DUKE REALTY CORP
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)

18

(250
)

Net change in unrealized (loss) gain

(1,777
)

1,148

1,022

Tax effect

690

(447
)

(397
)

Other comprehensive income

(1,087
)

701

625

Total comprehensive income

$
4,074

$
1,915

$
2,829

See notes to consolidated financial statements.

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Consolidated Statements of Stockholders' Equity
For Years Ended December 31, 2013, 2012 and 2011
(In thousands)

	Preferred Stock	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2011	$ 5,037	$ 37,286	$ (2,154)	$ 185	$ 40,354
Net income	—	—	2,204	—	2,204
Other comprehensive income, net of tax	—	—	—	625	625
Issuance of Series C preferred stock	10,980	—	—	—	10,980
Redemption of Series A preferred stock	(4,797)	—	—	—	(4,797)
Redemption of Series B preferred stock	(240)	—	—	—	(240)
Preferred stock dividends	—	—	(206)	—	(206)
Stock based compensation expense	—	250	—	—	250
Capital from exercise of stock options	—	18	—	—	18

	Preferred Stock	Common Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	10,980	37,554	(156)	810	49,188
Net income	—	—	1,214	—	1,214
Other comprehensive income, net of tax	—	—	—	701	701
Preferred stock dividends	—	—	(132)	—	(132)
Stock based compensation expense	—	563	—	—	563
Balance at December 31, 2012	10,980	38,117	926	1,511	51,534
Net income	—	—	5,161	—	5,161
Other comprehensive loss, net of tax	—	—	—	(1,087)	(1,087)
Preferred stock dividends	—	—	(111)	—	(111)
Stock based compensation expense	—	343	—	—	343
Capital from exercise of stock options	—	467	—	—	467
Capital from private placement	—	13,178	—	—	13,178
Balance at December 31, 2013	$ 10,980	$ 52,105	$ 5,976	$ 424	$ 69,485

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
For Years Ended December 31, 2013, 2012 and 2011
(In thousands)

	For the Years Ended December 31,		
	2013	2012	2011
Cash flows from operating activities			
Net income	$ 5,161	$ 1,214	$ 2,204
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums and discounts on investment securities	97	130	126
Provision for loan losses	585	1,821	1,049
Benefit from deferred taxes	(357)	(777)	(404)
Net (gain) loss on sales of available for sale securities	(648)	18	(250)
Depreciation and amortization	666	612	541
Loan principal sold	(72,589)	(575)	(46,035)
Proceeds from sales of loans	74,509	1,765	48,823
Net gain on sales of loans	(2,020)	(18)	(547)
Equity-based compensation	343	563	250
Net amortization (accretion) of purchase accounting adjustments	(80)	—	—
Gain on sale of foreclosed real estate	(63)	—	—
Gain on bargain purchase	(1,333)	—	—
Net change in:			
Deferred loan fees	479	539	344
Accrued interest receivable	(185)	206	(745)
Other assets	(502)	(1,432)	274
Accrued expenses and other liabilities	(1,114)	4,101	835
Net cash provided by operating activities	2,949	8,167	6,465
Cash flows from investing activities			
Proceeds from principal repayments on available for sale securities	723	1,103	1,143
Proceeds from principal repayments on held to maturity securities	180	480	233
Net proceeds from sales and calls of available for sale securities	10,514	54,973	31,979
Purchases of available for sale securities	—	(6,997)	(69,026)
Purchase of held to maturity securities	(7,623)	—	—
Purchase of bank-owned life insurance	(10,031)	—	—
Acquisition, net of cash paid	30,883	—	—
Net increase in loans	(77,004)	(162,026)	(80,704)
Purchases of premises and equipment	(908)	(684)	(96)
Purchase of Federal Home Loan Bank stock	(134)	(1,034)	(84)
Proceeds from sale of foreclosed real estate	1,693	—	—
Net cash used by investing activities	(51,707)	(114,185)	(116,555)
Cash flows from financing activities			
Net change in time certificates of deposit	$ 66,538	$ (230)	$ (1,265)
Net change in other deposits	68,772	95,216	59,243
Net (repayments) proceeds from short term FHLB advances	(47,000)	33,000	14,000

	For the Years Ended December 31,		
Proceeds from issuance of Series C preferred stock	—	—	10,980
Redemption of Series A preferred stock	—	—	(4,797)
Redemption of Series B preferred stock	—	—	(240)
Proceeds from issuance of common stock	13,178	—	—
Exercise of options	467	—	18
Dividends paid on preferred stock	(111)	(132)	(206)
Net cash provided by financing activities	101,844	127,854	77,733
Net increase (decrease) in cash and cash equivalents	53,086	21,836	(32,357)
Cash and cash equivalents:			
Beginning of year	28,927	7,091	39,448
End of period	$ 82,013	$ 28,927	$ 7,091
Supplemental disclosures of cash flows information:			
Cash paid for:			
Interest	$ 2,527	$ 3,208	$ 2,952
Income taxes	2,872	1,984	866
Acquisition of noncash assets and liabilities:			
Assets acquired	34,869	—	—
Liabilities assumed	(64,446)	—	—
Noncash investing and financing activities			
Loans transferred to foreclosed real estate	52	962	—

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

1.

- Nature of Operations and Summary of Significant Accounting Policies

Bankwell Financial Group, Inc. (the "Company" or "Bankwell") is a federally-chartered bank-holding company located in New Canaan, Connecticut. The Company offers a broad range of financial services through its banking subsidiary, Bankwell Bank, (the "Bank"). Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan ("BNC") and The Bank of Fairfield ("TBF"). In September 2013, The Bank of New Canaan and The Bank of Fairfield were merged and rebranded as "Bankwell Bank." In November 2013, the Bank acquired The Wilton Bank, which added one branch and approximately $25.1 million in loans and $64.2 million in deposits. See Note 4, Mergers and Acquisitions, for further information on the acquisition.
The Bank is a Connecticut state charted commercial bank, founded in 2002, whose deposits are insured under the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank provides a full range of banking services to commercial and consumer customers, primarily concentrated in the Fairfield County region of Connecticut, with branch locations in New Canaan, Stamford, Fairfield, and Wilton, Connecticut.
Basis of consolidated financial statement presentation
The consolidated financial statements as of and for the years ending December 31, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. Such policies have been followed on a consistent basis.
Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through March 25, 2014, the date upon which the Company's consolidated financial statements were available to be issued. No subsequent events were identified that would have required a change to the consolidated financial statements or disclosure in the notes to the consolidated financial statements, other than as disclosed in Note 19, Subsequent Events.
Use of estimates
In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to deferred taxes, the fair values of financial instruments and the determination of the allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions.
Principles of consolidation
The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.
Significant concentrations of credit risk
Most of the Company's activities are with customers located within Fairfield County and the surrounding region of Connecticut, and declines in property values in these areas could significantly impact the Company. The Company has significant concentrations in commercial real estate. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.
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Cash and cash equivalents and statement of cash flows

