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Tangible assets

$
811,601

$
629,535

$
779,137

$
610,016

$
477,355

Tangible common shareholders’ equity to tangible assets

7.35
%

7.76
%

7.45
%

6.65
%

8.00
%

Tangible Book Value per Share

Total shareholders’ equity

$
71,106

$
59,817

$
69,485

$
51,534

$
49,188

Less: preferred stock

10,980

10,980

10,980

10,980

10,980

Common shareholders’ equity

60,126

48,837

58,505

40,554

38,208

Less: Intangible assets

454

—

481

—

—

Tangible common shareholders' equity

$
59,672

$
48,837

$
58,024

$
40,554

$
38,208

Common shares issued

3,891,690

3,376,313

3,876,393

2,846,700

2,788,200

Less: shares of unvested restricted stock

118,532

49,500

122,140

49,500

30,000

Common shares outstanding

3,773,158

3,326,813

3,754,253

2,797,200

2,758,200

Book value per share

$
15.94

$
14.68

$
15.58

$
14.50

$
13.85

Less: effects of intangible assets

0.12

—

0.12

—

—

Tangible book value per share

$
15.81

$
14.68

$
15.46

$
14.50

$
13.85

Total Revenue

Net interest income

$
7,146

$
6,085

$
25,327

$
21,205

$
17,717

Add: noninterest income

769

284

4,722

345

1,134

Total revenue

$
7,915

$
6,369

$
30,049

$
21,550

$
18,851

Noninterest income as a percentage of total revenue

9.72
%

4.46
%

15.71
%

1.60
%

6.02
%

Return on Average Common Shareholders’ Equity

Net income

$
1,123

$
1,012

$
5,161

$
1,214

$
2,204

Total average shareholders’ equity

$
70,316

$
59,287

$
63,142

$
50,572

$
43,852

Less: average preferred stock

10,980

10,980

10,980

10,980

10,980

Average common shareholders' equity

$
59,336

$
48,307

$
52,162

$
39,592

$
32,872

Return on average common sharesholders's
equity (1)

7.57
%

8.38
%

9.89
%

3.07
%

6.70
%

(1)

- Based on annualized net income





## RISK FACTORS

In addition to the other information included in this proxy statement/prospectus (including the matters addressed in “Cautionary Note Concerning Forward-Looking Statements”), you should carefully consider the matters described below in determining whether to approve the merger agreement and in connection with your election with respect to the form of merger consideration you will receive for your QBT shares or options.

Because the market price of BWFG’s common stock will fluctuate, QBT shareholders who receive stock consideration will not know until the effective time of the merger the value of the consideration they will receive in the merger.

Upon completion of the merger, each share of QBT common stock, other than dissenting shares, will be converted into the right to receive merger consideration consisting of, at the option of the holder of such share, either cash or shares of BWFG common stock. Because the per share stock consideration is fixed at 0.56 shares of BWFG common stock, the market value of the BWFG common stock to be issued in the merger will depend upon the market price of BWFG common stock. This market price may vary from the closing price of BWFG common stock on the date the merger was announced, on the date that this proxy statement/prospectus was mailed to QBT shareholders and on the date of QBT special meeting. Accordingly, QBT shareholders who elect to receive stock consideration will not necessarily know or be able to calculate the value of the stock consideration they would be entitled to receive upon completion of the merger.

QBT shareholders may receive a form of consideration different from what they elect.

While each QBT shareholder may elect to receive cash, BWFG common stock or a combination thereof in the merger, only 75% of QBT common stock outstanding at March 31, 2014 will be converted into BWFG common stock. BWFG will issue no more than 510,305 shares of BWFG common stock as merger consideration under the terms of the merger agreement. Therefore, if QBT shareholders elect more cash or stock than is available under the merger agreement, their elections will be prorated to permit 75% of QBT common stock outstanding at March 31, 2014 to be converted into BWFG common stock. As a result, your ability to receive cash or stock in accordance with your election may depend on the elections of other QBT shareholders.

In addition, any QBT common stock resulting from the exercise of QBT stock options or warrants after March 31, 2014 will be considered non-election shares and will be paid in cash.

If you tender shares of QBT common stock to make an election, you will not be able to transfer those shares until after the merger, unless you revoke your election prior to the election deadline.

QBT shareholders may elect to receive the merger consideration in the form of cash or stock. Shareholders making an election must turn in their QBT stock certificates with their election form by 5:00 p.m., Eastern Time, twenty-five (25) days following the mailing date of the election forms. During the time between when the election is made and when stock certificates for shares of BWFG are received by shareholders following the completion of the merger, QBT shareholders will be unable to sell their QBT common stock. If the merger is unexpectedly delayed, this period could extend for a significant period of time. Elections received after the close of the election period will not be accepted or honored.

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The merger agreement limits QBT’s ability to pursue alternatives to the merger.

The merger agreement contains terms and conditions that make it more difficult for QBT to sell its business to a party other than BWFG. QBT has agreed to take action necessary to convene and to hold a meeting of shareholders of QBT to consider and vote upon the approval of the merger agreement and the merger as promptly as practicable following the execution of the merger agreement. Subject to certain limited exceptions, QBT’s board of directors is required to recommend such approval. The board of directors may, however, pursue a bona fide, written acquisition proposal (i) if and only to the extent that the board of directors reasonably determines in good faith (after consultation with outside legal counsel) that such action would be required in order for its directors to comply with their respective fiduciary duties, and (ii) if the board of directors determines in good faith that such written acquisition proposal is a “Superior Proposal,” as defined in the merger agreement. If the QBT board of directors determines that an acquisition proposal satisfies the criteria described above, QBT is required to notify BWFG of the receipt of the proposal and negotiate in good faith with BWFG to make adjustments to the terms and conditions of the merger agreement such that the proposal would no longer constitute a “Superior Proposal.” If the board of directors determines that it desires to accept a written acquisition proposal from a party other than BWFG, QBT may terminate the merger agreement, subject to the obligation to pay a termination fee in the amount of $600,000 to BWFG.

BWFG required QBT to agree to these provisions as a condition to BWFG’s willingness to enter into the merger agreement. However, these provisions might discourage a third party that might have an interest in acquiring all or a significant part of QBT from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share price than the current proposed merger consideration, and the termination fee might result in a potential competing acquirer proposing to pay a lower per share price to acquire QBT than it might otherwise have proposed to pay.

The failure to successfully integrate QBT’s business and operations in the expected time frame may adversely affect BWFG’s future results.

The success of the merger will depend, in part, on the combined company’s ability to realize the anticipated benefits from combining the businesses of BWFG and QBT. However, to realize these anticipated benefits, the businesses of BWFG and QBT must be successfully combined. If the combined company is not able to achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

BWFG and QBT have operated and, until the completion of the merger, will continue to operate independently. It is possible that the integration process could result in the loss of key employees, as well as the disruption of each company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies, any or all of which could adversely affect BWFG’s ability to maintain relationships with clients, customers, depositors and employees after the merger or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of BWFG and QBT.

QBT’s executive officers and directors have interests in the merger that are different from your interest as a QBT shareholder.

QBT executive officers negotiated the merger agreement with BWFG, and the QBT board of directors approved the agreement and is recommending that QBT shareholders who are entitled to vote, vote for the agreement. In considering these facts and the other information contained in this proxy statement/prospectus, you should be aware that QBT’s executive officers and directors have interests in

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the merger in addition to the interests that they share with you as a QBT shareholder. These interests include continued indemnification and insurance coverage by BWFG after the merger for acts or omissions occurring before the merger, change of control payments due certain executive officers in connection with the merger, the continuation of employment with BWFG for some executive officers, the appointment of one (1) current director of QBT to the BWFG and Bankwell Bank boards of directors following the effective date of the merger and the invitation of all other QBT directors to serve on a paid Advisory Board of BWFG. These interests also include the accelerated vesting of stock options and payments pursuant to severance agreements, as well as other considerations. For a detailed discussion of these interests, see the section in this document titled "Interests of QBT's Directors and Executive Officers in the Merger" beginning on page 166.

The tax consequences of the merger to a QBT shareholder will be dependent upon the merger consideration received.

The tax consequences of the merger to a QBT shareholder will depend upon the merger consideration that the shareholder receives. A QBT shareholder generally will not recognize any gain or loss on the conversion of shares of QBT common stock solely into shares of BWFG common stock. However, a QBT shareholder generally will be taxed if he, she, or it receives cash in exchange for shares of QBT common stock or for any fractional share of BWFG common stock. For a detailed discussion of the tax consequences of the merger to QBT shareholders generally, see the section in this document titled "The Merger—Material U.S. Federal Income Tax Consequences of the Merger" beginning on page 169. Each QBT shareholder should consult his, her, or its own tax advisors as to the effect of the merger as applicable to each QBT shareholder's particular circumstances.

The merger may not be completed if certain conditions are not satisfied or waived.

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include, but are not limited to: the approval of the merger agreement by QBT shareholders; receipt of required regulatory approvals; absence of orders prohibiting the completion of the merger; the effectiveness of the registration statement of which this proxy statement/prospectus is a part; the continued accuracy of the representations and warranties by both parties; the performance by both parties of their covenants and agreements; and the receipt by both parties of legal opinions from their respective tax counsels. See "The Merger Agreement—Conditions to the Merger" beginning on page 186 for a more complete discussion of the conditions to the merger.

QBT shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management of the combined organization.

QBT's shareholders currently have the right to vote in the election of the board of directors of QBT and on other matters affecting QBT. Upon the completion of the merger, each QBT shareholder that receives shares of BWFG common stock will become a stockholder of BWFG with a percentage ownership of the combined organization that is much smaller than the shareholder's percentage ownership of QBT. It is expected that the former shareholders of QBT as a group will receive shares in the merger constituting approximately 11.0% of the outstanding shares of BWFG common stock immediately after the merger. Because of this, QBT's shareholders will have significantly less influence on the management and policies of BWFG than they now have on the management and policies of QBT.

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The fairness opinion obtained by QBT from its financial advisor will not reflect changes in circumstances subsequent to the date of the fairness opinion.

SAL, QBT's financial advisor in connection with the proposed merger, has delivered to the board of directors of QBT its opinion dated as of March 31, 2014. The opinion of SAL stated that as of such date, and based upon and subject to the factors and assumptions set forth therein, the consideration to be received in the merger was fair to QBT shareholders from a financial point of view. The opinion does not reflect changes that may occur or may have occurred after the date of the opinion, including changes to the operations and prospects of BWFG or QBT, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinion is based, may materially alter or affect the relative values of BWFG and QBT.

The merger is subject to the receipt of consents and approvals from governmental entities that may delay the date of completion of the merger or impose conditions that could have an adverse effect on BWFG.

Before the merger may be completed, various approvals, consents or waivers must be obtained from state and federal governmental authorities, including the FDIC and the Banking Department. Satisfying the requirements of these governmental entities may delay the date of completion of the merger. In addition, these governmental entities may include conditions on the completion of the merger or require changes to the terms of the merger. While BWFG and QBT do not currently expect that any such conditions or changes would result in a material adverse effect on BWFG, there can be no assurance that they will not, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of BWFG following the merger, any of which might have a material adverse effect on BWFG following the merger. The parties are not obligated to complete the merger should any regulatory approval contain a non-customary condition that materially alters the benefit to which BWFG bargained for in the merger agreement.

Failure to complete the merger could negatively impact the stock prices and future businesses and financial results of BWFG and QBT.

If the merger is not completed, the ongoing businesses of BWFG and QBT may be adversely affected and BWFG and QBT will be subject to several risks, including the following:

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- QBT may be required, under certain circumstances, to pay BWFG a termination fee of $600,000 under the merger agreement;

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- BWFG and QBT will be required to pay certain costs relating to the merger, whether or not the merger is completed, such as legal, accounting, financial advisor and printing fees;

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- under the merger agreement, QBT is subject to certain restrictions on the conduct of its business prior to completing the merger which may adversely affect its ability to execute certain of its business strategies; and

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- matters relating to the merger may require substantial commitments of time and resources by BWFG and QBT management, which could otherwise have been devoted to other opportunities that may have been beneficial to BWFG and QBT as independent companies, as the case may be.

In addition, if the merger is not completed, BWFG and/or QBT may experience negative reactions from the financial markets and from their respective customers and employees. BWFG and/or QBT also could be subject to litigation related to any failure to complete the merger or to enforcement proceedings commenced against BWFG or QBT to perform their respective obligations under the merger agreement. If the merger is not completed, BWFG and QBT

cannot assure their shareholders that the risks
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described above will not materialize and will not materially affect their business, financial results and stock prices.
The shares of BWFG common stock to be received by QBT shareholders as a result of the merger will have different rights from shares of QBT common stock.
Following completion of the merger, QBT shareholders will no longer be shareholders of QBT. QBT shareholders who receive shares of BWFG in the merger will instead be shareholders of BWFG. There will be important differences between your current rights as a QBT shareholder and the rights to which you will be entitled as a BWFG stockholder. See “Comparison of Shareholders’ Rights” beginning on page 190 for a discussion of the different rights associated with BWFG common stock and QBT common stock.
BWFG and Bankwell Bank recently underwent a change in their key management personnel.
Effective August 7, 2014, Peyton R. Patterson resigned as the Chief Executive Officer and President of BWFG, the Chief Executive Officer of Bankwell Bank, and as a director of each of BWFG and Bankwell Bank. On August 7, 2014 the BWFG board appointed Blake S. Drexler as Executive Chairman of the board of BWFG. As Executive Chairman, Mr. Drexler will devote substantial time to BWFG’s strategic planning and enterprise-wide initiatives. However, Mr. Drexler does not have any previous experience as an executive officer of a bank holding company or a commercial bank. BWFG is engaged in a comprehensive search for a permanent Chief Executive Officer, but it is possible that the disruption caused by the resignation of BWFG’s and Bankwell Bank’s chief executive could adversely affect BWFG’s future results of operations or BWFG’s ability to maintain relationships with clients, customers, depositors and employees.
INFORMATION ABOUT THE COMPANIES
Bankwell Financial Group, Inc.
BWFG is a Connecticut bank holding company and the parent company of Bankwell Bank, a Connecticut-chartered bank. Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan (including a separate division, Stamford First Bank) and The Bank of Fairfield. The Bank of New Canaan began operations in April 2002 with an initial capitalization of $8.6 million. The two banks were subsequently merged and rebranded as “Bankwell Bank” in September 2013. In November 2013, The Wilton Bank was acquired and merged into Bankwell Bank. Bankwell Bank’s deposits are insured by the Deposit Insurance Fund of the FDIC.
Bankwell Bank’s operations are headquartered in New Canaan, Connecticut. Its primary market is the greater Fairfield County, Connecticut area, which is served from its main banking office, five other branch offices and one loan production office located throughout the Fairfield County area.
At March 31, 2014, BWFG had $812.1 million in total consolidated assets. BWFG’s principal executive offices are located at 220 Main Street, New Canaan, CT 06840, and its telephone number is (203) 652-6300.
See “Where You Can Find More Information” on page 192 for additional information about BWFG and its subsidiaries.
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Quinnipiac Bank & Trust Company

QBT is a Connecticut-chartered bank that provides financial services to the greater New Haven area from its branch in Hamden, Connecticut. QBT has received FDIC and Banking Department approval to open a branch in North Haven, Connecticut. QBT was chartered as a de novo bank and began operations on March 6, 2008. QBT's deposits are insured by the Deposit Insurance Fund of the FDIC.

At March 31, 2014, QBT had $105.9 million in total assets. QBT's principal executive offices are located at 2704 Dixwell Avenue, Hamden, Connecticut 06518, and its telephone number is (203) 407-0756.

BUSINESS OF BWFG

General

BWFG is a Connecticut bank holding company headquartered in New Canaan, Connecticut and offers a broad range of financial services through BWFG's banking subsidiary, Bankwell Bank, a Connecticut state non-member bank founded in 2002. BWFG's primary market is the greater Fairfield County, Connecticut area, which BWFG serves from its main banking office located in New Canaan, Connecticut and five other branch offices located throughout the Fairfield County area and a loan production office. According to the U.S. Department of Commerce, Fairfield County is located in the fourth wealthiest metropolitan statistical area in the United States. As of March 31, 2014, on a consolidated basis, BWFG had total assets of approximately $812.1 million, total loans of approximately $657.2 million, total deposits of approximately $679.2 million, and shareholders' equity of approximately $71.1 million.

Because BWFG conducts all of its material business operations through Bankwell Bank, the description of BWFG's products and services relates to activities primarily conducted at or by Bankwell Bank. BWFG is committed to making Bankwell Bank the premier "Hometown" bank in Fairfield County and its surrounding areas. In 2011, the Commercial Record's Annual Readers Poll named Bankwell Bank the No. 1 community bank in Connecticut. BWFG believes that its market exhibits highly attractive demographic attributes and presents favorable competitive dynamics, thereby offering long-term opportunities for growth. BWFG has a history of building long-term customer relationships and attracting new customers through what BWFG believes is superior customer service and ability to deliver a diverse product offering. In addition, BWFG believes that its strong capital position and extensive local ownership, coupled with a highly respected and experienced executive management team and board of directors, gives BWFG instant credibility with its customers and potential customers in BWFG's market. BWFG's focus is on building a franchise with meaningful market share and consistent revenue growth complemented by operational efficiencies that it believes will produce attractive risk-adjusted returns for BWFG's shareholders.

BWFG History and Growth

Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan (including a separate division, Stamford First Bank) and The Bank of Fairfield, which were subsequently merged and rebranded as "Bankwell Bank." Bankwell Bank was chartered with a commitment to building the premier community bank in the market BWFG serves. Bankwell Bank began operations in April 2002 with an initial capitalization of $8.6 million.

Since December 31, 2008, Bankwell Bank has experienced significant growth, with $459.4 million in loan growth and $508.5 million in deposit growth, for compound annual growth rates of 26% and 30%, respectively, through March 31, 2014. Bankwell Bank's net interest margin was 3.97% for the three months ended March 31, 2014 and for the year ended December 31, 2013, the net interest margin was 3.94%, compared to a high of 4.27% for the year ended

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December 31, 2011. In November 2013, BWFG acquired The Wilton Bank, and it was merged into Bankwell Bank. On March 31, 2014, BWFG entered into a merger agreement with QBT, pursuant to which QBT will be merged with and into Bankwell Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Bankwell Financial Group, Inc. — QBT Acquisition" for additional information.

With the efforts of BWFG's strong management team, BWFG continued its growth and maintained a strong track record of performance through the recent economic recession. From December 31, 2008 through March 31, 2014, Bankwell Bank's total assets grew from $247.0 million to approximately $812.1 million; total loans outstanding grew from $197.8 million to approximately $657.2 million and noninterest bearing deposits grew from $36.9 million to approximately $119.7 million. BWFG believes this growth was driven by BWFG's ability to provide superior service to its customers and its financial stability. This loan growth was achieved while maintaining BWFG's focus on strong underwriting standards, which has been reflected in BWFG's low net charge-off levels. BWFG's return on average common equity improved from (1.4%) to 7.57% over the same period.

Business Strategy

BWFG is focused on making Bankwell Bank the "Hometown" bank and banking provider of choice in BWFG's highly attractive market area through:

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

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- Strategic Acquisitions.   To complement BWFG's organic growth, BWFG focuses on strategic acquisitions in or around its existing markets that further its objectives. BWFG believes there are many banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden and will likely need to partner with an institution like BWFG. On March 31, 2014, BWFG entered into the merger agreement with QBT. As BWFG evaluates potential acquisitions, it will continue to seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising BWFG's risk profile.

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

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- Disciplined Focus on Risk Management. Effective risk management is a key component of BWFG's strong corporate culture. BWFG uses its strong risk management infrastructure to monitor existing loan and investment securities portfolios, support operational decision-making and improve its ability to generate earning assets with strong credit quality. To maintain BWFG's strong credit quality, BWFG uses a comprehensive underwriting process and seeks to

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maintain a diversified loan portfolio and a conservative investment securities portfolio. Board-approved policies contain approval authorities, as appropriate, and are reviewed at least annually. BWFG has a Risk Management Steering Committee comprised of executive officers who oversee new business initiatives and other activities that warrant oversight of risk and related mitigants. Internal review procedures are performed regarding anti-money laundering and consumer compliance requirements. BWFG's Chief Risk Officer reports directly to the Chair of BWFG's Audit Committee.

BWFG's Competitive Strengths

BWFG believes that it is especially well-positioned to create value for its shareholders as a result of the following competitive strengths:

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

- Experienced and Respected Management Team with a Proven and Successful Track Record. BWFG's executive management team is led by Executive Chairman Blake S. Drexler. Mr. Drexler is an investor and Portfolio Manager with the Silvermine Fund and previously was the Managing Director in charge of Derivative Products at Greenwich Capital Markets for 22 years, as well as a member of the Chicago Board of Trade, The Chicago Mercantile Exchange and the Chicago Board Options Exchange. Mr. Drexler joined our board of directors in 2001 and served on the board of The Bank of New Canaan from its organization. Appointed Executive Chairman of BWFG effective August 7, 2014, Mr. Drexler will devote substantial time to BWFG's strategic planning and enterprise-wide initiatives. The balance of BWFG's senior management team is comprised of seasoned professionals with significant banking experience, a history of high performance at local financial institutions and success in identifying, acquiring and integrating financial institutions, including: Heidi S. DeWyngaert, Executive Vice President, Chief Lending Officer (nine years with BWFG), Ernest J. Verrico, Sr., Executive Vice President, Chief Financial Officer (five years with BWFG), Gail E.D. Brathwaite, Executive Vice President and Chief Operating Officer (one year with BWFG, formerly worked for nine years at NewAlliance Bancshares), and Diane Knetzger, Senior Vice President, Director of Marketing (nine years with BWFG). Effective August 7, 2014, Peyton R. Patterson resigned as the Chief Executive Officer and President of BWFG, the Chief Executive Officer of Bankwell Bank, and as a director of each of BWFG and Bankwell Bank. BWFG has initiated a search for a permanent Chief Executive Officer.

- Dedicated Board of Directors with Strong Community Involvement. BWFG's board of directors is comprised of a group of local business leaders who understand the need for strong community banks that focus on serving the financial needs of their customers. One of BWFG's directors, Frederick R. Afragola was instrumental in BWFG's organization and growth. Mr. Afragola was the Chief Executive Officer and President of The Bank of New Canaan from its opening in 2002 until his retirement in 2008 and played an integral role in building BWFG's foundation and

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guiding its growth. The interests of BWFG's executive management team and directors are aligned with those of BWFG's shareholders through common stock ownership. As of May 31, 2014, BWFG directors and officers beneficially owned approximately 33% of BWFG's common stock. By capitalizing on the close community ties and business relationships of BWFG's executive management team and directors, BWFG is positioned to continue taking advantage of the market opportunity present in its primary market.

- Strong Capital Position. At March 31, 2014, BWFG had a 7.35% tangible common equity ratio, and Bankwell Bank had a 7.90% tier 1 leverage ratio and a 9.49% tier 1 risk-based ratio. BWFG believes that its ability to attract capital has facilitated its growth and is an integral component to the execution of its business plan.

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

BWFG's Market

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

BWFG's market area is a demographically diverse area, which includes affluent suburban communities of professionals who work at the 16 Fortune 500 companies headquartered in Connecticut or commute into New York City, approximately 50 miles from BWFG's headquarters. From a small business perspective, in 2010 Connecticut ranked 27th in the nation in the number of business establishments with less than 500 employees (over 70,000 businesses) according to the United States Census Bureau. Many small to mid-sized businesses support these communities and create a highly attractive demographic landscape in which to operate. Fairfield County, where BWFG is headquartered, is the wealthiest county in Connecticut, with a 2008-2012 median household income of $82,614 according to estimates from United States Census Bureau.

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

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

BWFG believes that its primary market is a long-term, attractive market for the types of products and services that BWFG offers. Given Fairfield County's close proximity to New York City and the vibrant business community located in Fairfield County, BWFG anticipates that this market will continue

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to support BWFG’s projected growth. BWFG believes that the population and business concentrations within its primary markets provide attractive opportunities to grow BWFG’s business.

BWFG Products and Services

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

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The following is a summary of BWFG's deposits as of March 31, 2014:

| Type | Total Deposits (dollars in thousands) | Number of Accounts |
|---|---|---|
| Checking | $ 119,656 | 4,447 |
| NOW | 47,274 | 1,195 |
| Money Market | 196,904 | 1,045 |
| Savings | 104,813 | 3,328 |
| Time | 210,576 | 2,362 |
| Total Deposits | $ 679,223 | 12,377 |

Checking consists of both retail and business products. BWFG offers retail customers a range of checking products, including Free Checking, Personal Interest Checking and Tiered Rate Checking, all of which provide BWFG's retail clients with No-Fee ATM Banking Nationwide, a free first order of checks, Free Online and Mobile Banking and Bill Pay Services and the option of E-statements and Debit Purchase Rewards. BWFG offers noninterest bearing checking accounts. BWFG also offer interest-bearing checking to its attorney, IOLTA and sole proprietorship accounts. NOW accounts consist of retail accounts that have minimum balance requirements. Money market accounts consist of products that provide a market rate of interest to depositors but have limited check-writing capabilities. BWFG savings accounts for personal and business are statement savings accounts. Time deposits consist of certificates of deposit, including those held in IRA accounts, generally with maturities ranging from three months to five years and brokered certificates of deposit which are used primarily for asset liability management purposes. BWFG also offers a suite of cash management services for businesses, and Remote Deposit Capture.

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

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

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

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The following table sets forth loan origination activity:

| | For the Three Months Ended March 31, 2014 | | For the Years Ended December 31, 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Total Loans | Number of Loans | Total Loans | Number of Loans | Total Loans | Number of Loans |
| Real estate loans: | | | | | | |
| Residential | $ 4,075 | 7 | $ 52,798 | 51 | $ 65,862 | 79 |
| Commercial | 42,622 | 12 | 100,075 | 80 | 133,956 | 92 |
| Construction | 11,077 | 5 | 46,237 | 30 | 21,064 | 13 |
| Home equity loans | 210 | 3 | 2,272 | 5 | 1,885 | 7 |
| | 57,984 | 27 | 201,382 | 166 | 222,767 | 191 |
| Commercial business loans | 6,735 | 12 | 75,622 | 70 | 58,131 | 73 |
| Consumer loans | 18 | 4 | 461 | 6 | 50 | 5 |
| Total loans | $ 64,737 | 43 | $ 277,465 | 242 | $ 280,948 | 269 |

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

Lending Activities

General. BWFG’s primary lending focus is to serve commercial and middle-market businesses and their executives, high net worth individuals, not-for-profit organizations and consumers with a variety of financial products and services, while maintaining strong and disciplined credit policies and procedures. BWFG offers a full array of commercial and retail lending products to serve the needs of its customers. Commercial lending products include owner-occupied commercial real estate loans, commercial real estate investment loans, commercial loans (such as business term loans, equipment financing and lines of credit) to small and mid-sized businesses and real estate construction and development loans. Retail lending products include residential mortgage loans, home equity lines of credit and consumer installment loans. BWFG’s retail lending products are offered to the community in general and as an accommodation to BWFG’s commercial customers, and their executives and employees. BWFG focuses its lending activities on loans that BWFG originates from borrowers located in its market. BWFG has established an informal, internal lending limit of $9.1 million to one borrower (the statutory maximum is 15% of BWFG’s unimpaired capital and surplus for unsecured loans and an additional 10% of BWFG’s unimpaired capital and surplus for fully secured loans).

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

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Total loans were $657.2 million at March 31, 2014. Since December 31, 2008, total loans have increased $459.4 million from $197.8 million, reflecting expansion of BWFG's branch network, including $25.1 million of acquired loans from The Wilton Bank. The following table summarizes the composition of BWFG's loan portfolio for the dates indicated.

| | At March 31, | | At December 31, | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2012 | |
| (Dollars in thousands) | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio |
| Real estate loans: | | | | | | |
| Residential | $ 158,905 | 24.18 % | $ 155,874 | 24.66 % | $ 144,288 | 27.22 % |
| Commercial | 332,007 | 50.52 | 315,762 | 49.96 | 284,763 | 53.72 |
| Construction | 48,996 | 7.46 | 51,495 | 8.15 | 33,148 | 6.26 |
| Home equity | 13,549 | 2.06 | 13,497 | 2.14 | 11,030 | 2.08 |
| | 553,457 | 84.22 | 536,628 | 84.91 | 473,229 | 89.28 |
| Commercial business loans | 103,154 | 15.70 | 94,547 | 14.96 | 56,764 | 10.71 |
| Consumer loans | 550 | 0.08 | 837 | 0.13 | 57 | 0.01 |
| Total loans | $ 657,161 | 100.00 % | $ 632,012 | 100.00 % | $ 530,050 | 100.00 % |

| | At December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2009 | |
| (Dollars in thousands) | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio |
| Real estate loans: | | | | | | |
| Residential | $ 104,754 | 28.37 % | $ 104,053 | 36.08 % | $ 117,386 | 45.63 % |
| Commercial | 173,951 | 47.10 | 111,271 | 38.58 | 71,829 | 27.92 |
| Construction | 40,422 | 10.95 | 38,072 | 13.20 | 41,703 | 16.21 |
| Home equity | 14,815 | 4.01 | 16,657 | 5.77 | 17,091 | 6.64 |
| | 333,942 | 90.43 | 270,053 | 93.63 | 248,009 | 96.40 |
| Commercial business loans | 35,041 | 9.49 | 17,713 | 6.14 | 9,016 | 3.51 |
| Consumer loans | 311 | 0.08 | 659 | 0.23 | 243 | 0.09 |
| Total loans | $ 369,294 | 100.00 % | $ 288,425 | 100.00 % | $ 257,268 | 100.00 % |

Commercial loans. BWFG offers a wide range of commercial loans, including business term loans, equipment financing and lines of credit to small and midsized businesses. BWFG's target commercial loan market is retail and professional establishments and small- to medium-sized businesses. The terms of these loans vary by purpose and by type of underlying collateral. The commercial loans primarily are underwritten on the basis of the borrower's ability to service the loan from cash flow. BWFG makes equipment loans with conservative margins generally for a term of ten years or less, supported by the useful life of the equipment, at fixed or variable rates, with the loan fully amortizing over the term. Loans to support working capital typically have terms not exceeding one year and usually are secured by accounts receivable, inventory and personal guarantees of the principals of the business and often by the commercial real estate of the borrower. For loans secured by accounts receivable or inventory, principal typically is repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal is typically due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness. Risks associated with

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BWFG’s commercial loan portfolio include those related to the strength of the borrower’s business, which may be affected not only by local, regional and national market conditions, but also changes in the borrower’s management and other factors beyond the borrower’s control; those related to fluctuations in value of any collateral securing the loan; and those related to terms of the commercial loan, which may include balloon payments that must be refinanced or paid off at the end of the term of the loan. BWFG’s commercial loan portfolio presents a higher risk profile than its consumer real estate and consumer loan portfolios.

