wilton acquisition were recorded at their fair value based on management's best estimate using information available at the date of acquisition. Consideration paid and fair values of Wilton's assets acquired and liabilities assumed are summarized in the following tables:

Consideration paid: *(In thousands)*	Amount
Cash consideration paid to Wilton shareholders	$ 5,035

Recognized amounts of identifiable assets acquired and (liabilities) assumed: *(In thousands)*	As Acquired	Fair Value Adjustments		As Recorded at Acquisition
Cash	$ 35,919	$ -		$ 35,919
Held to maturity investments securities	1,022	-		1,022
Loans	27,097	(2,008)	a	25,089
Premises and equipment	4,303	-		4,303
Other real estate owned	1,895	(450)	b	1,445
Core deposit intangibles	-	499	c	499
Deferred tax assets, net	-	1,997	d	1,997
Other assets	587	-		587
Deposits	(64,145)	(12)	e	(64,157)
Other liabilities	(336)	-		(336)
Total identifiable net assets	$ 6,342	$ 26		$ 6,368
Gain on purchase				$ (1,333)

Explanation of fair value adjustments:

a) The adjustment represents the write down of the book value of loans to their estimated fair value based on current interest rates and expected cash flows, which includes an estimate of expected loan loss inherent in the portfolio.

b) The adjustment represents the write down of the book value of foreclosed real estate to their estimated fair value based on current appraisals.

c) Represents the economic value of the acquired core deposit base (total deposits less jumbo time deposits). The core deposit intangible will be amortized over an estimated life of 9.3 years based on the double declining balance method of amortization.

d) Represents net deferred tax assets resulting from the fair value adjustments related to the acquired assets and liabilities, identifiable intangibles and other purchase accounting adjustments.

e) The adjustment represents the fair value of time deposits, which were valued at a premium of 0.11% as they bore slightly higher rates than the prevailing market.

Except for collateral dependent loans with deteriorated credit quality, the fair values for loans acquired from Wilton were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. For collateral dependent loans with deteriorated credit quality, to estimate the fair value, the Company analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. Those values were discounted using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. There was no carryover of Wilton's allowance for credit losses associated with the loans that were acquired as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to purchased credit impaired accounting guidance (ASC 310-30) as of November 5, 2013 is, as follows:

(In thousands)	November 5, 2013
Contractually required principal and interest at acquisition	$ 14,528
Contractual cash flows not expected to be collected (nonaccretable discount)	(1,412)
Expected cash flows at acquisition	13,116
Interest component of expected cash flows (accretable discount)	(1,513)
Fair value of acquired loans	$ 11,603

The following table discloses unaudited pro forma supplemental information from the combined results of operations of 2013 and 2012 assuming the acquisition of Wilton had been completed as of January 1, 2012:

	Pro Forma (Unaudited) Twelve Months Ended December 31,	
(In thousands, except per share amounts)	2013	2012
Net interest income	$ 26,456	$ 21,735
Noninterest income	3,758	623
Net income (loss) attributable to common shareholders	3,767	241
Pro forma earnings (loss) per share		
Basic	$ 1.09	$ 0.09
Diluted	$ 1.07	$ 0.08

The unaudited pro forma supplemental information combines the historical results of Bankwell and Wilton. The unaudited pro forma information includes adjustment for scheduled amortization and accretion of fair value adjustments recorded at the time of the merger. These adjustments would have been different if they had been recorded on January 1, 2012. The pro forma income does not indicate what would have occurred had the acquisition taken place on January 1, 2012 and does not indicate expected future results. Operating cost savings and other business synergies expected as a result of the acquisition are not reflected in the pro forma amounts. Non-recurring expenses and income related to the acquisition including professional fees, system conversion and integration costs, as well as the bargain purchase gain are excluded from the 2013 period in which the amounts were recognized. In 2013, non-recurring expenses amounted to $908 thousand, and the bargain purchase gain totaled $1.3 million. Since the acquisition date of November 5, 2013 through December 31, 2013, revenues and earnings recorded by the Company related to the acquired operations approximated $425 thousand and $212 thousand, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

As discussed in Note 4, *Mergers and Acquisitions*, the Company completed its acquisition of The Wilton Bank during the fourth quarter of 2013. 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.

The Company recorded a gain of $1.3 million in conjunction with the acquisition, the amount that the net assets exceeded the amount paid. Therefore, there is no goodwill as of December 31, 2013 as a result of this acquisition. An other intangible asset of $499 thousand was recorded, representing the economic value of the acquired core deposit base.

The following is a summary of other intangible assets at December 31, 2013:

	Gross Intangible Asset	Accumulated Amortization	Net Intangible Asset
		(In thousands)	
December 31, 2013			
Core deposit intangible	$ 499	$ 18	$ 481

The core deposit intangible asset is being amortized over 9.3 years on double declining balance method. Amortization expense for the year ended December 31, 2013 was $18 thousand.

6. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities at December 31, 2013 were as follows:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	$ 1,000	$ -	$ (17)	$ 983
Due from five through ten years	4,997	-	(292)	4,705
	5,997	-	(309)	5,688
State agency and municipal obligations				
Due from five through ten years	3,125	152	-	3,277
Due after ten years	8,480	375	-	8,855
	11,605	527	-	12,132
Corporate bonds				
Due from one through five years	9,166	411	(11)	9,566
Government-sponsored mortgage backed securities	1,133	78	-	1,211
Total available for sale securities	$ 27,901	$ 1,016	$ (320)	$ 28,597
Held to maturity securities:				
U.S. Government and agency obligations				
Due from one through five years	$ 1,021	$ -	$ (2)	$ 1,019
State agency and municipal obligations				
Due after ten years	11,461	-	-	11,461
Corporate bonds				
Due from five through ten years	1,000	-	(27)	973
Government-sponsored mortgage backed securities	334	28	-	362
Total held to maturity securities	$ 13,816	$ 28	$ (29)	$ 13,815

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

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

For the years ended December 31, 2013, 2012 and 2011, the Company realized gross gains of $648 thousand, $76 thousand and $250 thousand from the sales of investment securities, respectively. For the years ended December 31, 2013, 2012 and 2011, gross losses on the sale of investment securities were $0, $95 thousand and $0, respectively. These amounts were reclassified out of accumulated other comprehensive income and included in net income under the line item "net gain (loss) on sale of available for sale securities" in noninterest income.

At December 31, 2013 and 2012, securities with approximate fair values of $6.2 million and $5.0 million, respectively, were pledged as collateral for public deposits.

The following is a summary of the fair value and related unrealized losses of temporarily impaired investment securities, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at December 31, 2013 and 2012:

	Length of Time in Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
December 31, 2013						
U.S. Government and agency obligations	$ 5,797	$ (222)	$ 910	$ (89)	$ 6,707	$ (311)
Corporate bonds	-	-	1,961	(38)	1,961	(38)
Total investment securities	$ 5,797	$ (222)	$ 2,871	$ (127)	$ 8,668	$ (349)
December 31, 2012						
U.S. Government and agency obligations	$ 1,991	$ (8)	$ -	$ -	$ 1,991	$ (8)
Corporate bonds	-	-	1,889	(110)	1,889	(110)
Total investment securities	$ 1,991	$ (8)	$ 1,889	$ (110)	$ 3,880	$ (118)

At December 31, 2013 and 2012, there were eight and four individual investment securities, respectively, in which the fair value of the security was less than the amortized cost of the security. Management believes the unrealized losses are temporary and are the result of recent market conditions, and determined that there has been no deterioration in credit quality subsequent to purchase.

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

7. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans acquired in connection with the Wilton acquisition in 2013 are referred to as "acquired" loans as a result of the manner in which they are accounted for. All other loans are referred to as "originated" loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

The following table sets forth a summary of the loan portfolio at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012
(In thousands)	Originated	Acquired	Total	Total
Real estate loans:				
Residential	$ 155,874	$ -	$ 155,874	$ 144,288
Commercial	305,823	10,710	316,533	284,763
Construction	44,187	7,358	51,545	33,148
Home equity	9,625	4,267	13,892	11,030
	515,509	22,335	537,844	473,229
Commercial business	92,173	1,393	93,566	56,764
Consumer	225	377	602	57
Total loans	607,907	24,105	632,012	530,050
Allowance for loan losses	(8,382)	-	(8,382)	(7,941)
Deferred loan origination fees, net	(1,785)	(31)	(1,816)	(1,338)
Unamortized loan premiums	16	-	16	21
Loans receivable, net	$ 597,756	$ 24,074	$ 621,830	$ 520,792

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

The following table summarizes activity in the accretable yields for the acquired loan portfolio for the year ended December 31, 2013:

(In thousands)	2013
Balance at beginning of period	$ -
Acquisition	1,513
Accretion	(95)
Reclassification from nonaccretable difference for loans with improved cash flows (a)	-
Other changes in expected cash flows (b)	-
Balance at end of period	$ 1,418

Explanation of adjustments:

a) Results in increased interest income as a prospective yield adjustment over the remaining life of the corresponding pool of loans.

b) Represents changes in cash flows expected to be collected due to factors other than credit (e.g. changes in prepayment assumptions and/or changes in interest rates on variable rate loans), as well as loan sales, modifications and payoffs.

Risk management

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

Credit quality of loans and the allowance for loan losses

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

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

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

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

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

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

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

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

Allowance for loan losses

The following tables set forth the balance of the allowance for loan losses at December 31, 2013, 2012 and 2011, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
				(In thousands)				
December 31, 2013								
Originated								
Beginning balance	$ 1,230	$ 3,842	$ 929	$ 220	$ 1,718	$ 2	$ -	$ 7,941
Charge-offs	-	(166)	-	-	-	(4)	-	(170)
Recoveries	-	-	-	-	-	26	-	26
Provisions	80	(60)	103	(30)	507	(15)	-	585
Ending balance	$ 1,310	$ 3,616	$ 1,032	$ 190	$ 2,225	$ 9	$ -	$ 8,382
Acquired								
Beginning balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Ending balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total								
Beginning balance	$ 1,230	$ 3,842	$ 929	$ 220	$ 1,718	$ 2	$ -	$ 7,941
Charge-offs	-	(166)	-	-	-	(4)	-	(170)
Recoveries	-	-	-	-	-	26	-	26
Provisions	80	(60)	103	(30)	507	(15)	-	585
Ending balance	$ 1,310	$ 3,616	$ 1,032	$ 190	$ 2,225	$ 9	$ -	$ 8,382
December 31, 2012								
Beginning balance	$ 1,290	$ 2,519	$ 1,007	$ 274	$ 1,317	$ 11	$ 7	$ 6,425
Charge-offs	(261)	-	(60)	-	-	(5)	-	(326)
Recoveries	-	-	-	-	-	21	-	21
Provisions	201	1,323	(18)	(54)	401	(25)	(7)	1,821
Ending balance	$ 1,230	$ 3,842	$ 929	$ 220	$ 1,718	$ 2	$ -	$ 7,941
December 31, 2011								
Beginning balance	$ 1,053	$ 1,806	$ 951	$ 313	$ 744	$ 20	$ 553	$ 5,440
Charge-offs	-	-	(84)	-	-	-	-	(84)
Recoveries	-	-	-	-	-	20	-	20
Provisions	237	713	140	(39)	573	(29)	(546)	1,049
Ending balance	$ 1,290	$ 2,519	$ 1,007	$ 274	$ 1,317	$ 11	$ 7	$ 6,425