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

Investment securities

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

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

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

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

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

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

Bank owned life insurance

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

Federal Home Loan Bank stock

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

Loans held for sale

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

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

Loans receivable

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

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

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

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

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

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

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Acquired loans

Loans that the Company acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

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

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

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

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

Allowance for loan losses

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

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

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The allowance for loan losses consists of specific and general components. The specific component relates to impaired loans that are classified as doubtful, substandard or special mention. For these loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, and includes unallocated components maintained to cover uncertainties that could affect management's estimation of probable losses, and reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.
Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies have the authority to require additions to the allowance or charge-offs based on the agencies' judgments about information available to them at the time of their examination.
Interest and fees on loans
Interest on loans is accrued and included in income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectability of the loan or loan interest becomes uncertain. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectability of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.
Loan origination fees, net of direct loan origination costs, are deferred and amortized as an adjustment to the loan's yield generally over the contractual life of the loan, utilizing the interest method.
Foreclosed real estate
Assets acquired through deed in lieu or loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.
Premises and equipment
Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation and amortization is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from 3 to 39 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.
Income taxes
The Company accounts for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these temporary differences. The Company examines its financial statements, income tax provision and federal and state income tax returns and analyzes its tax positions, including permanent and temporary differences, as well as the major components of income and expense to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the consolidated statements of income.

Related party transactions

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

Stock compensation

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

Earnings per share

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

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

Comprehensive income

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

Fair values of financial instruments

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

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

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

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

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

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

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

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

Recent accounting pronouncements

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

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

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

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

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

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

This Update permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. Prior to the amendments in this ASU, only U.S. Treasury and the LIBOR swap rates were considered benchmark interest rates. Including the Fed Funds Effective Swap Rate (OIS) as an acceptable U.S. benchmark interest rate in addition to U.S. Treasury and LIBOR rates provides a more comprehensive spectrum of interest rates to be utilized as the designated benchmark interest rate risk component under the hedge accounting guidance. The amendments in ASU

2013-10 are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Management does not expect the implementation of this update to have a material effect on the Company's consolidated financial statements.

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

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

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

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

Reclassification

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

2.

- Preferred and Common Stock

Preferred stock

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

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

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

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

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

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

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

Common stock

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

On July 10, 2007, BNC began a Private Placement for the sale of Units similar to those offered in the secondary offering. The purpose of the Private Placement was to attract investors from the Town of Fairfield who would be willing to support TBF during its de novo period. The Private Placement raised a

total of $1.7 million ($1.6 million, net of expenses). The net proceeds of these funds were added to the Company's capital in the first quarter of 2008.
For both the 2006 Secondary Offering and the 2007 Private Placement, the Company issued 945,789 units and received $17.2 million in total capital ($17.1 million, net of expenses).
On December 20, 2010, the Company completed a Private Placement for the sale of its common stock. The purpose of the offering was to raise additional capital for future growth. The Company issued 300,321 shares and received $4.2 million in total capital ($4.16 million, net of expenses).
On September 30, 2013, the Company completed a Private Placement for the sale of its common stock, which began in the fourth quarter of 2012, for the purpose of raising additional capital for future growth. On January 11, 2013, the Company issued 527,513 shares and received $7.3 million in total capital ($7.3 million, net of expenses) and on September 30, 2013, the Company issued 370,000 shares and received $6.2 million in total capital ($5.9 million, net of expenses).
Regarding the September 30, 2013 issuance of 370,000 shares, the purchaser executed an agreement that, among other things, provides it with "pre-emptive" rights for a period of three years. This entitles the investor to be afforded the opportunity to acquire from the Company, for the same price and on the same terms as such Company securities are offered, in the aggregate up to the amount of such securities required to enable the investor group to maintain its ownership percentage of Company stock (measured immediately prior to such offering).
Dividends
The Company's stockholders are entitled to dividends when and if declared by the board of directors, out of funds legally available. Connecticut law prohibits the Company from paying cash dividends except from its net profits, which are defined by state statutes.
The payment of dividends are subject to additional restrictions in connection with preferred stock issued under TARP, which were repurchased in August 2011, and the Treasury Department's SBLF, which were issued in August 2011. For the years ended December 31, 2013, 2012 and 2011, the Company declared and paid cash dividends on preferred stock of $111 thousand, $132 thousand, and $206 thousand, respectively. For the years ended December 31, 2013, 2012 and 2011, the Company did not declare or pay dividends on its common stock. The Company did not repurchase any of its common stock during 2013, 2012 or 2011.
3.

- Restrictions on Cash and Due from Banks

The Bank is required to maintain $125 thousand in the Federal Reserve Bank for clearing purposes.
4.

- Mergers and Acquisitions

On November 5, 2013, the Company acquired all of the outstanding common shares of The Wilton Bank ("Wilton"). Wilton was a state chartered commercial bank located in Wilton, Connecticut, which operated as one branch. As a result of the transaction, Wilton merged into Bankwell Bank. This business combination expanded the Bank's presence in Fairfield County and enhanced opportunities for businesses, customer relationships, employees and the communities served by the Bank.
On the acquisition date, Wilton had 372,985 outstanding common shares, net of 108,260 shares of treasury stock, and shareholders' equity of $6.3 million. Wilton shareholders received $13.50 per share resulting in a consideration value of $5.0 million.
The results of Wilton's operations are included in the Company's Consolidated Statement of Income from the acquisition date. The Company recorded merger and acquisition expenses totaling $908 thousand during the year ended December 31, 2013.

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

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

Recognized amounts of identifiable assets acquired and (liabilities) assumed:

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

Explanation of fair value adjustments:
(a)

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

(b)

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

(c)

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

(d)

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

(e)

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

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

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

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

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

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

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

- Goodwill and Other Intangible Assets

As discussed in Note 4, Mergers and Acquisitions, the Company completed its acquisition of The Wilton Bank during the fourth quarter of 2013. In accordance with applicable accounting guidance, the amount paid is allocated to the fair value of the net assets acquired, with any excess amounts recorded as goodwill. If the fair value of the net assets is greater than the amount paid, the excess amount is recorded to noninterest income as a gain on the purchase.
The Company recorded a gain of $1.3 million in conjunction with the acquisition, the amount that the net assets exceeded the amount paid. Therefore, there is no goodwill as of December 31, 2013 as a result of this acquisition. An other intangible asset of $499 thousand was recorded, representing the economic value of the acquired core deposit

base.

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

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

The core deposit intangible asset is being amortized over 9.3 years on double declining balance method. Amortization expense for the year ended December 31, 2013 was $18 thousand.
6.