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

Construction loans. BWFG’s construction portfolio includes loans to small and midsized businesses to construct owner-user properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in BWFG’s market. Construction and development loans are generally made with a term of one to two years and interest is paid monthly. The ratio of the loan principal to the value of the collateral, as established by independent appraisal, typically will not exceed industry standards. Loan proceeds are disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk and change in market trends. BWFG is also exposed to risk based on the ability of the construction loan borrower to finance the loan or sell the property upon completion of the project, which may be affected by changes in market trends since the time that BWFG funded the construction loan.

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

Consumer loans. BWFG offers consumer loans as an accommodation to BWFG’s existing customers, but does not market consumer loans to persons who do not have a pre-existing relationship with BWFG. As of March 31, 2014, BWFG’s consumer loans represented less than 1% of BWFG’s total loan portfolio. BWFG does not expect its consumer loans to become a material component of BWFG’s

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loan portfolio at any time in the foreseeable future. Although BWFG does not engage in any material amount of consumer lending, BWFG's consumer loans, which are underwritten primarily based on the borrower's financial condition and, in many cases, are unsecured credits, subject BWFG to risk based on changes in the borrower's financial condition, which could be affected by numerous factors, including those discussed above.

Credit Policy and Procedures

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

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

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

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

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

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

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

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

Deposits

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

BWFG has built out a network of its main banking office and five other deposit-taking branch offices and attracted significant transaction account business through BWFG's relationship-based approach. As a result of BWFG's significant deposit growth in transaction accounts, which BWFG defines as demand, NOW and money market deposits, BWFG has achieved a favorable deposit mix between transaction accounts and certificates of deposit.

Investment Services

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

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obligations of Bankwell Bank and are not insured or guaranteed by the FDIC or any other governmental agency.

Investments

BWFG manages its investment portfolio primarily for liquidity purposes, with a secondary focus on returns through the use of a liquidity portfolio and an earnings portfolio. BWFG's liquidity portfolio's primary purpose is to provide adequate liquidity necessary to meet any reasonable decline in deposits and any anticipated increase in the loan portfolio. The majority of these securities are classified as available-for-sale. BWFG's earnings portfolio's primary purpose is to generate earnings adequate to provide and contribute to stable income and to generate a profitable return while minimizing risk. The majority of these securities are classified as held-to-maturity. Additionally, BWFG's investment portfolio is used to provide adequate collateral for various regulatory or statutory requirements and to manage BWFG's interest rate risk. BWFG invests in a variety of high-grade securities, including government agency securities, government guaranteed mortgage backed securities, highly rated corporate bonds and municipal securities. BWFG regularly evaluates the composition of this category as changes occur with respect to the interest rate yield curve. Although BWFG may sell investment securities from time to time to take advantage of changes in interest rate spreads, it is BWFG's policy not to sell investment securities unless BWFG can reinvest the proceeds at a similar or higher spread, so as not to take gains to the detriment of future income.

The investment policy is reviewed annually by BWFG's board of directors. Overall investment goals are established by BWFG's board of directors, Chief Executive Officer, Chief Financial Officer and BWFG's asset/liability management committee, or ALCO. BWFG's board of directors has delegated the responsibility of monitoring BWFG's investment activities to ALCO. Day-to-day activities pertaining to the investment portfolio are conducted within BWFG's accounting department under the supervision of BWFG's Chief Financial Officer.

Competition

The financial services industry in BWFG's market and the surrounding area is highly competitive. BWFG competes with commercial banks, savings banks, savings associations, money market funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders in various segments of BWFG's business. Many of these competitors have more assets, capital and lending limits, and resources than BWFG and may be able to conduct more intensive and broader based promotional efforts to reach both commercial and individual customers. Competition for deposit products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

BWFG focuses its marketing efforts on small to medium-sized businesses, professionals and individuals and their employees. This focus includes retail, service, wholesale distribution, manufacturing and international businesses. BWFG attracts these customers based on relationships and contacts that BWFG's management and board of directors have within and beyond the market area. BWFG does not expect to compete with large institutions for the primary banking relationships of large corporations. Rather, BWFG competes for niches in this business segment and for the consumer business of employees of such entities. Many of BWFG's larger commercial bank competitors have greater name recognition and offer certain services that BWFG does not. However, BWFG believes that its presence in BWFG's primary market area and focus on providing superior service to professionals at small to medium sized businesses and individual employees of such businesses are instrumental to BWFG's success.

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BWFG emphasizes personalized banking services and the advantage of local decision-making in BWFG's banking businesses, and this emphasis has been well received by the public in BWFG's market area. BWFG derives a majority of BWFG's business from its local market area, which includes its primary market area of Fairfield County, Connecticut.

Small Business Lending Fund Program

Since 2011, BWFG has participated in the Small Business Lending Fund program, or SBLF, offered by the United States Department of the Treasury, a dedicated investment fund designed to encourage lending to small businesses by providing capital to qualified community banks and community development loan funds with assets of less than $10 billion. In connection with SBLF, the Treasury purchased shares of BWFG's preferred stock on August 4, 2011 for an aggregate purchase price of approximately $10,980,000. BWFG used the proceeds from the SBLF funding to repurchase the preferred stock issued by BWFG to the Treasury in connection with its Capital Purchase Program, as well as to provide additional capital to Bankwell Bank, allowing Bankwell Bank to expand its small business lending programs. In July, 2013, BWFG was ranked first by the Treasury on its list of top performing banks across the nation that participated in SBLF, with the highest growth in qualified small business loans (as defined by the Treasury). As a result of BWFG's success in making loans through the program, BWFG was allowed to repay the funds at a 1% interest rate. The SBLF funds must be repaid by February 4, 2016 or the interest rate on the preferred stock will automatically increase to 9% per year.

Description of Property

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

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

Each lease is at market rate based on similar properties in the applicable market area. BWFG believes that BWFG has the necessary infrastructure in place to support BWFG's projected growth.

Legal Proceedings

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

Enterprise Risk Management

BWFG places significant emphasis on risk mitigation as an integral component of BWFG's organizational culture. BWFG believes that BWFG's emphasis on risk management is manifested in BWFG's solid asset quality statistics. Risk management with respect to BWFG's lending philosophy focuses, among other things, on structuring credits to provide for multiple sources of repayment, coupled with strong underwriting undertaken by experienced bank officers and credit policy personnel. BWFG

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performs quarterly loan impairment analyses on criticized loans and criticized asset action plans for those borrowers who display deteriorating financial conditions in order to monitor those relationships and implement corrective measures on a timely basis to minimize losses. In addition, BWFG performs an annual stress test of BWFG's commercial real estate portfolio, in which BWFG evaluates the impact on the portfolio of declining economic conditions, including lower rental rates, lower occupancy rates and lower resulting valuations. The stress test focuses only on the cash flow and valuation of the properties and ignores the liquidity, net worth and cash flow of any guarantors related to the credits.

BWFG also focuses on risk management in other areas throughout BWFG's organization. BWFG has created the position of Chief Risk Officer to oversee the Risk Management function and formulated a risk management Steering Committee. BWFG currently outsources its asset/liability management process to a reputable third party and on a quarterly basis, BWFG runs the full interest rate risk model. Results of the model are reviewed and validated by BWFG's ALCO. Additionally, BWFG is in the process of strengthening its regulatory compliance and internal control procedures.

Intellectual Property

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

Full Time Employees

At March 31, 2014, BWFG had a total of 103 full-time equivalent employees. None of BWFG's employees are subject to a collective bargaining agreement.

Recent Developments

Effective August 7, 2014, Peyton R. Patterson resigned as the Chief Executive Officer and President of BWFG, the Chief Executive Officer of Bankwell Bank, and as a director of each of BWFG and Bankwell Bank. Ms. Patterson resigned for personal reasons; her resignation was unrelated to the operations and management of BWFG and Bankwell Bank. Also on August 7, 2014, the BWFG Board of Directors named Blake S. Drexler the Executive Chairman of the Board. As Executive Chairman, Mr. Drexler will devote substantial time to BWFG's strategic planning and enterprise-wide initiatives and discharge the responsibilities of chief executive officer. His broad financial and managerial experience will complement the operational skills of the executive team.

BWFG has initiated a search for a permanent Chief Executive Officer.

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Management's Discussion and Analysis of Financial Condition and
Results of Operations — Bwfg AND THE WILTON BANK

BWFG Selected Financial Information As of March 31, 2014 and December 31, 2013 and For the Three Months Ended March 31, 2014 and 2013.

This section presents management's perspective on BWFG's financial condition and results of operations. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes contained elsewhere in this prospectus on Form S-4. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the section titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." BWFG assumes no obligation to update any of these forward-looking statements.

General

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

The following discussion and analysis presents BWFG's results of operations and financial condition on a consolidated basis. However, because BWFG conducts all of its material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the Bank.

BWFG generates most of its revenue from interest on loans and investments and fee-based revenues. BWFG's primary source of funding for its loans is deposits. BWFG's largest expenses are interest on these deposits and salaries and related employee benefits. BWFG measures its performance primarily through its net interest margin, efficiency ratio, ratio of allowance for loan losses to total loans, return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

BWFG believes that accounting estimates for the allowance for loan losses, fair values of securities and deferred taxes are particularly critical and susceptible to significant near-term change. These accounting estimates are discussed further below. See "Critical Accounting Policies and Estimates."

Executive Overview

BWFG is focused on becoming the "Hometown" bank and the banking provider of choice in its highly attractive market area, and to serve as a locally based alternative to its larger competitors through:

- Responsive, customer-centric products and services and a community focus;
- Strategic acquisitions;
- Utilization of efficient and scalable infrastructure; and
- Disciplined focus on risk management.

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During 2014 BWFG entered into a merger agreement and completed an initial public offering, or IPO, for the sale of 2,702,703 shares of common stock.
On March 31, 2014, BWFG entered into a merger agreement with Quinnipiac Bank & Trust Company, or Quinnipiac or QBT, located in New Haven County, Connecticut. Quinnipiac has one branch located in Hamden, Connecticut, and a second branch scheduled to open in July 2014, in the neighboring town of North Haven, Connecticut. At March 31, 2014, Quinnipiac had approximately $106 million in assets, $89 million in deposits and loans of $88 million. Upon consummation of the transaction, Quinnipiac will be merged into Bankwell Bank. The transaction is expected to close in the third quarter of 2014, subject to the requisite approval of the shareholders of Quinnipiac, required regulatory approvals, and satisfaction of other customary closing conditions. See Note 13, Subsequent Events, in the Notes to Unaudited Consolidated Financial Statements located elsewhere for further information about the merger agreement with Quinnipiac.
On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its IPO at $18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market (ticker symbol: BWFG). The net proceeds from the IPO were approximately $44.9 million, after deducting the underwriting discount of approximately $2.5 million and approximately $1.3 million of expenses. BWFG intends to use the net proceeds for general corporate purposes, which may include maintaining liquidity at the holding company, providing equity capital to Bankwell Bank to fund balance sheet growth or working capital needs, its working capital needs, and funding acquisitions of branches, whole financial institutions and related lines of businesses in or around its existing market that further its objectives.
Earnings Overview
Net income was $1.1 million for the first quarter of 2014, compared to $1.0 million for the first quarter of 2013. Net income available to common shareholders was $1.1 million, or $0.28 per diluted share, and $1.0 million, or $0.30 per diluted share, respectively, for the three months ended March 31, 2014 and 2103. Returns on average equity and average assets for the three months ended March 31, 2014 were 6.39% and 0.58%, respectively, compared to 6.83% and 0.67%, respectively, for the same period in 2013.
The quarter ended March 31, 2014 included merger and acquisition related expenses of $141 thousand, $93 thousand net of tax, primarily reflecting costs related to BWFG’s definitive agreement to purchase Quinnipiac signed on March 31, 2014. Exclusive of these expenses, net income for the first quarter of 2014 would have been $1.2 million.
For the three months ended March 31, 2014, BWFG had net interest income of $7.1 million, an increase of $1.1 million, or 17%, over the three months ended March 31, 2013. Net interest margin (fully taxable equivalent basis) for the three months ended March 31, 2014 and 2013 was 3.97% and 4.16%, respectively. BWFG also experienced growth in non-interest income, which totaled $769 thousand for the three months ended March 31, 2014 representing 10% of total revenue, up from $284 thousand, or 4% of total revenue, for the three months ended March 31, 2013.
Results of Operations
Net Interest Income
Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of operating income. Net interest income

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is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees and late charges. The following tables and discussion present net interest income on a fully taxable equivalent, or FTE basis, by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. BWFG converts tax-exempt income to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages and, for loans, only include performing loans. Average balances of non-performing loans for the three months ended March 31, 2014 and 2013 totaling $1.0 million and $3.0 million, respectively have been excluded. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which BWFG has ceased to accrue interest. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

FTE net interest income for the three months ended March 31, 2014 and 2013 was $7.3 million and $6.2 million, respectively. The net interest margin declined 19 basis points to 3.97% for the three months ended March 31, 2014, compared to the same period in 2013 due primarily to the effects of the low interest rate environment. While BWFG has experienced significant growth in average loan balances, in the current low interest rate environment, market yields on new loan originations are below the average yield of BWFG’s existing loan portfolio. Due to the combined effect of new loan growth and the runoff of higher yielding loan balances, management anticipates that interest rates on total earning assets will continue to decline. The impact of this trend is likely to exceed the benefit to be realized in reduced funding costs, resulting in modestly lower net interest margin results in the near term.

FTE basis interest income for the three months ended March 31, 2014 increased by $1.2 million, or 18%, to $8.0 million, compared to FTE basis interest income for the three months ended March 31, 2013 due primarily to loan growth in the commercial real estate and commercial business portfolios. Average interest-earning assets were $731.0 million for the three months ended March 31, 2014, up by $137.8 million from the same period in 2013. The average balance of total loans increased $117.7 million, or 22%, contributing $1.4 million to the increase in interest income. Commercial real estate and commercial business loan average balances grew by $47.5 million and $38.0 million, respectively. Partially offsetting the increase in interest income due to volume was a 17 basis point decrease in the weighted average yield earned on BWFG’s loan portfolio due to a lower interest rate environment, which caused a reduction of $275 thousand in interest income.

Interest expense for the three months ended March 31, 2014, increased by $124 thousand, or 21%, compared to interest expense for the three months ended March 31, 2013 due to a $101.6 million increase in the average balances of interest-bearing liabilities. Average balances of total funding liabilities for the three months ended March 31, 2014, increased by $146.4 million, or 27%, from the same period in 2013, primarily due to higher average balances in money market and time accounts, while the weighted average cost declined two basis points to 0.42%.

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Average Balance Sheet, FTE basis Interest and Average Yields/Rates

The following table presents the average balances and yields earned on interest-earning assets and the average balances and weighted average rates paid on BWFG's funding liabilities for the three months ended March 31, 2014 and 2013. Such yields and costs are derived by dividing annualized income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods presented.

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (Dollars in thousands) | Average Balance | Interest | Yield / Rate | Average Balance | Interest | Yield / Rate |
| Assets: | | | | | | |
| Cash and Fed funds sold | $ 32,699 | $ 22 | 0.27 % | $ 16,986 | $ 10 | 0.25 % |
| Securities (1) | 47,782 | 501 | 4.20 | 43,815 | 451 | 4.12 |
| Loans: (2) | | | | | | |
| Commercial real estate | 327,512 | 4,193 | 5.12 | 280,043 | 3,600 | 5.14 |
| Residential real estate | 156,069 | 1,395 | 3.58 | 143,814 | 1,405 | 3.91 |
| Construction (3) | 49,318 | 531 | 4.30 | 33,443 | 409 | 4.89 |
| Commercial business | 98,061 | 1,170 | 4.77 | 60,103 | 791 | 5.26 |
| Home equity | 14,207 | 127 | 3.62 | 10,531 | 96 | 3.70 |
| Consumer | 545 | 13 | 9.32 | 66 | 2 | 10.78 |
| Total loans | 645,712 | 7,429 | 4.60 | 528,000 | 6,303 | 4.77 |
| Federal Home Loan Bank stock | 4,834 | 18 | 1.50 | 4,450 | 4 | 0.36 |
| Total earning assets | 731,027 | $ 7,970 | 4.36 % | 593,251 | $ 6,768 | 4.56 % |
| Other assets | 38,273 | | | 13,590 | | |
| Total assets | $ 769,300 | | | $ 606,841 | | |
| Liabilities and shareholders' equity: | | | | | | |
| Deposits: | | | | | | |
| Noninterest-bearing | $ 123,232 | $ — | — % | $ 78,457 | $ — | — % |
| NOW | 52,596 | 13 | 0.10 | 33,542 | 12 | 0.14 |
| Money market | 170,901 | 180 | 0.43 | 95,315 | 91 | 0.39 |
| Savings | 107,971 | 82 | 0.31 | 132,599 | 154 | 0.47 |
| Time | 183,664 | 347 | 0.77 | 121,821 | 182 | 0.61 |
| Total deposits | 638,364 | 622 | 0.40 | 461,734 | 439 | 0.39 |
| Federal Home Loan Bank advances | 49,733 | 93 | 0.76 | 79,989 | 152 | 0.77 |
| Total funding liabilities | 688,097 | $ 715 | 0.42 % | 541,723 | $ 591 | 0.44 % |
| Other liabilities | 10,887 | | | 5,831 | | |
| Shareholders' equity | 70,316 | | | 59,287 | | |
| Total liabilities and shareholders' equity | $ 769,300 | | | $ 606,841 | | |
| Net interest income (4) | | $ 7,255 | | | $ 6,177 | |
| Interest rate spread | | | 3.94 % | | | 4.12 % |
| Net interest margin (5) | | | 3.97 % | | | 4.16 % |

(1)

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

(2)

- Average balances and yields for loans exclude nonperforming loans.

(3)

- Includes commercial and residential real estate construction.

(4)

- The adjustment for securities and loans taxable equivalency amounted to $109 thousand and $92 thousand, respectively, for the three months ended March 31, 2014 and 2013.

(5)

- Annualized net interest income as a percentage of earning assets.

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

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

| | Three Months Ended March 31, 2014 vs 2013 Increase (Decrease) | | |
|---|---|---|---|
| **(In thousands)** | **Volume** | **Rate** | **Total** |
| Interest and dividend income: | | | |
| Cash and Fed funds sold | $ 11 | $ 1 | $ 12 |
| Securities | 41 | 9 | 50 |
| Loans: | | | |
| Commercial real estate | 608 | (15) | 593 |
| Residential real estate | 114 | (124) | (10) |
| Construction | 176 | (54) | 122 |
| Commercial business | 459 | (80) | 379 |
| Home equity | 33 | (2) | 31 |
| Consumer | 11 | — | 11 |
| Total loans | 1,401 | (275) | 1,126 |
| Federal Home Loan Bank stock | 1 | 13 | 14 |
| Total change in interest and dividend income | 1,454 | (252) | 1,202 |
| Interest expense: | | | |
| Deposits: | | | |
| NOW | 5 | (4) | 1 |
| Money market | 79 | 10 | 89 |
| Savings | (25) | (47) | (72) |
| Time | 109 | 56 | 165 |
| Total deposits | 168 | 15 | 183 |
| Federal Home Loan Bank advances | (56) | (3) | (59) |
| Total change in interest expense | 112 | 12 | 124 |
| Change in net interest income | $ 1,342 | $ (264) | $ 1,078 |

Provision for Loan Losses

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

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Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A provision for loan losses will be recorded for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date. As of and for the three months ended March 31, 2014, there was no provision or allowance for loan losses related to the loan portfolio that we acquired from The Wilton Bank on November 5, 2013 for this reason.

The provision for loan losses for the three months ended March 31, 2014 was $211 thousand compared to $190 thousand provision for loan losses for the three months ended March 31, 2013. For further information, see sections titled Asset Quality and Allowance for Loan Losses.

Noninterest Income

The following table compares noninterest income for the three months ended March 31, 2014 and 2013.

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(Dollars in thousands)** | **2014** | **2013** | **$** | **%** |
| Service charges and fees | $ 132 | $ 101 | $ 31 | 31 % |
| Gains and fees from sales and referrals of loans | 428 | 8 | 420 | 5,250 |
| Bank owned life insurance | 85 | — | 85 | 100 |
| Gain on sale of foreclosed real estate | — | 71 | (71 ) | 100 |
| Other | 124 | 104 | 20 | 19 |
| Total noninterest income | $ 769 | $ 284 | $ 485 | 171 % |

Noninterest income increased $485 thousand to $769 thousand for the three months ended March 31, 2014 compared to the same period in 2013, reflecting an increase in gains recorded on sales of loan and income earned on bank-owned life insurance. During the three months ended March 31, 2014, BWFG recorded income of $413 thousand on the sale of $14.9 million commercial real estate loans and $15 thousand on the sale of $1.1 million residential real estate loans. In the fourth quarter of 2013, BWFG purchased $10.0 million in life insurance coverage and during the quarter ended March 31, 2014, the cash surrender value increased by $85 thousand, which is recorded as noninterest income.

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Noninterest Expense

The following table compares noninterest expense for the three months ended March 31, 2014, and 2013.

| (Dollars in thousands) | Three Months Ended March 31, 2014 | 2013 | Change $ | % |
|---|---|---|---|---|
| Salaries and employee benefits | $ 3,337 | $ 2,492 | $ 845 | 34 % |
| Occupancy and equipment | 1,068 | 772 | 296 | 38 |
| Professional services | 369 | 369 | — | — |
| Data Processing | 337 | 256 | 81 | 32 |
| Marketing | 110 | 128 | (18 ) | (14 ) |
| Merger and acquisition related expenses | 141 | — | 141 | 100 |
| FDIC insurance | 118 | 130 | (12 ) | (9 ) |
| Director fees | 138 | 139 | (1 ) | (1 ) |
| Foreclosed real estate | 14 | — | 14 | 100 |
| Amortization of intangibles | 27 | — | 27 | 100 |
| Other | 382 | 312 | 70 | 22 |
| Total noninterest expense | $ 6,041 | $ 4,598 | $ 1,443 | 31 % |

Noninterest expense increased $1.4 million to $6.0 million for the three months ended March 31, 2014 compared to the same period in 2013. The largest component of the total increase was salaries and employee benefits, primarily reflecting higher staffing levels, incentive accruals and equity-based compensation expense. The increase in occupancy and equipment expense largely reflects investments related to technology and other equipment as well as costs related to the new Wilton location acquired in November, 2013 and the relocation of two branch locations. Data processing costs have increased reflecting higher transaction volume. Merger and acquisition related expenses during the first quarter 2014 primarily reflect costs associated with the definitive merger agreement with Quinnipiac signed on March 31, 2014.

Income Tax Expense

Income tax expense for the three months ended March 31, 2014 and 2013 totaled $540 thousand and $569 thousand, respectively. The effective tax rates for the three months ended March 31, 2014 and 2013, were 32.5%,and 36.0%, respectively. The decrease in the effective tax rate reflects increases in nontaxable income, including bank-owned life insurance.

Financial Condition

Summary

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

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Loan Portfolio

Bankwell Bank originates commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within the market of Fairfield County and the surrounding Connecticut region. The loan portfolio is the largest category of its earning assets. Loans acquired in connection with the Wilton acquisition in November 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 disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

Total loans before deferred loan fees were $657.2 million at March 31, 2014, up by $25.1 million, or 4%, from December 31, 2013. Commercial real estate and commercial business loans have experienced the most significant growth, up by $15.5 million and $9.6 million, respectively.

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

| (In thousands) | March 31, 2014 | | | December 31, 2013 | | | Change |
|---|---|---|---|---|---|---|---|
| | Originated | Acquired | Total | Originated | Acquired | Total | Total |
| Real estate loans: | | | | | | | |
| Residential | $ 158,905 | $ — | $ 158,905 | $ 155,874 | $ — | $ 155,874 | $ 3,031 |
| Commercial | 323,849 | 8,158 | 332,007 | 305,823 | 9,939 | 315,762 | 16,245 |
| Construction | 44,158 | 4,838 | 48,996 | 44,187 | 7,308 | 51,495 | (2,499 ) |
| Home equity | 9,734 | 3,815 | 13,549 | 9,625 | 3,872 | 13,497 | 52 |
| | 536,646 | 16,811 | 553,457 | 515,509 | 21,119 | 536,628 | 16,829 |
| Commercial business | 100,701 | 2,453 | 103,154 | 92,173 | 2,374 | 94,547 | 8,607 |
| Consumer | 67 | 483 | 550 | 225 | 612 | 837 | (287 ) |
| Total loans | $ 637,414 | $ 19,747 | $ 657,161 | $ 607,907 | $ 24,105 | $ 632,012 | $ 25,149 |

Asset Quality

Acquired loans are recorded at fair value and are categorized as performing regardless of their payment status. Therefore, some overall portfolio measures of asset performance are not comparable between periods as a result of The Wilton Bank acquisition.

Asset quality metrics remained strong through the first quarter of 2014. Nonperforming assets totaled $2.9 million and represented 0.36% of total assets at March 31, 2014, compared to $1.8 million and 0.23% of total assets at December 31, 2013. Nonaccrual loans totaled $2.1 million at March 31, 2014, an increase of $1.1 million from December 31, 2013, due to the addition of one commercial real estate loan. The balance of foreclosed real estate remained unchanged and was $829 thousand at March 31, 2014 and December 31, 2013, consisting of four residential lots that were acquired from Wilton. There were three accruing troubled debt restructured loans, with a balance of $1.6 million at March 31, 2014 and December 31, 2013.

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The following table presents nonperforming assets and additional asset quality data for the dates indicated:

| | At March 31, 2014 | | | At December 31, 2013 | | |
|---|---|---|---|---|---|---|
| **(In thousands)** | **Originated** | **Acquired** | **Total** | **Originated** | **Acquired** | **Total** |
| Nonaccrual loans: | | | | | | |
| Real estate loans: | | | | | | |
| Residential | $ 984 | $ — | $ 984 | $ 1,003 | $ — | $ 1,003 |
| Commercial | 1,117 | — | 1,117 | — | — | — |
| Construction | — | — | — | — | — | — |
| Home equity | — | — | — | — | — | — |
| Commercial business | — | — | — | — | — | — |
| Consumer | — | — | — | — | — | — |
| Total non accrual loans | $ 2,101 | $ — | $ 2,101 | $ 1,003 | $ — | $ 1,003 |
| Property acquired through foreclosure or repossession, net | — | 829 | 829 | — | 829 | 829 |
| Total nonperforming assets | $ 2,101 | $ 829 | $ 2,930 | $ 1,003 | $ 829 | $ 1,832 |
| Nonperforming assets to total assets | 0.26 % | 0.10 % | 0.36 % | 0.13 % | 0.11 % | 0.23 % |
| Nonaccrual loans to total loans | 0.33 % | 0.00 % | 0.32 % | 0.16 % | 0.00 % | 0.16 % |
| Total past due loans to total loans | 0.35 % | 18.01% | 0.88 % | 0.16 % | 15.02% | 0.73 % |
| Accruing loans 90 days or more past due | $ — | $ 1,747 | $ 1,747 | $ — | $ 3,620 | $ 3,620 |

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses, or the allowance, necessarily involves a high degree of judgment. BWFG uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. BWFG evaluates the adequacy of the allowance at least quarterly. The allowance for loan losses is management’s best estimate of the probable loan losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged off, and is reduced by charge-offs on loans.

At March 31, 2014, the allowance for loan losses was $8.6 million and represented 1.31% of total loans, compared to $8.4 million, or 1.33% of total loans, at December 31, 2013. The net increase in the allowance primarily reflects the quarterly provision of $211 thousand and net recoveries of $10 thousand. The carrying amount of total impaired loans at March 31, 2014 and December 31, 2013 was $3.7 million and the amount of related allowance totaled $144 thousand and $145 thousand, respectively. At March 31, 2014 and December 31, 2013, impaired loans consisted of one residential mortgage loan, one substandard commercial mortgage loan and three performing troubled debt restructured loans.

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The following tables present the activity in BWFG's allowance for loan losses and related ratios for the dates indicated:

| (Dollars in thousands) | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| Balance at beginning of period | $ 8,382 | $ 7,941 |
| Charge-offs: | | |
| Consumer | — | (2 ) |
| Total charge-offs | — | (2 ) |
| Recoveries: | | |
| Consumer | 10 | 5 |
| Total recoveries | 10 | 5 |
| Net recoveries (charge-offs) | 10 | 3 |
| Provision charged to earnings | 211 | 190 |
| Balance at end of period | $ 8,603 | $ 8,134 |
| Net recoveries (charge-offs) to average loans | 0.01 % | 0.00 % |
| Allowance for loan losses to total loans | 1.31 % | 1.46 % |

The following tables present the allocation of the allowance for loan losses and the percentage of these loans to total loans for the dates indicated:

| (Dollars in thousands) | At March 31, 2014 Amount | At March 31, 2014 Percent of Loan Portfolio | At December 31, 2013 Amount | At December 31, 2013 Percent of Loan Portfolio |
|---|---|---|---|---|
| Residential real estate | $ 1,298 | 24.18 % | $ 1,310 | 24.66 % |
| Commercial real estate | 3,767 | 50.52 | 3,616 | 50.08 |
| Construction | 1,012 | 7.46 | 1,032 | 8.16 |
| Home equity | 192 | 2.06 | 190 | 2.20 |
| Commercial business | 2,331 | 15.70 | 2,225 | 14.80 |
| Consumer | 3 | 0.08 | 9 | 0.10 |
| Unallocated | — | — | — | — |
| Total allowance for loan losses | $ 8,603 | 100.00% | $ 8,382 | 100.00% |

The allocation of the allowance for loan losses at December 31, 2013 reflects management's assessment of credit risk and probable loss within each portfolio. Management believes that the level of the allowance for loan losses at March 31, 2014 is appropriate to cover probable losses.

Investment Securities

At March 31, 2014, the carrying value of the investment securities portfolio totaled $49.3 million and represented 6% of total assets, compared to $42.4 million and 5% of total assets at December 31, 2013. The increase of $6.9 million,

or 16%, primarily reflects purchases of U.S. Government agency obligations, corporate and municipal bonds totaling $7.2 million. BWFG purchases investment grade
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securities with a focus on earnings, duration exposure and for use as collateral for public funds. There were no sales of available-for-sale investment securities during the first quarter of 2014.

The net unrealized gain position on the investment portfolio at March 31, 2014 and December 31, 2013 was $988 thousand and $695 thousand, respectively and included gross unrealized losses of $258 thousand and $349 thousand, respectively. The gross unrealized losses were concentrated in U.S. Government and agency obligations, reflecting interest rate fluctuation. At March 31, 2014, management determined that there had been no deterioration in credit quality subsequent to purchase and believe that all unrealized losses are temporary. All of BWFG's investment securities are investment grade.