With respect to the originated portfolio, the allocation to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

The following tables are a summary, by portfolio segment and impairment methodology, of the allowance for loan losses and related portfolio balances at December 31, 2013 and 2012:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
			(In thousands)			
December 31, 2013						
Loans individually evaluated for impairment:						
Residential real estate	$ 1,867	$ 73	$ -	$ -	$ 1,867	$ 73
Commercial real estate	1,117	56	-	-	1,117	56
Construction	-	-	-	-	-	-
Home equity	97	4	-	-	97	4
Commercial business	642	12	-	-	642	12
Consumer	-	-	-	-	-	-
Subtotal	$ 3,723	$ 145	$ -	$ -	$ 3,723	$ 145
Loans collectively evaluated for impairment:						
Residential real estate	$ 154,007	$ 1,237	$ -	$ -	$ 154,007	$ 1,237
Commercial real estate	304,706	3,560	10,710	-	315,416	3,560
Construction	44,187	1,032	7,358	-	51,545	1,032
Home equity	9,528	187	4,267	-	13,795	187
Commercial business	91,531	2,212	1,393	-	92,924	2,212
Consumer	225	9	377	-	602	9
Subtotal	$ 604,184	$ 8,237	$ 24,105	$ -	$ 628,289	$ 8,237
Total	$ 607,907	$ 8,382	$ 24,105	$ -	$ 632,012	$ 8,382

	Total	
	Portfolio	Allowance
	(In thousands)	
December 31, 2012		
Loans individually evaluated for impairment:		
Residential real estate	$ 2,137	$ -
Commercial real estate	1,817	249
Construction	-	-
Home equity	-	-
Commercial business	194	9
Consumer	-	-
Subtotal	$ 4,148	$ 258
Loans collectively evaluated for impairment:		
Residential real estate	$ 142,151	$ 1,230
Commercial real estate	282,946	3,593
Construction	33,148	929
Home equity	11,030	220
Commercial business	56,570	1,709
Consumer	57	2
Subtotal	$ 525,902	$ 7,683
Total	$ 530,050	$ 7,941

Credit quality indicators

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

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

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at December 31, 2013 and 2012:

	Commercial Credit Quality Indicators					
	At December 31, 2013			At December 31, 2012		
	Commercial Real Estate	Construction	Commercial Business	Commercial Real Estate	Construction	Commercial Business
	(In thousands)					
Originated loans:						
Pass	$ 304,469	$ 44,187	$ 91,093	$ 282,697	$ 33,148	$ 55,447
Special mention	237	-	438	249	-	1,123
Substandard	1,117	-	642	1,817	-	194
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	305,823	44,187	92,173	284,763	33,148	56,764
Acquired loans:						
Pass	10,351	4,689	825	-	-	-
Special mention	24	161	252	-	-	-
Substandard	335	2,508	316	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	10,710	7,358	1,393	-	-	-
Total	$ 316,533	$ 51,545	$ 93,566	$ 284,763	$ 33,148	$ 56,764

	Residential and Consumer Credit Quality Indicators					
	At December 31, 2013			At December 31, 2012		
	Residential Real Estate	Home Equity	Consumer	Residential Real Estate	Home Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	$ 153,443	$ 9,447	$ 225	$ 142,151	$ 11,030	$ 57
Special mention	2,431	178	-	-	-	-
Substandard	-	-	-	2,137	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	155,874	9,625	225	144,288	11,030	57
Acquired loans:						
Pass	-	4,221	234	-	-	-
Special mention	-	-	143	-	-	-
Substandard	-	46	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	-	4,267	377	-	-	-
Total	$ 155,874	$ 13,892	$ 602	$ 144,288	$ 11,030	$ 57

Loan portfolio aging analysis

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

The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount as of December 31, 2013 and 2012:

As of December 31, 2013	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
			(In thousands)			
Originated Loans						
Real estate loans:						
Residential real estate	$ -	$ -	$ 1,003	$ 1,003	$ 154,871	$ -
Commercial real estate	-	-	-	-	305,823	-
Construction	-	-	-	-	44,187	-
Home equity	-	-	-	-	9,625	-
Commercial business	-	-	-	-	92,173	-
Consumer	-	-	-	-	225	-
Total originated loans	-	-	1,003	1,003	606,904	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	797	797	9,913	797
Construction	-	-	2,508	2,508	4,850	2,508
Home equity	-	-	-	-	4,267	-
Commercial business	-	-	315	315	1,078	315
Consumer	-	-	-	-	377	-
Total acquired loans	-	-	3,620	3,620	20,485	3,620
Total loans	$ -	$ -	$ 4,623	$ 4,623	$ 627,389	$ 3,620

As of December 31, 2012	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
			(In thousands)			
Real estate loans:						
Residential real estate	$ -	$ -	$ 2,137	$ 2,137	$ 142,151	$ -
Commercial real estate	-	-	1,817	1,817	282,946	-
Construction	-	-	-	-	33,148	-
Home equity	-	-	-	-	11,030	-
Commercial business	40	-	-	40	56,724	-
Consumer	-	-	-	-	57	-
Total	$ 40	$ -	$ 3,954	$ 3,994	$ 526,056	$ -

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of December 31, 2013 and 2012:

	December 31,	
	2013	2012
	(In thousands)	
Residential real estate	$ 1,003	$ 2,137
Commercial real estate	-	1,817
Construction	-	-
Home equity	-	-
Commercial business	-	-
Total	$ 1,003	$ 3,954

The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled $23 thousand, $276 thousand and $133 thousand, respectively for the years ended December 31, 2013, 2012 and 2011. The amount of actual interest income recognized on these loans was $8 thousand, $113 thousand and $76 thousand, respectively for the years ended December 31, 2013, 2012 and 2011.