• Investment Securities

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

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

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

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

For the years ended December 31, 2013, 2012 and 2011, the Company realized gross gains of $648 thousand, $76 thousand and $250 thousand from the sales of investment securities, respectively. For the years ended December 31, 2013, 2012 and 2011, gross losses on the sale of investment securities were $0, $95 thousand and $0, respectively. These amounts were reclassified out of accumulated other comprehensive income and included in net income under the line item “net gain (loss) on sale of available for sale securities” in noninterest income.
At December 31, 2013 and 2012, securities with approximate fair values of $6.2 million and $5.0 million, respectively, were pledged as collateral for public deposits.

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

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

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

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

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- Loans Receivable and Allowance for Loan Losses

Loans acquired in connection with the Wilton acquisition in 2013 are referred to as "acquired" loans as a result of the manner in which they are accounted for. All other loans are referred to as "originated" loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.
The following table sets forth a summary of the loan portfolio at December 31, 2013 and 2012:

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

Lending activities are conducted principally in the Fairfield County region of Connecticut, and consist of residential and commercial real estate loans, commercial business loans and a variety of consumer loans. Loans may also be granted for the construction of residential homes and commercial properties. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate.
The following table summarizes activity in the accretable yields for the acquired loan portfolio for the year ended December 31, 2013:

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

Explanation of adjustments:
(a)

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

(b)

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

Risk management

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

Credit quality of loans and the allowance for loan losses

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

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

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

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

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

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

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

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

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

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

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
Charge-offs	—	—	(84)	—	—	—	—	(84)
Recoveries	—	—	—	—	—	20	—	20
Provisions	237	713	140	(39)	573	(29)	(546)	1,049
Ending balance	$ 1,290	$ 2,519	$ 1,007	$ 274	$ 1,317	$ 11	$ 7	$ 6,425

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

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

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

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

Credit quality indicators

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

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

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

Commercial Credit Quality Indicators

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

Residential and Consumer Credit Quality Indicators

	At December 31, 2013			At December 31, 2012		
	Residential Real Estate	Home Equity	Consumer	Residential Real Estate	Home Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	$ 153,443	$ 9,447	$ 225	$ 142,151	$ 11,030	$ 57
Special mention	2,431	178	—	—	—	—
Substandard	—	—	—	2,137	—	—

Residential and Consumer Credit Quality Indicators

Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total originated loans	155,874	9,625	225	144,288	11,030	57
Acquired loans:						
Pass	—	4,221	234	—	—	—
Special mention	—	—	143	—	—	—
Substandard	—	46	—	—	—	—
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	—	—
Total acquired loans	—	4,267	377	—	—	—
Total	$ 155,874	$ 13,892	$ 602	$ 144,288	$ 11,030	$ 57

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Loan portfolio aging analysis
When a loan is 15 days past due, the Company sends the borrower a late notice. The Company also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, the Company will send the borrower a final demand for payment and may recommend foreclosure. A summary report of all loans 30 days or more past due is provided to the board of directors of the Company each month. Loans greater than 90 days past due are put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.
The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount as of December 31, 2013 and 2012:

	As of December 31, 2013					
	31 – 60 Days Past Due	**61 – 90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Carrying Amount > 90 Days and Accruing**
				(In thousands)		
Originated Loans						
Real estate loans:						
Residential real estate	$ —	$ —	$ 1,003	$ 1,003	$ 154,871	$ —
Commercial real estate	—	—	—	—	305,823	—
Construction	—	—	—	—	44,187	—
Home equity	—	—	—	—	9,625	—
Commercial business	—	—	—	—	92,173	—
Consumer	—	—	—	—	225	—
Total originated loans	—	—	1,003	1,003	606,904	—
Acquired Loans						
Real estate loans:						
Residential real estate	—	—	—	—	—	—
Commercial real estate	—	—	797	797	9,913	797
	—	—	2,508	2,508	4,850	2,508

	As of December 31, 2013										
Construction											
Home equity		—		—		—		—		4,267	—
Commercial business		—		—		315		315		1,078	315
Consumer		—		—		—		—		377	—
Total acquired loans		—		—		3,620		3,620		20,485	3,620
Total loans	$	—	$	—	$	4,623	$	4,623	$	627,389	$ 3,620

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

Loans on nonaccrual status

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

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

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

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

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling $6.2 million at December 31, 2013. Such loans otherwise meet the Company’s definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are accounted for on either a pool or individual basis and the accretable yield is being recognized as interest income over the life of the loans based

on expected cash flows.

Impaired loans

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

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

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

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

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

	As of and for the Year Ended December 31, 2012				
Total impaired loans	$ 4,148	$ 4,148	$ 258	$ 4,932	$ 105

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

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

Troubled debt restructurings (TDRs)

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

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

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

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

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

All TDRs at December 31, 2013 and 2012 were performing in compliance under their modified terms and therefore, were on accrual status.
The following table provides information on how loans were modified as a TDR during the years ended December 31, 2013 and 2012.

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

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the years ended December 31, 2013 and 2012.
8.

- Premises and Equipment

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

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

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

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9.

- Deposits

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

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

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

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

Time certificates of deposit in denominations of $100,000 or more were approximately $150.8 million, and $91.7 million at December 31, 2013 and 2012, respectively. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), signed into law on July 21, 2010, permanently raised the maximum deposit insurance amount to $250,000, retroactive to January 1, 2008. The aggregate amount of individual certificate accounts with balances of $250,000 or more were approximately $40.5 million and $21.9 million at December 31, 2013 and 2012, respectively.
The following table summarizes interest expense by account type for the years ended December 31, 2013, 2012 and 2011:

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

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10.

- Federal Home Loan Bank Advances and Other Borrowings

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

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

The Bank has additional borrowing capacity at the FHLB, in excess of outstanding advances, up to a certain percentage of the value of qualified collateral, as defined in the FHLB Statement of Products Policy, at the time of the borrowing. In accordance with agreements with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no additional borrowings at December 31, 2013 and 2012.
Additionally, the Bank has access to a pre-approved secured line of credit of $450 thousand with the FHLB, none of which was outstanding at December 31, 2013 and 2012.
The Bank has an unsecured line of credit of $2.0 million with Bankers' Bank Northeast, none of which was outstanding at December 31, 2013 and 2012.
Federal Home Loan Bank Stock
As a member of the FHLB, the Bank is required to maintain investments in their capital stock. The Bank owned 48,342 and 44,422 shares at December 31, 2013 and 2012, respectively. There is no ready market or quoted market values for the stock. The shares have a par value of $100 and are carried on the consolidated balance sheets at cost, as the stock is only redeemable at par subject to the redemption practices of the FHLB.

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11.