Sources of Funds

Total deposits were $679.2 million at March 31, 2014, an increase of $17.7 million, or 3%, from balance at December 31, 2013 reflecting growth in money market accounts and time deposits generated from the Certificate of Deposit Account Registry Service, or CDARS, network, partially offset by a decrease in NOW accounts. CDARS time deposits increased by $11.7 million, or 39%, from year-end 2013, reflecting an increase in one-way buy transactions.

BWFG utilizes advances from the Federal Home Loan Bank of Boston, or FHLBB, as part of its overall funding strategy and to meet short-term liquidity needs. Total FHLBB advances were $59.0 million at March 31, 2014 compared to $44.0 million at December 31, 2013. The increase of $15 million, or 34%, reflects normal operating fluctuation in borrowings.

Liquidity

BWFG is required to maintain levels of liquid assets sufficient to ensure safe and sound operation. Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. BWFG's primary source of liquidity is deposits. Other sources of funding include discretionary use of FHLBB term advances and other borrowings, cash flows from investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.

BWFG anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of March 31, 2014, BWFG had cash and cash equivalents of $82.2 million and available-for-sale securities of $35.6 million. At March 31, 2014, outstanding commitments to originate loans totaled $69.3 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled $46.3 million. Time deposits, including CDARS, scheduled to mature in one year or less at March 31, 2014 totaled $175.9 million. Historically, BWFG's deposit flow history has been that a significant portion of such deposits remain with BWFG.

Capital Resources

Total shareholders' equity was $71.1 million at March 31, 2014 compared to $69.5 million at December 31, 2013. The increase of $1.6 million primarily reflected net income of $1.1 million for the three months ended March 31, 2014. The ratio of total equity to total assets was 8.76% at March 31, 2014, which compares to 8.91% at December 31, 2013.

Bankwell Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and

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possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At March 31, 2014, Bankwell Bank, met all capital adequacy requirements to which they were subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At March 31, 2014, Bankwell Bank's ratio of total capital to risk-weighted assets was 10.74%, Tier 1 capital to risk-weighted assets was 9.49% and Tier 1 capital to average assets was 7.91%.

On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its initial public offering ("IPO") at $18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market (ticker symbol: BWFG). The net proceeds from the IPO were approximately $44.9 million, after deducting the underwriting discount of approximately $2.5 million and approximately $1.3 million of expenses.

Interest Rate Sensitivity Analysis

BWFG measures interest rate risk using simulation analysis to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk, or IRR, is quantified and appropriate strategies are formulated and implemented. IRR is managed by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles for us. Because income simulations assume that BWFG's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

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

The following tables set forth the estimated percentage change in net interest income at risk over one-year simulation periods beginning March 31, 2014 and December 31, 2013.

| **Parallel Ramp Rate Changes (basis points)** | **Estimated Percent Change in Net Interest Income** | |
|---|---|---|
| | **March 31, 2014** | **December 31, 2013** |
| -100 | (0.82)% | (0.73)% |
| +200 | (4.40) | (3.63) |

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| Parallel Shock Rate Changes (basis points) | Estimated Percent Change in Net Interest Income | |
|---|---|---|
| | March 31, 2014 | December 31, 2013 |
| -100 | (2.13 )% | (1.97 )% |
| +100 | (4.25 ) | (3.18 ) |
| +200 | (7.20 ) | (5.93 ) |
| +300 | (11.57) | (10.20) |

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

Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.

The following table sets forth the estimated percentage change in BWFG's economic value of equity at risk, assuming various shifts in interest rates.

| Parallel Shock Rate Changes (basis points) | Estimated Percent Change in Economic Value of Equity | |
|---|---|---|
| | March 31, 2014 | December 31, 2013 |
| -100 | (4.00 )% | (4.30 )% |
| +100 | (8.20 ) | (9.30 ) |
| +200 | (15.90) | (20.10) |
| +300 | (22.70) | (29.20) |

BWFG's interest rate position continues to remain liability sensitive. The sensitivity intensified somewhat during the quarter ended March 31, 2014 due to the increase in rate sensitive money market deposit account balances and short-term FHLBB advances. In February 2014, BWFG entered into a $25 million interest rate swap effective April 1, 2014, slightly diminishing its liability sensitive position. Bankwell Bank remains within all internally established policies for interest rate risk and the economic value of equity calculation.

Selected Financial Information As of December 31, 2013 and 2012 and For the Years Ended December 31, 2013, 2012 and 2011.

Executive Overview

During 2013, BWFG experienced record earnings with strong momentum in BWFG's deposit and loan growth. Total revenues increased by 39% over 2012 reflecting a strong net interest margin of

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

BWFG is focused on becoming the “Hometown” bank in the market it serves. BWFG aims to generate long-term growth for its shareholders and is undertaking several key strategic initiatives to achieve this objective. Over the past 24 months, these strategic initiatives have included:

- Augmenting BWFG’s management team with a new Chief Operating Officer;
- Acquiring The Wilton Bank, adding approximately $70.9 million of assets and approximately $64.2 million of deposits to BWFG’s balance sheet;
- Hiring new lending officers and supporting growth in BWFG’s commercial business lending function;
- Completing a core system conversion, which BWFG believes will provide operating efficiencies and cost savings and broader product capabilities in future periods; and
- Adding cash management services and launching Bankwell Investment Services through an agreement with an investment brokerage firm to provide on-site wealth management specialists who can generate fee-based revenue.

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

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

(a)

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

(b)

- Calculated using the principal amounts outstanding on loans.

(c)

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

(d)

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

(e)

- Excludes preferred stock and unvested restricted stock awards.

(f)

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

QBT Acquisition

On March 31, 2014, BWFG entered into the merger agreement with QBT. QBT has one branch located in Hamden, Connecticut, and has received FDIC and Banking Department approval to open a second branch in the neighboring town of North Haven. Both towns are in New Haven County, Connecticut, which will represent a new market for BWFG. At December 31, 2013, QBT had approximately $100 million in assets, $87 million in deposits and loans of $83 million.

Total consideration for the acquisition is expected to be comprised of BWFG's common stock (75%) and cash (25%). The total consideration to be paid to Quinnipiac shareholders, based on the closing price of a share of BWFG's common stock on the OTCBB on March 31, 2014, is approximately $15 million. Pursuant to the merger agreement, each outstanding share of QBT will be converted at the election of the holder into the right to receive 0.56 shares of BWFG's common stock, or $12.00 in cash, subject to pro rata adjustments to meet the proportion of stock and cash consideration described above. Outstanding options to purchase Quinnipiac shares will be exchanged for options in BWFG's common stock adjusted for the 0.56 fixed exchange ratio. The exercise price per share of BWFG's common stock under the new option shall be equal to the exercise price per share of QBT common stock subject to the QBT stock option divided by the 0.56 fixed exchange ratio. Outstanding warrants held by founders of QBT will be automatically converted into a warrant to purchase 0.56 shares of BWFG's common stock for $17.86. Upon consummation of the transaction, QBT will be merged into Bankwell Bank. Upon effectiveness of the merger, BWFG has agreed to increase the number of BWFG's directors and of the directors of Bankwell Bank by one, such positions to be filled by the same individual, who will be selected by BWFG's board of directors after consulting with QBT. Additionally, change in control payments will be made to QBT's President and Chief Executive Officer, Mark Candido, and QBT's Chief Lending Officer and Executive Vice President, Richard Barredo, in an amount equal to $331,021 and $300,425, respectively.

The Wilton Bank Acquisition

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

In July 2010, The Wilton Bank agreed to the issuance of a formal, written consent agreement, or the Consent Agreement, with the FDIC and the Connecticut Department of Banking. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1 capital ratio at least equal to 12% of total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Wilton Bank was in compliance with all terms except the Tier 1 capital ratio as of the acquisition date, at which time the Consent Agreement ceased to apply and is not binding on BWFG. As a result of a decline in their business and regulatory restrictions, The Wilton Bank had not been profitable since 2008. Without these regulatory restrictions, BWFG expects to be able to effectively deploy and use The Wilton Bank's excess liquidity.

On the acquisition date, The Wilton Bank had shareholders' equity of $6.3 million, with a book value per share of $17.00. As part of the acquisition, The Wilton Bank shareholders received $13.50 per share resulting in an aggregate deal value of $5.0 million. In accordance with applicable accounting guidance, the amount paid was allocated to the fair value of the net assets acquired, with any excess amounts recorded as goodwill. If the fair value of the net assets is greater than the amount paid, the excess amount is recorded to noninterest income as a gain on the purchase. BWFG recorded a gain of $1.3 million in conjunction with the acquisition, representing the amount that the net assets exceeded the amount paid. Fair values of certain balance sheet items were cash of $35.9 million, loans of $25.1 million and deposits of $64.2 million. The results of The Wilton Bank's operations have been included in BWFG's Consolidated Statement of Income from the acquisition date.

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Earnings Overview

2013 Earnings Summary

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

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

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

2012 Earnings Summary

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

BWFG's net interest income for the year ended December 31, 2012, increased by $3.5 million, or 20% over net interest income for the year ended December 31, 2011, due primarily to growth in average loan balances. BWFG's net interest margin was 4.11% for the year ended December 31, 2012, compared to net interest margin of 4.27% reported in 2011. The decrease in net interest margin was due primarily to the effect of the lower interest rate environment. BWFG's provision for loan losses for the year ended December 31, 2012, was $1.8 million, an increase of $772 thousand from BWFG's provision for loan

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losses for 2011, reflecting BWFG's significant loan growth during 2012. In 2012, net charge-offs totaled $305 thousand, or 0.07% of total average loans, compared to $64 thousand, or 0.02% of total average loans in 2011. BWFG's noninterest income for the year ended December 31, 2012 decreased by $789 thousand, or 70%, from noninterest income for 2011. This decrease was primarily attributable to lower gains and fees from sales of loans and investment securities tied to low levels of loan sale activity and prior year gains on sales of securities. BWFG's noninterest expenses for the year ended December 31, 2012, increased by $3.3 million, or 22%, compared to noninterest expense for 2011 due, in large part, to the commencement of various strategic initiatives to support BWFG's future growth plans. These strategic initiatives generated several non-recurring expenses involving salaries and operations as BWFG hired a new Chief Executive Officer prior to the departure of BWFG's former Chief Executive Officer, BWFG made a strong commitment to elevating BWFG's technology platform, and BWFG engaged consultants to support efforts to grow BWFG's community bank model. Additionally, BWFG experienced an operating loss related to wire fraud during 2012 of $478 thousand, which BWFG has since partially recovered. BWFG's income tax expense was $657 thousand for the year ended December 31, 2012, representing a decrease of $340 thousand from income tax expense for 2011. The effective tax rate for the year ended December 31, 2012 was 35.1%, compared to 31.1% for the year ended December 31, 2011, primarily due to increased state tax expense and share-based compensation expense.

Results of Operations

Net Interest Income

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

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

FTE net interest income for the years ended December 31, 2013 and 2012 was $25.7 million and $21.6 million, respectively. BWFG's net interest margin declined 17 basis points to 3.94% for the year ended December 31, 2013, compared to the same period in 2012 due primarily to the effects of the low interest rate environment. While BWFG has experienced significant growth in average loan balances, in the current low interest rate environment, market yields on new loan originations are below the average yield of BWFG's existing loan portfolio. Due to the combined effect of new loan growth and the runoff of higher yielding loan balances, BWFG anticipates that interest rates on total earning assets will continue to

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decline. The impact of this trend is likely to exceed the benefit to be realized in reduced funding costs, resulting in modestly lower net interest margin results in the near term.

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

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

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

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

(1)

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

(2)

• Average balances and yields for loans exclude nonperforming loans

(3)

• Includes commercial and residential real estate construction loans

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

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

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

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

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

| | Average Balance | | Change | | Rate | | Change |
|---|---|---|---|---|---|---|---|
| **Years Ended December 31, (Dollars in thousands)** | **2012** | **2011** | **$** | **%** | **2012** | **2011** | **%** |
| Earning assets | | | | | | | |
| Cash and Fed funds sold | $ 16,933 | $ 17,401 | $ (468) | (3)% | 0.21 % | 0.27 % | (0.06)% |
| Securities (1) | 56,321 | 80,586 | (24,265) | (30) | 4.20 | 4.03 | 0.17 |
| Loans: (2) | | | | | | | |
| Commercial real estate | 236,934 | 140,536 | 96,398 | 69 | 5.45 | 6.00 | (0.55) |
| Residential real estate | 119,960 | 96,244 | 23,716 | 25 | 4.02 | 4.95 | (0.93) |
| Construction (3) | 34,177 | 34,118 | 59 | 0 | 5.13 | 5.57 | (0.44) |
| Commercial business | 44,220 | 35,246 | 8,974 | 25 | 5.36 | 5.63 | (0.27) |
| Home equity | 12,789 | 15,223 | (2,434) | (16) | 3.64 | 3.36 | 0.28 |
| Consumer | 80 | 393 | (313) | (80) | 12.50 | 10.43 | 2.07 |
| Total loans | 448,160 | 321,760 | 126,400 | 39 | 4.99 | 5.48 | (0.49) |
| Federal Home Loan Bank stock | 3,615 | 3,364 | 251 | 7 | 0.49 | 0.30 | 0.19 |
| Total earning assets | $ 525,029 | $ 423,111 | $ 101,918 | 24 % | 4.72 % | 4.95 % | (0.23)% |
| Funding liabilities | | | | | | | |
| Deposits: | | | | | | | |
| NOW | $ 31,490 | $ 30,288 | $ 1,202 | 4 % | 0.14 % | 0.14 % | — % |
| Money market | 90,342 | 60,941 | 29,401 | 48 | 0.68 | 0.83 | (0.15) |
| Savings | 102,641 | 65,223 | 37,418 | 57 | 0.82 | 0.81 | 0.01 |
| Time | 122,350 | 119,207 | 3,143 | 3 | 0.71 | 0.79 | (0.08) |
| Total interest-bearing | 346,823 | 275,659 | 71,164 | 26 | 0.68 | 0.73 | (0.05) |
| Noninterest-bearing | 78,453 | 70,964 | 7,489 | 11 | — | — | — |
| Total deposits | 425,276 | 346,623 | 78,653 | 23 | 0.56 | 0.58 | (0.02) |
| Federal Home Loan Bank advances | 61,836 | 44,452 | 17,384 | 39 | 1.33 | 1.91 | (0.58) |
| | $ 487,112 | $ 391,075 | $ 96,037 | 25 % | 0.66 % | 0.73 % | (0.07)% |

| | Average Balance | Change | Rate | Change |
|---|---|---|---|---|
| Total funding liabilities | | | | |

(1)

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

(2)

- Average balances and yields for loans exclude nonperforming loans

(3)

- Includes commercial and residential real estate construction loans

Average balance sheet, FTE basis interest income, interest expense, average yields earned and rates paid
The following table presents average balance sheet information, FTE basis interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2013, 2012 and 2011. Tax-exempt income is converted to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The

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average balances are principally daily averages and, for loans, only include performing balances. Average balances of non-performing loans for the years ended December 31, 2013, 2012 and 2011 totaling $2.9 million, $4.5 million and $2.9 million, respectively have been excluded. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments, but does not include interest on loans for which BWFG has ceased to accrue interest. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

| | Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| (Dollars in thousands) | Average Balance | Interest | Yield / Rate | Average Balance | Interest | Yield / Rate | Average Balance | Interest | Yield / Rate |
| Assets: | | | | | | | | | |
| Cash and Fed funds sold | $35,599 | $84 | 0.24% | $16,933 | $35 | 0.21 % | $17,401 | $47 | 0.27 % |
| Securities (1) | 40,932 | 1,766 | 4.31 | 56,321 | 2,366 | 4.20 | 80,586 | 3,249 | 4.03 |
| Loans: (2) | | | | | | | | | |
| Commercial real estate | 299,142 | 15,124 | 5.06 | 236,934 | 12,919 | 5.45 | 140,536 | 8,434 | 6.00 |
| Residential real estate | 152,498 | 5,577 | 3.66 | 119,960 | 4,826 | 4.02 | 96,244 | 4,766 | 4.95 |
| Construction (3) | 38,073 | 1,763 | 4.63 | 34,177 | 1,752 | 5.13 | 34,118 | 1,899 | 5.57 |
| Commercial business | 69,252 | 3,699 | 5.34 | 44,220 | 2,370 | 5.36 | 35,246 | 1,983 | 5.63 |
| Home equity | 11,287 | 423 | 3.74 | 12,789 | 465 | 3.64 | 15,223 | 511 | 3.36 |
| Consumer | 308 | 18 | 5.98 | 80 | 10 | 12.50 | 393 | 41 | 10.43 |
| Total loans | 570,560 | 26,604 | 4.66 | 448,160 | 22,342 | 4.99 | 321,760 | 17,634 | 5.48 |
| Federal Home Loan Bank stock | 4,624 | 17 | 0.36 | 3,615 | 18 | 0.49 | 3,364 | 10 | 0.30 |
| Total earning assets | 651,715 | $28,471 | 4.37% | 525,029 | $24,761 | 4.72 % | 423,111 | $20,940 | 4.95 % |
| Other assets | 17,782 | | | 16,297 | | | 15,166 | | |
| Total assets | $669,497 | | | $541,326 | | | $438,277 | | |
| Liabilities and shareholders' equity: | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Noninterest-bearing | $96,009 | $— | — % | $78,453 | $— | — % | $70,964 | $— | — % |
| NOW | 40,554 | 49 | 0.12 | 31,490 | 45 | 0.14 | 30,288 | 44 | 0.14 |
| Money market | 116,323 | 498 | 0.45 | 90,342 | 612 | 0.68 | 60,941 | 506 | 0.83 |
| Savings | 117,388 | 543 | 0.46 | 102,641 | 846 | 0.82 | 65,223 | 527 | 0.81 |
| Time | 158,996 | 1,143 | 0.72 | 122,350 | 864 | 0.71 | 119,207 | 946 | 0.79 |
| Total deposits | 529,270 | 2,233 | 0.43 | 425,276 | 2,367 | 0.56 | 346,623 | 2,023 | 0.58 |
| Federal Home Loan Bank advances | 69,912 | 532 | 0.76 | 61,836 | 825 | 1.33 | 44,452 | 847 | 1.91 |
| Total funding liabilities | 599,182 | $2,765 | 0.47% | 487,112 | $3,192 | 0.66 % | 391,075 | $2,870 | 0.73 % |
| Other liabilities | 7,173 | | | 3,642 | | | 3,350 | | |
| Shareholders' equity | 63,142 | | | 50,572 | | | 43,852 | | |

| | Years ended December 31, | | |
|---|---|---|---|
| Total liabilities and shareholders' equity | $669,497 | $541,326 | $438,277 |
| Net interest income (4) | $25,706 | $21,569 | $18,070 |
| Interest rate spread | 3.90% | 4.06 % | 4.22 % |
| Net interest margin (5) | 3.94% | 4.11 % | 4.27 % |

(1)

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

(2)

- Average balances and yields for loans exclude nonperforming loans.

(3)

- Includes commercial and residential real estate construction loans.

(4)

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

(5)

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

Effect of changes in interest rates and volume of average earning assets and average interest-bearing liabilities
The following table shows the extent to which changes in interest rates and changes in the volume of average earning assets and average interest-bearing liabilities have affected net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and

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the total change. Changes attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of change in each.

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

Provision for Loan Losses

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

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

The provision for loan losses for the year ended December 31, 2013 was $585 thousand compared to a $1.8 million provision for loan losses for the year ended December 31, 2012. The lower 2013 provision for loan losses is attributable to the low level of net charge-offs, nonperforming and past due loans and an overall improvement in BWFG's credit quality. The 2012 provision for loan losses reflected increases in net charge-offs, nonaccrual loans, and troubled debt restructured loans as well as significant growth in BWFG's commercial loan portfolio compared to 2011. The provision charged to

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earnings in 2011 was $1.0 million. For a more detailed discussion of BWFG's allowance for loan losses methodology, see "— Allowance for Loan Losses."

Noninterest Income

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

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

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

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

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

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

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

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Net gain (loss) on sale of available for sale securities. BWFG sells available-for-sale investment securities from time to time for various business purposes, including funding loan demand and managing asset / liability sensitivity. Net gains on the sale of available-for-sale securities totaled $648 thousand for the year ended December 31, 2013 compared to a net loss of $18 thousand for the same period in 2012 due to market conditions at the time as well as the type of securities sold. Investment grade securities were sold in the first half of the year to shorten the duration of the portfolio and to capitalize on favorable market conditions.

Gain on sale of foreclosed real estate. During 2012, BWFG took possession of two properties that BWFG later sold in 2013. In addition, in 2013 BWFG sold a foreclosed property that BWFG attained in its acquisition of The Wilton Bank. Net gains on the sale of foreclosed real estate of $63 thousand were recorded in 2013, reflecting these sales.

Other. BWFG recorded other income of $163 thousand during the year ended December 31, 2013, primarily reflecting the partial recovery of a wire fraud loss, which occurred in 2012. The increase in other income also reflected earnings on bank-owned life insurance and rental income of $31 thousand and $18 thousand, respectively. In the fourth quarter of 2013, BWFG purchased $10 million of bank-owned life insurance on certain employees and recorded income representing the increase in the cash surrender value of the policies. Included in the acquisition of The Wilton Bank was the building, of which a portion is rented.

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

Noninterest income totaled $345 thousand in 2012, a decrease of $789 thousand from 2011. This decrease was due primarily to low levels of loan sale activity and a decrease in prior year gains on sales of securities, while income from service charges and fees remained level.

Service charges and fees. For the year ended December 31, 2012, service charges and fees earned on deposit related services totaled $345 thousand compared to $337 thousand for the year ended December 31, 2011.

Gains and fees from sales and referrals of loans. Gains from sales of loans totaled $18 thousand for the year ended December 31, 2012 compared to $547 thousand for the year ended December 31, 2011. The lower 2012 gains from sales of loans were due to lower residential mortgage loan sales, which BWFG attributes to the fact that new mortgage loan originations during 2012 were primarily adjustable-rate products, which are held in portfolio and not sold in the secondary market, reflecting current consumer trends.

Net gain (loss) on sale of available-for-sale securities. For the year ended December 31, 2012, available for sale securities were sold, which resulted in a net loss recorded to earnings of $18 thousand. This compared to net gains of $250 thousand recorded for the year ended December 31, 2011.

Noninterest Expense

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

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| (Dollars in thousands) | Years Ended December 31, 2013 | 2012 | 2011 | 2013 / 2012 Change $ | % | 2012 / 2011 Change $ | % |
|---|---|---|---|---|---|---|---|
| Salaries and employee benefits | $ 11,565 | $ 9,426 | $ 8,506 | $ 2,139 | 23 % | $ 920 | 11 % |
| Occupancy and equipment | 3,707 | 3,004 | 2,428 | 703 | 23 | 576 | 24 |
| Professional services | 1,595 | 1,546 | 715 | 49 | 3 | 831 | 116 |
| Data Processing | 1,333 | 1,202 | 865 | 131 | 11 | 337 | 39 |
| Marketing | 928 | 333 | 342 | 595 | 179 | (9 ) | (3 ) |
| Merger and acquisition related expenses | 908 | — | — | 908 | 100 | — | — |
| FDIC insurance | 333 | 365 | 472 | (32 ) | (9 ) | (107 ) | (23 ) |
| Director fees | 304 | 366 | 288 | (62 ) | (17 ) | 78 | 27 |
| Foreclosed real estate | 7 | 9 | — | (2 ) | (22 ) | 9 | 100 |
| Amortization of intangibles | 18 | — | — | 18 | 100 | — | — |
| Other | 1,421 | 1,607 | 985 | (186 ) | (12 ) | 622 | 63 |
| Total noninterest expense | $ 22,119 | $ 17,858 | $ 14,601 | $ 4,261 | 24 % | $ 3,257 | 22 % |

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

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

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

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

opened in July 2012, expansion of the corporate premises and investments related to technology and other equipment.
Professional services. Professional services include legal, audit and professional fees paid to external parties. For the year ended December 31, 2013 professional services increased by $49 thousand, or 3%, compared to the year ended December 31, 2012. The 2013 expense also reflects commercial mortgage loan sale fees of $258 thousand.
Data processing. Data processing expense for BWFG's core systems totaled $1.3 million for the year ended December 31, 2013, compared to $1.2 million for the year ended December 31, 2012.

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

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

Director fees. Director fees totaled $334 thousand for the year ended December 31, 2013 and $366 thousand for the year ended December 31, 2012, representing fees paid to the boards of directors for BNC Financial Group, The Bank of New Canaan and The Bank of Fairfield. Upon the merger of the Bank of New Canaan and The Bank of Fairfield in September 2013, the boards of directors of the banks were also merged.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Taxes

Income tax expense for the years ended December 31, 2013, 2012 and 2011 totaled $2.2 million, $657 thousand and $997 thousand, respectively. The effective tax rates for the years ended December 31, 2013, 2012 and 2011, were 29.7%, 35.1% and 31.1%, respectively. The decrease in the effective tax rate for the year ended December 31, 2013 reflects increases in nontaxable income, including the gain realized on BWFG's acquisition of The Wilton Bank. The increase in the effective tax rate for the year ended December 31, 2012, reflects increased state tax expense and increased equity-based compensation expense, partially offset by increases in municipal interest income and the change in the valuation allowance.

BWFG's net deferred tax asset at December 31, 2013, was $5.8 million, compared to $2.8 million, at December 31, 2012. The increase in the deferred tax asset at December 31, 2013 is primarily related to net operating loss carryforwards and purchase accounting adjustments related to the acquisition of The Wilton Bank as well as the decrease in the deferred tax liability related to the net unrealized gain on available for sale securities, which decreased by $692 thousand from $963 thousand at December 31, 2012 to $271 thousand at December 31, 2013. At December 31, 2013 and 2012, a valuation allowance against the deferred tax benefits of the state operating loss carry forwards and other

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state deferred tax assets totaled $682 thousand and $182 thousand, respectively, reflecting that it is more likely than not that some of these deferred tax assets will not be realized. At December 31, 2013, there were federal net operating loss carry forwards of approximately $3.5 million and approximately $6.0 million net operating loss carryforwards for state tax purposes. See Note 12 to BWFG's Consolidated Financial Statements included elsewhere in this prospectus for further information regarding income taxes.

Financial Condition

Summary

Total assets at December 31, 2013 were $779.6 million, an increase of $169.6 million, or 28%, from the December 31, 2012 balance of $610.0 million. This increase was primarily due to BWFG's acquisition of The Wilton Bank as well as organic growth. Net loans were $621.8 million at December 31, 2013, up by $101.0 million from December 31, 2012, reflecting acquired loans of $24.1 million and growth in the commercial business and commercial real estate loan portfolios of $30.5 million and $25.8 million, respectively. Cash balances increased by $53.1 million during 2013, reflecting acquired balances and proceeds from loan sales in the fourth quarter. Also in the fourth quarter of 2013, BWFG purchased $10.0 million of bank-owned life insurance to diversify BWFG's revenue sources and yield tax-free earnings.

Total liabilities at December 31, 2013 were $710.1 million, an increase of $151.6 million from the December 31, 2012 balance of $558.5 million. This increase was primarily due to an increase in deposits of $199.5 million, consisting of organic growth of $135.3 million and the acquired balances of $64.2 million, as well as a decrease in FHLBB borrowings of $47.0 million. Shareholders' equity totaled $69.5 million at December 31, 2013, an increase of $18.0 million, or 35%, from December 31, 2012, largely due to approximately $13.2 million of proceeds from BWFG's two capital raises, and net income of $5.2 million. Bankwell Bank exceeded the regulatory minimum capital levels to be considered well-capitalized with total risk-based capital of 10.74% at December 31, 2013. Bankwell Bank also had Tier 1 risk-based capital of 9.49% Tier 1 capital to average assets ratio of 7.91% at December 31, 2013.

Loan Portfolio

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

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

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The following table compares the composition of BWFG's loan portfolio for the dates indicated:

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

Primary loan categories

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

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

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

Commercial business. Commercial business loans were $92.2 million and represented 15% of BWFG's total loan portfolio at December 31, 2013, compared to $56.8 million and 11%, of the total portfolio at December 31, 2012 and $35.0 million and 9%, of the total loan portfolio at December 31,

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

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

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

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

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

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

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

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

| | December 31, 2013 | | |
|---|---|---|---|
| | Interest Rate | | |
| **(In thousands)** | **Adjustable** | **Fixed** | **Total** |
| Commercial real estate | $ 95,783 | $ 204,105 | $ 299,888 |
| Construction | 14,154 | 21,793 | 35,947 |
| Commercial business | 42,702 | 36,158 | 78,860 |
| Total loans due after one year | $ 152,639 | $ 262,056 | $ 414,695 |

Asset Quality

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

BWFG has established credit policies applicable to each type of lending activity in which it engages. BWFG evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% for retail loans and 75% for commercial loans of the market value of the collateral at the date of the credit extension, depending on the borrowers' creditworthiness and the type of collateral. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, BWFG ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. Private mortgage insurance is required for that portion of the residential loan in excess of 80% of the appraised value of the property.

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

Acquired Loans.   Loans acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are initially recorded at fair value without recording an allowance for loan

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losses. Determining the fair value of the loans is determined using market participant assumptions in estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

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

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

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

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

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

The preceding 2013 table excludes acquired loans that are accounted for as purchased credit impaired loans, which totaled $3.6 million at December 31, 2013. Such loans otherwise meet BWFG’s definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. These loans are, however, 90 days or more past due and reflected as such in the table. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are accounted for on either a pool or individual basis and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

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

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

Nonaccrual Loans. Loans greater than 90 days past due are put on nonaccrual status. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent interest payments received on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. Total nonaccrual loans were $1.0 million at December 31, 2013, consisting of one residential real estate mortgage loan.

The net change in nonaccrual residential real estate loans during 2013 was a net decrease of $1.1 million, reflecting the full payoff of a mortgage loan in March 2013 upon the settlement of an estate.

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At December 31, 2013, the balance of $1.0 million reflects one residential property, which is part of an estate currently going through the probate process. At December 31, 2013, there was a specific loss allocation of $39 thousand for this nonaccrual residential real estate loan.

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

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

Past Due Loans. When a loan is 15 days past due, BWFG sends the borrower a late notice. BWFG 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, BWFG 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, BWFG 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 BWFG's board of directors each month. Generally, loans greater than 90 days past due are put on nonaccrual status. The delinquency status of acquired loans accounted for as purchased credit impaired loans are determined in accordance with their contractual repayment terms. At December 31, 2013, accruing purchased credit impaired loans greater than 90 days past due totaled $3.6 million.