At December 31, 2013 and 2012, there were no commitments to lend additional funds to any borrower on nonaccrual status.

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling $6.2 million at December 31, 2013. Such loans otherwise meet the Company's definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. The 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.

Impaired loans

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

The following table summarizes impaired loans as of December 31, 2013:

	As of and for the Year Ended December 31, 2013				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
Originated			(In thousands)		
Impaired loans without a valuation allowance:					
Total impaired loans without a valuation allowance	$ -	$ -	$ -	$ -	$ -
Impaired loans with a valuation allowance:					
Residential real estate	$ 1,867	$ 1,880	$ 73	$ 1,896	$ 36
Commercial real estate	1,117	1,117	56	1,127	56
Home equity	97	97	4	221	7
Commercial business	642	642	12	680	37
Total impaired loans with a valuation allowance	$ 3,723	$ 3,736	$ 145	$ 3,924	$ 136
Total originated impaired loans	$ 3,723	$ 3,736	$ 145	$ 3,924	$ 136
Acquired					
Impaired loans without a valuation allowance:					
Total impaired loans without a valuation allowance	$ -	$ -	$ -	$ -	$ -
Impaired loans with a valuation allowance:					
Total impaired loans with a valuation allowance	$ -	$ -	$ -	$ -	$ -
Total acquired impaired loans	$ -	$ -	$ -	$ -	$ -

The following table summarizes impaired loans as of December 31, 2012:

	As of and for the Year Ended December 31, 2012				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
			(In thousands)		
Impaired loans without a valuation allowance:					
Residential real estate	$ 2,137	$ 2,137	$ -	$ 2,273	$ 47
Impaired loans with a valuation allowance:					
Commercial real estate	$ 1,817	$ 1,817	$ 249	$ 2,461	$ 44
Commercial business	194	194	9	198	14
Total impaired loans with a valuation allowance	$ 2,011	$ 2,011	$ 258	$ 2,659	$ 58
Total impaired loans	$ 4,148	$ 4,148	$ 258	$ 4,932	$ 105

The following table summarizes impaired loans as of December 31, 2011:

	As of and for the Year Ended December 31, 2011				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
			(In thousands)		
Impaired loans without a valuation allowance:					
Commercial real estate	$ 307	$ 307	$ -	$ 310	$ 16
Home equity loans	90	90	-	90	1
Commercial business	203	203	-	206	15
Total impaired loans without a valuation allowance	$ 600	$ 600	$ -	$ 606	$ 32
Impaired loans with a valuation allowance:					
Residential real estate	$ 2,166	$ 2,166	$ 275	$ 2,166	$ 58
Commercial real estate	2,500	2,500	222	2,520	178
Construction	1,175	1,557	164	1,248	-
Commercial business	57	57	2	65	4
Total impaired loans with a valuation allowance	$ 5,898	$ 6,280	$ 663	$ 5,999	$ 240
Total impaired loans	$ 6,498	$ 6,880	$ 663	$ 6,605	$ 272

Troubled debt restructurings (TDRs)

Modifications to a loan are considered to be a troubled debt restructuring when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. Trouble debt restructurings are classified as impaired loans.

If a performing loan is restructured into a TDR it remains in performing status. If a nonperforming loan is restructured into a TDR, it continues to be carried in nonaccrual status. Nonaccrual classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months. Troubled debt restructured loans are reported as such for at least one year from the date of restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring and the loan is not deemed to be impaired based on the modified terms.

The recorded investment in TDRs was $1.6 million and $1.9 million, respectively, at December 31, 2013 and 2012.

The following table presents loans whose terms were modified as TDRs during the periods presented.

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
(Dollars in thousands)	2013	2012	2013	2012	2013	2012
Years ended December 31,						
Residential real estate	-	1	$ -	$ 1,026	$ -	$ 864
Commercial real estate	-	1	-	194	-	194
Home equity	1	-	97	-	97	-
Commercial business	-	2	-	794	-	794
Total	1	4	$ 97	$ 2,014	$ 97	$ 1,852

All TDRs at December 31, 2013 and 2012 were performing in compliance under their modified terms and therefore, were on accrual status.

The following table provides information on how loans were modified as a TDR during the years ended December 31, 2013 and 2012.

	December 31, 2013	December 31, 2012
	(In thousands)	
Maturity/amortization concession	$ 97	$ 264
Below market interest rate concession	-	1,588
Total	$ 97	$ 1,852

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the years ended December 31, 2013 and 2012.

8. PREMISES AND EQUIPMENT

At December 31, 2013 and 2012, premises and equipment consisted of the following:

	December 31, 2013	December 31, 2012
	(In thousands)	
Land	$ 1,450	$ -
Building	3,544	-
Leasehold improvements	3,157	3,187
Furniture and fixtures	1,456	661
Equipment	2,090	1,775
	11,697	5,623
Accumulated depreciation and amortization	(4,637)	(3,105)
Premises and equipment, net	$ 7,060	$ 2,518

For the years ended December 31, 2013 and 2012, depreciation and amortization expense related to premises and equipment totaled $666 thousand and $612 thousand, respectively.