- Commitments and Contingencies

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

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

Total rental expense approximated $1.5 million, $1.3 million and $1.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.
Legal matters
The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company’s financial condition or results of operations.
Employment agreements
The Company and its subsidiaries have entered into employment agreements with certain executive officers. The agreements have different terms and provide each executive with a base salary, annual cash bonuses and other benefits as determined by the Compensation Committee of the board of directors.
Off-balance sheet instruments
In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.
The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should the contract be fully drawn upon, the customer’s default, and the value of any existing collateral becomes worthless. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and evaluates each customer’s creditworthiness on a case-by-case basis. Management believes that they control the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.
12.

- Income Taxes

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

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

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

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

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

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

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

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In addition, at December 31, 2013 and 2012, there were net operating loss carry forwards of approximately $6.0 million and $4.0 million, respectively, for state tax purposes that were available to reduce future state taxable income. A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. At December 31, 2013 and 2012, management recorded a valuation allowance against the deferred tax benefits of the state operating loss carry forwards and other state deferred tax assets for the bank holding company.
Management regularly analyzes their tax positions and at December 31, 2013, does not believe that the Company has taken any tax positions where future deductibility is not certain. As of December 31, 2013, the Company is subject to unexpired statutes of limitation for examination of its tax returns for U.S. federal and Connecticut income taxes for the years 2010 through 2012.
13.

• 401(k) Profit Sharing Plan

The Company’s employees are eligible to participate in The Bankwell Financial Group, Inc. and its Subsidiaries and Affiliates 401(k) Plan (the “401k Plan”). The 401k Plan covers substantially all employees who are 21 years of age. Under the terms of the 401k Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Company matches eligible contributions and may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in the Company’s contributions after completing six years of service. The Company contributed $127 thousand, $102 thousand and $103 thousand to the 401k Plan during the years ended December 31, 2013, 2012 and 2011, respectively.
14.

• Stockholders’ Equity

Earnings per share
Basic earnings per share (“EPS”) is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (such as stock options) were exercised or converted into common stock or resulted in the issuance of common stock that then shared in earnings. Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered to participate with common stock in undistributed earnings for purposes of computing EPS.
The Company’s unvested restricted stock awards are participating securities, and therefore, are included in the computation of both basic and diluted earnings per common share. EPS is calculated using the two-class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

Notes to Consolidated Financial Statements

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

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

Equity award plans
The Company has five equity award plans (shown below), which are collectively referred to as the “Plan”.
On June 25, 2003, the Company’s shareholders approved The Bank of New Canaan Bank Management, Director and Founder Stock Option Plan under which both incentive and non qualified common stock options may be granted. At inception, there were 152,200 shares of common stock reserved for issuance under this plan.
On July 26, 2006, the Company’s shareholders approved The 2006 Bank of New Canaan Stock Option Plan under which both incentive and non qualified common stock options may be granted. At inception, there were 47,800 shares of common stock reserved for issuance under this plan.
On June 27, 2007, the Company’s shareholders approved The 2007 Bank of New Canaan Stock Option and Equity Award Plan under which both incentive and non qualified common stock options and other equity awards may be granted. At inception, there were 165,244 shares of common stock reserved for issuance under this plan.
On June 22, 2011, the Company’s shareholders approved the 2011 BNC Financial Group, Inc. Stock Option and Equity Award Plan. The plan includes consideration of grants from prior plans and imposes an overall cap on dilution to shareholders of 15% of the Company’s issued and outstanding shares as of January 1, 2011. At inception, there were 45,000 shares of common stock reserved for issuance under this plan.
On September 19, 2012, the Company’s shareholders adopted the 2012 BNC Financial Group, Inc. Stock Plan, or the “2012 Plan.” The plan includes consideration of grants from prior plans and 10% of the number of shares sold in the Company’s capital raise following the adoption of the 2012 Plan. On June 26, 2013, the Company’s shareholders adopted an amendment to the 2012 Plan, which provides for an aggregate number of shares reserved and available for issuance in the amount of an “overhang” of up to 12% on a going-forward basis. During 2013, the Company issued 897,513 shares of common stock in connection with its capital raise, thereby providing 89,751 shares of common stock to be reserved for issuance under the 2012 Plan.

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Any future issuances of equity awards will be made under the 2012 Plan and/or any new plan adopted by the Company and its shareholders in the future. All equity awards made under the 2012 Plan are made by means of an award agreement, which contains the specific terms and conditions of the grant. At December 31, 2013, there were 49,840 shares reserved for future issuance under the 2012 Plan.
Share Options: As discussed in Note 1, the Company accounts for stock options based on the fair value at the date of grant over the vesting period of such awards on a straight line basis. For the years ended December 31, 2013, 2012, and 2011, the Company recorded expense related to options granted under the various plans of approximately $41 thousand, $82 thousand, and $76 thousand, respectively.
There were no options granted during the year ended December 31, 2013. The fair value of options granted during the years ended December 31, 2012 and 2011 were estimated at the grant date using the minimum value option-pricing model with the following weighted-average assumptions for the grants:

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

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

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

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

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

Total intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date. The total intrinsic value of share options exercised during the years ended December 31, 2013, 2012 and 2011 was $544 thousand, $0 and $8 thousand, respectively.
Restricted Stock: Restricted stock provides grantees with rights to shares of common stock upon completion of a service period and certain performance goals. Shares of unvested restricted stock are participating securities and considered outstanding. Restricted stock awards generally vest over one to five years. The following table presents the activity for restricted stock for the years ended December 31, 2013, 2012 and 2011.

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

The Company’s restricted stock expense for the years ended December 31, 2013, 2012 and 2011 was $268 thousand, $481 thousand and $174 thousand, respectively.
Warrants
As discussed in Note 2, BNC’s October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the “Offerings”) call for the issuance of Units. Each Unit issued pursuant to the Offerings represented one share of common stock and one non-transferable Warrant. The Warrants were exercisable at any time from and including October 1,

2009 and prior to or on November 30, 2009, unless extended or accelerated by the board of directors in their discretion. The board of directors has extended the exercise period to October 1, 2014 through December 1, 2014. Each Warrant allows a holder to purchase .3221 shares of Common Stock at an exercise price of $14.00 per share. None of the warrants have been exercised as of December 31, 2013. Assuming that all of the Warrants issued are exercised in full during the exercise period, the Company would receive $4,264,941 in gross capital and issue 304,640 shares of common stock. A total of 945,789 units were sold generating gross capital of $17,191,202.

15.

- Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statements of condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.
Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either June 30, 2013 or December 31, 2012 or 2011. The estimated fair value amounts have been measured as of the respective period-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.
The carrying values and fair values of the Company's financial instruments December 31, 2013 and 2012 were as follows:

	December 31,			
	2013		2012	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 82,013	$ 82,013	$ 28,927	$ 28,927
Available for sale securities	28,597	28,597	41,058	41,058
Held to maturity securities	13,816	13,815	5,354	5,292
Loans held for sale	100	100	—	—
Loans receivable, net	621,830	623,876	520,792	528,199
Accrued interest receivable	2,360	2,360	2,109	2,109
FHLB stock	4,834	4,834	4,442	4,442

	December 31,			
Financial Liabilities:				
Demand deposits	118,618	118,618	78,120	78,120
NOW and money market	238,231	238,231	127,812	127,812
Savings	107,692	107,692	136,121	136,121
Time deposits	197,004	197,762	120,048	121,029
Advances from the FHLB	44,000	43,902	91,000	91,407

16.