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

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

| (In thousands) | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Greater Than 90 Days | Total Past Due |
|---|---|---|---|---|
| Residential real estate | $ — | $ — | $ 2,137 | $ 2,137 |
| Commercial real estate | — | — | 1,817 | 1,817 |
| Commercial business | 40 | — | — | 40 |
| Total | $ 40 | $ — | $ 3,954 | $ 3,994 |

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

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

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. Through December 31, 2013, all troubled debt restructured loans were accruing at the time of the restructure.

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

The following table presents information on troubled debt restructured loans.

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

As of December 31, 2013 and 2012, loans classified as troubled debt restructurings totaled $1.6 million and $1.9 million, respectively. During 2013, there was a modest decrease in the balance of troubled debt restructurings of $249 thousand reflecting a paydown and declassification from troubled debt restructured status of two commercial business loans as well as a payoff of a commercial real estate

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loan. These decreases were partially offset by BWFG's addition of a home equity loan, which totaled $97 thousand at December 31, 2013. At the time of the troubled debt restructuring, the home equity loan had a balance of approximately $246 thousand, however BWFG received a significant principal paydown late in 2013. The $1.6 million balance at December 31, 2013 consists of three loans. The largest troubled debt restructured loan is a residential real estate loan, which included a modification of certain payment terms and a below market interest rate reduction on the portion of the loan which exceeded 80% of the loan to value ratio. The second largest troubled debt restructured loan is a commercial business loan secured by business assets and included the modification of certain payment terms to extend the loan amortization period and a below market interest rate reduction.

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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The following table presents the activity in BWFG's allowance for loan losses and related ratios:

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

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

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

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

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

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

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

Investment Securities

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

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

| (In thousands) | At December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Securities available for sale: | | | | | | |
| U.S Government and agency obligations | $ 5,997 | $ 5,688 | $ 5,997 | $ 6,005 | $ 41,598 | $ 41,749 |
| State agency and municipal obligations | 11,605 | 12,132 | 17,036 | 18,531 | 17,829 | 19,198 |
| Corporate bonds | 9,166 | 9,566 | 13,681 | 14,556 | 25,365 | 24,981 |
| Government mortgage-backed securities | 1,133 | 1,211 | 1,872 | 1,966 | 2,955 | 3,143 |
| Total securities available for sale | $ 27,901 | $ 28,597 | $ 38,586 | $ 41,058 | $ 87,747 | $ 89,071 |
| Securities held to maturity: | | | | | | |
| U.S Government and agency obligations | $ 1,021 | $ 1,019 | $ — | $ — | $ — | $ — |
| State agency and municipal obligations | 11,461 | 11,461 | 3,903 | 3,903 | 3,962 | 3,962 |
| Corporate bonds | 1,000 | 973 | 1,000 | 904 | 1,000 | 843 |
| Government mortgage-backed securities | 334 | 362 | 451 | 485 | 939 | 999 |
| Total securities held to maturity | $ 13,816 | $ 13,815 | $ 5,354 | $ 5,292 | $ 5,901 | $ 5,804 |

At December 31, 2013, the carrying value of BWFG's investment securities portfolio totaled $42.4 million and represented 5% of total assets, compared to $46.4 million and 8% of total assets at December 31, 2012. This decrease of $4.0 million, or 9%, primarily reflects sales and calls of available-for-sale state agency and municipal obligations and corporate bonds, partially offset by the purchase of a held to maturity municipal bond. At December 31, 2013, BWFG held a municipal bond issued by Stamford Housing Authority, which had amortized cost and fair value of $7.6 million and represented 11% of shareholder's equity. Sales of available-for-sale securities reflected BWFG's strategy to reduce the duration of the portfolio. Realized gains of $648 thousand, recorded in noninterest income, resulted from security sales totaling $9.4 million during the year ended December 31, 2013.

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

The following tables summarize the amortized cost and weighted average yield of debt securities in BWFG's investment securities portfolio as of December 31, 2013 and 2012, based on remaining period to contractual maturity.

Information for mortgage-backed securities is based on the final contractual maturity dates without considering repayments and prepayments.
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| At December 31, 2013 (Dollars in thousands) | Due Within 1 Year | | Due 1 – 5 Years | | Due 5 – 10 Years | | Due After 10 Years | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Available for Sale: | | | | | | | | |
| U.S. Government and agency obligations | $ — | — % | $ 1,000 | 1.29% | $ 4,997 | 1.51% | $ — | — % |
| State agency and municipal obligations | — | — | — | — | 3,125 | 4.07 | 8,480 | 4.20 |
| Corporate bonds | 1,019 | 6.38 | 8,147 | 4.05 | — | — | — | — |
| Government mortgage-backed securities | — | — | — | — | — | — | 1,133 | 5.23 |
| Total available for sale securities | $ 1,019 | 6.38% | $ 9,147 | 3.74% | $ 8,122 | 2.49% | $ 9,613 | 4.32% |
| Held to Maturity: | | | | | | | | |
| U.S. Government and agency obligations | $ — | — % | $ 1,021 | 1.38% | $ — | — % | $ — | — % |
| State agency and municipal obligations | — | — | — | — | — | — | 11,461 | 4.50 |
| Corporate bonds | — | — | — | — | 1,000 | 2.90 | — | — |
| Government mortgage-backed securities | — | — | — | — | — | — | 334 | 5.50 |
| Total held to maturity securities | $ — | — % | $ 1,021 | 1.38% | $ 1,000 | 2.90% | $ 11,795 | 4.53% |

| At December 31, 2012 (Dollars in thousands) | Due Within 1 Year | | Due 1 – 5 Years | | Due 5 – 10 Years | | Due After 10 Years | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Available for Sale: | | | | | | | | |
| U.S. Government and agency obligations | $ — | — % | $ — | — % | $ 5,997 | 1.47% | $ — | — % |
| State agency and municipal obligations | — | — | — | — | 3,631 | 3.92 | 13,405 | 4.25 |
| Corporate bonds | 499 | 4.80 | 11,113 | 3.72 | 2,069 | 4.97 | — | — |
| Government mortgage-backed | — | — | — | — | — | — | 1,872 | 5.12 |

| At December 31, 2012 | Due Within 1 Year | | Due 1 – 5 Years | | Due 5 – 10 Years | | Due After 10 Years | |
|---|---|---|---|---|---|---|---|---|
| securities | | | | | | | | |
| Total available for sale securities | $ 499 | 4.80 % | $ 11,113 | 3.72 % | $ 11,697 | 2.85 % | $ 15,277 | 4.36 % |
| Held to Maturity: | | | | | | | | |
| State agency and municipal obligations | $ — | — % | $ — | — % | $ — | — % | $ 3,903 | 4.25 % |
| Corporate bonds | — | — | — | — | 1,000 | 2.00 | — | — |
| Government mortgage-backed securities | — | — | — | — | — | — | 451 | 5.50 |
| Total held to maturity securities | $ — | — % | $ — | — % | $ 1,000 | 2.00 % | $ 4,354 | 4.38 % |

Bank Owned Life Insurance or BOLI

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

Sources of Funds

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

Deposits

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

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

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

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

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

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

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

During 2013, money market accounts increased $70.5 million, or 75%, reflecting promotions for BWFG's premium money market accounts including an attractive guaranteed rate for six months. Noninterest-bearing demand deposits grew by $40.5 million, or 52%, and NOW accounts increased $39.9 million, or 118% due, in part, to product promotions and increased efforts to cross-sell BWFG's products. Savings accounts were $107.7 million at December 31, 2013, down by $28.4 million, or 21%, from December 31, 2012.

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

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

Borrowings

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

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

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

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

Liquidity and Capital Resources

Liquidity Management

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. BWFG's primary source of liquidity is deposits, which funded approximately 79% of BWFG's total average assets in 2013 and 2012. While BWFG's generally preferred funding strategy is to attract and retain low cost deposits, BWFG's ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term advances and other borrowings), cash flows from BWFG's

investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.

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

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

The following table shows BWFG's available liquidity, by source, as of the dates indicated.

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

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

Capital Resources

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

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Bankwell Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on BWFG's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bankwell Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Bankwell Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets, as defined by regulation. At December 31, 2013, Bankwell Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action.

In 2011, BWFG elected to participate in the Treasury's Small Business Lending Fund Program, or SBLF. The SBLF is a $30 billion fund established under the Small Business Jobs Act of 2010 to encourage lending to small businesses by providing Tier 1 Capital to qualified community banks with assets of less than $10 billion. The SBLF funding expanded BWFG's ability to lend to small businesses, which will in turn help stimulate the economy and promote job growth.

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

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

Contractual Obligations

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

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

Off-Balance Sheet Instruments

In the normal course of business, BWFG is a party to financial instruments with off-balance sheet risk to meet the financing needs of BWFG's 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 BWFG has in particular classes of financial instruments.

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

Commitments to extend credit totaled $117.9 million and $104.8 million, respectively at December 31, 2013 and 2012. The following table summarizes BWFG's commitments to extend credit as of the dates indicated. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. BWFG manages its liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that BWFG will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

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

| As of December 31, 2012 | Amount of Commitment Expiration per Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | Less Than 1 Year | 1 – 3 Years | 4 – 5 Years | After 5 Years |
| Other Commitments: | | | | | |

| As of December 31, 2012 | Amount of Commitment Expiration per Period | | | | |
|---|---|---|---|---|---|
| Loan commitments | $ 39,339 | $ 11,828 | $ 4,679 | $ 7,077 | $ 15,755 |
| Undisbursed construction loans | 54,705 | 26,601 | 6,350 | 5,748 | 16,006 |
| Unused home equity lines of credit | 10,714 | 127 | — | — | 10,587 |
| Total other commitments | $ 104,758 | $ 38,556 | $ 11,029 | $ 12,825 | $ 42,348 |

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Recently Issued Accounting Pronouncements
See Note 1 to BWFG's Consolidated Financial Statements contained elsewhere in this prospectus for details of recently issued accounting pronouncements and their expected impact on BWFG's financial statements.
Asset/Liability Management and Interest Rate Risk
An effective asset/liability management process must balance the risks and rewards from both short and long-term interest rate risks in determining management strategy and action. BWFG's ALCO facilitates and manages this process with the primary goal of maximizing net income and net economic value over time in changing interest rate environments, subject to board of director approved risk limits. ALCO regularly reviews various earnings at risk scenarios for changes in rates, as well as longer-term earnings at risk greater than five years.
The principal strategies BWFG uses to manage interest rate risk include (i) emphasizing the origination, purchase and retention of adjustable rate loans, and the origination and purchase of loans with maturities matched with those of the deposits and borrowings funding the loans, (ii) investing in debt securities with relatively short maturities and/or average lives and (iii) classifying a significant portion of its investment portfolio as available for sale so as to provide sufficient flexibility in liquidity management. By BWFG's strategy of limiting Bankwell Bank's risk to rising interest rates, BWFG is also limiting the benefit of falling interest rates.
BWFG measures interest rate risk using simulation analysis to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk, or IRR, is quantified and appropriate strategies are formulated and implemented. BWFG manages IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles for BWFG. Because income simulations assume that BWFG's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that ALCO could implement in response to rate shifts.
BWFG uses net interest income at risk simulation to measure the sensitivity of net interest income to changes in market rates over a forward twelve-month period. This simulation captures underlying product behaviors, such as asset and liability re-pricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) future balance sheet volume and mix assumptions that are management judgments based on estimates and historical experience; (ii) prepayment projections for loans and securities that are projected under each interest rate scenario using internal and external mortgage analytics; (iii) new business loan rates that are based on recent new business origination experience; and (iv) deposit pricing assumptions that are based on Office of the Comptroller of the Currency, or OCC, guidelines for non-maturity deposits reflecting Bankwell Bank's limited history and management judgment. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

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

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

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

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

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

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

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each asset and liability. BWFG conducts non-maturity deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to a periodic review.
Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.
The following table sets forth the estimated percentage change in BWFG's economic value of equity at risk, assuming various shifts in interest rates.

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

While ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of BWFG's balance sheet may change to a different degree than estimated. Simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost time deposits in rising rate scenarios as noted above.
Due to the low current level of market interest rates, the banking industry has experienced relatively strong growth in low-cost FDIC-insured core savings deposits over the past several years. ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above.
It should be noted that the static balance sheet assumption does not necessarily reflect BWFG's expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The assumed relationship between short-term interest rate changes and core deposit rate and balance changes used in income simulation may differ from ALCO's estimates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

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Impact of Inflation

BWFG's financial statements and related data contained in this prospectus have been prepared in accordance with GAAP, which require the measure of financial position and operating results in terms of historic dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects a financial institution's cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders' equity.

Critical Accounting Policies and Estimates

The discussion and analysis of BWFG's results of operations and financial condition are based on BWFG's consolidated financial statements, which have been prepared in accordance with GAAP and with general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires BWFG to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from BWFG's current estimates, as a result of changing conditions and future events. The current economic environment has increased the degree of uncertainty inherent in these significant estimates.

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

Allowance for Loan Losses

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

(1)

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

(2)

- Loss allocations for non-impaired loans are based on historical loss experience, credit, grade, delinquency factors and other similar credit quality indicators, adjusted for qualitative factors. Qualitative factors include, but are not limited to, the value of

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underlying collateral, concentrations of credit, current economic conditions, the state of the business cycle and competitive and regulatory issues.

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

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

(3)

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

Because the methodology is based upon historical loss experience and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. As of December 31, 2013, BWFG's management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

BWFG's Audit Committee of the board of directors is responsible for oversight of the loan review process. This process includes review of Bankwell Bank's procedures for determining the adequacy of the allowance for loan losses, administration of its internal credit rating systems and the reporting and monitoring of credit granting standards.

Valuation of Investment Securities

Securities that BWFG has the ability and intent to hold until maturity are classified as held-to-maturity and are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. Securities available for sale are carried at fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. The fair values of securities are based on either quoted market prices, third party pricing services or third party valuation specialists. When the fair value of an investment security is less than its amortized cost basis,

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BWFG assesses whether the decline in value is other-than-temporary. BWFG considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry the issuer operates in.

Future adverse changes in market conditions, continued poor operating results of the issuer, projected adverse changes in cash flows which might impact the collection of all principal and interest related to the security, or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

Deferred Taxes

BWFG uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Significant judgment is exercised in evaluating the amount and timing of recognition of the resulting tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed continually as regulatory and business factors change.

Emerging Growth Company

The JOBS Act permits BWFG, as an "emerging growth company", to take advantage of an extended transition period to comply with new or revised accounting standards and not commence complying with new or revised accounting standards until private companies must do so. Under the JOBS Act, BWFG may make an irrevocable election to "opt out" of that extended transition period and comply with new or revised accounting standards when public companies that are not emerging growth companies must commence complying with those standards. BWFG has elected to "opt out" of the extended transition period.

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The Wilton Bank Selected Financial Information As of September 30, 2013 and December 31, 2012 and 2011 and For the Nine Months Ended September 30, 2013 and 2012 and the Years Ended December 31, 2012 and 2011.
This section presents The Wilton Bank management's perspective on The Wilton Bank's financial condition and results of operations. The following discussion and analysis should be read in conjunction with the financial statements and related notes of The Wilton Bank contained elsewhere in this prospectus. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." BWFG assumes no obligation to update any of these forward-looking statements.
General
The Wilton Bank is a state chartered commercial bank located in Wilton, Connecticut, whose deposits are insured by the Federal Deposit Insurance Corporation, or the FDIC. The Wilton Bank provides a full range of banking services to commercial and consumer customers, primarily located within its community and the surrounding area. The Wilton Bank is subject to competition from other financial institutions throughout the region. The Wilton Bank is also subject to the regulations of certain federal and state regulatory agencies and undergoes periodic examinations by those regulatory authorities.
The Wilton Bank was acquired by BWFG, on November 5, 2013.
The following discussion and analysis presents The Wilton Bank's results of operations and financial condition for the periods presented.
Overview
Beginning in 2007, softening real estate markets, and generally weak economic conditions led to declines in collateral values and stress on the cash flows of borrowers. As a result of The Wilton Bank's lending concentrations in construction and development loans, The Wilton Bank's loan portfolio was severely affected. These adverse economic conditions continued into 2013 placing further stress on The Wilton Bank's borrowers, resulting in increases in charge-offs, delinquencies and non-performing loans, and in some instances, lower valuations for The Wilton Bank's impaired loans and other real estate owned. During 2013, The Wilton Bank continued to deal with problem assets, both nonaccrual loans and foreclosed real estate, with the effects of the artificially low interest rate environment, with the extremely competitive market for loan originations, and with the shortfall in The Wilton Bank's Tier 1 capital requirement as contained in the Consent Agreement, defined below.
In July 2010, The Wilton Bank agreed to the issuance of a formal, written Consent Agreement with the FDIC and the State of Connecticut Department of Banking, or Banking Department. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1 capital ratio at least equal to 12% to total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Consent Agreement further provided for certain asset growth restrictions together with the reduction of The Wilton Bank's risk position in certain classified assets, and a restriction on the extension of credit to borrowers whose loans are so criticized.

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

Earnings Overview

As a result of the decline in The Wilton Bank's business and the restrictions imposed by its regulators, The Wilton Bank has not been profitable since 2008. The Wilton Bank has focused on dealing with problem loans and foreclosed real estate, continuing to comply with the terms of the Consent Agreement where possible, and decreasing expenses when possible.

2013 Earnings Summary

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

2012 Earnings Summary

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

Results of Operations

Net Interest Income

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

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

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

(1)

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

(2)

- Includes commercial and residential real estate construction.

(3)

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

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

(1)

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

(2)

- Includes commercial and residential real estate construction.

(3)

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

Effect of changes in interest rates and volume of average earning assets and average interest-bearing liabilities
The following table shows the extent to which changes in interest rates and changes in the volume of average earning assets and average interest-bearing liabilities have affected net interest income. For each category of earning assets and interest-bearing liabilities, information is provided relating to: changes in volume (changes in average balances multiplied by the prior year's average interest rates); changes in rates (changes in average interest rates multiplied by the prior year's average balances); and the total change. Changes attributable to both volume and rate have been allocated proportionately based on the relationship of the absolute dollar amount of change in each.
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| (In thousands) | Nine Months Ended September 30, 2013 vs 2012 Increase (Decrease) | | | Year Ended December 31, 2012 vs 2011 Increase (Decrease) | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest and dividend income: | | | | | | |
| Interest earning deposits | $ 29 | $ (11) | $ 18 | $ 36 | $ 6 | $ 42 |
| Securities | (2 ) | (7 ) | (9 ) | (56 ) | 8 | (48) |
| Loans: | | | | | | |
| Loans secured by non-residential properties | (57 ) | (41) | (98 ) | 24 | (58 ) | (34) |
| Loans secured by residential properties | (13 ) | 54 | 41 | (50 ) | 64 | 14 |
| Construction, development and land loans | (118) | 1 | (117) | (38 ) | 60 | 22 |
| Commercial and industrial loans | (34 ) | (28) | (62 ) | (84 ) | (2 ) | (86) |
| Consumer, personal and other loans | 13 | (5 ) | 8 | 14 | (4 ) | 10 |
| Total loans | (209) | (19) | (228) | (134) | 60 | (74) |
| Total change in interest and dividend income | (182) | (37) | (219) | (154) | 74 | (80) |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| NOW | 1 | (2 ) | (1 ) | (1 ) | — | (1 ) |
| Money market | 5 | (10) | (5 ) | (7 ) | (20 ) | (27) |
| Savings | — | (5 ) | (5 ) | 2 | (4 ) | (2 ) |
| Time | (4 ) | (12) | (16 ) | (12 ) | (25 ) | (37) |
| Total deposits | 2 | (29) | (27 ) | (18 ) | (49 ) | (67) |
| Total change in interest expense | 2 | (29) | (27 ) | (18 ) | (49 ) | (67) |
| Change in net interest income | $ (184) | $ (8 ) | $ (192) | $ (136) | $ 123 | $ (13) |

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

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

Interest income for the nine months ended September 30, 2013 decreased by $220 thousand to $1.3 million or 15%, from the comparative 2012 period. This decrease was mainly attributable to the $227 thousand decrease in loan income from $1.4 million in the 2012 period to $1.2 million on the 2013 period. Average loan balances decreased $7.0 million from $38.7 million in the 2012 period to $31.7 million in the 2013 period. This decrease was partially mitigated by the decrease in average nonaccrual loans outstanding, which is a component of average loans. There was a decrease of $3.1 million from $9.7 million in the 2012 period to $6.6 million in the 2013 period. In addition, there was an $18 thousand, or 18%, increase in income on interest earning deposits, mainly as a result of the $8.8 million increase in average balances outstanding from $23.2 in the 2012 period to $32.0 million in the 2013 period.

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

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

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

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

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

Provision for Loan Losses

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

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

Noninterest Income

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

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

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

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

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

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

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

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

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

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

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

Noninterest expense

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

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

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

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

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

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

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

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

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

Data processing. Data processing expense for The Wilton Bank's core systems totaled $150 thousand for the nine months ended September 30, 2013, compared to $120 thousand for the nine

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months ended September 30, 2012. This 25% increase is mainly attributable to a contract surcharge while operating in a month-to-month fashion.

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

Non-accrual loan expenses, net of recoveries.   Non-accrual loan expense totaled $2 thousand and ($26) thousand for the nine months ended September 30, 2013 and 2012, respectively.

Other.   These expenses include costs for communications, supplies, education and training, business development activities and other operations. For the nine months ended September 30, 2013 and 2012, other noninterest expenses totaled $315 thousand and $355 thousand, respectively. The $40 thousand decrease was attributable to a number of expenses, such as printing, supplies, meetings and other items, and was influenced by the merger discussions between The Wilton Bank and BWFG.

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

Noninterest expense was $3.8 million for the year ended December 31, 2012, a decrease of $74 thousand, or 2%, compared to 2011.

Salaries and employee benefits.   Salaries and employee benefits totaled $1.6 million for the year ended December 31, 2012, a decrease of $134 thousand, or 8%, compared to 2011.

Loss and expenses on foreclosed real estate, net.   For the years ended December 31, 2012 and 2011, foreclosed real estate expenses were $495 thousand and $335 thousand, respectively. These charges not only reflect the actual cost of holding and maintaining these properties, but also any charges to income based on reevaluations of the value of the real estate. For 2011, write-downs in value of other real estate owned totaled $281 thousand, compared to $280 thousand for 2012.

Professional services.   Professional services decreased by $3 thousand for 2012, totaling $394 thousand and $397 thousand for the 2012 and 2011 years, respectively.

Occupancy and equipment.   Occupancy and equipment costs increased by $12 thousand in 2012, from $327 thousand in 2011 to $339 thousand in 2012, mainly reflecting increased building expenses.

Insurance.   Insurance expense, which consists of financial institution bond and director and officer and related liability insurance, totaled $201 thousand and $203 thousand for the years ended December 31, 2012 and 2011, respectively. These costs were up substantially from prior years reflecting the increased costs associated with The Wilton Bank operating under the Consent Agreement.

Data processing.   Data processing expense for The Wilton Bank's core systems totaled $161 thousand for the year ended December 31, 2012, compared to $151 thousand for the year ended December 31, 2011, mainly as a result of increased usage of service offered.

FDIC insurance.   FDIC insurance expense for the year ended December 31, 2012, declined by $24 thousand, or 13%, from the year ended December 31, 2011, reflecting lower assessment rates and a statutory change in the calculation method that was effective for the second quarter of 2011.

Non-accrual loan expenses, net of recoveries.   Non-accrual loan expense totaled ($22) thousand and $56 thousand for the years ended December 31, 2012 and 2011, respectively.

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Other. Other expense for the year ended December 31, 2012, declined by $15 thousand, or 3%, from $465 thousand for the year ended December 31, 2011, to $450 thousand for 2012.

Income Taxes

Income tax expense for the year ended December 31, 2011was $1.4 million; during 2012 there was no provision or benefit. In 2011, The Wilton Bank established a deferred-tax valuation allowance against its net deferred tax assets. Due to the magnitude of The Wilton Bank's losses, management concluded that it was more likely than not that The Wilton Bank would be unable to realize its deferred tax assets related to net operating losses and accordingly established this valuation allowance equal to 100% of its deferred tax assets.

Financial Condition

Summary

In July 2010, The Wilton Bank agreed to the issuance of a Consent Agreement with the FDIC and the Banking Department. Under the terms of the Consent Agreement, The Wilton Bank was required to maintain its Tier 1 capital ratio at least equal to 12% to total assets, Tier 1 risk-based capital at least equal to 12% of total risk-weighted assets, and total risk-based capital at least equal to 15% of total risk-weighted assets. The Consent Agreement further provided for certain asset growth restrictions together with the reduction of Wilton Bank's risk position in certain classified assets, and a restriction on the extension of credit to borrowers whose loans are so criticized.

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

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

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

Loan Portfolio

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

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

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

| | At September 30, 2013 | | At December 31, 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| **(Dollars in thousands)** | **Amount** | **Percent of Loan Portfolio** | **Amount** | **Percent of Loan Portfolio** | **Amount** | **Percent of Loan Portfolio** |
| Real estate loans: | | | | | | |
| Loans secured by residential properties | $ 6,861 | 22.98 % | $ 7,951 | 23.62 % | $ 8,129 | 19.67 % |
| Loans secured by non-residential properties | 8,873 | 29.72 | 10,298 | 30.60 | 10,684 | 25.85 |
| Construction, development and land loans | 10,539 | 35.30 | 11,347 | 33.71 | 18,204 | 44.04 |
| | 26,273 | 88.00 | 29,596 | 87.93 | 37,017 | 89.56 |
| Commercial and industrial loans | 2,400 | 8.04 | 2,692 | 8.00 | 3,599 | 8.71 |
| Consumer, personal and other loans | 1,184 | 3.96 | 1,368 | 4.07 | 714 | 1.73 |
| Total loans | $ 29,857 | 100.00% | $ 33,656 | 100.00% | $ 41,330 | 100.00% |

Primary loan categories

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

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

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

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

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and $18.2 million at December 31, 2011. Residential construction loans are made to finance the construction of residential dwellings.
Consumer, personal and other loans. Consumer loans totaled $1.2 million at September 30, 2013 compared to $1.4 million at December 31, 2012, reflecting loans secured by passbook or certificate accounts, or automobiles, as well as unsecured personal loans and overdraft lines of credit.
The following table presents an analysis of the maturity of The Wilton Bank's commercial real estate, construction and commercial business loan portfolios as of September 30, 2013 and December 31, 2012.

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

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

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

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

Asset Quality

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

| (In thousands) | At September 30, 2013 | At December 31, 2012 | 2011 |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Real estate loans: | | | |
| Loans secured by residential properties | $ 1,398 | $ 1,083 | $ 1,550 |
| Loans secured by non-residential properties | 502 | 453 | 520 |
| Construction, development and land loans | 4,573 | 5,387 | 10,540 |
| Commercial and industrial loans | 554 | 348 | 357 |
| Consumer, personal and other loans | 73 | — | — |
| Total nonaccrual loans | $ 7,100 | $ 7,271 | $ 12,967 |
| Property acquired through foreclosure or repossession, net | 1,895 | 3,270 | 2,869 |
| Total nonperforming assets | $ 8,995 | $ 10,541 | $ 15,836 |
| Nonperforming assets to total assets | 12.92 % | 13.85 % | 20.72 % |
| Nonaccrual loans to total loans | 23.78 % | 21.60 % | 31.37 % |
| Total past due loans to total loans | 11.12 % | 10.24 % | 15.27 % |
| Accruing loans 90 days or more past due | $ — | $ — | $ — |

Nonperforming assets, which consists of nonaccrual loans and foreclosed real estate, totaled $9.0 million and represented 13% of total assets at September 30, 2013, compared to $10.5 million and 14% of total assets at December 31, 2012. Nonperforming assets at December 31, 2011 represented 21% of total assets and totaled $15.8 million.

Nonaccrual loans, which comprise the majority of The Wilton Bank's nonperforming assets, totaled $7.1 million at September 30, 2013, a decrease of $171 thousand, or 2%, from December 31, 2012. At December 31, 2011, nonaccrual loans were $13.0 million. Foreclosed real estate was $1.9 million at September 30, 2013, compared to $3.3 million at December 31, 2012. At December 31, 2011, foreclosed real estate was $2.9 million.

Nonaccrual loans. Loans greater than 90 days past due are put on nonaccrual status. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent interest payments received on nonaccrual loans are recognized as interest income, or

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recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. Total nonaccrual loans were $7.1 and $7.3 million at September 30, 2012 and December 31, 2012, respectively. Included in nonaccrual loans at September 30, 2013 and December 31, 2012 and 2011 were $3.8 million, $4.0 million and $6.7 million of loans, respectively, which were performing in accordance with their contractual terms, however, these loans were not returned to accrual status as they had not yet met necessary performance standards.

At September 30, 2013, there were seven construction loans on nonaccrual status totaling $4.6 million compared to eight loans totaling $5.4 million at December 31, 2012.

At September 30, 2013, there were three commercial real estate loans on nonaccrual status totaling $502 thousand compared to two loans totaling $453 thousand, at December 31, 2012.

Nonaccrual commercial business loans totaled $554 thousand at September 30, 2013 and consisted of three loans. There were two commercial business loans on nonaccrual status at December 31, 2012 totaling $348 thousand.

At September 30, 2013, there were no commitments to lend additional funds to any borrower on nonaccrual status.

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the nine months ended September 30, 2013 and 2012 was $286 thousand and $387 thousand, respectively, and for the years ended December 31, 2012 and 2011 was $358 thousand and $687 thousand, respectively. The amount of actual interest income recognized on these loans was $69 thousand and $107 thousand for the nine months ended September 30, 2013 and 2012, respectively, and $167 thousand and $34 thousand for the years ended December 31, 2012 and 2011, respectively.

Past Due Loans. When a loan is 15 days past due, The Wilton Bank sends the borrower a late notice. The Wilton Bank also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, The Wilton Bank mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, The Wilton Bank will send the borrower a final demand for payment and may recommend foreclosure. A report of all loans 30 days or more past due is provided to The Wilton Bank's board of directors each month. Loans greater than 90 days past due are put on nonaccrual status.