9. DEPOSITS

At December 31, 2013 and 2012, deposits consisted of the following:

	December 31, 2013	December 31, 2012
	(In thousands)	
Noninterest bearing demand deposit accounts	$ 118,618	$ 78,120
Interest bearing accounts:		
NOW and money market	238,231	127,812
Savings	107,692	136,101
Time certificates of deposit	197,004	120,048
Total interest bearing accounts	542,927	383,961
Total deposits	$ 661,545	$ 462,081

Contractual maturities of time certificates of deposit as of December 31, 2013 and 2012 are summarized below:

	December 31, 2013	December 31, 2012
	(In thousands)	
2013	$ -	$ 97,401
2014	173,265	12,480
2015	12,294	4,054
2016	5,707	3,018
2017	5,738	3,095
	$ 197,004	$ 120,048

Time certificates of deposit in denominations of $100,000 or more were approximately $150.8 million, and $91.7 million at December 31, 2013 and 2012, respectively. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), signed into law on July 21, 2010, permanently raised the maximum deposit insurance amount to $250,000, retroactive to January 1, 2008. The aggregate amount of individual certificate accounts with balances of $250,000 or more were approximately $40.5 million and $21.9 million at December 31, 2013 and 2012, respectively.

The following table summarizes interest expense by account type for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31, 2013	2012	2011
	(In thousands)		
NOW and money market	$ 547	$ 657	$ 550
Savings	543	846	527
Time certificates of deposit	1,143	864	946
Total interest expense on deposits	$ 2,233	$ 2,367	$ 2,023

10. Federal Home Loan Bank Advances and Other Borrowings

The following is a summary of FHLB advances with maturity dates and weighted average rates at December 31, 2013 and 2012:

	December 31, 2013		2012	
(Dollars in thousands)	Amount Due	Weighted Average Rate	Amount Due	Weighted Average Rate
Year of Maturity:				
2013	$ -	- %	$ 67,000	0.86 %
2014	22,000	0.50	2,000	3.24
2015	2,000	2.75	2,000	2.75
2017	20,000	0.99	20,000	0.99
Total advances	$ 44,000	0.83 %	$ 91,000	0.98 %

The Bank has additional borrowing capacity at the FHLB, in excess of outstanding advances, up to a certain percentage of the value of qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with agreements with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no additional borrowings at December 31, 2013 and 2012.

Additionally, the Bank has access to a pre-approved secured line of credit of $450 thousand with the FHLB, none of which was outstanding at December 31, 2013 and 2012.

The Bank has an unsecured line of credit of $2.0 million with Bankers' Bank Northeast, none of which was outstanding at December 31, 2013 and 2012.

Federal Home Loan Bank Stock

As a member of the FHLB, the Bank is required to maintain investments in their capital stock. The Bank owned 48,342 and 44,422 shares at December 31, 2013 and 2012, respectively. There is no ready market or quoted market values for the stock. The shares have a par value of $100 and are carried on the consolidated balance sheets at cost, as the stock is only redeemable at par subject to the redemption practices of the FHLB.

11. Commitments and Contingencies

Leases

The Company leases its corporate office space, as well as all but one branch location, plus certain equipment under operating lease agreements, which expire at various dates through 2028. In addition to rental payments, the leases require payment of property taxes and certain common area maintenance fees. At December 31, 2013, future minimum rental commitments under the terms of these leases by year were as follows:

	December 31, 2013
Period Ending December 31,	*(In thousands)*
2014	$ 1,718
2015	1,714
2016	1,196
2017	1,165
2018	914
Thereafter	4,190
	$ 10,897

Total rental expense approximated $1.5 million, $1.3 million and $1.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Legal matters

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

Employment agreements

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

Off-balance sheet instruments

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

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

Financial instruments whose contract amounts represented credit risk at December 31, 2013 and 2012 were as follows:

	December 31,	
	2013	2012
	(In thousands)	
Commitments to extend credit:		
Loan commitments	$ 61,633	$ 39,339
Undisbursed construction loans	44,670	54,705
Unused home equity lines of credit	11,575	10,714
	$ 117,878	$ 104,758

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

12. Income Taxes

Income tax expense for the years ended December 31, 2013, 2012 and 2011 consisted of:

	2013	2012	2011
		(In thousands)	
Current provision:			
Federal	$ 1,944	$ 1,018	$ 1,176
State	597	416	225
Total current	2,541	1,434	1,401
Deferred provision:			
Federal	(385)	(508)	(218)
State	28	(269)	(186)
Total deferred	(357)	(777)	(404)
Total income tax expense	$ 2,184	$ 657	$ 997

A reconciliation of the anticipated income tax expense, computed by applying the statutory federal income tax rate of 34% to the income before income taxes, to the amount reported in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011 was as follows:

	December 31,		
	2013	2012	2011
		(In thousands)	
Income tax expense at statutory federal rate	$ 2,497	$ 636	$ 1,089
State tax expense, net of federal tax effect	239	161	150
Restricted stock options	28	191	85
Gain from bargain purchase	(453)	-	-
Income exempt from tax	(294)	(281)	(271)
Other items, net	(7)	14	14
Income tax expense before change in valuation allowance	2,010	721	1,067
Change in valuation allowance	174	(64)	(70)
Income tax expense	$ 2,184	$ 657	$ 997

At December 31, 2013 and 2012, the components of deferred tax assets and liabilities were as follows:

	December 31,	
	2013	2012
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,348	$ 3,093
Net operating loss carryforwards	1,479	236
Purchase accounting adjustments	1,094	-
Deferred fees	707	521
Start-up costs	484	266
Other	512	76
Gross deferred tax assets	7,624	4,192
Valuation allowance	(682)	(182)
Deferred tax receivable, net of valuation allowance	6,942	4,010
Deferred tax liabilities:		
Tax bad debt reserve	499	98
Depreciation	327	151
Unrealized gain on available for sale securities	271	963
Gross deferred tax liabilities	1,097	1,212
Net deferred tax asset	$ 5,845	$ 2,798

At December 31, 2013, the Company had federal net operating loss carryovers of $3.5 million. The carryovers were transferred to the Company upon the merger with The Wilton Bank. The losses will expire in 2032 and are subject to certain annual limitations which amount to $176 thousand per year.