- Fair Value Measurements

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

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

Level 2 —

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

Level 3 —

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

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.
Financial instruments measured at fair value on a recurring basis
The following tables detail the financial instruments carried at fair value on a recurring basis at December 31, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the years ended December 31, 2013 and 2012.

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

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

Financial instruments measured at fair value on a nonrecurring basis

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

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

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

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

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

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

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

17.

- Regulatory Matters

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

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

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

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

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

	Actual Capital		**For Capital Adequacy Purposes**		**To be Well Capitalized Under Prompt Corrective Action Provisions**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Bankwell Bank December 31, 2013						
Total Capital to Risk-Weighted Assets	$ 66,674	10.74%	$ 49,682	8.00%	$ 62,103	10.00%
Tier I Capital to Risk-Weighted Assets	58,908	9.49 %	24,841	4.00%	37,262	6.00 %
Tier I Capital to Average Assets	58,908	7.91 %	29,772	4.00%	37,215	5.00 %

	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
Bankwell Financial Group, Inc.						
December 31, 2013						
Total Capital to Risk-Weighted Assets	$ 76,537	12.32 %	$ 49,683	8.00 %	$ 62,103	10.00 %
Tier I Capital to Risk-Weighted Assets	68,766	11.07 %	24,841	4.00 %	37,262	6.00 %
Tier I Capital to Average Assets	68,766	9.15 %	3,068	4.00 %	37,585	5.00 %

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Notes to Consolidated Financial Statements

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

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

Restrictions on dividends
The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Company. In accordance with State of Connecticut Banking Rules and Regulations, regulatory approval is required to pay dividends in excess of the Bank’s earnings retained in the current year plus retained earnings from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.
18.

- Related Party Transactions

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

follows:

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

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

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

19.

- Subsequent Events

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Wilton Bank
Wilton, Connecticut

Report on the Financial Statements

We have audited the accompanying statements of financial condition of The Wilton Bank as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of The Wilton Bank as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13 of these financial statements, at December 31, 2012 the Bank's Tier 1 capital was not in compliance with the terms of its Consent Agreement. The Bank has submitted, and subsequent to December 31, 2012 its banking regulators have accepted, the updated Capital Plan. Our opinion is not modified with respect to this matter.

/s/ Whittlesey & Hadley, P.C.
Hartford, Connecticut
March 19, 2013

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STATEMENTS OF FINANCIAL CONDITION
September 30, 2013 (Unaudited) and December 31, 2012 and 2011

	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
ASSETS			
Cash and due from banks (Note 2)	$ 29,286,177	$ 28,374,762	$ 21,482,956
Certificates of deposit	3,500,000	5,750,000	4,000,000
Held-to-maturity securities (fair values of $1,021,410, $1,029,380 and $2,511,560 at September 30, 2013 and December 31, 2012 and 2011, respectively) (Note 3)	1,023,934	1,032,219	2,499,457
Loans receivable (net of allowance for loan losses of $881,886, $1,112,932 and $1,304,722 at September 30, 2013 and December 31, 2012 and 2011, respectively) (Note 4)	28,938,703	32,495,420	39,960,305
Accrued interest receivable	79,133	107,858	119,088
Foreclosed real estate	1,894,779	3,269,863	2,868,547
Federal Home Loan Bank of Boston stock, at cost (Note 8)	257,600	391,500	530,800
Premises and equipment, net (Note 5)	4,312,543	4,391,976	4,496,950
Other assets	306,183	309,929	454,293
Total assets	$ 69,599,052	$ 76,123,527	$ 76,412,396
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits (Note 6)			
Noninterest bearing deposits	$ 13,421,916	$ 14,085,959	$ 15,533,054
Interest bearing deposits	49,272,073	53,795,219	50,914,503
Total deposits	62,693,989	67,881,178	66,447,557
Accrued expenses and other liabilities	359,278	211,743	192,906
Total liabilities	63,053,267	68,092,921	66,640,463
Commitments and contingencies (Notes 7, 13 and 15)	—	—	—
Shareholders' equity (Notes 11 and 12)			
Common stock, par value $5; 1,000,000 shares authorized; 481,245 issued and oustanding at September 30, 2013 and December 31, 2012 and 2011	2,406,225	2,406,225	2,406,225
Additional paid-in capital	2,868,421	2,868,421	2,868,421
Less: Treasury stock at cost, 108,260 shares	(5,548,243)	(5,548,243)	(5,548,243)
Retained earnings	6,819,382	8,304,203	10,045,530
Total shareholders' equity	6,545,785	8,030,606	9,771,933
Total liabilities and shareholders' equity	$ 69,599,052	$ 76,123,527	$ 76,412,396

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

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STATEMENTS OF INCOME

For the Nine Months Ended September 30, 2013 and 2012 (Unaudited) and the Years Ended December 31, 2012 and 2011

	September 30,		December 31,	
	2013	2012	2012	2011
	(Unaudited)			
Interest income				
Interest and fees on loans	$ 1,159,534	$ 1,386,691	$ 1,806,030	$ 1,879,845
Interest on securities	2,027	11,932	13,941	62,246
Other	116,925	99,166	133,895	92,096
Total interest income	1,278,486	1,497,789	1,953,866	2,034,187
Interest expense				
Interest on deposits	106,325	133,111	177,227	243,842
Total interest expense	106,325	133,111	177,227	243,842
Net interest income	1,172,161	1,364,678	1,776,639	1,790,345
Provision for loan losses (Note 4)	—	—	—	900,000
Net interest income after provision for loan losses	1,172,161	1,364,678	1,776,639	890,345
Noninterest income				
Service charges and fees	65,016	74,362	100,537	93,250
Recovery from legal settlement	—	—	—	795,698
Other	128,964	129,637	177,396	171,594
Total noninterest income	193,980	203,999	277,933	1,060,542
Noninterest expenses				
Salaries and employee benefits (Note 10)	1,240,481	1,231,982	1,623,925	1,757,499
Loss and expenses on foreclosed real estate, net	191,791	251,320	494,832	334,998
Professional services	427,455	253,033	393,663	397,000
Occupancy and equipment	244,913	252,524	338,792	327,248
Insurance	162,960	150,498	201,223	202,863
Data processing	150,302	120,294	160,986	151,420
FDIC deposit insurance	116,166	116,949	153,848	177,569
Non-accrual loan expenses, net of recoveries	2,429	(26,116)	(21,642)	55,805
Other	314,465	354,463	450,272	465,433
Total noninterest expenses	2,850,962	2,704,947	3,795,899	3,869,835
Loss before income taxes	(1,484,821)	(1,136,270)	(1,741,327)	(1,918,948)
Provision (benefit) for income taxes (Note 9)	—	—	—	1,350,771
Net loss	$ (1,484,821)	$ (1,136,270)	$ (1,741,327)	$ (3,269,719)
Basic loss per share (Note 11)	$ (3.98)	$ (3.05)	$ (4.67)	$ (8.77)
Diluted loss per share (Note 11)	(3.98)	(3.05)	(4.67)	(8.77)
Dividends per share	—	—	—	—