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The following table presents past due loans as of September 30, 2013 and December 31, 2012 and 2011:

| (In thousands) | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Greater Than 90 Days (Nonaccrual) | Total Past Due |
|---|---|---|---|---|
| As of September 30, 2013 | | | | |
| Construction, development and land loans | $ — | $ — | $ 1,746 | $ 1,746 |
| Loans secured by residential properties | — | — | 779 | 779 |
| Loans secured by non-residential properties | — | — | 435 | 435 |
| Commercial and industrial loans | — | — | 280 | 280 |
| Consumer, personal and other loans | 7 | — | 73 | 80 |
| Total | $ 7 | $ — | $ 3,313 | $ 3,320 |
| As of December 31, 2012 | | | | |
| Construction, development and land loans | $ — | $ — | $ 2,248 | $ 2,248 |
| Loans secured by residential properties | — | — | 748 | 748 |
| Loans secured by non-residential properties | — | — | — | — |
| Commercial and industrial loans | 75 | — | 300 | 375 |
| Consumer, personal and other loans | 75 | — | — | 75 |
| Total | $ 150 | $ — | $ 3,296 | $ 3,446 |
| As of December 31, 2011 | | | | |
| Construction, development and land loans | $ — | $ 1,400 | $ 3,736 | $ 5,136 |
| Loans secured by residential properties | — | — | 718 | 718 |
| Loans secured by non-residential properties | 53 | 103 | — | 156 |
| | 300 | — | — | 300 |

| (In thousands) | 31 – 60 Days Past Due | 61 – 90 Days Past Due | Greater Than 90 Days (Nonaccrual) | Total Past Due |
|---|---|---|---|---|
| Commercial and industrial loans | | | | |
| Consumer, personal and other loans | — | — | — | — |
| Total | $ 353 | $ 1,503 | $ 4,454 | $ 6,310 |

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

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

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

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

The following table presents information on troubled debt restructured loans.

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

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

Allowance for Loan Losses

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

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

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

At September 30, 2013, The Wilton Bank's allowance for loan losses was $882 thousand and represented 3% of total loans, compared to $1.1 million and 3% of total loans at December 31, 2012. The $231 thousand net decrease in the allowance for loan losses is comprised of an increase in the general reserve of $139 thousand and a decrease of $370 thousand in the specific reserve for impaired loans. For the nine months ended September 30, 2013 and 2012, and

years ended December 31, 2012 and 2011, the only period there was a provision for loan losses charged to earnings was in the year ended December 31, 2011, and that charge totaled $900 thousand. Net charge-offs for the nine months ended September 30, 2013 were $231 thousand or 0.07% of average loans, reflecting charge-offs associated with an impaired construction loan and a commercial business loan.
The carrying amount of total impaired loans at September 30, 2013 was $7.7 million and consisted of twenty loans on nonaccrual status and six performing troubled debt restructured loans. This compares to a carrying amount of $8.7 million for total impaired loans at December 31, 2012. The amount of allowance for loan losses related to impaired loans was $194 thousand and $54 thousand, respectively, at September 30, 2013 and December 31, 2012.
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Investment Securities

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

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

Sources of Funds

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

Deposits

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

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

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

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

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

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

Borrowings

The Wilton Bank is a member of the FHLBB, which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLBB, and borrowings are collateralized by qualifying assets not otherwise pledged (principally securities). The maximum amount of credit that the FHLBB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. Wilton Bank satisfied its collateral requirement at September 30, 2013.

The Wilton Bank did not have any FHLBB advances outstanding at September 30, 2013 or December 31, 2012.

Liquidity and Capital Resources

Liquidity Management

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. The Wilton Bank's primary source of liquidity is deposits, which funded approximately 87% of total average assets in 2012 and 90% of total average assets for the nine-month period ended September 30, 2013. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term advances and other borrowings), cash flows from The Wilton Bank's investment securities portfolios, loan repayments and earnings. Investment securities designated as available-for-sale may also be sold in response to short-term or long-term liquidity needs.

Capital Resources

Total shareholders' equity was $6.5 million at September 30, 2013, compared to $8.0 million at December 31, 2012. The $1.5 million, or 19%, decrease reflected the net loss of $1.5 million for the first nine months of 2013. The ratio of total equity to total assets was 9.40% at September 30, 2013, which compares to 10.55 at December 31, 2012. Book value per common share at September 30, 2013 and December 31, 2012 was $17.55 and $21.53, respectively.

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

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As discussed previously, The Wilton Bank had been operating under a Consent Agreement which made it necessary for it to submit an updated Capital Plan to the FDIC and the Banking Department. The Capital Plan described actions The Wilton Bank will take to return the Tier 1 capital to the minimum required under the Consent Agreement. Subsequent to the 2012 fiscal year-end, the Capital Plan was accepted by The Wilton Bank's regulators.

While the Consent Agreement was in effect, The Wilton Bank did not pay dividends or any other form of payment representing a reduction in capital without the prior written approval of the FDIC and the Banking Department. In addition to the Consent Agreement, certain other restrictions exist regarding the ability of The Wilton Bank to pay dividends. State of Connecticut Banking Rules and Regulations require regulatory approval to pay dividends in excess of the bank's earnings retained in the current year plus retained earnings from the previous two years. The bank had an accumulated deficit for the three-year period ended December 31, 2012, and therefore is restricted from paying dividends.

Off-Balance Sheet Instruments

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

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

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

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

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

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## BWFG QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk Management

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

### Inflation Risk Management

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

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BWFG EXECUTIVE COMPENSATION

BWFG's named executive officers for 2014, which consist of BWFG's principal executive officer, Chief Financial Officer and the two other most highly compensated executive officers, are:

- Peyton R. Patterson, BWFG's former Chief Executive Officer and President;
- Ernest J. Verrico, Sr., BWFG's Executive Vice President and Chief Financial Officer;
- Gail E.D. Brathwaite, BWFG's Executive Vice President and Chief Operating Officer; and
- Heidi DeWyngaert, BWFG's Executive Vice President and Chief Lending Officer.

BWFG has entered into employment agreements with each of BWFG's named executive officers. See "Employment Agreements" herein. BWFG's employment agreement with Ms. Patterson was terminated effective upon her resignation as Chief Executive Officer and President of BWFG and Chief Executive Officer of Bankwell Bank, on August 7, 2014.

Summary Compensation Table

The following table provides information regarding the compensation of BWFG's named executive officers for BWFG's fiscal years ended December 31, 2013 and 2012. Except as set forth in the notes to the table, all cash compensation for each of BWFG's named executive officers was paid by Bankwell Bank, where each serves in the capacity indicated below.

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) (1) | Option Awards ($) (1) | Non-Equity Incentive Plan Compensation ($) (2) | Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) (3) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Peyton R. Patterson Former Chief Executive Officer and | 2013 | 500,000 | 0 | 335,000 | 0 | 231,823 | 0 | 11,687 | 1,078,510 |
| President (Company) (4) former Chief Executive Officer (Bank) | 2012 | 240,385 | 0 | 600,000 | 0 | 0 | 0 | 7,299 | 847,684 |
| Ernest J. Verrico, Sr. | 2013 | 186,962 | 25,000 | 108,875 | 0 | 63,254 | 0 | 13,656 | 397,747 |
| EVP and CFO (Company and Bank) | 2012 | 181,635 | 0 | 60,000 | 0 | 39,680 | 0 | 10,912 | 292,227 |
| | 2013 | 188,269 | 0 | 301,500 | 0 | 68,305 | 0 | 24,979 | 583,053 |

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) (1) | Option Awards ($) (1) | Non-Equity Incentive Plan Compensation ($) (2) | Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) (3) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Gail E.D. Brathwaite (5) EVP and COO (Company and Bank) | | | | | | | | | |
| Heidi DeWyngaert | 2013 | 239,635 | 0 | 180,125 | 0 | 75,852 | 0 | 13,815 | 509,427 |
| EVP and CLO (Company) | 2012 | 230,596 | 0 | 82,500 | 0 | 51,048 | 0 | 10,167 | 374,311 |
| President (Bank) | | | | | | | | | |

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(1)

- These amounts represent, for stock awards, the amount for shares granted, and the aggregate grant date fair market value of stock option awards (calculated in accordance with FASB ACS Topic 718) made to the executive officers named above, in all cases pursuant to BWFG's stock plans.

(2)

- These amounts represent cash bonus incentives earned for performance in 2013 and 2012 as applicable, pursuant to the Executive Incentive Plan.

(3)

- The 2013 amounts listed represent: for Ms. Patterson, a $9,600 automobile allowance and a $1,481 matching contribution made by BWFG under BWFG's 401(k) Plan, a $306 life and AD&D insurance premium, and a $300 holiday gift; for Mr. Verrico, a $5,400 phone and travel allowance and a $7,650 matching contribution made by BWFG under BWFG's 401(k) Plan, a $306 life and AD&D insurance premium, and a $300 holiday gift; for Ms. Brathwaite, a $4,500 phone and travel allowance, a $20,000 moving allowance, a $179 life and AD&D insurance premium and a $300 holiday gift; and for Ms. DeWyngaert, a $5,700 phone and travel allowance, a $7,509 matching contribution made by BWFG's 401(k) Plan, a $306 life and AD&D insurance premium and a $300 holiday gift.

(4)

- Ms. Patterson joined BWFG as Chief Strategic Officer in April 2012. The amounts shown include her time in that capacity and, as of September 2012, President and Chief Executive Officer of BWFG and Chief Executive Officer of Bankwell Bank.

(5)

- Ms. Brathwaite joined BWFG and Bank as Executive Vice President and Chief Operating Officer on April 1, 2013 with an initial base salary of $275,000 per year.

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Outstanding Equity Awards at 2013 Fiscal Year-End

The following table provides information regarding outstanding equity awards held by each of BWFG's named executive officers on December 31, 2013. All of the stock options shown in the table below were granted under the 2002 Bank Management, Director and Founder Stock Option Plan or the 2007 Bank of New Canaan Stock Option and Equity Award Plan. All of the stock options shown in the table below were granted with a per share exercise price equal to the fair market value of BWFG's common stock on the grant date. Each of the stock options set forth below vests ratably in annual installments over a period of five years from the grant date, beginning on the first anniversary of the grant date. No stock options were exercised by BWFG's named executive officers during fiscal 2013.

| | | Option awards | | | Stock awards | |
|---|---|---|---|---|---|---|
| **Name** | **Grant Date** | **Number of securities underlying unexercised options (#) exercisable** | **Option exercise price ($)** | **Option expiration date** | **Number of shares or units of stock that have not vested (#)** | **Market value of shares or units of stock that have not vested ($) (5)** |
| Peyton R. Patterson (1) | — | — | — | — | 44,000 | $ 919,600 |
| Ernest J. Verrico (2) | 3/4/10 | 2,400 | $ 11.00 | 3/4/2020 | 12,700 | $ 265,430 |
| Gail E.D. Brathwaite (3) | — | — | — | — | 18,000 | $ 376,200 |
| Heidi DeWyngaert (4) | 7/6/04 | 6,000 | $ 10.00 | 7/6/2014 | 17,900 | $ 374,110 |
| | 3/1/05 | 1,500 | $ 14.50 | 3/1/2015 | | |
| | 3/29/06 | 2,000 | $ 16.00 | 3/29/2016 | | |
| | 1/2/08 | 4,000 | $ 20.70 | 1/2/2018 | | |
| | 3/26/08 | 8,574 | $ 20.70 | 3/26/2018 | | |
| | 6/23/09 | 1,200 | $ 12.64 | 6/23/2019 | | |

(1)

- Ms. Patterson was awarded 40,000 shares of restricted stock on April 6, 2012. The stock was valued at $15.00 per share and vests as follows: 8,000 shares on April 6 th in each of 2012, 2013, 2014 (extended to November 15, 2014), 2015 and 2016. Ms. Patterson was awarded 20,000 shares of restricted stock on November 5, 2013. The stock was valued at $16.75 per share and vests as follows: 5,000 shares on November 5 th in each of 2014, 2015, 2016 and 2017.

(2)

- Options vest at the rate of 20% per year, with the following vesting dates of March 4 th in each of 2011, 2012, 2013, 2014, and 2015. Total stock options awarded are 4,000. Mr. Verrico was awarded 5,000 shares of restricted stock on March 22, 2011. The stock was valued at $15.00 per share and vests over five (5) years as follows: 1,000 shares of BWFG's common stock on March 22 nd in each of 2012, 2013, 2014, 2015 and 2016. Mr. Verrico was awarded 4,000 shares of restricted stock on March 27, 2012. The stock was valued at $15.00

per share and vests over five

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(5) years as follows: 800 shares of common stock on March 27 th in each of 2013, 2014, 2015, 2016 and 2017. Mr. Verrico was awarded 6,500 shares of restricted stock on November 5, 2013. The stock was valued at $16.75 per share and vests as follows: 1,625 shares on November 5 th in each of 2014, 2015, 2016 and 2017.

(3)

- Ms. Brathwaite was awarded 18,000 shares of restricted stock on November 5, 2013. The stock was valued at $16.75 per share and vests as follows: 4,500 shares on November 5 th in each of 2014, 2015, 2016 and 2017.

(4)

- Options vest at the rate of 33 1/3% per year, with the following vesting dates of July 6 th in each of 2004, 2005 and 2006; March 1 st in each of 2005, 2006 and 2007; March 29 th in each of 2007, 2008 and 2009, January 2 nd in each of 2009, 2010 and 2011; and at a rate of 14 ¼% per year for options issued on March 20, 2008 which have the following vesting dates March 26 th in each of 2009, 2010, 2011, 2012, 2013, 2014 and 2015. Total stock options awarded are 27,000. Ms. DeWyngaert was awarded 5,000 shares of restricted stock on March 22, 2011. The stock was valued at $15.00 per share and vests over five (5) years as follows: 1,000 shares on March 22 nd in each of 2012, 2013, 2014, 2015 and 2016. Ms. DeWyngaert was awarded 5,500 shares of restricted stock on March 27, 2012. The stock was valued at $15.00 per share and vests over five (5) years as follows: 1,100 shares on March 27 th in each of 2013, 2014, 2015, 2016 and 2017. Ms. DeWyngaert was awarded 5,000 shares of restricted stock on January 8, 2013. The stock was valued at $14.00 per share and vests over five (5) years as follows: 1,000 shares of common stock on March 17 th in each of 2013, 2014, 2015, 2016 and 2017. Ms. DeWyngaert was awarded 6,500 shares of restricted stock on November 5, 2013. The stock was valued at $16.75 per share and vests over four (4) years as follows: 1,625 shares of common stock on November 5 th in each of 2014, 2015, 2016 and 2017.

(5)

- The closing price market value per share on December 31, 2013 was $20.90 per share.

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Employment Agreements
Mr. Ernest J. Verrico, Sr. BWFG's and Bankwell Bank's Executive Vice President and Chief Financial Officer, entered into an employment agreement with BWFG on April 23, 2013 which provides for a term ending on December 31, 2014 with an initial annual base salary of $185,000. BWFG may extend the employment agreement for additional one year periods by providing Mr. Verrico notice no later than October 1 of each year; the employment agreement has been extended by BWFG until December 31, 2015. Mr. Verrico is eligible for annual salary increases as determined by BWFG's board of directors. Mr. Verrico is eligible to participate in the Executive Incentive Compensation Plan. He is also entitled to benefits similar to those provided for other employees and perquisites customary to his role with BWFG. Mr. Verrico's employment agreement provides for a severance payment of up to one year base salary plus pro-rated target bonus if he is terminated by BWFG without cause or if he terminates the agreement for good reason. Events constituting "good reason" include a material reduction in the executive's salary or executive incentive plan bonus target, a relocation of the executive's principal place of employment by more than fifty miles, any material breach by BWFG of any material provision of the executive's employment agreement, BWFG's failure to obtain the agreement of BWFG's successor to assume the executive's employment agreement, a material adverse change in the executive's title, authority, duties or responsibilities, and a material adverse change in the executive's reporting structure. Mr. Verrico's employment agreement also provides for change in control protection consisting of a lump sum payment of two times his annual salary and target bonus plus pro-rated target bonus for the year of termination, plus COBRA reimbursement based on the difference between active participant cost and COBRA cost if he is terminated by BWFG without cause or terminates with good reason following a change in control event. The agreement contains change in control limitation provisions such that if the change in control payment to Mr. Verrico exceeds the limit on such payments pursuant to Internal Revenue Code Section 280G, the payment will be reduced so it does not exceed that limit. Pursuant to Mr. Verrico's employment agreement, any incentive-based compensation paid to him is subject to clawback pursuant to applicable law, regulation or stock listing requirement.
Ms. Brathwaite, BWFG's Executive Vice President and Chief Operating Officer, entered into an employment agreement with BWFG on April 1, 2013 which provides for an employment period ending December 31, 2014 with a base salary of $275,000 per year. BWFG may extend the employment agreement for additional one year periods by providing Ms. Brathwaite notice no later than October 1 of each year; the employment agreement has been extended by BWFG until December 31, 2015. Ms. Brathwaite is eligible for annual salary increases as determined by BWFG's board of directors. Ms. Brathwaite is eligible to participate in the Executive Incentive Compensation Plan. She is also entitled to benefits similar to those provided for other employees and perquisites customary to her role with us.
Ms. Brathwaite's employment agreement provides for a severance payment of up to one year base salary plus pro-rated target bonus, plus COBRA reimbursement based on the difference between active participant cost and COBRA cost if she is terminated by BWFG without cause or if she terminates the agreement for good reason. Events constituting "good reason" include a material reduction in the executive's salary or executive incentive plan bonus target, a relocation of the executive's principal place of employment by more than fifty miles, any material breach by BWFG of any material provision of the executive's employment agreement, BWFG's failure to obtain the agreement of BWFG's successor to assume the executive's employment agreement, a material adverse change in the executive's title, authority, duties or responsibilities, and a material adverse change in the executive's reporting structure. Ms. Brathwaite's employment agreement also provides for change in control protection consisting of a lump sum payment of two times her annual salary and target bonus plus pro-rated target bonus for the year of termination, plus COBRA reimbursement based on the difference between active participant cost and COBRA cost, if she is terminated or terminates with good reason following a change in control event. The employment agreement contains change in control limitation provisions such that if the change in control payment to Ms. Brathwaite exceeds the limit on such payments pursuant to Internal Revenue Code Section 280G, the

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payment will be reduced so it does not exceed that limit. Pursuant to Ms. Brathwaite's employment agreement, any incentive-based compensation paid to her is subject to clawback pursuant to applicable law, regulation or stock listing requirement.

BWFG entered into an employment agreement with Ms. DeWyngaert, BWFG's Executive Vice President and Chief Lending Officer and Bankwell Bank's President on January 30, 2013. The employment agreement has a term ending December 31, 2014 and provides for an initial annual base salary of $238,000. BWFG may extend the employment agreement for additional one year periods by providing Ms. DeWyngaert notice no later than October 1 of each year; the employment agreement has been extended by BWFG until December 31, 2015. She is eligible for annual salary increases as determined by BWFG's board of directors. Ms. DeWyngaert is eligible to participate in the Executive Incentive Compensation Plan. She is also entitled to benefits similar to those provided for other employees and perquisites customary to her position at BWFG. Ms. DeWyngaert's employment agreement provides for a severance payment of up to one year base salary plus pro-rated target bonus if she is terminated by BWFG without cause or if she terminates the agreement for good reason. Events constituting "good reason" include a material reduction in the executive's salary or executive incentive plan bonus target, a relocation of the executive's principal place of employment by more than fifty miles, any material breach by BWFG of any material provision of the executive's employment agreement, BWFG's failure to obtain the agreement of BWFG's successor to assume the executive's employment agreement, a material adverse change in the executive's title, authority, duties or responsibilities, and a material adverse change in the executive's reporting structure. Ms. DeWyngaert's employment agreement also provides for change in control protection consisting of a lump sum payment of two times her annual salary and target bonus plus pro-rated target bonus for the year of termination, plus COBRA reimbursement based on the difference between active participant cost and COBRA cost, if she is terminated by BWFG without cause or terminates with good reason following a change in control event. The agreement contains change in control limitation provisions such that if the change in control payment to Ms. DeWyngaert exceeds the limit on such payments pursuant to Internal Revenue Code Section 280G, the payment will be reduced so it does not exceed that limit. Pursuant to Ms. DeWyngaert's employment agreement, any incentive-based compensation paid to her is subject to clawback pursuant to applicable law, regulation or stock listing requirement.

Stock Option, Equity Award and Incentive Plans

Executive Incentive Plan.   On March 27, 2013, BWFG's Executive Incentive Compensation Plan or, the Executive Compensation Plan, was approved. The Executive Compensation Plan is designed to provide cash compensation to BWFG's senior management for achieving budgeted profits and for outstanding performance in furthering BWFG's financial goals. The Executive Compensation Plan is administered by BWFG's Compensation Committee. Awards under the Executive Compensation Plan are normally based upon specific operating results and individual performance. The Compensation Committee reserves the right to amend or adjust payouts. Incentive awards paid under the Executive Compensation Plan are considered taxable income in the year paid. The Executive Compensation Plan includes a "clawback" provision providing for the forfeiture of incentives in the event of material financial restatements.

Equity Plans.   BWFG has five equity award plans. Any future issuances of equity awards will be made under the 2012 Plan and/or any new plan adopted by BWFG and its shareholders in the future. All equity awards made under the plans are made by means of an award agreement, which contains the specific terms and conditions of the grant, which may include terms relative to vesting, rights upon death, disability or other termination of service, rights upon change in change in control, acceleration of benefits, transferability and amendments.

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On June 25, 2003, BWFG's shareholders adopted the 2002 Bank Management, Director and Founder Stock Option Plan, or the 2002 Plan. Under the 2002 Plan, 152,200 shares were made available to be issued as options. On July 26, 2006, BWFG's shareholders approved the 2006 Stock Option Plan, or the 2006 Plan. Under the 2006 Plan, 47,800 shares were made available to be issued as options. On June 27, 2007, BWFG's shareholders adopted the 2007 Bank of New Canaan Stock Option and Equity Award Plan, or the 2007 Plan, and 165,244 shares were made available for issuance as stock options and restricted stock pursuant to the 2007 Plan. On June 22, 2011, BWFG's shareholders adopted the 2011 BNC Financial Group, Inc. Stock Option and Equity Award Plan, or the 2011 Plan ("2011 Plan"). The 2011 Plan, together with the 2002 Plan, 2006 Plan and 2007 Plan are collectively referred to as the Other Plans. Under the 2011 Plan the following number of shares were made available for issuance: (i) 45,000 shares plus (ii) the aggregate number of shares and shares underlying grants that have not been reserved for issuance under the abovementioned plans as of September 1, 2011, plus (iii) any shares previously reserved for issuance under the abovementioned plans that, subsequent to September 1, 2011, pursuant to the terms of the such plans, are shares under grants that remain unexercised at the expiration, forfeiture or other termination of such grant, or are shares pursuant to a grant that are forfeited or repurchased and thus become available for re-issuance under the abovementioned plans.

On September 19, 2012, BWFG's shareholders adopted the 2012 BNC Financial Group, Inc. Stock Plan or the 2012 Plan. On June 26, 2013, BWFG's shareholders adopted an amendment to the 2012 Plan. The Amendment provided for an aggregate number of shares reserved and available for issuance in the amount of an "overhang" of up to 12%. "Overhang" is defined as the aggregate number of grants outstanding but unexercised or unvested under the 2012 Plan and the Other Plans, plus the number of grants available to be granted under the 2012 Plan, divided by the total shares outstanding of BWFG. The calculation is made once each year based on the facts available on the prior December 31; BWFG's board of directors can then elect to add to the 2012 Plan each year, up to a maximum 12% overhang.

Administration of the Plans. The plans are administered by the Compensation Committee of BWFG's board of directors, which has significant discretion with respect to the issuance of awards, establishment of award terms and adoption of policies and practices related to the plans.

Share Authorization. The 2012 Plan authorizes the issuance of up to 89,751 shares of common stock plus the "overhang" with respect to stock awards. Awards not yet made under the Other Plans, or which are forfeited under the Other Plans, may be issued under the 2012 Plan. In connection with recapitalizations, stock dividends, stock splits, combination of shares or other changes in the stock, BWFG's Compensation Committee will make adjustments that it deems appropriate in the aggregate number of shares of common stock that may be issued under the 2012 Plan and the terms of outstanding awards. If any shares of stock covered by an award granted under the 2012 Plan are not purchased or are forfeited or expire, or if an award otherwise terminates without delivery of any shares of stock subject thereto, or is settled in cash in lieu of shares of stock, then the number of shares of stock counted against the aggregate number of shares of stock available under the 2012 Plan with respect to the award will again be available for making awards under the 2012 Plan. An aggregate of 49,840 shares of common stock remained available for issuance on December 31, 2013.

Stock Options. The stock options granted under the plans vest pursuant to the individual award agreement. The term of an option cannot exceed 10 years from the date of the grant. If BWFG experiences a change of control (as defined in each plan), unless otherwise provided in an award agreement, and subject to a potential roll over of stock options, all stock options become immediately exercisable. Stock options granted under the 2012 Plan do not become immediately exercisable if, as part of the transaction, the successor entity, with the approval of the Compensation Committee, provides for the stock options to roll over and after the transaction will be options for the successor's shares of capital

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stock with substantially similar terms and conditions as the outstanding stock options prior to the transaction.
Restricted Stock Grants. A participant who receives a restricted stock grant will have all the rights of a shareholder as to those shares, including, without limitation, the right to vote and the right to receive dividends on the shares. If BWFG experiences a change of control (as defined in each plan), unless otherwise provided in an award agreement, and subject to a potential roll over of restricted stock grants, all restrictions on restricted stock lapse. Restrictions on restricted stock grants awarded under the 2012 Plan will not lapse if, as part of the transaction, the successor entity, with the approval of the Compensation Committee, provides for the restricted stock grants to roll over and after the transaction will be restricted stock grants in the successor's plan with substantially similar terms and conditions as the outstanding restricted stock grants prior to the transaction. Restricted Stock Units, or RSUs, are rights to receive shares of BWFG's common stock or cash based on the value of BWFG's common stock at the end of the restriction period, as determined by the Compensation Committee. A grantee of a RSU has none of the rights of a Company shareholder unless and until the shares of BWFG's common stock are delivered in satisfaction of such RSUs.
Stock Appreciation Rights. A participant who receives a stock appreciation right, or a SAR, is entitled to surrender to BWFG any then exercisable portion of the SAR in exchange for that number of shares of BWFG's common stock, cash, or both having an aggregate fair market value on the date of surrender equal to the product of (a) the excess of the fair market value of a share of BWFG's common stock on the date of surrender over the base price, as determined by the Compensation Committee, which shall be the fair market value of a share of BWFG's common stock on the date the SAR was granted, and (b) the number of shares subject to such SAR. SARs may become exercisable in full or in installments according to a vesting, as the Compensation Committee may determine. If BWFG experiences a change in control (as defined in each plan), unless otherwise provided in an award agreement, and subject to a potential roll over of SARs, all SARS shall become fully vested and immediately exercisable. SARs granted under the 2012 Plan do not become fully vested and immediately exercisable if, as part of the transaction, the successor entity, with the approval of the Compensation Committee, provides for the SARs to roll over and after the transaction will SARs in the successor's plan with substantially similar terms and conditions as the outstanding SARs prior to the transaction.
Performance Grants. The Compensation Committee may award performance grants subject to conditions and attainment of such performance goals over such periods as the Compensation Committee determines. A performance share has an initial value equal to the fair market value of BWFG's common stock as determined on the date the performance share is granted. To the extent earned, performance grants may be settled in cash, shares of BWFG's common stock or any combination thereof as determined by the Compensation Committee. Performance grants become fully vested upon a change in control (as defined in each plan).
Issued and Exercisable Equity Awards. As of December 31, 2013, of the 499,995 stock awards authorized under the 2002, 2006, 2007, 2011 and 2012 Plans, 332,998 options have been granted to current and former employees, directors and founders of Bankwell Bank, and 199,956 shares of restricted stock have been awarded to current or former employees, management and directors. There were 1,900 options exercised in 2004, 387 options exercised in 2008, 2,000 options exercised in 2009, 520 options exercised in 2010, 2,000 options exercised in 2011, no options were exercised in 2012 and 46,640 options were exercised in 2013. There were 49,840 stock awards available to be issued as of December 31, 2013, before taking into account the "overhang" increases allowed under the 2012 Plan.
Termination of the 2012 Plan. In accordance with IRS requirements, the 2012 Plan will terminate upon its tenth anniversary, in 2022.

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Stock option activity. Stock option activity during the periods indicated is as follows:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Options outstanding at beginning of year | 272,358 | 277,558 | 273,628 | 262,998 | 252,788 |
| Granted | — | 9,650 | 10,000 | 12,250 | 14,950 |
| Forfeited | (4,080 ) | (14,850 ) | (4,070 ) | (1,100 ) | (2,740 ) |
| Exercised | (46,640 ) | — | (2,000 ) | (520 ) | (2,000 ) |
| Expired | (13,070 ) | — | — | — | — |
| Options outstanding at end of period | 208,568 | 272,358 | 277,558 | 273,628 | 262,998 |
| Weighted average exercise price | | | | | |
| Granted | $ — | $ 15.00 | $ 15.00 | $ 11.00 | $ 12.64 |
| Forfeited | 17.42 | 13.13 | 16.20 | 14.56 | 16.31 |
| Exercised | 10.02 | — | 10.00 | 12.19 | 10.00 |
| Expired | 10.00 | — | — | — | — |
| Options outstanding at end of period | 16.67 | 15.23 | 14.60 | 14.58 | 14.74 |

401(k) Retirement Plan

BWFG maintains a defined contribution 401(k) retirement savings plan for BWFG's employees. The 401(k) plan is intended to qualify as a tax-qualified plan under Section 401 of the Internal Revenue Code so that contributions to the plan and income earned on those contributions are not taxable to participants until withdrawn or distributed from the plan. Employees may elect to contribute through salary deductions on a before tax and after tax basis. BWFG provides a discretionary matching contribution, which totaled $127 thousand for 2013. BWFG's match is 50% of the first 6% of employee contributions.

Director Compensation

BWFG believes that to successfully recruit and retain talented directors of the caliber needed to effectively direct BWFG, BWFG's director compensation package should be within the upper 25% of BWFG's banking peer group. BWFG considers institutions of similar asset size located throughout Connecticut to be the peer group. Additional public survey data may be consulted to assist BWFG in determining competitive director compensation. BWFG also believes that director compensation should serve to solidify the alignment of the shareholders' interests with that of BWFG's board of directors and relate to BWFG's success or the success of BWFG or its affiliates.

Historically, BWFG paid separate directors' fees for service on BWFG's board and for service on the two bank (The Bank of New Canaan, or BNC, and The Bank of Fairfield, or TBF) boards. Following the merger of the two banks in September 2013, BWFG combined BWFG and Bankwell Bank board and committees and pay a combined fee for service on both boards and committees. We pay BWFG's directors based on the directors' attendance at BWFG's board and committee meetings held throughout the year. During 2013, directors received an annual retainer of $2,000. In addition, directors of BWFG and Bankwell Bank received $500 and $400 per board meeting attended, respectively, and $200 per committee meeting attended. The Chairman of a committee of the board of directors of BWFG, BNC, and

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TBF received an annual retainer of $1,000, $3,000, and $1,500, respectively, the Vice Chairman of the board of directors of BWFG, BNC, and TBF received an annual retainer of $17,000, $4,000, and $2,000, respectively, and the Chairman of the board of directors of BWFG, BNC, and TBF received an annual retainer of $33,000, $8,000, and $4,000, respectively. The Chairman of each of BWFG's committees received 500 shares of BWFG restricted stock, the Chairman of the Loan Committee received 400 shares of BWFG restricted stock, the Chairman of the Community Reinvestment Act Committee received 300 shares of BWFG restricted stock, the Chairman of the board of directors received 2,000 shares of BWFG restricted stock, the Vice Chairman of the board of directors received 1,500 shares of BWFG restricted stock, BWFG board members received 400 shares of BWFG restricted stock, and Strategic Planning Committee Members received 400 shares of BWFG restricted stock. During Ms. Patterson's tenure as Chief Executive Officer and President of BWFG and Chief Executive Officer of Bankwell Bank, Ms. Patterson did not receive any direct remuneration for serving as a director of Bankwell Bank or BWFG.