In addition, at December 31, 2013 and 2012, there were net operating loss carry forwards of approximately $6.0 million and $4.0 million, respectively, for state tax purposes that were available to reduce future state taxable income. A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. At December 31, 2013 and 2012, management recorded a valuation allowance against the deferred tax benefits of the state operating loss carry forwards and other state deferred tax assets for the bank holding company.

Management regularly analyzes their tax positions and at December 31, 2013, does not believe that the Company has taken any tax positions where future deductibility is not certain. As of December 31, 2013, the Company is subject to unexpired statutes of limitation for examination of its tax returns for U.S. federal and Connecticut income taxes for the years 2010 through 2012.

13. 401(k) Profit Sharing Plan

The Company's employees are eligible to participate in The Bankwell Financial Group, Inc. and its Subsidiaries and Affiliates 401(k) Plan (the "401k Plan"). The 401k Plan covers substantially all employees who are 21 years of age. Under the terms of the 401k Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Company matches eligible contributions and may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in the Company's contributions after completing six years of service. The Company contributed $127 thousand, $102 thousand and $103 thousand to the 401k Plan during the years ended December 31, 2013, 2012 and 2011, respectively.

14. Stockholders' Equity

Earnings per share

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings. Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered to participate with common stock in undistributed earnings for purposes of computing EPS.

The Company's unvested restricted stock awards are participating securities, and therefore, are included in the computation of both basic and diluted earnings per common share. EPS is calculated using the two-class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

The following is a reconciliation of earnings available to common stockholders and basic weighted-average common shares outstanding to diluted weighted average common shares outstanding, reflecting the application of the two-class method:

	For the Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
Net income	$ 5,161	$ 1,214	$ 2,204
Preferred stock dividends and net accretion	(111)	(132)	(206)
Dividends and undistributed earnings allocated to participating securities	(89)	-	-
Net income available to common shareholders	$ 4,961	$ 1,082	$ 1,998
Weighted average shares outstanding, basic	3,395	2,768	2,757
Effect of dilutive equity-based awards	56	97	54
Weighted average shares outstanding, diluted	3,451	2,865	2,811
Net earnings per common share:			
Basic earnings per common share	$ 1.46	$ 0.39	$ 0.72
Diluted earnings per common share	1.44	0.38	0.71

Equity award plans

The Company has five equity award plans (shown below), which are collectively referred to as the "Plan".

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

On July 26, 2006, the Company's shareholders approved The 2006 Bank of New Canaan Stock Option Plan under which both incentive and non qualified common stock options may be granted. At inception, there were 47,800 shares of common stock reserved for issuance under this plan.

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

On June 22, 2011, the Company's shareholders approved the 2011 BNC Financial Group, Inc. Stock Option and Equity Award Plan. The plan includes consideration of grants from prior plans and imposes an overall cap on dilution to shareholders of 15% of the Company's issued and outstanding shares as of January 1, 2011. At inception, there were 45,000 shares of common stock reserved for issuance under this plan.

On September 19, 2012, the Company's shareholders adopted the 2012 BNC Financial Group, Inc. Stock Plan, or the "2012 Plan." The plan includes consideration of grants from prior plans and 10% of the number of shares sold in the Company's capital raise following the adoption of the 2012 Plan. On June 26, 2013, the Company's shareholders adopted an amendment to the 2012 Plan, which provides for an aggregate number of shares reserved and available for issuance in the amount of an "overhang" of up to 12% on a going-forward basis. During 2013, the Company issued 897,513 shares of common stock in connection with its capital raise, thereby providing 89,751 shares of common stock to be reserved for issuance under the 2012 Plan.

Any future issuances of equity awards will be made under the 2012 Plan and/or any new plan adopted by the Company and its shareholders in the future. All equity awards made under the 2012 Plan are made by means of an award agreement, which contains the specific terms and conditions of the grant. At December 31, 2013, there were 49,840 shares reserved for future issuance under the 2012 Plan.

Share Options: As discussed in Note 1, the Company accounts for stock options based on the fair value at the date of grant over the vesting period of such awards on a straight line basis. For the years ended December 31, 2013, 2012, and 2011, the Company recorded expense related to options granted under the various plans of approximately $41 thousand, $82 thousand, and $76 thousand, respectively.