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

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STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2013 and 2012 (Unaudited) and the Years Ended December 31, 2012 and 2011

	September 30,		**December 31,**	
	2013	**2012**	**2012**	**2011**
	(Unaudited)			
Net loss	$ (1,484,821)	$ (1,136,270)	$ (1,741,327)	$ (3,269,719)
Other comprehensive losses:				
Unrealized holding losses on securities available-for-sale	—	—	—	(3,705)
Income tax benefit related to items of other comprehensive loss	—	—	—	1,445
Total other comprehensive loss net of income tax benefit	—	—	—	(2,260)
Comprehensive loss	$ (1,484,821)	$ (1,136,270)	$ (1,741,327)	$ (3,271,979)

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

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2013 (Unaudited) and the Years Ended December 31, 2012 and 2011

	Shares of Common Stock	**Common Stock**	**Additional Paid-In Capital**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balance January 1, 2011	372,985	$2,406,225	$2,868,421	$13,315,249	$(5,548,243)	$2,260	$13,043,912
Net loss	—	—	—	(3,269,719)	—	—	(3,269,719)
Unrealized holding loss on available for-sale securities	—	—	—	—	—	(2,260)	(2,260)
Balance December 31, 2011	372,985	2,406,225	2,868,421	10,045,530	(5,548,243)	—	9,771,933
Net loss	—	—	—	(1,741,327)	—	—	(1,741,327)
Balance December 31, 2012	372,985	2,406,225	2,868,421	8,304,203	(5,548,243)	—	8,030,606
Net loss	—	—	—	(1,484,821)	—	—	(1,484,821)
Balance September 30, 2013 (Unaudited)	372,985	$2,406,225	$2,868,421	$6,819,382	$(5,548,243)	$—	$6,545,785

The accompanying notes are an integral part of the financial statements.
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STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2013 and 2012 (Unaudited) and the Years Ended December 31, 2012 and 2011

	For the Nine Months Ended September 30, 2013	For the Nine Months Ended September 30, 2012	For the Years Ended December 31, 2012	For the Years Ended December 31, 2011
	(Unaudited)			
Cash flows from operating activities				
Net loss	$ (1,484,821)	$ (1,136,271)	$ (1,741,327)	$ (3,269,719)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:				
Amortization and accretion of premiums and discounts on investments, net	8,285	(274)	377	32,713
Provision for loan losses	—	—	—	900,000
Net loss (gain) on sale and provision for foreclosed real estate losses	40,787	(8,434)	218,316	280,731
Depreciation and amortization	85,837	92,647	122,142	126,553
Deferred income taxes	—	—	—	1,332,472
Changes in assets and liabilities:				
Change in deferred loan fees	(11,284)	(8,560)	(17,501)	(10,156)
Decrease in accrued interest receivable	28,725	(4,253)	11,230	43,972
Decrease (increase) in other assets	3,745	(2,603)	144,364	808,708
Increase (decrease) in accrued expenses and other liabilities	147,536	38,232	18,836	(66,060)
Net cash (used) provided by operating	(1,181,190)	(1,029,516)	(1,243,563)	179,214

	For the Nine Months Ended September 30,		For the Years Ended December 31,	
activities				
Cash flows from investing activities				
Net (purchases) redemptions of certificates of deposit	2,250,000	(1,000,000)	(1,750,000)	(3,000,000)
Proceeds from maturities of held-to-maturity securities	—	1,500,000	2,500,000	4,500,000
Proceeds from maturities of available-for-sale securities	—	—	—	1,000,000
Purchases of held-to-maturity securities	—	—	(1,033,139)	—
Net decrease in loans receivable	2,343,001	1,915,172	6,001,400	5,672,962
Proceeds from sales of foreclosed real estate	2,559,297	861,354	861,354	—
Purchases of furniture and equipment	(6,404)	(11,226)	(17,168)	(12,771)
Redemption of FHLBB Stock	133,900	139,300	139,300	—
Net cash provided by investing activities	7,279,794	3,404,600	6,701,747	8,160,191
Cash flows from financing activities				
Net increase (decrease) in demand, savings and money market deposits	(3,313,869)	(3,392,815)	1,289,165	(1,760,853)
Net increase (decrease) in time certificates of deposit	(1,873,320)	327,175	144,457	(2,773,951)
Net cash (used) provided in financing activities	(5,187,189)	(3,065,640)	1,433,622	(4,534,804)
	911,415	(690,556)	6,891,806	3,804,601

	For the Nine Months Ended September 30,		For the Years Ended December 31,	
Net increase in cash and cash equivalents				
Cash and cash equivalents				
Beginning of the year	28,374,762	21,482,956	21,482,956	17,678,355
End of the year	$ 29,286,177	$ 20,792,400	$ 28,374,762	$ 21,482,956
Supplemental disclosures of cash flow information:				
Cash paid for:				
Interest	$ 122,518	$ 135,993	$ 180,109	$ 276,487
Income taxes	—	—	—	—
Noncash investing and financing activities				
Transfer of loans to foreclosed real estate	1,225,000	1,480,986	1,480,986	1,435,180

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

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NOTES TO FINANCIAL STATEMENTS

September 30, 2013 and 2012 (Unaudited) and December 31, 2012 and 2011

1.

- Nature of Operations and Summary of Significant Accounting Policies

The Wilton Bank (the "Bank") is a state chartered commercial bank located in Wilton, Connecticut, whose deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"). The Bank provides a full range of banking services to commercial and consumer customers, primarily located within its community and the surrounding area. The Bank is subject to competition from other financial institutions throughout the region. The Bank is also subject to the regulations of certain federal and state regulatory agencies and undergoes periodic examinations by those regulatory authorities.

Significant group concentrations of credit risk

Most of the Bank's activities are with customers primarily located in Wilton, Connecticut and the surrounding area. The Bank does not have any significant concentrations to any one customer, however, it does have a significant concentration in construction and development loans.

Basis of presentation

The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America ("GAAP") and to general practices within the banking industry. Such policies have been followed on a consistent basis.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and the valuation of deferred tax assets.