For 2013, the combined annual retainer fees were $2,000 per director plus $1,000 for committee chairs, $17,000 for Vice Chairman and $33,000 for the Chairman and the combined meeting fees were $500 per board meeting and $200 per committee meeting.

This compensation was recommended by the Compensation Committee and approved by BWFG's board of directors after careful and extended evaluation and consideration of the recommendation of the independent compensation consultant hired by the Compensation Committee to review BWFG's board of directors' compensation relative its peer group.

BWFG established the BNC Financial Group, Inc. and Affiliates Deferred Compensation Plan for Directors, or the Directors Plan, in 2008. Directors who receive fees are eligible to participate in the Directors Plan. This non-qualified deferred compensation plan is designed to enable non-employee directors to defer receipt of compensation on a tax-advantaged basis. The deferred compensation is paid following retirement except under certain specified circumstances, including a severe financial hardship resulting from illness or accident, loss of property or other similar extraordinary and unforeseeable circumstances. The Directors Plan invests primarily in BWFG's common stock, which is purchased by an independent trustee in the open market. The Directors Plan is administered by that independent third party trustee.

The following table sets forth for the year ended December 31, 2013, the compensation paid or awarded by BWFG and the two banks to each person who was a director on December 31, 2013. As noted above, effective with the merger of BWFG's two banks in September 2013, separate fees for service on BWFG and Bankwell Bank boards were changed to one fee for service on both.

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| Name | Fees Earned or Paid in Cash ($) | Stock Awards (1) | Total Compensation ($) (2) |
|---|---|---|---|
| Frederick R. Afragola | 17,700 | 6,700 | 24,400 |
| George P. Bauer | 10,000 | 13,400 | 23,400 |
| Richard Castiglioni | 15,500 | 6,700 | 22,200 |
| Eric J. Dale | 21,100 | 20,100 | 41,200 |
| Blake S. Drexler | 63,700 | 58,625 | 122,325 |
| James A. Fieber | 40,600 | 46,900 | 87,500 |
| Mark Fitzgibbon (3) | 17,900 | 21,775 | 39,675 |
| William J. Fitzpatrick, III | 16,200 | 6,700 | 22,900 |
| Merrill J. Forgotson (4) | 19,800 | 6,700 | 26,500 |
| Hugh Halsell | 18,700 | 13,400 | 32,100 |
| Daniel S. Jones | 23,200 | 21,775 | 44,975 |
| Carl R. Kuehner | 11,600 | 20,100 | 31,700 |
| Todd Lampert | 33,300 | 23,450 | 56,750 (4) |
| Victor S. Liss | 25,100 | 6,700 | 31,800 |
| Total | 334,400 | 273,025 | 607,425 |

(1)

- Restricted Awards are calculated at $16.75 per share.

(2)

- Compensation in the form of perquisites and other personal benefits provided by BWFG has been omitted for each director as the total amount of those perquisites and personal benefits constituted less than $10,000 for the year ended December 31, 2013.

(3)

- Resigned June 16, 2014.

(4)

- Resigned January 29, 2014.

(5)

- Includes $5,000 and 300 shares of Restricted Stock valued at $16.75/share for Corporate Secretary.

Directors have been and will continue to be reimbursed for travel, food, lodging and other expenses directly related to their activities as directors. Directors are also entitled to the protection provided by the indemnification provisions in BWFG's current articles of incorporation and bylaws, as well as the charter and bylaws of Bankwell Bank.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

BWFG

The following table sets forth information regarding the beneficial ownership of BWFG's common stock as of May 31, 2014, and as adjusted to reflect the completion of this offering, for:

- each person known to BWFG to be the beneficial owner of more than five percent of BWFG's common stock;
- each of BWFG's directors and executive officers; and
- all directors and named executive officers, as a group.

BWFG has determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Except as indicated by the footnotes below, BWFG believes, based on the information furnished to BWFG, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws. Unless otherwise noted, the address for each shareholder listed on the table below is: c/o Bankwell Financial Group, Inc., 220 Elm Street, New Canaan, Connecticut 06840.

The table below calculates the percentage of beneficial ownership of BWFG's common stock based on 6,594,185 shares of common stock outstanding as of May 31, 2014. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, BWFG deemed outstanding shares of common stock subject to options or other convertible or exercisable securities held by that person that are currently exercisable or convertible or exercisable or convertible within sixty days of May 31, 2014. However, BWFG did not deem these shares outstanding for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

BWFG's directors and executive officers beneficially own 2,358,091 shares of BWFG's common stock as of July 31, 2014.

| | **Beneficial Ownership (1)** | |
|---|---|---|
| **Name of Beneficial Owner** | **Number of Shares** | **%** |
| 5% Shareholder: | | |
| Wellington Management Company, LLP (2) 280 Congress St. Boston, MA 02210 | 650,000 | 9.86 |
| Endicott Management Co. | 640,000 | 9.71 |
| Bauer Foundation | 453,987 | 6.88 |

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| Name of Beneficial Owner | Beneficial Ownership (1) Number of Shares | | % |
|---|---|---|---|
| Directors and Executive Officers: | | | |
| Frederick R. Afragola | 47,612 | (3) | * |
| George P. Bauer | 453,987 | (4) | 6.88 |
| Richard Castiglioni | 10,600 | | * |
| Eric J. Dale | 21,782 | | * |
| Blake S. Drexler | 176,356 | (5) | 2.67 |
| James A. Fieber | 469,173 | (6) | 7.11 |
| William J. Fitzpatrick | 7,472 | | * |
| Hugh Halsell, III | 231,160 | (7) | 3.51 |
| Daniel S. Jones | 221,073 | (8) | 3.35 |
| Carl R. Kuehner, III | 319,054 | (9) | 4.84 |
| Todd Lampert | 42,154 | (10) | * |
| Victor S. Liss | 22,400 | | * |
| Gail E.D. Brathwaite | 43,000 | | * |
| Heidi DeWyngaert | 57,439 | (11) | * |
| Peyton R. Patterson | 60,000 | (12) | * |
| Ernest J. Verrico | 20,700 | (13) | * |
| All directors and executive officers as a group (16 persons) | 2,203,962 | | 33.4% |

(1)

- Beneficially owned shares include shares over which the named person exercises either sole or shared voting power or sole or shared investment power. It also includes shares owned (i) by a spouse, minor children or by relatives sharing the same home, (ii) by entities owned or controlled by the named person and (iii) by other persons if the named person has the right to acquire such shares within 60 days of the exercise of any right or option. All shares identified above are owned of record individually or jointly or beneficially by the named person.

(2)

- Wellington Management Company, LLP (“Wellington Management”) is an investment adviser registered under the Investment Advisers Act. Wellington Management, in such capacity, may be deemed to have beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) over the share held by its client accounts.

(3)

- Includes vested options to purchase 10,000 shares of common stock granted under the 2002 Plan.

(4)

- Includes 167,141 shares held by the Bauer Foundation.

(5)

- Includes vested options to purchase 7,203 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan. 44,984 shares are held in trusts over which he serves as trustee.

(6)

- Includes vested options to purchase 8,085 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan. 265,238 shares are held in trusts over which he serves as trustee.

(7)

- Includes vested options to purchase 13,251 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan.

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(8)

- Includes vested options to purchase 6,619 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan.

(9)

- Includes vested options to purchase 10,331 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan. 19,200 shares are held by the Alexandra Kuehner Irrevocable Trust and the Tiffany Kuehner Irrevocable Trust, of which Mr. Kuehner serves as trustee.

(10)

- Includes vested options to purchase 14,672 shares of common stock granted under the 2002 Plan, 2006 Plan and/or 2007 Plan. 2,950 shares are held by Mr. Lampert's wife for a minor.

(11)

- Includes vested options to purchase 19,289 shares of common stock granted under the 2002 Plan and/or 2007 Plan.

(12)

- Includes 60,000 shares of restricted stock, which were to vest over five (5) years; 44,000 of these shares were forfeited due to her August 7, 2014 resignation.

(13)

- Includes vested options to purchase 3,200 shares of common stock granted under the 2007 Plan.

QBT

The following table sets forth information regarding the beneficial ownership of QBT's common stock as of May 31, 2014, and as adjusted to reflect the completion of this offering, for:

- each person known to QBT to be the beneficial owner of more than five percent of QBT's common stock;

- each of QBT's directors and executive officers; and

- all directors and named executive officers, as a group.

QBT has determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Except as indicated by the footnotes below, QBT believes, based on the information furnished to QBT, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws. Unless otherwise noted, the address for each shareholder listed on the table below is: c/o Quinnipiac Bank, 2704 Dixwell Avenue, Hamden, Connecticut 06518.

The table below calculates the percentage of beneficial ownership of QBT's common stock based on 1,215,013 shares of common stock outstanding as of May 31, 2014. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, QBT deemed outstanding shares of common stock subject to options or other convertible or exercisable securities held by that person that are currently exercisable or convertible or exercisable or convertible within sixty days of May 31, 2014. However, QBT did not deem these shares outstanding for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

QBT's directors and executive officers beneficially own 257,571 shares of QBT's common stock as of May 31, 2014.

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| Name of Beneficial Owner | Beneficial Ownership Number of Shares | | % |
|---|---|---|---|
| Richard R. Barredo | 11,344 | (1) | * |
| Mark A. Candido | 11,238 | | * |
| Richard K. Ciardiello | 22,788 | | 1.88 % |
| Carl R. DaVia | 24,871 | | 2.05 % |
| Sallie A. DeMarsilis | 22,865 | | 1.88 % |
| Stephen J. DiCapua | 11,087 | | * |
| Richard H. Fitzpatrick, Jr. | 15,904 | | 1.41 % |
| Brian P. McArdle | 28,027 | (2) | 2.31 % |
| Raymond W. Palumbo | 16,706 | (3) | 1.37 % |
| Gregory O. Scott | 36,732 | (4) | 3.02 % |
| Richard C. Simione | 5,716 | | * |
| Richard Spero | 28,604 | (5) | 2.35 % |
| Lorenzo B. Wyatt | 21,439 | | 1.76 % |
| All directors and executive officersas a group (13 persons) | 257,571 | | 21.02% |

(1)

- 2,500 shares co-owned with his spouse.

(2)

- Co-owned with his spouse.

(3)

- Of these shares, 5,215 are held by a real estate holding company in which Mr. Palumbo is a 1⁄4 owner.

(4)

- Includes 5,222 shares held in trust for the benefit of Mr. Scott’s family.

(5)

- Co-owned with his spouse.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In addition to the compensation arrangements with directors and executive officers described in “Executive Compensation” above, the following is a description of each transaction since January 1, 2012, and each proposed transaction in which:

•

- BWFG has been or is a participant;

•

- the amount involved exceeds or will exceed $120,000; and

•

- any of BWFG’s directors, executive officers or beneficial holders of more than five percent of BWFG’s capital stock, or any immediate family member of or person sharing the household with any of these individuals (other than tenants or employees), had or will have a direct or indirect material interest.

Robinson & Cole, L.L.P.
Since January 2012, Bankwell Bank engaged the services of Robinson & Cole, L.L.P. with regard to The Wilton Bank merger transaction and another matter. Mr. Eric Dale is a member of BWFG’s board of directors and partner of Robinson & Cole, L.L.P. In 2013, Bankwell Bank paid Robinson & Cole, L.L.P. $190 thousand. Through June 2014, Bankwell Bank paid Robinson & Cole, L.L.P. $7 thousand.
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Sandler O’Neill + Partners, L.P.

In 2013, Bankwell Bank engaged the services of Sandler O’Neill + Partners, L.P. for investment banking and other services. Mr. Mark Fitzgibbon was a member of BWFG’s board of directors until June 2014 and a principal of Sandler O’Neill + Partners, L.P. In 2013, Bankwell Bank paid Sandler O’Neill +Partners, L.P. $604 thousand. Through June 2014, Bankwell Bank paid Sandler O’Neill + Partners, L.P. $1,700,000 in connection with its IPO.

Ordinary Banking Relationships

Certain of BWFG’s officers, directors and principal shareholders, as well as their immediate family members and affiliates, are customers of, or have or have had transactions with, Bankwell Bank or BWFG in the ordinary course of business. These transactions include deposits, loans and other financial services related transactions. Related party transactions are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral (where applicable), as those prevailing at the time for comparable transactions with persons not related to us, and do not involve more than normal risk of collectability or present other features unfavorable to us. As of the date of this prospectus, no related party loans were categorized as nonaccrual, past due, restructured or potential problem loans. We expect to continue to enter into transactions in the ordinary course of business on similar terms with BWFG’s officers, directors and principal shareholders, as well as their immediate family members and affiliates.

The aggregate amount of extensions of credit, including overdraft protection, to directors and executive officers, including their immediate families and other associates, was $7.3 million as of December 31, 2013. All of the foregoing indebtedness was due to loans secured by mortgages held on local real estate. All extensions of credit were made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with others and do not represent more than a normal risk of collectability or present other unfavorable features. BWFG expects to have similar banking transactions in the future on comparable terms and conditions. All of these loans are performing as agreed.

INFORMATION WITH RESPECT TO
QUINNIPIAC BANK & TRUST COMPANY

General

Quinnipiac Bank & Trust Company, or QBT, is a Connecticut chartered commercial bank headquartered in Hamden, Connecticut, whose deposits are insured by the Federal Deposit Insurance Corporation. QBT commenced operations in March of 2008 and provides a full range of banking products and services to commercial and consumer customers in south-central Connecticut.

On March 31, 2014, QBT entered into a definitive merger agreement with Bankwell Financial Group, Inc., the holding company of Bankwell Bank, pursuant to which Bankwell will acquire Quinnipiac Bank & Trust Company through the merger of QBT into Bankwell Bank.

Services and Markets

QBT services a market area comprised of the towns of Hamden, North Haven, New Haven and the contiguous communities. QBT emphasizes commercial real estate loans and commercial business and SBA loans and, to a lesser extent, offers residential real estate loans, home equity loans and lines of credit

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and consumer installment loans. QBT offers such customary banking services as consumer and commercial checking accounts, NOW accounts, money market accounts, savings accounts, certificates of deposits, individual retirement accounts and money transfers. QBT also provides remote deposit capture, on-line banking and telephone banking services.

Employees

As of March 31, 2014, QBT had a total of 22 full-time employees and three part-time employees. QBT is not a party to any collective bargaining agreement, and QBT's management believes that its employee relations are good.

Competition

The banking business is highly competitive. QBT competes with 14 other banking institutions with a total of 58 branches in the Towns of Hamden, North Haven and New Haven, excluding mortgage brokers. QBT also competes with other financial service organizations, including savings and loan associations, finance companies, credit unions, and certain governmental agencies. QBT may also compete with Internet banks and other financial institutions located throughout the United States. To the extent that banks must maintain non-interest-earning reserves against deposits, they may be at a competitive disadvantage when compared with other financial service organizations that are not required to maintain the same level of reserves against substantially equivalent sources of funds.

QBT

SUPERVISION AND REGULATION

General

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

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Connecticut State Legislature, the Connecticut Department of Banking, the FDIC or Congress, could have a material adverse impact on the financial condition and results of operations of QBT. As is further described below, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), has significantly changed the bank regulatory structure and may affect the lending, investment and general operating activities of depository institutions.

The following discussion is a summary of the material laws and regulations applicable to QBT's operations, but does not purport to be a complete summary of all applicable laws, rules and regulations. These laws and regulations may change from time to time and the regulatory agencies often have broad discretion in interpreting them.

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The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending and investment activities and general operations of depository institutions.

The Dodd-Frank Act established a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010, and directed the federal banking regulators to implement new leverage and capital requirements within 18 months of that date. The revised capital regulations are effective January 1, 2015.

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

The Dodd Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based on the average consolidated total assets less tangible equity capital of an insured institution instead of deposits. That rule took effect April 1, 2011.

The Dodd-Frank Act made many other changes in banking regulation. These include authorizing depository institutions, for the first time, to pay interest on business checking accounts, mandating that regulations be issued requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations.

In addition, the Consumer Financial Protection Bureau has finalized the rule implementing the "Ability to Pay" requirements of the Dodd-Frank Act. The regulations generally require lenders to make a reasonable, good faith determination as to a potential borrower's ability to repay a residential mortgage loan. The final rule establishes a safe harbor for certain "Qualified Mortgages," which contain certain features and terms deemed to make the loan less risky. The Ability to Repay final rules were effective January 10, 2014.

Many of the provisions of the Dodd-Frank Act were subject to delayed effective dates and the legislation required various federal agencies to promulgate numerous and extensive implementing regulations over a period over years. It is therefore difficult to predict at this time what the full impact the new legislation and implementing regulations will have on community banks such as QBT. Although the substance and scope of many of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, may increase operating and compliance costs.

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Connecticut Banking Laws and Supervision

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

Lending Activities. Connecticut banking laws grant banks broad lending authority. With certain limited exceptions, unsecured loans of any one obligor under this statutory authority may not exceed 15% of a bank's equity capital and allowance for loan losses. A bank may lend additional amounts up to 10% of its unimpaired capital and allowance for loan losses if the loans or extensions of credit are fully-secured.

Dividends. QBT may generally pay cash dividends out of its net profits. For purposes of this restriction, "net profits" represents the remainder of all earnings from current operations. Further, the total amount of all dividends declared by a bank in any year may not exceed the sum of a bank's net profits for the year in question combined with its retained net profits from the preceding two years without the prior approval of the Connecticut Department of Banking.

Federal law also prevents an institution from paying dividends or making other capital distributions that, if by doing so, would cause it to become "undercapitalized." The FDIC may limit a bank's ability to pay dividends. Moreover, the federal agencies have issued policy statements that provide that insured banks should generally only pay dividends out of current operating earnings.

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

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

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

Federal Bank Regulation

Capital Requirements. Under the FDIC's regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks"), such as QBT, are required to comply with minimum leverage capital requirements. For an institution not anticipating or experiencing significant growth and deemed by the FDIC to be, in general, a strong banking organization

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rated composite 1 under Uniform Financial Institutions Ranking System, the minimum capital leverage requirement is a ratio of Tier 1 capital to adjusted total assets of 3.0%. For all other institutions, the minimum leverage capital ratio is not less than 4.0%. Tier 1 capital is the sum of common stockholder's equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

FDIC regulations also require state non-member banks to maintain certain ratios of regulatory capital to regulatory risk-weighted assets, or "risk-based capital ratios." Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items to four risk-weighted categories ranging from 0.0% to 200.0%. State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock, subordinated debentures and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier 1 capital.

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that will revise their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a uniform leverage ratio requirement of 4% of total assets, provides for a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule is effective January 1, 2015. The "capital conservation buffer" will be phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

Standards for Safety and Soundness. As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and, more recently, safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Business and Investment Activities. Under federal law, all state-chartered FDIC-insured banks have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits exceptions to these limitations.

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The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Prompt Corrective Regulatory Action.   Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The FDIC has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

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

In connection with the final capital rule described earlier, the federal banking agencies have adopted revisions to the prompt corrective action framework, effective January 1, 2015. Under the revised prompt corrective action requirements, insured depository institutions would be required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of at least 6.5%; (2) a Tier 1 risk-based capital ratio of at least 8% (increased from 6%); (3) a total risk-based capital ratio of at least 10% (unchanged from current rules) and (4) a Tier 1 leverage ratio of 5% or greater (unchanged from the current rules).

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Transactions with Affiliates. Transactions between a bank (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Generally, Sections 23A and 23B of the Federal Reserve Act limit the extent to which the bank or its subsidiaries may engage in “covered transactions” with any one affiliate to 10% of such institution’s capital stock and surplus and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution’s capital stock and surplus. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions. In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements. The law also requires that affiliate transactions be on terms and conditions that are substantially the same, or at least as favorable to the institution, as those provided to non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. The law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws, assuming such loans are also permitted under the law of the institution’s chartering state. Under such laws, a bank’s authority to extend credit to executive officers, directors and 10% shareholders (“insiders”), as well as entities such persons control, is restricted. The law limits both the individual and aggregate amount of loans that may be made to insiders based, in part, on the bank’s capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited to loans of specific types and amounts.

Enforcement. The FDIC has extensive enforcement authority over insured state banks, including QBT. That enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was “critically undercapitalized” on average during the calendar quarter beginning 270 days after the date on which the institution became “critically undercapitalized.”

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

Under the FDIC’s risk-based assessment system, insured institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and other risk-based factors. An institution’s assessment rate depends upon the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments. On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changed the assessment base used for calculating deposit insurance assessments from deposits to total assets less tangible (Tier 1) capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule

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would not significantly alter the total amount of revenue collected from the industry. The range of adjusted assessment rates is now 2.5 to 45 basis points of the new assessment base.

In addition to FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, through the FDIC, assessments for costs related to bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019.

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

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish or acquire branches and merger with other depository institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. QBT's latest FDIC CRA rating was "satisfactory." Connecticut law also requires consideration of CRA by the Connecticut Department of Banking in conjunction with certain applications.

Federal Home Loan Bank System. QBT is a member of the Federal Home Loan Bank System, which consists of twelve regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, QBT is required to acquire and hold a specified amount of shares of capital stock in the Federal Home Loan Bank of Boston. As of March 31, 2014, QBT was in compliance with this requirement.

Other Regulations

Some interest and other charges collected or contracted for by QBT are subject to state usury laws and federal laws concerning interest rates. QBT's operations are also subject to state and federal laws applicable to credit transactions and other operations.

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QBT MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary

QBT's total assets at March 31, 2014 of $105.9 million reflect an increase of $6.9 million or 7% as compared to December 31, 2013. Loans, net increased $5.0 million or 6% due primarily to an increase in the volume of commercial mortgages. Total deposits increased $2.5 million largely due to increases in period end balances of demand and IOLTA accounts. Federal Home Loan Bank ("FHLB") advances, comprised of a series of short term advances, increased $4.2 million.

QBT's total assets at December 31, 2013 of $99.0 million reflect an increase of $9.1 million or 10% as compared to December 31, 2012. In the year to year comparison, the available-for-sale securities portfolio increased $2.8 million and loans, net increased $7.0 million; total deposits increased $7.0 million and borrowings were up $1.3 million compared to December 31, 2012. Net income for the year combined with the exercise of warrants resulted in an increase in total shareholder equity of $0.9 million to $10.4 million at December 31, 2013 as compared to December 31, 2012.

For the quarter ended March 31, 2014, QBT recorded a net loss of $44,000 which reflects approximately $172,000 in merger related expenses. Net interest income for the quarter was $1.1 million. The provision for loan losses was $80,000, noninterest income was $65,000 and noninterest expenses were $1.1 million. For the quarter ended March 31, 2013, QBT recorded net income of $151,000. Net interest income for the 2013 quarter was $996,000. The provision for loan losses was $25,000, noninterest income was $54,000 and noninterest expenses were $777,000.

For the year ended December 31, 2013 QBT recorded net income of $557,000. Net interest income for 2013 was $4.1 million. For 2013, QBT recorded $61,000 in loan loss provisions, noninterest income was $273,000 and noninterest expenses were $3.3 million. For the year ended December 31, 2012 QBT recorded net income of $556,000. Net interest income for 2012 was $3.7 million. For 2012, QBT recorded $200,000 in loan loss provisions, noninterest income was $239,000 and noninterest expenses were $2.8 million.

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The following is summary financial data at or for the periods presented:

Selected Operating Data

| | For the Three Months Ended March 31, | | For the Years Ended December 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2013 | 2012 |
| Interest and dividend income | $ 1,216,238 | $ 1,135,415 | $ 4,666,939 | $ 4,233,578 |
| Interest expense | 135,318 | 138,994 | 572,388 | 579,085 |
| Net interest income | 1,080,920 | 996,421 | 4,094,551 | 3,654,493 |
| Provision for loan losses | 80,000 | 25,000 | 61,000 | 200,000 |
| Net interest income after provision for loan losses | 1,000,920 | 971,421 | 4,033,551 | 3,454,493 |
| Noninterest income | 64,808 | 53,928 | 272,691 | 238,620 |
| Noninterest expense | 1,136,931 | 777,222 | 3,340,807 | 2,777,375 |
| Income (loss) before income taxes | (71,203 ) | 248,127 | 965,435 | 915,738 |
| (Provision) benefit for income taxes | 27,000 | (97,000 ) | (408,250 ) | (359,250 ) |
| Net income (loss) | $ (44,203 ) | $ 151,127 | $ 557,185 | $ 556,488 |

Selected Financial Condition Data

| | At March 31, 2014 | At December 31, 2013 | 2012 |
|---|---|---|---|
| Cash and cash equivalents | $ 4,510,716 | $ 2,405,421 | $ 4,928,280 |
| Investment securities | 8,587,640 | 8,865,772 | 6,135,048 |
| Loans, net | 86,841,813 | 81,846,517 | 74,818,287 |
| Total assets | 105,900,107 | 99,032,902 | 89,867,791 |
| Deposits | 89,433,274 | 86,884,027 | 79,884,493 |
| Borrowings | 5,500,000 | 1,250,000 | — |
| Total equity | 10,439,189 | 10,424,026 | 9,513,997 |

Financial Condition at March 31, 2014 and December 31, 2013 and 2012

Assets

Total assets at March 31, 2014 increased $6.9 million as compared to total assets of $99.0 million at December 31, 2013. The increase in assets was funded by increases in FHLB advances and deposits. Loans, net increased $5.0 million to $86.8 million at March 31, 2014 as compared to net loans of $81.8 million at December 31, 2013. Total deposits increased $2.5 million to $89.4 million at March 31, 2014 from December 31, 2013. Noninterest bearing deposits increased $0.7 million and interest bearing deposits increased $1.9 million. FHLB advances increased $4.2 million to $5.5 million at March 31, 2014 from $1.3 million at December 31, 2013. Shareholder’s equity increased $15,000 during the period. The increase was due to an improvement in market values of the available-for-sale securities portfolio and the impact of the accrual for stock options, partially offset by a net loss for the period.

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Total assets at December 31, 2013 increased $9.1 million to $99.0 million as compared to total assets at December 31, 2012 of $89.9 million. The available-for-sale securities portfolio increased $2.8 million to $8.9 million at December 31, 2013 from $6.1 million at December 31, 2012. Loans, net increased $7.0 million to $81.8 million from $74.8 million. The increases in the investment and loan portfolios were funded by increases in deposits and borrowings and a decline in cash and cash equivalents. Premises and equipment increased $2.0 million in the period to period comparison as a result of the construction of QBT's new headquarters. Total deposits increased $7.0 million to $86.9 million at December 31, 2013 from $79.9 million at December 31, 2012. Noninterest bearing deposits increased $2.4 million and interest bearing deposits increased $4.6 million. FHLB advances at December 31, 2013 were $1.3 million; there were no borrowings outstanding at December 31, 2012. Shareholder equity increased $0.9 million to $10.4 million at December 31, 2013 from $9.5 million at December 31, 2012. The increase was due to net income combined with the exercise of common stock warrants and the accrual for stock options, partially offset by a decline in the fair values of QBT's available-for-sale securities portfolio.

Investments

The following table presents QBT's available-for-sale investment securities portfolio at each of the dates shown at fair value. All of QBT's investment securities were classified as available for sale at each of the dates indicated.

| | | **March 31, 2014** | | **December 31, 2013** | | **December 31, 2012** |
|---|---|---|---|---|---|---|
| U.S. Government Sponsored Agency Obligations | $ | 2,822,835 | $ | 2,825,000 | $ | 2,245,048 |
| U.S. Government Agency and U.S. Government Sponsored Agency Mortgage-Backed Securities | | 5,764,805 | | 6,040,772 | | 3,890,000 |
| Total | $ | 8,587,640 | $ | 8,865,772 | $ | 6,135,048 |

At March 31, 2014, we had no investments in a single company or entity, other than U.S. Government agencies and U.S. Government-sponsored agencies that had an aggregate book value in excess of 10% of QBT's equity.

During the three months ended March 31, 2014, QBT purchased one U.S. Government sponsored agency bond for $95,000 and one in the amount of $152,000 was called by the issuer. Principal repayments on mortgage-backed securities during the period were approximately $334,000.

During 2013, QBT purchased $5.9 million in available-for-sale securities, while proceeds from maturities and calls on available-for-sale securities were $1.6 million and principal payments on mortgage-backed securities were $1.3 million.

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The following table presents the amortized cost and fair value by contractual maturities of QBT's available-for-sale securities portfolio at December 31, 2013.

| | Amortized Cost | Fair Value |
|---|---|---|
| Maturity: | | |
| One year and less | $ — | $ — |
| After one but within five years | 744,150 | 762,982 |
| After five but within ten years | 1,225,548 | 1,168,464 |
| After 10 years | 995,751 | 893,554 |
| Mortgage-backed securities | 6,054,959 | 6,040,772 |
| Total | $ 9,020,408 | $ 8,865,772 |

Loans

The following table presents QBT's loan portfolio at each of the dates shown.

| | March 31, 2014 | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Commercial real estate loans | $ 53,803,927 | $ 49,672,247 | $ 45,153,984 |
| Commercial loans | 21,758,709 | 20,924,393 | 20,399,910 |
| Residential real estate loans | 5,717,691 | 5,830,278 | 5,125,451 |
| Consumer home equity loans | 3,941,479 | 3,863,297 | 3,319,705 |
| Consumer installment loans | 2,863,543 | 2,780,199 | 2,048,521 |
| Total loans | 88,085,349 | 83,070,414 | 76,047,571 |
| Deferred loan fees, net | (213,952 ) | (233,297 ) | (280,110 ) |
| Allowance for loan losses | (1,029,584 ) | (990,600 ) | (949,174 ) |
| Loans receivable, net | $ 86,841,813 | $ 81,846,517 | $ 74,818,287 |

During the three months ended March 31, 2014, QBT's net loan portfolio increased $5.0 million to $86.8 million from $81.8 million at December 31, 2013. The growth in the portfolio was funded by increases in FHLB advances and deposits.

During 2013, QBT's net loan portfolio increased $7.0 million to $81.8 million at December 31, 2013 from $74.8 million at December 31, 2012. Loan growth was partially offset by significant payoff activity during the year of approximately $5.3 million.