There were no options granted during the year ended December 31, 2013. The fair value of options granted during the years ended December 31, 2012 and 2011 were estimated at the grant date using the minimum value option-pricing model with the following weighted-average assumptions for the grants:

	Years Ended December 31,	
	2012	2011
Weighted average expected lives, in years	7.5	7.5
Risk-free interest rate	1.81%	2.83%
Expected stock price volatility	35.00%	34.84%
Expected annual forfeiture rate	6.00%	10.76%

A summary of the status of outstanding stock options at December 31, 2013, 2012 and 2011, and changes during the periods then ended, were as follows:

	December 31,					
	2013		2012		2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	272,358	$ 15.23	277,558	$ 14.60	273,628	$ 14.58
Granted	-	-	9,650	15.00	10,000	15.00
Forfeited	(4,080)	17.42	(14,850)	13.13	(4,070)	16.20
Exercised	(46,640)	10.02	-	-	(2,000)	10.00
Expired	(13,070)	10.00	-	-	-	
Options outstanding at end of period	208,568	16.67	272,358	15.23	277,558	14.60
Options exercisable at end of period	188,852	16.84	241,237	15.23	239,632	15.21
Weighted-average fair value of options granted during the period		N/A		$ 6.54		$ 5.81

Additional information concerning options outstanding and exercisable at December 31, 2013 is summarized as follows:

	Options Outstanding			Options Exercisable		
Exercise Price Ranges	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
$ 0.00 to $10.00	18,885	0.36	$10.00	18,885	0.36	$10.00
$10.01 to $14.50	38,615	2.98	$13.39	33,925	2.57	$13.68
$14.51 to $16.00	39,970	4.42	$15.42	28,370	3.07	$15.60
$16.01 to $17.50	41,100	2.95	$17.50	41,100	2.95	$17.50
$17.51 to $20.81	69,998	3.96	$20.52	66,572	3.94	$20.51
	208,568	3.34	$16.67	188,852	2.99	$16.84

Total intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date. The total intrinsic value of share options exercised during the years ended December 31, 2013, 2012 and 2011 was $544 thousand, $0 and $8 thousand, respectively.

Restricted Stock: Restricted stock provides grantees with rights to shares of common stock upon completion of a service period and certain performance goals. Shares of unvested restricted stock are participating securities and considered outstanding. Restricted stock awards generally vest over one to five years. The following table presents the activity for restricted stock for the years ended December 31, 2013, 2012 and 2011.

	December 31,					
	2013		2012		2011	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	49,500	$ 15.00	30,000	$ 15.96	20,000	$ 16.92
Granted	87,456	16.38	49,500	15.00	15,000	15.00
Vested	(12,900)	14.92	(30,000)	15.96	(5,000)	16.92
Forfeited	(1,916)	15.95	-	-	-	-
Unvested at end of period	122,140	15.98	49,500	15.00	30,000	15.96

The Company's restricted stock expense for the years ended December 31, 2013, 2012 and 2011 was $268 thousand, $481 thousand and $174 thousand, respectively.

Warrants

As discussed in Note 2, BNC's October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the "Offerings") call for the issuance of Units. Each Unit issued pursuant to the Offerings represented one share of common stock and one non-transferable Warrant. The Warrants were exercisable at any time from and including October 1, 2009 and prior to or on November 30, 2009, unless extended or accelerated by the board of directors in their discretion. The board of directors has extended the exercise period to October 1, 2014 through December 1, 2014. Each Warrant allows a holder to purchase .3221 shares of Common Stock at an exercise price of $14.00 per share. None of the warrants have been exercised as of December 31, 2013. Assuming that all of the Warrants issued are exercised in full during the exercise period, the Company would receive $4,264,941 in gross capital and issue 304,640 shares of common stock. A total of 945,789 units were sold generating gross capital of $17,191,202.

15. Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either June 30, 2013 or December 31, 2012 or 2011. The estimated fair value amounts have been measured as of the respective period-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The carrying values and fair values of the Company's financial instruments December 31, 2013 and 2012 were as follows:

	December 31,			
	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 82,013	$ 82,013	$ 28,927	$ 28,927
Available for sale securities	28,597	28,597	41,058	41,058
Held to maturity securities	13,816	13,815	5,354	5,292
Loans held for sale	100	100	-	-
Loans receivable, net	621,830	623,876	520,792	528,199
Accrued interest receivable	2,360	2,360	2,109	2,109
FHLB stock	4,834	4,834	4,442	4,442
Financial Liabilities:				
Demand deposits	118,618	118,618	78,120	78,120
NOW and money market	238,231	238,231	127,812	127,812
Savings	107,692	107,692	136,121	136,121
Time deposits	197,004	197,762	120,048	121,029
Advances from the FHLB	44,000	43,902	91,000	91,407

16. Fair Value Measurements

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

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

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

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

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

Financial instruments measured at fair value on a recurring basis

The following tables detail the financial instruments carried at fair value on a recurring basis at December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the years ended December 31, 2013 and 2012.

	Fair Value		
(In thousands)	Level 1	Level 2	Level 3
December 31, 2013:			
Available-for-sale investment securities:			
U.S. Government and agency obligations	$ -	$ 5,688	$ -
State agency and municipal obligations	-	12,132	-
Corporate bonds	-	9,566	-
Mortgage backed securities	-	1,211	-
December 31, 2012:			
Available-for-sale investment securities:			
U.S. Government and agency obligations	$ -	$ 6,005	$ -
State agency and municipal obligations	-	18,531	-
Corporate bonds	-	14,556	-
Mortgage backed securities	-	1,966	-
December 31, 2011:			
Available-for-sale investment securities:			
U.S. Government and agency obligations	$ -	$ 41,749	$ -
State agency and municipal obligations	-	19,198	-
Corporate bonds	-	24,981	-
Mortgage backed securities	-	3,143	-

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

Financial instruments measured at fair value on a nonrecurring basis

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

The following table details the financial instruments carried at fair value on a nonrecurring basis at December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Fair Value		
(In thousands)	Level 1	Level 2	Level 3
December 31, 2013:			
Impaired loans	$ -	$ -	$ 3,723
Foreclosed real estate	-	-	829
December 31, 2012:			
Impaired loans	$ -	$ -	$ 4,148
Foreclosed real estate	-	-	962