The accompanying interim financial statements are unaudited and have been prepared in accordance with GAAP for interim financial information. These interim consolidated financial statements reflect, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and the results of its operations and its cash flows at the dates and for the periods presented.

Beginning in 2007 and continuing in 2013, softening real estate markets, and generally weak economic conditions have led to declines in collateral values and stress on the cash flows of borrowers. As a result of the Bank's lending concentrations in construction and development loans, the Bank's loan portfolio was severely affected. These adverse economic conditions could continue, placing further stress on the Bank's borrowers, resulting in increases in charge-offs, delinquencies and non-performing loans, and in some instances, lower valuations for the Bank's impaired loans and other real estate owned. These could impact significant estimates such as the allowance for loan losses and the valuation of other real estate owned.

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through March 26, 2014, the date upon which the Bank's financial statements were available to be issued. No subsequent events were identified that would require a change to the financial statements or disclosure in notes to the financial statements, other than as noted in Note 13, Regulatory Matters and Note 18, Subsequent Event.

Cash and cash equivalents and statements of cash flows

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

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Investment securities

Management determines the appropriate classification of investment securities at the date individual securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date. Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are recorded at amortized cost. The Bank does not engage in trading activities. Securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes. At September 30, 2013 and December 31, 2012 and 2011, all investment securities were classified as held-to-maturity.

In estimating other-than-temporary impairment, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. If the Bank does not have the intent to sell a debt security prior to recovery and (b) it is more-likely-than-not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Bank does not intend to sell the security, and it is more-likely-than-not the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections discounted at the applicable original yield of the security.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans receivable and allowance for loan losses

Loans receivable are stated at their current unpaid principal balances, net of the allowance for loan losses and net deferred loan origination fees and costs.

Management considers all nonaccrual loans, other loans past due 90 days or more, and restructured loans to be impaired. In most cases, loan payments that are past due less than 90 days are considered minor collection delays and the related loans are not considered to be impaired.

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

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are recorded as adjustments to the allowance for loan losses. A loan is impaired when it is probable the Bank will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement.

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers all loans not considered impaired, segregated generally by loan type, with separate categories for loans that are classified as doubtful, past due and non-accrual, and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The majority of the Bank's loans are collateralized by real estate, primarily located within Wilton, Connecticut and the surrounding area. Accordingly, the collateral value of a substantial portion of the Bank's loan portfolio and real estate acquired through foreclosure is susceptible to changes in market conditions.

At September 30, 2013 and December 31, 2012 and 2011, management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Troubled debt restructurings

A modified loan is considered a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower.

If a performing loan is restructured into a TDR, it remains in performing status. If a non-performing loan is restructured into a TDR, it continues to be carried in non-accrual status. Initially, all TDRs are reported as impaired. Impaired and TDR classifications may be removed if the borrower demonstrates compliance with the modified terms for a minimum of nine months and through one fiscal year-end and the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring.

Interest and fees on loans

Interest on loans is accrued and included in operating income based on contractual rates applied to principal amounts outstanding. Recognition of income on the accrual basis is discontinued when there is sufficient question as to the collectability of the interest. In these cases, the interest previously accrued to income is reversed. These loans are accounted for on either the cash-basis or the principal recapture method until qualifying for return to accrual status. Under the principal recapture method, loans which are deemed to be impaired and for which the collection of the entire principal balance is in doubt, any payments received from the borrower or operation of the collateral is applied only to principal and no income is recognized. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized on a level-yield basis as an adjustment to the related loan yield over its contractual life. Unamortized net fees are recognized upon early repayment of the loans.

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Foreclosed real estate
Real estate properties acquired through loan foreclosure and other partial or total satisfaction of problem loans are carried at the lower of fair value less estimated costs of disposal or the related loan balance at the date of foreclosure. Valuations are periodically performed by management and a valuation allowance is established if the carrying value of a property subsequently exceeds its fair value less estimated disposal costs. Losses arising at the time of acquisition of such properties are charged against the allowance for loan losses. Subsequent write-downs in the carrying value are charged to expense and included in foreclosed real estate expense. Costs relating to the development and improvement of the property are capitalized, subject to the limit of fair value of the collateral. Upon disposition, gains and losses, to the extent they exceed the corresponding valuation allowance, are reflected in the statement of income.
Federal Home Loan Bank stock
Federal Home Loan Bank of Boston (“FHLBB”) stock is a non-marketable equity security that is carried at cost and evaluated for impairment when deemed necessary.
Premises and equipment
Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from 3 to 39 years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.
Impairment of long-lived assets
Long-lived assets, including premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.
Fair value of financial instruments
The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:
Cash and cash equivalents — The carrying amounts reported in the statements of financial condition approximate fair value.
Held-to-maturity securities — Held-to-maturity securities are carried at amortized cost. Fair value is determined using quoted market prices, where available.
Loans receivable — For variable rate loans that reprice frequently and without significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounted cash flow analyses using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The fair value of nonaccrual loans was estimated using the estimated fair values of the underlying collateral.
Accrued income receivable — The carrying value of accrued income receivable approximates fair value.
Deposits — The fair values of noninterest bearing demand and savings deposits are, by definition, equal to the amount payable on demand at the reporting date, i.e., their carrying amounts. Fair values for time certificates of deposit are estimated using a discounted cash flow technique that applies interest rates currently being offered to a schedule of aggregated expected monthly maturities on time deposits.
Mortgagors’ escrow accounts — The carrying value of escrow accounts approximates fair value.

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Income taxes

The Bank recognizes income taxes under the asset and liability method. 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, and loss carryforwards.

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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank is required to make a determination of an inventory of tax positions (federal and state) for which the sustainability of the position, based upon the technical merits, is uncertain. The Bank regularly evaluates all tax positions taken and the likelihood of those positions being sustained. If management is highly confident that the position will be allowed and there is a greater than 50% likelihood that the full amount of the tax position will be ultimately realized, the Bank recognizes the full benefit associated with the tax position. It is the Bank’s policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income.

Related party transactions

Directors and officers of the Bank and their affiliates have been customers of and have had transactions with the Bank, and it is expected that such persons will continue to have such transactions in the future. However, the Bank precludes these individuals from entering into lending transactions with the Bank except for overdraft protection with a maximum line of credit of $5,000. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, and on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectability or favored treatment or terms, or present other unfavorable features.

Earnings (loss) per share

Basic earnings (loss) per share represents income available (loss allocable) to common stockholders and is computed by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method.