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The following table presents the maturities of loans in QBT's portfolio at December 31, 2013, by type of loan.

| | Due in one year or less | Due after one year through five years | Due after five years | Total |
|---|---|---|---|---|
| Commercial real estate loans | 1,423,153 | 1,262,212 | 46,986,882 | 49,672,247 |
| Commercial loans | 10,508,003 | 4,855,624 | 5,560,766 | 20,924,393 |
| Residential real estate loans | — | — | 5,830,278 | 5,830,278 |
| Consumer home equity loans | — | — | 3,863,297 | 3,863,297 |
| Consumer installment loans | 189,762 | 2,584,499 | 5,938 | 2,780,199 |
| Total | 12,120,918 | 8,702,335 | 62,247,161 | 83,070,414 |

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2013 that are contractually due after December 31, 2014.

| | Due after December 31, 2014 | | |
|---|---|---|---|
| | Due after one year through five years | Due after five years | Total |
| Fixed rate loans | 5,728,356 | 1,003,869 | 6,732,225 |
| Variable rate loans | 2,973,979 | 61,243,292 | 64,217,271 |
| Total | 8,702,335 | 62,247,161 | 70,949,496 |

Allowance for Loan Losses

The allowance for loan losses, a material estimate which could change significantly in the near-term, is established as losses are estimated to have occurred through a provision for loan losses charged against operations and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

Based upon these evaluations and analyses, management believes the allowance for loan losses of $1.0 million at March 31, 2014, which represents 1.17% of gross loans outstanding, is adequate under prevailing economic conditions to absorb losses inherent in the loan portfolio. At December 31, 2013, the

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allowance was $991,000 and represented 1.19% of gross loans outstanding. At December 31, 2012, the allowance was $949,000 and represented 1.25% of gross loans outstanding.

Analysis of Allowance for Loan Losses

The following table presents the activity in QBT's allowance for loan losses.

| | For the Three Months Ended March 31, 2014 | For the Years Ended December 31, 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of period | $ 990,600 | $ 949,174 | $ 771,365 |
| Charge-offs: | — | — | — |
| Commercial | (37,103 ) | (4,335 ) | (22,171 ) |
| Consumer home equity | — | (10,068 ) | — |
| Consumer installment | (3,913 ) | (5,218 ) | (431 ) |
| Total charge-offs | (41,016 ) | (19,621 ) | (22,602 ) |
| Recoveries: | | | |
| Consumer installment | — | 47 | 411 |
| Total recoveries | — | 47 | 411 |
| Net charge-offs | (41,016 ) | (19,574 ) | (22,191 ) |
| Provision charged to earnings | 80,000 | 61,000 | 200,000 |
| Balance at end of period | $ 1,029,584 | $ 990,600 | $ 949,174 |

The following table presents the allocation of the allowance for loan losses and the percent of loans in each category to total loans.

| | At March 31, 2014 | | At December 31, 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio | Amount | Percent of Loan Portfolio |
| Commercial real estate loans | $ 695,435 | 61.09 % | $ 683,204 | 59.79 % | $ 664,981 | 59.37 % |
| Commercial loans | 237,408 | 24.70 % | 223,064 | 25.19 % | 188,609 | 26.83 % |
| Residential real estate loans | 30,412 | 6.49 % | 32,086 | 7.02 % | 33,782 | 6.74 % |
| Consumer home equity loans | 21,905 | 4.47 % | 22,202 | 4.65 % | 22,148 | 4.37 % |
| Consumer installment | 44,424 | 3.25 % | 30,044 | 3.35 % | 39,654 | 2.69 % |

| | At March 31, 2014 | | At December 31, | | | |
|---|---|---|---|---|---|---|
| loans | | | | | | |
| Total loans | $ 1,029,584 | 100.00% | $ 990,600 | 100.00% | $ 949,174 | 100.00% |

Nonaccrual, Past Due and Restructured Loans

At March 31, 2014, loans past due 30 – 89 days totaled $885,000 and loans on nonaccrual totaled $441,000. During the three months ended March 31, 2014 there were no loans that were modified in troubled debt restructurings.

At December 31, 2013, loans past due 30 – 89 days totaled $865,000 and loans on nonaccrual status totaled $487,000. For the year ended December 31, 2013 there was one loan in the amount of $93,000 that was restructured in a troubled debt restructuring. This loan was paid in full during the first quarter of 2014.

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At December 31, 2012, loans past due 30 – 89 days totaled $117,000 and loans on nonaccrual totaled $173,000. For the year ended December 31, 2012 there were no loans modified in troubled debt restructurings.

For the three months ended March 31, 2014 gross interest income that would have been recorded had non-accruing loans been current in accordance with their original terms was approximately $10,000. There was no interest income recognized on such loans for the three months ended March 31, 2014. For the three months ended March 31, 2014, there were no loans modified in troubled debt restructurings.

Criticized Loans

The following table sets forth QBT's amounts of classified loans, loans designated as special mention and criticized loans (classified loans and loans designated as special mention) as of the dates indicated.

| | At March 31, | At December 31, | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Classified loans: | | | |
| Substandard | $ 902,128 | $ 696,328 | $ 63,792 |
| Doubtful | — | — | — |
| Loss | — | — | — |
| Total classified loans | 902,128 | 696,328 | 63,792 |
| Special mention | 1,338,953 | 1,071,364 | 2,355,008 |
| Total criticized loans | $ 2,241,081 | $ 1,767,692 | $ 2,418,800 |

Potential Problem Loans

At March 31, 2014 and December 31, 2013, in addition to the loans previously disclosed, there were no loans for which management has significant doubts as to the ability of the borrowers to comply with present repayment terms.

Other Assets

During 2013, QBT completed construction and furnished and equipped its new headquarters; as a result, premises and equipment at the end of 2013 reflect an increase of $2.0 million as compared to the previous year.

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Deposits

The following table is a summary of QBT's deposits for each of the periods presented:

| | | March 31, 2014 | | December 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|---|---|
| Noninterest bearing demand deposits | $ | 17,356,070 | $ | 16,702,040 | $ | 14,287,655 |
| Interest bearing accounts: | | | | | | |
| NOW | | 3,341,989 | | 2,147,312 | | 2,966,340 |
| Money market | | 26,793,798 | | 26,348,265 | | 25,362,158 |
| Savings | | 2,733,804 | | 2,936,922 | | 2,042,875 |
| Time certificates of deposit | | 39,207,613 | | 38,749,488 | | 35,225,465 |
| Total interest bearing deposits | | 72,077,204 | | 70,181,987 | | 65,596,838 |
| Total deposits | $ | 89,433,274 | $ | 86,884,027 | $ | 79,884,493 |

During the three months ended March 31, 2014, total deposits increased $2.5 million to $89.4 million from $86.9 million at December 31, 2013. Noninterest bearing deposits increased $654,000 due primarily to increases in period end balances of commercial demand accounts partially offset by a decrease in balances of official checks. Interest bearing balances increased $1.9 million during the period due to higher balances in IOLTA's, certificates of deposit and money market fund accounts.

During 2013, total deposits increased $7.0 million to $86.9 million at December 31, 2013 from $79.9 million at December 31, 2012. Noninterest bearing balances increased $2.4 million during the period due primarily to increases in period end balances of personal and commercial demand and balances of official checks outstanding. Interest bearing deposits during the period increased $4.6 million; the largest component of this increase is reflected in certificates of deposit which increased as the result of promotional campaigns celebrating QBT's fifth anniversary and the grand opening of QBT's new headquarters.

At December 31, 2013, QBT's maturities of time deposits were as follows.

| | | $100,000 or greater | | Less than $100,000 | | Totals |
|---|---|---|---|---|---|---|
| Three months or less | | 1,334,852 | | 1,674,814 | | 3,009,666 |
| Three to six months | | 1,642,914 | | 1,296,669 | | 2,939,583 |
| Six months to one year | | 1,301,592 | | 3,921,786 | | 5,223,378 |
| Over one year | | 7,455,004 | | 20,121,857 | | 27,576,861 |
| Total deposits | $ | 11,734,362 | $ | 27,015,126 | $ | 38,749,488 |

Other liabilities

Borrowings at March 31, 2014 are comprised of a series of short term FHLB advances drawn upon to meet loan demand and supplement shortfalls in deposit generating efforts.

Borrowings at December 31, 2013 are comprised of a short term FHLB advance drawn upon to supplement liquidity.

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Comparison of Operating Results for the Three Months Ended March 31, 2014 and 2013 and for the Years Ended December 31, 2013 and 2012.

Net Income

For the three months ended March 31, 2014 QBT recorded a net loss of $44,000. Reflected in the results for the first quarter are approximately $172,000 in expenses incurred as part of the merger discussions, negotiations and the execution of a definitive merger agreement with Bankwell. For the three months ended March 31, 2013 QBT recorded net income of $151,000.

For the year ended December 31, 2013 QBT recorded net income of $557,000 as compared to $556,000 for the year ended December 31, 2012

The following are measurements of QBT's returns in relation to average assets, average equity and earnings per share for the periods presented:

| | **For the Three Months Ended March 31,** | | **For the Years Ended December 31,** | |
|---|---|---|---|---|
| | **2014** | **2013** | **2013** | **2012** |
| (Loss) return on average assets | −0.17 % | 0.66 % | 0.57 % | 0.66 % |
| (Loss) return on average equity | −1.67 % | 6.16 % | 5.45 % | 6.03 % |
| Average equity to average assets | 10.40 % | 10.70 % | 10.50 % | 10.57 % |
| (Loss) earnings per share | $ (0.04 ) | $ 0.13 | $ 0.46 | $ 0.48 |

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Interest and dividend income and interest expense

The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the quarters ended March 31, 2014 and 2013. The table also reflects the changes for the quarter ended March 31, 2014 as compared to the quarter ended March 31, 2013 in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to both rate and volume has been allocated to the changes in rate and volume on a pro rata basis.

| | 2014 | | | 2013 | | | 2014 vs. 2013 Fluctuations Interest Income/ Expense Due to Change in: | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Volume | Rate | To |
| est ng s: | | | | | | | | | |
| and valents | $2,807,151 | $1,431 | 0.20% | $4,801,028 | $2,619 | 0.22% | $(975 ) | $(213 ) | $(1,1 |
| stment rities equity ks | 9,247,615 | 50,028 | 2.16% | 5,590,173 | 21,334 | 1.53% | 10,370 | 18,324 | 28,( |
| ns | 83,853,200 | 1,164,779 | 5.56% | 77,027,184 | 1,111,463 | 5.77% | 95,126 | (41,810) | 53,: |
| l est ng s | $95,907,966 | $1,216,238 | 5.07% | $87,418,385 | $1,135,416 | 5.20% | 104,521 | (23,699) | 80,8 |
| r assets | 5,805,862 | | | 4,372,709 | | | | | |
| l Assets | $101,713,828 | | | $91,791,094 | | | | | |
| est ng lities: | | | | | | | | | |
| V unts | $2,147,351 | $264 | 0.05% | $2,314,467 | $285 | 0.05% | $(21 ) | $— | $(21 |
| ey ket unts | 26,439,344 | 22,149 | 0.34% | 26,292,086 | 24,937 | 0.38% | 125 | (2,913 ) | (2,7 |
| ngs unts | 2,672,465 | 891 | 0.13% | 1,950,420 | 752 | 0.15% | 246 | (107 ) | 139 |
| ficates eposit | 38,758,403 | 110,042 | 1.14% | 36,288,630 | 112,750 | 1.24% | 7,065 | (9,773 ) | (2,7 |
| owings | 4,411,111 | 1,972 | 0.18% | 477,778 | 271 | 0.23% | 2,262 | (561 ) | 1,70 |
| l est ng lities | $74,428,674 | $135,318 | 0.73% | $67,323,381 | $138,995 | 0.83% | 9,677 | (13,354) | (3,6 |
| | 16,404,862 | | | 14,276,207 | | | | | |

| | 2014 | | | 2013 | | | 2014 vs. 2013 Fluctuations Interest Income/ Expense Due to Change in: | | |
|---|---|---|---|---|---|---|---|---|---|
| and sits ued nses other lities | 305,802 | | | 371,580 | | | | | |
| eholder's ty | 10,574,490 | | | 9,819,926 | | | | | |
| l lities equity | $101,713,828 | | | $91,791,094 | | | | | |
| nterest me | | $1,080,920 | | | $996,421 | | $94,844 | $(10,345) | $84,4 |
| est gin | | | 4.51% | | | 4.56% | | | |
| est ad | | | 4.34% | | | 4.37% | | | |

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The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2013 and 2012. The table also reflects the changes for the year ended December 31, 2013 as compared to the year ended December 31, 2012 in net interest income arising from changes in interest rates and from asset and liability volume, including mix. The change in interest attributable to both rate and volume has been allocated to the changes in rate and volume on a pro rata basis.

| | 2013 | | | 2012 | | | 2013 vs. 2012 Fluctuations Interest Income/ Expense Due to Change in: | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Average Rate | Average Balance | Interest Income/ Expense | Average Rate | Volume | Rate | To |
| est ng s: | | | | | | | | | |
| and alents | $6,075,110 | $13,071 | 0.22% | $7,098,807 | $16,430 | 0.23% | $(2,129) | $(1,230) | $(3,3 |
| tment ities | 7,367,509 | 136,100 | 1.85% | 6,324,791 | 139,649 | 2.21% | 21,121 | (24,670) | (3,5 |
| quity s s | 78,349,703 | 4,517,768 | 5.77% | 67,766,649 | 4,077,499 | 6.02% | 615,445 | (175,176) | 440, |
| est ng s | $91,792,322 | $4,666,939 | 5.08% | $81,190,247 | $4,233,578 | 5.21% | 634,437 | (201,076) | 433, |
| r assets | 5,254,993 | | | 3,630,441 | | | | | |
| Assets | $97,047,315 | | | $84,820,688 | | | | | |
| est ng ities: | | | | | | | | | |
| y nts | $2,400,126 | $1,201 | 0.05% | $2,971,912 | $2,040 | 0.07% | $(338) | $(501) | $(839 |
| ey et nts | 27,579,075 | 98,873 | 0.36% | 23,532,978 | 119,050 | 0.51% | 18,601 | (38,778) | (20, |
| gs nts | 2,369,697 | 3,386 | 0.14% | 1,450,927 | 8,979 | 0.62% | 3,750 | (9,343) | (5,5 |
| ficates posit | 37,813,516 | 468,266 | 1.24% | 36,219,875 | 449,016 | 1.24% | 19,250 | — | 19,2 |
| owings | 309,808 | 664 | 0.21% | — | — | — | 664 | — | 664 |
| est ng ities | $70,472,222 | $572,390 | 0.81% | $64,175,692 | $579,085 | 0.90% | 41,927 | (48,622) | (6,6 |
| and sits | 15,972,040 | | | 11,159,325 | | | | | |

| | 2013 | | | 2012 | | | 2013 vs. 2012 Fluctuations Interest Income/ Expense Due to Change in: | |
|---|---|---|---|---|---|---|---|---|
| ued nses ther ities | 383,546 | | | 255,385 | | | | |
| eholder's y | 10,219,507 | | | 9,230,286 | | | | |
| ities quity | $97,047,315 | | | $84,820,688 | | | | |
| nterest ne | | $4,094,549 | | | $3,654,493 | $592,510 | $(152,454) | $440, |
| est in | | | 4.46% | | | 4.50% | | |
| est d | | | 4.27% | | | 4.31% | | |

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For the three months ended March 31, 2014, QBT recorded interest and dividend income of $1.2 million and interest expense of $135,000. Net interest income for the same period was $1.1 million. For the three months ended March 31, 2013, QBT recorded interest and dividend income of $1.1 million and interest expense of $139,000. Net interest income for the 2013 quarter was $996,000.

Interest and dividend income of $4.7 million for the year ended December 31, reflects an increase of $433,000 or 10% over 2012. The primary driver behind this increase was the increase in the average balance of loans outstanding during the period. Another contributing factor was a higher level of prepayment fees assessed on early loan payoffs. Partially offsetting the increase in interest income from loans was a decline in investment income resulting from a higher level of principal prepayments of mortgage-backed securities. Interest on federal funds sold and due from banks also declined as QBT maintained a lower average balance of funds in these assets. Interest rate reductions implemented in 2012 and 2013 resulted in a decline in interest expense of 1% for 2013 as compared to 2012 despite an increase in average interest bearing liabilities of $6.3 million.

Noninterest income

Noninterest income for the three months ended March 31, 2014 was $65,000 and was comprised primarily of fees and service charges on deposit accounts, wire transfer and debit card interchange fee income and income derived from residential mortgage brokerage activities. Noninterest income for the three months ended March 31, 2013 was $54,000 and was comprised of the same aforementioned components.

Noninterest income for the year ended December 31, 2013 of $273,000 reflects an increase of 14% over the year ended December 31, 2012. Increases in fees and service charges resulted from account related volume increases in insufficient and uncollected funds charges, commercial demand maintenance charges, debit card interchange activity and wire transfer fees, partially offset by a decline in other income largely comprised of mortgage brokerage and referral fees.

Noninterest expenses

Noninterest expense for the three months ended March 31, 2014 was $1.1 million. Reflected in the results for the first quarter was approximately $172,000 in expenses incurred as part of the merger discussions, negotiations and the execution of a definitive merger agreement with Bankwell. These expenses are comprised of legal fees, financial advisory fees and director fees for special meetings. Significant components of noninterest expenses for the first quarter include: $517,000 for salaries and benefits, $275,000 for professional and other outside services and $96,000 in occupancy and equipment. Noninterest expense for the three months ended March 31, 2013 was $777,000, of which significant components include: $428,000 for salaries and benefits, $105,000 for professional and other outside services, $59,000 for data processing and $50,000 in occupancy and equipment.

Noninterest expenses for the year ended December 31, 2013 of $3.3 million reflect an increase of 20% over the year ended December 31, 2012. Salaries and employee benefits, the largest component of noninterest expenses increased $275,000 or 17% as a result of staffing additions and salary increases and the corresponding increase in payroll taxes, compensation expense recorded in conjunction with stock options awarded, the implementation of an employer matching contribution for QBT’s 401(k) plan and increases in health insurance. QBT completed the construction of and outfitted its new headquarters during 2013 and as a result occupancy and equipment expenses increased $98,000 or 54% over the previous year. Data processing and other outside services reflect an increase of $54,000 or 15%; this increase reflects financial advisory fees and other due diligence related expenses incurred during earlier

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merger discussions with Bankwell. The increase also reflects personnel placement expenses and IT consulting services. In 2013, QBT implemented a director compensation program which resulted in an increase in noninterest expenses of $48,000. Professional fees for 2013 increased $39,000 or 28% over 2012. This increase was comprised primarily of increases in legal fees incurred during previous discussions with Bankwell. Advertising and promotional expenses increased in 2013 by $35,000 or 32%; this increase primarily reflects promotional campaigns and activities associated with the grand opening of QBT's new headquarters. Regulatory assessments reflect a decrease of $18,000 or 23%; this reduction is primarily the result of the elimination of the higher premium assessed for banks considered "new".

Income taxes

For the three months ended March 31, 2014 QBT recorded a pretax loss of $71,000 and accordingly recorded a net income tax benefit of $27,000. For the three months ended March 31, 2013 QBT recorded pretax income of $248,000 and recorded a provision for income taxes of $97,000.

For the years ended December 31, 2013 and 2012 provisions for income taxes totaled $408,000 and $359,000, respectively.

Liquidity

Liquidity is a measure of QBT's ability to generate adequate cash to meet its financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuation in deposit accounts and fund increases in its loan portfolio.

Cash and cash equivalents and available-for-sale securities at March 31, 2014 totaled $13.1 million and totaled $11.5 million at December 31, 2013.

Capital Resources

The following table presents QBT's regulatory capital ratios for each of the periods shown:

| | **March 31, 2014** | **December 31, 2013** | **December 31, 2012** |
|---|---|---|---|
| Total Capital to Risk-Weighed Assets | 13.02% | 13.81 % | 13.69% |
| Tier 1 Capital to Risk-Weighted Assets | 11.78% | 12.56 % | 12.44% |
| Tier 1 Capital to Average Assets | 9.88 % | 10.11 % | 9.89 % |

QBT is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken could have a direct material effect on QBT's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, QBT 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 area also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In addition to the above, the Authorization Certificate issued by the State of Connecticut Department of Banking requires QBT to maintain a Tier 1 Capital to Average Assets ratio of not less than eight percent for a period of seven years, which will end on March 5, 2015.

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QBT

MARKET PRICE AND DIVIDEND INFORMATION

At July 28, 2014, there were approximately 395 holders of record of QBT's common stock. There is no established public trading market for QBT's securities. To date, QBT has not paid a dividend on its common stock.

At July 28, 2014, there were outstanding options to acquire up to 109,000 shares of QBT's common stock at an exercise price of $10.00. At that same date, there were outstanding warrants exercisable for up to 122,500 shares of QBT's common stock at $10.00 per share.

SPECIAL MEETING OF SHAREHOLDERS OF QBT

This proxy statement/prospectus is being furnished to holders of QBT common stock for use at a special meeting of shareholders of QBT and any adjournments or postponements thereof.

Date, Time and Place of the Special Meeting

The special meeting of shareholders of QBT will be held at New Haven Country Club, 160 Hartford Turnpike, Hamden, Connecticut 06517 on September 24, 2014 at 4:00 p.m., local time.

Purpose of the Special Meeting

At the special meeting, QBT shareholders as of the record date will be asked to consider and vote on the following proposals:

1.

- to approve the merger agreement pursuant to which QBT will merge with and into Bankwell Bank, with Bankwell Bank being the surviving corporation; and

2.

- to consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement.

Recommendation of the Board of Directors of QBT

The board of directors of QBT has unanimously approved the merger agreement and recommends that you vote "FOR" approval of the merger agreement and "FOR" the proposal to adjourn the meeting, if necessary.

Record Date; Outstanding Shares; Shares Entitled to Vote

Only holders of record of QBT common stock at the close of business on the record date of July 28, 2014, are entitled to notice of and to vote at the special meeting of shareholders of QBT, provided that such shares remain outstanding on the date of the special meeting. As of the record date, there were 1,215,013 shares of QBT common stock outstanding, held of record by approximately 395 shareholders. Each holder of QBT common stock is entitled to one vote for each share of QBT common stock owned as of the record date.

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Quorum; Vote Required

A quorum of QBT shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of QBT common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. QBT will include proxies marked as abstentions in determining the number of shares present at the special meeting.

The affirmative vote of the holders of at least two-thirds of the shares of QBT common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. Abstentions will have the same effect as a vote against the approval of the merger agreement. A majority of the votes properly cast is required to approve one or more adjournments of the special meeting.

Share Ownership of Management

As of the record date, the directors and executive officers of QBT and their affiliates collectively owned 257,451 shares of QBT common stock, or approximately 21.0% of QBT's outstanding shares (not counting unexercised options or warrants). Each QBT director and executive officer has entered into a voting agreement requiring them to vote their shares of QBT common stock "FOR" approval of the merger agreement and not to transfer or dispose of their shares prior to the meeting.

When considering the recommendation of the board of directors of QBT that you vote in favor of the approval of the merger agreement, you should be aware that the executive officers and directors of QBT have financial interests in the merger that may be different from, or in addition to, the interests of shareholders of QBT. See "The Merger — Interests of QBT's Directors and Executive Officers in the Merger" beginning on page 166.

Voting of Proxies

If you are a QBT shareholder, the board of directors of QBT requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed postage-paid envelope. Alternatively, you may vote telephonically or by the internet by following the instructions described on the enclosed proxy card.

All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, if no instructions are given, the shares will be voted "FOR" approval of the merger agreement and "FOR" an adjournment of the special meeting to solicit additional proxies, if necessary.

Voting in Person

If you are a QBT shareholder and plan to attend the special meeting of QBT shareholders and wish to vote in person, you will be given a ballot at the special meeting.

Whether or not you plan to attend the special meeting, QBT requests that you complete, sign, date and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope. This will not prevent you from voting in person at the special meeting but will assure that your vote is counted if you are unable to attend.

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Proxy Solicitation

If you are a QBT shareholder, the enclosed proxy is solicited by and on behalf of the board of directors of QBT. QBT will pay the expenses of soliciting proxies to be voted at the special meeting. Following the original mailing of the proxies and other soliciting materials, QBT and its agents also may solicit proxies by mail, telephone, facsimile or in person. No additional compensation will be paid to directors, officers or other employees of QBT for making these solicitations.

This proxy statement/prospectus and the proxy card are first being sent to QBT shareholders on or about August 18, 2014.

Stock Certificates

If you are a QBT shareholder, you should not send in any certificates representing QBT common stock at this time. You will receive separate instructions from the exchange agent for the exchange of your certificates representing QBT common stock.

Proposal to Approve Adjournment of the Special Meeting

QBT is also submitting a proposal for consideration at the special meeting to authorize the named proxies to approve one or more adjournments of the special meeting if there are not sufficient votes to approve the merger agreement at the time of the special meeting. Even though a quorum may be present at the special meeting, it is possible that QBT may not have received sufficient votes to approve the merger agreement by the time of the special meeting. In that event, QBT would need to adjourn the special meeting in order to solicit additional proxies. The adjournment proposal relates only to an adjournment of the special meeting for purposes of soliciting additional proxies to obtain the requisite shareholder approval to approve the merger agreement. Any other adjournment of the special meeting (e.g., an adjournment required because of the absence of a quorum) would be voted upon pursuant to the discretionary authority granted by the proxy card. If the special meeting is adjourned for 120 days or less, QBT is not required to give notice of the time and place of the adjourned meeting unless the board of directors fixes a new record date for the special meeting.

The proposal to approve one or more adjournments of the special meeting requires the affirmative vote of holders of a majority of the shares of QBT common stock present or represented at the special meeting and entitled to vote on the proposal. The board of directors of QBT retains full authority to the extent set forth in QBT's bylaws and Connecticut law to adjourn the special meeting for any other purpose, or to postpone the special meeting before it is convened, without the consent of any QBT shareholders.

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## THE MERGER

The following discussion contains material information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement and financial advisor opinion attached as appendices to this proxy statement/prospectus. BWFG urges you to read carefully this entire proxy statement/prospectus, including the merger agreement and financial advisor opinion attached as annexes to this proxy statement/prospectus, for a more complete understanding of the merger.

On March 31, 2014, the BWFG board of directors and the board of directors of QBT approved the merger agreement. The merger agreement provides for the acquisition by BWFG of QBT through a merger of QBT with and into Bankwell Bank, with Bankwell Bank as the surviving corporation.

Upon completion of the merger, each outstanding share of QBT common stock will be converted into the right to receive, at the election of the holder of each such share, either $12.00 in cash or 0.56 shares of BWFG common stock. A QBT shareholder may specify different elections with respect to different shares that such shareholder holds. The value of the per share stock consideration is dependent upon the value of BWFG common stock and therefore will fluctuate with the market price of BWFG common stock. QBT shareholders may elect the form of consideration, but their elections are subject to a proration mechanism such that approximately 75% of QBT shares will be exchanged for shares of BWFG common stock and approximately 25% will be exchanged for cash.

### Background of the Merger

Since QBT began operations in 2008, its vision has been to create and operate a community bank focused on exceptional customer service in the greater New Haven market. QBT has had a strong operating performance and an excellent reputation within its local community and the banking community as well. Since QBT opened, the strategic plan has primarily focused on franchise growth and increasing profitability. However, in more recent years, the Board of Directors has become increasingly concerned about the lack of liquidity in QBT’s stock and the potential need to re-enter the capital markets in order to obtain the capital necessary to sustain QBT’s growth and the potential effect this could have on current shareholder equity. Other areas of concern facing QBT in particular, and financial institutions generally, are additional compliance costs and higher capital ratio thresholds, the trend toward consolidation in the financial services industry, and the likely effect of the foregoing factors on QBT potential long-term growth, development, productivity and profitability. Therefore, QBT was receptive to discussing strategic alternatives with other financial institutions, although it did not solicit bids for this purpose.

In the fall of 2012 at a social function sponsored by a local bank (“Bank A”), Director DiCapua was introduced to the Chief Executive Officer of Bank A. At that meeting, there was a general discussion about the current banking environment in Connecticut. In early December 2012, there was a second discussion between the parties in which the Chief Executive Officer of Bank A initiated a conversation concerning a possible merger of QBT into Bank A. This discussion led to an informal meeting on December 20, 2012 at which the Chief Executive Officer of Bank A and two additional senior officers of Bank A were joined by Mark Candido, Richard Barredo, Director McArdle and Director DiCapua to discuss the concept of a possible transaction and the exchange of information regarding the operations of each party and the data system utilized by QBT. Thereafter, additional information was exchanged by the parties, culminating in a discussion between the Chief Executive Officer of Bank A and Director DiCapua, in which the Chief Executive Officer of Bank A indicated that Bank A would not pursue a merger with QBT, citing the prohibitive overall expense of such a transaction.

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In early March 2013, certain QBT board members were approached by representatives of Bankwell who expressed an interest in exploring the possibility of combining the two institutions in an effort to expand Bankwell's presence into the greater New Haven market. These discussions led to a conversation between Chairman McArdle and Peyton Patterson, the former Chief Executive Officer of Bankwell, in which she confirmed Bankwell's interest in discussing a potential transaction. Ms. Patterson indicated that Bankwell had engaged Sandler O'Neill & Partners to assist it in the preparation of a term sheet outlining material terms and conditions for a proposed consolidation. The QBT Board of Directors discussed this matter and concluded it was in the best interest of its shareholders to investigate the potential benefits and drawbacks of a consolidation of the two organizations, particularly given current regulatory environment and anticipated regulatory changes, increased compliance costs and capital ratio requirements, difficult economic conditions, a difficult capital-raising environment for smaller financial institutions and the need to grow the Bank in order to achieve acceptable operational efficiencies for a maturing financial institution.

On April 4, 2013, Bankwell issued a non-binding indication of interest letter in which it proposed general terms for a proposed merger, including each share of QBT common stock being exchanged for 0.5909 of a share of Bankwell common stock or $13.00, subject to 40% of the aggregate merger consideration being comprised of Bankwell common stock. Based on Bankwell's then-current share price of $22.00 per share, the implied value of the stock for stock exchange was $13.00. The letter was circulated among the members of the QBT Executive Committee (comprised of Directors McArdle and Palumbo) and then to the QBT Board of Directors.

On April 18, 2013 Bankwell issued a revised non-binding indication of interest in which it proposed general terms for a proposed merger, including each share of QBT common stock being exchanged for 0.5909 of a share of Bankwell common stock or $13.00, subject to 60% of the aggregate merger consideration being comprised of Bankwell common stock. Based on Bankwell's then-current share price of $22.00 per share, the implied value of the stock for stock exchange was $13.00. The letter was circulated among the members of the QBT Executive Committee and then to the QBT Board of Directors.