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at December 31, 2013 and 2012:

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range (Weighted Average)
December 31, 2013:				
Impaired loans	$ 3,723	Appraisals	Discount for dated appraisals	3.5% to 5.0%
		Discounted cash flows	Discount rate	1.9%
Foreclosed real estate	$ 829	Appraisals	Discount for dated appraisals	29.4% to 46.0%
December 31, 2012:				
Impaired loans	$ 4,148	Appraisals	Discount for dated appraisals	0% to 13.7%
		Discounted cash flows	Discount rate	5.0%
Foreclosed real estate	$ 962	Appraisals	Discount for dated appraisals	6.0% to 10.0%

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

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

17. Regulatory Matters

The Bank and Company are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated 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.

On September 9, 2013, the Company changed its name from BNC Financial Group, Inc. to Bankwell Financial Group, Inc., and it merged together the two bank subsidiaries, BNC and TBF and renamed the combined entity, Bankwell Bank.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Company to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets, as defined by regulation. Management believes, as of December 31, 2013, the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2013, the Bank and Company were well capitalized under the regulatory framework for prompt corrective action, as shown in the following schedules. There are no conditions or events since then that management believes have changed this category.

The capital amounts and ratios for the Bank and Company at December 31, 2013, were as follows:

	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
December 31, 2013						
Total Capital to Risk-Weighted Assets	$ 66,674	10.74%	$ 49,682	8.00%	$ 62,103	10.00%
Tier I Capital to Risk-Weighted Assets	58,908	9.49%	24,841	4.00%	37,262	6.00%
Tier I Capital to Average Assets	58,908	7.91%	29,772	4.00%	37,215	5.00%
Bankwell Financial Group, Inc.						
December 31, 2013						
Total Capital to Risk-Weighted Assets	$ 76,537	12.32%	$ 49,683	8.00%	$ 62,103	10.00%
Tier I Capital to Risk-Weighted Assets	68,766	11.07%	24,841	4.00%	37,262	6.00%
Tier I Capital to Average Assets	68,766	9.15%	3,068	4.00%	37,585	5.00%

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

	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
The Bank of New Canaan						
December 31, 2012						
Total Capital to Risk-Weighted Assets	$ 38,849	10.34%	$ 30,048	8.00%	$ 37,560	10.00%
Tier I Capital to Risk-Weighted Assets	34,138	9.09%	15,024	4.00%	22,536	6.00%
Tier I Capital to Average Assets	34,138	7.88%	17,325	4.00%	21,656	5.00%
The Bank of Fairfield						
December 31, 2012						
Total Capital to Risk-Weighted Assets	$ 14,809	12.05%	$ 9,829	8.00%	$ 12,287	10.00%
Tier I Capital to Risk-Weighted Assets	13,268	10.80%	4,915	4.00%	7,372	6.00%
Tier I Capital to Average Assets	13,268	8.39%	6,327	4.00%	7,909	5.00%

Restrictions on dividends

The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Company. In accordance with State of Connecticut Banking Rules and Regulations, regulatory approval is required to pay dividends in excess of the Bank's earnings retained in the current year plus retained earnings from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

18. Related Party Transactions

In the normal course of business, the Company may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, similar to those available to unrelated customers. Changes in loans outstanding to such related parties during the years ending December 31, 2013, 2012 and 2011 were as follows:

	December 31, 2013	December 31, 2012	December 31, 2011
	(In thousands)		
Balance, beginning of year	$ 5,260	$ 5,098	$ 5,315
Additional loans	13,775	3,769	218
Repayments and changes in status	(11,689)	(3,607)	(435)
Balance, end of year	$ 7,346	$ 5,260	$ 5,098

Related party deposits aggregated approximately $44.7 million, $27.0 million, and $21.6 million at December 31, 2013, 2012, and 2011, respectively.

During the years ended December 31, 2013, 2012 and 2011, the Company paid approximately $862 thousand, $123 thousand and $117 thousand, respectively, to related parties for services provided to the Company. The payments were primarily for consulting and legal services.

19. Subsequent Events

The Company has received approval from its regulators to establish a branch location in Norwalk, Connecticut, which is expected to open in the first quarter of 2014.

Corporate Information

Shareholders

For help in transferring ownership, address changes, or lost or stolen stock certificates, please contact:

Registrar and Transfer Company

10 Commerce Drive, Cranford, NJ 07016-3572

(800) 368-5948

www.rtco.com

Stock Symbols

BWFG – Common Stock – Initial Offering

Stock Quotes

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Independent Auditors

Whittlesey & Hadley, PC

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New Canaan, CT
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(203) 966-7080

Stamford
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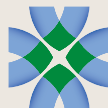
Stamford, CT
06901
(203) 391-5777

Wilton
47 Old Ridgefield Rd
Wilton, CT
06897
(203) 762-2265

This annual report may include forward-looking statements by the Company that are within the protection of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties that could cause our actual results to differ materially from those set forth in such forward-looking statements. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Words such as "believes," "anticipates," "expects," "intends," "plans," "estimates," "targeted" and similar expressions, and future or conditional verbs, such as "will," "would," "should," "could" or "may" are intended to identify forward-looking statements but are not the only means to identify these statements. Factors that could cause differences in actual results may be beyond our control —Any forward-looking statements made by or on behalf of us in this report speak only as of its date, and we do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after that date.



Bankwell
FINANCIAL GROUP

220 Elm Street, New Canaan, CT 06840

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