On May 6, 2013, in response to the request made by the QBT Board of Directors, Bankwell revised its non-binding indication of interest, with the same terms as presented earlier, but decreasing the aggregate merger consideration to 50% Bankwell common stock. The letter was circulated among the members of the QBT Executive Committee and then to the QBT Board of Directors.

During May 2013, QBT researched various investment banking firms to assist it in the potential merger process (including analyzing the Bankwell proposal), and retained Sterne Agee to render financial advisory and investment banking services in general and to assist in analyzing, structuring and negotiating the proposed merger with Bankwell. In addition, during May 2013, both parties shared due diligence information with each other to ensure a potential merger was financially and operationally feasible for both parties and their shareholders. Sterne Agee met with and had numerous conversation with members of the QBT Board of Directors during this period to discuss the merger and acquisition environment, the proposed offer by Bankwell, the advantages and disadvantages of QBT remaining independent, and the advantages and disadvantages of soliciting additional potential merger partners. Ultimately, QBT's Board of Directors concluded that a merger with Bankwell was not in the best interests of its stockholders at that time, citing concerns on basing the valuation on Bankwell's then-current trading price given the limited liquidity of its common stock, among other concerns. The parties agreed to continue discussions as events warranted.

Informal discussions between the two parties continued into the fall and winter of 2013, although no formal proposals were made by either party during that period. In February 2014, Bankwell made a

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revised verbal proposal to QBT, which consisted of each share of QBT common stock being exchanged for between 0.56 shares and 0.60 shares of Bankwell common stock. Sterne Agee reviewed this proposal with QBT's Executive Committee on February 26, 2014, and with the QBT Board of Directors on March 5, 2014. Sterne Agee also reviewed Bankwell's current financial performance and compared Bankwell's current performance to its performance during the negotiations in 2013. Sterne Agee also discussed the positive impact of Bankwell's proposed public offering on QBT's shareholders who received Bankwell common stock in the transaction. Following the board meeting, at the request of QBT's Board of Directors, Sterne Agee contacted Bankwell's advisor at Sandler O'Neill and expressed QBT's Board of Directors desire for 25% of the consideration to be paid in cash. On March 7, 2014, Bankwell submitted a written non-binding indication of interest with the following material terms: each share of QBT common stock would be exchanged for 0.58 of a share of Bankwell common stock or $12.00 per share, subject to 75% of the aggregate merger consideration being in the form of Bankwell common stock. Based on the twenty day average trading price of Bankwell common stock ended March 5, 2014, the implied value of the stock for stock exchange was $12.47. The indication of interest also discussed Bankwell's proposed initial public offering. Finally the indication of interest required QBT to be subject to a sixty day exclusivity period.

QBT's Executive Committee had a series of meetings over the next several days in which Sterne Agee and counsel participated, and QBT executed the letter of intent on March 12, 2014, as the Board of Directors concluded that Bankwell's updated valuation based on its stock price, completion of its acquisition of The Wilton Bank, continued improving financial results and proposed initial public offering warranted serious consideration of the merger proposal on behalf of QBT's stockholders.

During the latter part of March 2014, the parties conducted extensive reciprocal due diligence. On March 24, 2014, Bankwell revised its offer by revising the exchange ratio from 0.58x to 0.56x, citing higher than anticipated contract termination costs. QBT's Executive Committee, in consultation with Sterne Agee, recommended to the Board of Directors that QBT continue to pursue the transaction. The material economic terms of the proposed transaction did not change thereafter. In addition, during this period, counsel for both parties negotiated a merger agreement. QBT held a series of meetings with Sterne Agee and its counsel during the latter part of March 2014 to review the outstanding non-economic issues left to resolve in order to execute the merger agreement. The Executive Committee met on March 24, 2014 to review the financial terms of the Bankwell proposal with Sterne Agee and agreed to continue to move toward executing the merger agreement, pending resolution of any remaining issues. Between March 27 th and March 31 st, the QBT Board of Directors met with Sterne Agee and counsel to review the unresolved remaining non-economic issues, and counsel reviewed in detail the merger agreement and the Board of Director's fiduciary duties with the QBT Board of Directors. On March 31, 2014, the QBT Board of Directors met to authorize execution of the merger agreement, and Sterne Agee provided its final financial analysis of the transaction and delivered its fairness opinion to the Board of Directors. The transaction was announced publicly on April 1, 2014.

Recommendation of the QBT Board of Directors and Reasons for the Merger

QBT's Board of Directors has unanimously approved the Merger Agreement and unanimously recommends that QBT shareholders vote FOR approval of the Merger Agreement. In arriving at its determination, QBT's Board of Directors considered a number of factors, including the following:

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- the Board of Directors' familiarity with and review of information concerning the business, results of operations, financial condition, competitive position and future prospects of Bankwell;

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- the opportunity for QBT's shareholders to have increased liquidity upon receipt of Bankwell shares in exchange for their QBT shares, as Bankwell shares trade on the Nasdaq Global Select Market under the symbol "BWFG," particularly in light of Bankwell's pending initial public offering and its stockholder base;

- the potential opportunity for QBT's shareholders to receive dividend payments on the shares of Bankwell common stock that they receive following the Merger;

- the terms of the merger agreement, including the financial terms and the fact that 75% of the merger consideration would be paid in Bankwell common stock, thereby making the transaction a tax-free exchange for those QBT shareholders receiving Bankwell stock;

- the regulatory environment facing QBT in particular and banks and financial institutions generally (including additional compliance costs and higher capital ratio thresholds), the trend toward consolidation in the financial services industry and the likely effect of the foregoing factors on QBT's potential growth, development, productivity and profitability;

- the results that could be expected to be obtained by QBT if QBT continued to operate independently and the likely benefits to shareholders of such course, as compared with the value of the Bankwell common stock being offered by Bankwell;

- the ability of QBT to efficiently and effectively raise capital in the future and the effect of such on its existing stockholder base;

- its assessment, based in part on discussions with its financial advisers, that it currently was unlikely that another acquirer had both the willingness and the financial capability to offer to acquire QBT at a value that was materially higher than that being offered by Bankwell;

- the terms and conditions of the merger agreement, including the parties' respective representations, warranties, covenants and other agreements, the conditions to closing, the absence of a financing condition, a provision that permits QBT's Board of Directors, in the exercise of its fiduciary duties, under certain conditions, to furnish information to, or engage in negotiations with, a third party that has submitted a bona fide unsolicited written proposal to acquire QBT , a provision providing for QBT's payment of a termination fee to Bankwell if the merger agreement is terminated under certain circumstances, and the effect such termination fee could have on a third party's decision to propose a merger or similar transaction to QBT at a greater value than that contemplated by the Merger;

- the effects of the Merger on QBT's depositors and customers and the communities served by QBT, which was deemed to be favorable given that they would be served by a local community banking organization that had greater resources than QBT;

- the effects of the Merger on QBT's employees, including the prospects for employment with a strong, growing organization such as Bankwell and the severance and other benefits agreed to be provided by Bankwell to employees whose employment was terminated in connection with the Merger;

- a review of comparable transactions, including the comparison of the price being paid in the merger with the prices paid in other comparable financial institution mergers, expressed as, among other things, multiples of book value and earnings;

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- a review of comparable transactions, including the comparison of the price being paid in the merger with the prices paid in other comparable financial institution mergers, expressed as, among other things, multiples of book value and earnings; and

- the opinion of Sterne Agee that the consideration to be paid is fair to QBT's stockholders from a financial point of view.

The discussion and factors considered by QBT's Board of Directors is not intended to be exhaustive, but includes all material factors considered. In approving the merger agreement, QBT's Board of Directors did not assign any specific or relative weights to any of the foregoing factors and individual directors may have weighted factors differently.

QBT's board of directors determined that the merger, the merger agreement and the transactions contemplated thereby are advisable, fair to, and in the best interests of, QBT and its shareholders. Accordingly, QBT's board of directors unanimously approved the merger agreement and the transactions contemplated thereby.

QBT'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT QBT SHAREHOLDERS VOTE "FOR" THE APPROVAL OF THE MERGER AGREEMENT AND "FOR" THE PROPOSAL TO ADJOURN THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, TO SOLICIT ADDITIONAL PROXIES.

Opinion of Sterne Agee & Leach, Inc., Financial Advisor to QBT

On May 21, 2013 QBT engaged Sterne Agee to render financial advisory and investment banking services to QBT. Sterne Agee agreed to assist QBT in analyzing, structuring and negotiating the merger with Bankwell and was also engaged to render a written opinion to QBT's board of directors as to whether the merger consideration pursuant to the merger agreement was fair, from a financial point of view, to QBT's stockholders. QBT selected Sterne Agee because Sterne Agee is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with QBT and its business. As part of its investment banking business, Sterne Agee is continually engaged in the valuation of financial services companies and their securities in connection with mergers and acquisitions.

Other than with respect to the proposed merger, Sterne Agee has had no other relationship with QBT in the past two years.

As part of its engagement, representatives of Sterne Agee attended the meeting of the QBT board of directors held on March 31, 2014, at which the QBT board of directors evaluated the proposed merger with Bankwell. At this meeting, Sterne Agee reviewed the financial aspects of the proposed merger and rendered an opinion that, as of such date, and based upon and subject to the various factors, assumptions and limitations set forth in its opinion, the consideration offered to QBT stockholders in the merger was fair from a financial point of view. Following extensive review and discussion, the QBT board of directors approved the merger agreement at this meeting.

The full text of Sterne Agee's written opinion is attached as Appendix C to this document and is incorporated herein by reference. QBT stockholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by Sterne Agee. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.

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Sterne Agee’s opinion speaks only as of the date of the opinion. The opinion is directed to the QBT board of directors and addresses only the fairness, from a financial point of view, of the consideration offered to the QBT stockholders. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any QBT shareholder as to how the shareholder should vote at the QBT special meeting on the merger or any related matter.

In rendering its opinion, Sterne Agee:

- reviewed, among other things,
- the merger agreement;
- certain publicly available financial and business information of QBT, Bankwell and their affiliates;
- certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities, liquidity and prospects of QBT and Bankwell; and
- materials detailing the merger prepared by QBT, Bankwell and their affiliates and by their legal and accounting advisors including the estimated amount and timing of the cost savings and related expenses and synergies expected to result from the merger;
- held discussions with members of senior management of QBT and Bankwell regarding:
- past and current business operations;
- regulatory relations;
- financial condition; and
- future prospects of their respective companies;
-

- reviewed the financial terms of certain recent business combinations in the banking industry; and

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- performed other studies and analyses that it considered appropriate.

In addition, Sterne Agee compared certain financial information for QBT and Bankwell with similar information for certain other companies the securities of which are publicly traded and performed other studies and analyses that it considered appropriate.

Sterne Agee, in conducting its review and arriving at its opinion, relied upon the accuracy and completeness of the information provided to it by QBT, Bankwell and their affiliates. In addition, where appropriate, Sterne Agee relied upon publicly available information, without independent verification, that Sterne Agee believes to be reliable, accurate, and complete; however, Sterne Agee cannot guarantee the reliability, accuracy, or completeness of any such publicly available information. Sterne Agee was not engaged to express, and is not expressing, any opinion with respect to any other transaction, including any alternative transaction between QBT and Bankwell. With respect to the financial forecasts, including the synergies and restructuring charges, supplied to Sterne Agee, Sterne Agee assumed, with QBT's consent, that they were reasonably prepared and reflected, as of the date of Sterne Agee's opinion, the best currently available estimates and judgments of QBT and Bankwell as to future operating and financial performance of QBT, Bankwell and the combined company.

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Sterne Agee did not make an independent evaluation of the assets or liabilities (contingent or otherwise) of QBT, Bankwell or their affiliates, including, but not limited to, any derivative or off-balance sheet assets or liabilities nor did Sterne Agee conduct any review of individual credit files of QBT or Bankwell, evaluate the adequacy of the loan or lease loss reserves of QBT or Bankwell or evaluate the solvency of QBT or Bankwell under any state or federal laws relating to bankruptcy, insolvency or similar matters. Sterne Agee rendered no opinion or evaluation on the collectability of any asset or the future performance of any loan of QBT or Bankwell. Sterne Agee is not experts in the evaluation of loan or lease portfolios for assessing the adequacy of the allowances for losses with respect thereto and, accordingly, Sterne Agee did not make an independent evaluation of the adequacy of the allowance for loan and lease losses of QBT or Bankwell or on the credit mark assumed taken in the merger, and Sterne Agee has assumed, with QBT's consent, that the respective allowances for loan and lease losses for both QBT and Bankwell, respectively, as well as the credit mark are adequate to cover such losses and will be adequate on a pro forma basis for the combined company. Sterne Agee has relied upon and assumed, without assuming any responsibility for independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by Sterne Agee.

The projections furnished to Sterne Agee and used by it in certain of its analyses were prepared by QBT's and Bankwell's senior management teams. QBT and Bankwell do not publicly disclose internal management projections of the type provided to Sterne Agee in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, Sterne Agee assumed that, in all respects material to its analyses:

- the merger will be completed substantially in accordance with the terms set forth in the merger agreement with no additional payments or adjustments to the merger consideration;
- the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;
- each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;
- all conditions to the completion of the merger will be satisfied without any waiver; and
- in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings and related expenses expected to result from the merger.

Sterne Agee further assumed that the merger will be accounted for as a purchase transaction under GAAP, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. Sterne Agee's opinion is

not an expression of an opinion as to the prices at which shares of Bankwell common stock will trade following the announcement of the merger or the actual value of the shares of common stock of the combined company when issued pursuant to the merger, or
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the price at which the shares of common stock of the combined company will trade following the completion of the merger.

In performing its analyses, Sterne Agee made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of Sterne Agee, QBT and Bankwell. Any estimates contained in the analyses performed by Sterne Agee are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the Sterne Agee opinion was among several factors taken into consideration by the QBT board of directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the QBT board of directors with respect to the fairness of the consideration.

The following is a summary of the material analyses presented by Sterne Agee to the QBT board of directors on March 31, 2014, in connection with its fairness opinion. The summary is not a complete description of the analyses underlying the Sterne Agee opinion or the presentation made by Sterne Agee to the QBT board of directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. In arriving at its opinion, Sterne Agee did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. Accordingly, Sterne Agee believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

Summary of Proposal.   Pursuant to the terms of the Merger Agreement, upon the merger, the shares of QBT common stock, par value $0.01, 75% of the QBT shares shall be converted into the right to receive 0.56 shares of Bankwell common stock, par value $0.01, and 25% of the QBT shares shall be converted into an amount of cash equal to $12.00. Based on Bankwell’s closing price on March 28, 2014 of $22.00, the consideration was equivalent to a price of $12.24 per share to QBT’s shareholders.

Selected Publicly Traded Companies Analysis.   Using publicly available information, Sterne Agee compared the financial performance, financial condition, and market performance of QBT to the following publicly traded banks and thrifts headquartered in New England and New York with total assets between $50 million and $300 million, nonperforming assets to assets less than 3.0% and last twelve months return on average assets greater than 0.00%. The companies included in this group were:

| | |
|---|---|
| First Colebrook Bancorp, Inc. | Rockport National Bancorp, Inc. |
| Georgetown Bancorp, Inc. | Damariscotta Bankshares, Inc. |
| CMS Bancorp, Inc. | Island Bancorp, Inc. |
| National Bank of Coxsackie | First National Bank of Groton |
| Bank of Akron | Prime Bank |

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Using publicly available information, Sterne Agee compared the financial performance, financial condition, and market performance of Bankwell to the following publicly traded banks and thrifts headquartered in the Mid-Atlantic region with total assets between $600 million and $1.5 billion, nonperforming assets to assets less than 3.5% and last twelve months return on average assets greater than 0.60%. The companies included in this group were:

| | |
|---|---|
| Chemung Financial Corporation | Community Financial Corporation |
| First Bancorp, Inc. | Unity Bancorp, Inc. |
| New Hampshire Thrift Bancshares, Inc. | TF Financial Corporation |
| Bar Harbor Bankshares | Evans Bancorp, Inc. |
| Hingham Institution for Savings | Two River Bancorp |
| Citizens & Northern Corporation | Oneida Financial Corp. |
| Penns Woods Bancorp, Inc. | 1st Constitution Bancorp |
| Orrstown Financial Services, Inc. | Mid Penn Bancorp, Inc. |
| Old Line Bancshares, Inc. | Norwood Financial Corp. |
| Codorus Valley Bancorp, Inc. | Marlin Business Services Corp. |
| ACNB Corporation | Bancorp of New Jersey, Inc. |

To perform this analysis, Sterne Agee used financial information as of the twelve month period ended December 31, 2013 (or as of the most recently available quarter). Market price information was as of March 28, 2014. Earnings estimates for 2015 were taken from a nationally recognized earnings estimate consolidator, SNL Financial, for selected companies. No company used as a comparison in the analysis below is identical to QBT or Bankwell. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

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Sterne Agee's analysis showed the following concerning QBT's and Bankwell's respective financial condition and results of operations:

| | QBT | QBT Group Minimum | QBT Group Maximum |
|---|---|---|---|
| Return on Average Assets | 0.57% | 0.32% | 1.28% |
| Return on Average Equity | 5.48% | 2.47% | 9.34% |
| Efficiency Ratio | 76.5% | 59.3% | 83.2% |

| | Bankwell | Bankwell Group Minimum | Bankwell Group Maximum |
|---|---|---|---|
| Return on Average Assets | 0.77% | 0.61% | 2.45 % |
| Return on Average Equity | 8.29% | 5.49% | 13.52% |
| Efficiency Ratio | 75.4% | 42.8% | 83.5 % |

| | QBT | QBT Group Minimum | QBT Group Maximum |
|---|---|---|---|
| Tangible Common Equity / Tangible Assets | 10.5% | 6.9 % | 13.6 % |
| Loans / Deposits | 95.3% | 48.8% | 128.4% |
| Nonperforming Assets / Assets | 0.5 % | 0.2 % | 2.1 % |
| Loan Loss Reserve / Loans | 1.2 % | 0.3 % | 2.3 % |

| | Bankwell | Bankwell Group Minimum | Bankwell Group Maximum |
|---|---|---|---|
| Tangible Common Equity / Tangible Assets | 7.5 % | 5.2 % | 23.2 % |
| Loans / Deposits | 95.5% | 53.2% | 120.4% |
| Nonperforming Assets / Assets | 1.0 % | 0.2 % | 3.2 % |
| Loan Loss Reserve / Loans | 1.3 % | 0.6 % | 3.1 % |

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Sterne Agee's analysis showed the following concerning QBT's comparable trading group and Bankwell's market performance:

| | QBT | QBT Group Minimum | QBT Group Maximum |
|---|---|---|---|
| Stock Price / Tangible Book Value per Share | — | 59.8% | 132.8% |
| Stock Price / Last Twelve Months EPS | — | 8.5 x | 20.9 x |
| Dividend Yield | — | 0.0 % | 5.0 % |

| | Bankwell | Bankwell Group Minimum | Bankwell Group Maximum |
|---|---|---|---|
| Stock Price / Tangible Book Value per Share | 147.0% | 97.7% | 218.8% |
| Stock Price / Last Twelve Months EPS | 14.9 x | 10.3x | 19.7 x |
| Stock Price / 2015 Est. EPS | 13.1 x | 9.5 x | 18.1 x |
| Dividend Yield | 0.0 % | 0.0 % | 5.2 % |

Comparable Transaction Analysis. Sterne Agee reviewed publicly available information related to selected acquisitions of banks and bank holding companies as well as thrifts and thrift holding companies with headquarters in the New England and Mid-Atlantic regions announced after December 31, 2011, where deal value was available and the buyer was a bank or bank holding company or a thrift or thrift holding company, the seller had assets less than \$500 million, last twelve months return on average assets between 0.00% and 1.00% and nonperforming assets to assets less than 3.0%. The transactions included in the groups were:

| Acquiror | Acquiree |
|---|---|
| Salisbury Bancorp, Inc. | Riverside Bank |
| Mascoma Mutual Financial Services Corp. | Connecticut River Bancorp, Inc. |
| ESSA Bancorp, Inc. | Franklin Security Bancorp, Inc. |
| 1 st Constitution Bancorp | Rumson-Fair Haven Bank & Trust Company |
| Haven Bancorp, MHC | Hilltop Community Bancorp, Inc. |
| Independent Bank Corp. | Mayflower Bancorp, Inc. |
| SI Financial Group, Inc. | Newport Bancorp, Inc. |
| Lakeland Bancorp, Inc. | Somerset Hills Bancorp |
| TF Financial Corporation | Roebling Financial Corp, Inc. |
| F.N.B. Corporation | Annapolis Bancorp, Inc. |
| Penns Woods Bancorp, Inc. | Luzerne National Bank Corporation |
| New Hampshire Thrift Bancshares, Inc. | Nashua Bank |
| S&T Bancorp, Inc. | Gateway Bank of Pennsylvania |
| Provident New York Bancorp | Gotham Bank of New York |

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Transaction multiples for the merger were derived from an offer price of $12.24 per share for QBT, based on Bankwell's March 28, 2014 closing price of $22.00. For each precedent transaction, Sterne Agee derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

- tangible book value per share of the acquired company based on the latest public financial statements of the company available prior to the announcement of the acquisition;
- tangible equity premium to core deposits (total deposits less time deposits greater than $100,000) based on the financial statements of the company available prior to the announcement of the acquisition; and
- the last twelve months earnings per share based on the financial statements of the company available prior to the announcement of the acquisition

The results of the analysis are set forth in the following table:

| **Transaction Price to:** | **QBT/ Bankwell Merger** | **Comparable Transactions Minimum** | **Comparable Transactions Maximum** |
|---|---|---|---|
| Tangible Book Value | 143 % | 86 % | 165 % |
| Core Deposit Premium | 7.4 % | (2.0 )% | 10.2 % |
| LTM Earnings Per Share | 26.7x | 15.1 x | 25.2 x |

No company or transaction used as a comparison in the above analysis is identical to QBT, Bankwell or the merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Financial Impact Analysis. Sterne Agee performed pro forma merger analyses that combined projected income statement and balance sheet information of QBT and Bankwell. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the merger would have on certain projected financial results of Bankwell. In the course of this analysis, Sterne Agee used earnings estimates for QBT for 2014 as provided by QBT's Management Projections and earnings estimates for Bankwell for 2014 through 2018 as provided by Bankwell's Management Projections. This analysis indicated that the merger is expected to be accretive to Bankwell's estimated earnings per share in 2015. The analysis also indicated that the merger is expected to be dilutive to tangible book value per share for Bankwell and that Bankwell would maintain well capitalized capital ratios. For all of the above analyses, the actual results achieved by Bankwell following the merger will vary from the projected results, and the variations may be material.

Discounted Cash Flow Analysis. Sterne Agee performed a discounted cash flow analysis to estimate a range of the present values of after-tax cash flows that QBT could provide to equity holders through 2018 on a stand-alone basis. In performing this analysis, Sterne Agee used QBT's Management Projections for 2014 and with respect to 2015 – 2018 applied QBT Management reviewed operating assumptions to derive projected after-tax cash flows. The analysis assumed discount rates ranging from 11.0% to 15.0%. The range of values was determined by adding (1) the present value of projected cash flows to QBT's stockholders from 2014 to 2018 and (2) the present value of the terminal value of QBT's common stock. In determining cash flows available to stockholders, Sterne Agee assumed that QBT

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would maintain a tangible common equity/tangible asset ratio of 8.00% and would retain sufficient earnings to maintain that level. Any earnings in excess of what would need to be retained represented dividendable cash flows for QBT. In calculating the terminal value of QBT, Sterne Agee applied multiples ranging from 12.0 times to 14.0 times 2018 forecasted earnings. This resulted in a range of values of QBT from $6.93 to $8.61 per share.

Sterne Agee stated that the discounted cash flow present value analysis is a widely used valuation methodology but noted that it relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of QBT.

Other Analyses.   Among other things, Sterne Agee also reviewed earnings estimates, balance sheet composition and other financial data for QBT and Bankwell.

The QBT board of directors has retained Sterne Agee as an independent contractor to act as financial adviser to QBT regarding the merger. As part of its investment banking business, Sterne Agee is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, Sterne Agee has experience in, and knowledge of, the valuation of banking enterprises.

Sterne Agee's Compensation and Other Relationships with QBT.   QBT and Sterne Agee have entered into an agreement relating to the services to be provided by Sterne Agee in connection with the merger. Pursuant to the agreement, QBT agreed to pay Sterne Agee (a) a non-refundable retainer of $25,000, which will be credited against the transaction fee; (b) a fee upon the delivery to the board of directors of QBT of the written Fairness Opinion of $50,000, which will also be credited against the transaction fee; and (c) upon closing of the merger, a transaction fee of $250,000. Pursuant to the Sterne Agee engagement agreement, QBT also agreed to reimburse Sterne Agee for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

Interests of QBT's Directors and Executive Officers in the Merger

As described below, QBT's executive officers and directors might have interests in the merger that are in addition to, or different from, the interests of QBT's shareholders generally. QBT's board of directors was aware of these interests and considered them, among other matters, when it approved the merger agreement.

Share Ownership.   On July 28, 2014, the record date for the special meeting of QBT's shareholders, QBT's directors and executive officers beneficially owned, in the aggregate, 257,451 shares of QBT common stock (not including shares that may be acquired upon the exercise of stock options or warrants), representing approximately 21.0% of the issued and outstanding shares of QBT common stock.

Continuing Employment for Messrs. Candido and Barredo.   On March 31, 2014, BWFG and Bankwell Bank entered into an employment agreement with Mr. Candido which will become effective upon the completion of the merger. Upon completion of the merger, BWFG and Bankwell Bank will employ Mark A. Candido, currently the President and Chief Executive Officer of QBT, as its President, New Haven County Region and Senior Vice President. In that position, BWFG and Bankwell Bank will pay Mr. Candido an annual base salary of $150,000.

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On March 31, 2014, Bankwell Bank entered into an employment agreement with Mr. Barredo which will become effective upon the completion of the merger. Upon completion of the merger, Bankwell Bank will employ Richard R. Barredo, currently the Chief Lending Officer of QBT, as its First Vice President, Senior Credit Officer New Haven Region. In that position, Bankwell Bank will pay Mr. Barredo an annual base salary of $135,000.

Settlement Agreements. In connection with the merger, BWFG and QBT entered into settlement agreements with each of Messrs. Candido and Barredo on March 31, 2014. Under each settlement agreement, each executive will receive the payments and benefits provided under the settlement agreement in satisfaction of all rights to payments and benefits under the executive's individual employment agreement with QBT. The settlement agreements include a general release of claims in favor of QBT and BWFG. The payments under the settlement agreements will be reduced if all or any portion of the payments constitute "excess parachute payments" under Section 280G of the Code. The settlement agreements with Messrs. Candido and Barredo provide that, immediately prior to the completion of the merger, QBT will pay $331,020.75 to Mr. Candido and $300,424.50 to Mr. Barredo.

Severance Payments. Under the merger agreement, each full-time, non-commissioned employee of QBT (excluding any employee who is a party to an employment, change in control or other agreement that provides for severance payments) who is terminated by QBT other than for cause at the request of BWFG prior to the effective time, or by BWFG or a subsidiary of BWFG within six (6) months following the effective time of the change in control, will be entitled to receive severance payments in an amount equal to two (2) weeks base pay for each full year of service with QBT, BWFG or any subsidiary of BWFG, with a minimum of four (4) weeks and a maximum of twenty-six (26) weeks base pay.

Rollover of Outstanding Options. Under the merger agreement, each stock option granted under QBT's Stock Plan, including the vested and unvested portions, that has not been previously exercised or cancelled will be converted automatically into options to purchase BWFG common stock. The number of shares of BWFG Common Stock to be subject to the new option shall be equal to the product of the number of shares of QBT common stock subject to the QBT Stock Option and 0.56; provided, that any fractional shares of BWFG common stock resulting from such multiplication shall be rounded down to the nearest whole share. The exercise price per share of BWFG common stock under the new option shall be equal to the exercise price per share of QBT common stock subject to the QBT stock option divided by 0.56 subject to the QBT stock option; provided, that such exercise price shall be rounded up to the nearest whole cent. As of the date of this proxy statement/prospectus, the executives and directors hold stock options covering the number of shares and will receive options to purchase BWFG common stock in the amount described in the table below, assuming they do not exercise their stock options prior to the completion of the merger.

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| Holder | QBT Shares Underlying Outstanding Options (#) | BWFG Shares Per New Options (#) |
|---|---|---|
| Richard R. Barredo | 13,250 | 7,420 |
| Mark A. Candido | 13,250 | 7,420 |
| Richard A. Ciardiello | 9,500 | 5,320 |
| Carl R. DaVia | 7,000 | 3,920 |
| Sallie A. DeMarsilis | 4,000 | 2,240 |
| Stephen J. DiCapua | 6,500 | 3,640 |
| Richard H. Fitzpatrick Jr. | 4,500 | 2,520 |
| Brian P. McArdle | 10,000 | 5,600 |
| Raymond W. Palumbo | 9,000 | 5,040 |
| Gregory O. Scott | 7,000 | 3,920 |
| Richard C. Simione | 7,000 | 3,920 |
| Richard Spero | 7,500 | 4,200 |
| Lorenzo B. Wyatt | 4,000 | 2,240 |

Rollover of Outstanding Warrants. Under the merger agreement, each warrant issued by QBT, whether vested or unvested, that is outstanding and unexercised at closing, will be converted automatically into a warrant to purchase 0.56 shares of BWFG common stock for $17.86; provided, that any fractional shares of BWFG will be rounded down to the nearest whole share. As of the date of this proxy statement/prospectus, the executives and directors hold warrants covering the number of shares and will receive warrants to purchase BWFG common stock in the amount described in the table below, assuming they do not exercise their warrants prior to the completion of the merger.

| Holder | QBT Shares Underlying Outstanding Warrants (#) | BWFG Shares Per New Warrants (#) |
|---|---|---|
| Richard R. Barredo | 2,500 | 1,400 |
| Mark A. Candido | 5,000 | 2,800 |
| Richard A. Ciardiello | 10,000 | 5,600 |
| Carl R. DaVia | 10,000 | 5,600 |

| Holder | QBT Shares Underlying Outstanding Warrants (#) | BWFG Shares Per New Warrants (#) |
|---|---|---|
| Sallie A. DeMarsilis | 10,000 | 5,600 |
| Stephen J. DiCapua | 2,500 | 1,400 |
| Richard H. Fitzpatrick Jr. | 5,000 | 2,800 |
| Brian P. McArdle | 10,000 | 5,600 |
| Raymond W. Palumbo | 5,000 | 2,800 |
| Gregory O. Scott | 10,000 | 5,600 |
| Richard C. Simione | 2,500 | 1,400 |