Stock-based compensation

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

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Accounting standards update
The following section includes changes in accounting principles and potential effects of new accounting guidance and pronouncements.
Accounting Standards Update No. 2011-11 — Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11")
In December 2011, the FASB issued ASU 2011-11, enhancing disclosures about offsetting assets and liabilities by requiring improved information about financial instruments and derivative instruments that are either: (1) offset in accordance with certain rights to setoff conditions prescribed by current accounting guidance; or (2) subject to an enforceable master netting agreement or similar agreement, irrespective of whether they are offset in accordance to current accounting guidance. The amendments in ASU No. 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013. This information will enable users of an entity's financial statements to evaluate the effects or potential effects of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The implementation of ASU 2011-11 did not have a material effect on the Bank's financial statements.
Accounting Standards Update No. 2011-05 — Presentation of Comprehensive Income ("ASU 2011-05")
In June 2011, the FASB issued ASU No. 2011-05, which requires that all non-owner changes in equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was effective for the Bank as of December 31, 2012, and has been applied retrospectively. The implementation of ASU 2011-11 did not have a material effect on the Bank's financial statements.
Accounting Standards Update No. 2011-04 — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04")
In May 2011, the FASB issued ASU No. 2011-04, which supersedes most of the accounting guidance currently found in Topic 820 of FASB's accounting standards codification. The amendments clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. The guidance was effective on January 1, 2012 and has been applied retrospectively. The implementation of ASU 2011-04 did not have a material effect on the Bank's financial statements.
Reclassification
Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications only changed the reporting categories but did not affect our results of operations or financial position.
2.

- Restrictions on Cash and Due from Banks

The Bank is required to maintain reserves against its respective transaction accounts and nonpersonal time deposits. At September 30, 2013 and December 31, 2012, the Bank was required to have cash and liquid assets of approximately $219,000 and $349,000, respectively, to meet these requirements.

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3.

- Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and approximate fair value of held-to-maturity securities at September 30, 2013 and December 31, 2012 and 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013 (Unaudited)				
U.S. Government agency obligations	$ 1,023,934	$ —	$ (2,524)	$ 1,021,410
Due from one through five years				
December 31, 2012				
U.S. Government agency obligations	$ 1,032,219	$ —	$ (2,839)	$ 1,029,380
Due from one through five years				
December 31, 2011				
U.S. Government agency obligations	$ 2,499,457	$ 12,103	$ —	$ 2,511,560
Due within one year				

The following is a summary of the fair value and related unrealized losses aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at September 30, 2013 and December 31, 2012:

Length of Time in Continuous Unrealized Loss Position					
Less Than 12 Months		12 Months or More		Total	
Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

	Length of Time in Continuous Unrealized Loss Position											
September 30, 2013 (Unaudited)												
U.S. Government agency obligations	$	1,021,410	$	(2,524)	$	—	$	—	$	1,021,410	$	(2,524)
December 31, 2012												
U.S. Government agency obligations	$	1,029,380	$	(2,839)	$	—	$	—	$	1,029,380	$	(2,839)

At December 31, 2011, the Bank had no individual securities where the market value was less than the cost of the security.
There were no sales of investment securities for the nine months ended September 30, 2013 and 2012, or for the years ended December 31, 2012 and 2011.
Securities with a carrying value of $510,705, $514,260 and $2,499,457 for the nine months ended September 30, 2013 and years ended December 31, 2012 and 2011, respectively, were pledged to secure public deposits.

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4.

- Loans Receivable and Allowance for Loan Losses

A summary of the Bank's loan portfolio at September 30, 2013 and December 31, 2012 and 2011 was as follows:

	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
Loans secured by real estate			
Construction, development and land loans	$ 10,539,207	$ 11,346,434	$ 18,203,921
Loans secured by residential properties	6,860,449	7,951,006	8,129,238
Loans secured by non-residential properties	8,872,617	10,298,415	10,683,970
Commercial and industrial loans	2,400,245	2,692,095	3,598,419
Consumer, personal and other loans	1,184,056	1,367,672	714,249
Total loans	29,856,574	33,655,622	41,329,797
Deferred loan origination fees	(35,985)	(47,270)	(64,770)
Allowance for loan losses	(881,886)	(1,112,932)	(1,304,722)
Loans receivable, net	$ 28,938,703	$ 32,495,420	$ 39,960,305

Risk management

The Bank engages in various loan types in order to meet the needs of the communities in which it operates. Primary loan types are construction, commercial property, commercial loans, and personal and other loans.

Credit quality of loans and the allowance for loan losses

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

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

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

Loans secured by residential properties. This portfolio segment consists of the origination of first mortgage loans secured by one-to-four family owner and non-owner occupied residential properties, multi-family dwellings, home equity loans and home equity lines of credit.

Loans secured by non-residential properties. This portfolio segment includes loans secured by commercial real estate for property owners and businesses in our market area. Loans secured by commercial real estate generally have larger

loan balances and more credit risk than owner occupied one-to four-family mortgage loans.

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Commercial and industrial. This portfolio segment includes commercial business loans secured by assignments of corporate assets and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than other loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.
Consumer, personal and other loans. This portfolio segment includes loans secured by passbook or certificate accounts, marketable securities or automobiles, as well as unsecured personal loans and overdraft lines of credit.
Allowance for loan losses
The following tables set forth the balance of the allowance for loan losses at September 30, 2013 and December 31, 2012 and 2011, by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually:

	Allowance for Loan Losses						
(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 (Unaudited)							
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
Ending loan balances individually evaluated for impairment	$ 4,797	$ 1,398	$ 502	$ 651	$ 332	—	$ 7,680
Ending loan balances collectively evaluated for impairment	$ 5,742	$ 5,462	$ 8,371	$ 1,749	$ 852	$ —	$ 22,176
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

	Allowance for Loan Losses						
Ending loan balances individually evaluated for impairment	$ 5,615	$ 1,735	$ 531	$ 448	$ 359	—	$ 8,688
Ending loan balances collectively evaluated for impairment	$ 5,732	$ 6,216	$ 9,767	$ 2,244	$ 1,009	$—	$ 24,968
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
Ending loan balances individually evaluated for impairment	$ 11,023	$ 1,550	$ 613	$ 357	$ 6	$—	$ 13,549
Ending loan balances collectively evaluated for impairment	$ 7,181	$ 6,579	$ 10,071	$ 3,241	$ 709	$—	$ 27,781

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

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Credit quality indicators
The Bank's policies provide for the classification of loans into the following categories: pass, watch, special mention, substandard, doubtful and loss. Consistent with regulatory guidelines, loans that are considered to be of lesser quality are classified as substandard, doubtful, or loss. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those loans characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans (or portions of loans) classified as loss are those considered uncollectible and of such little value that there continuance as loans is not warranted. Loans that do not expose the Bank to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are designated as watch and special mention.
When loans are classified as special mention, substandard or doubtful, the Bank allocates a portion of the related general loss allowances to such loans as the Bank deems prudent. The Bank regularly reviews its loan portfolio to determine whether any loans require classification in accordance with applicable regulations.
The following table is a summary of the loan portfolio quality indicators by portfolio segment at September 30, 2013 and as of December 31, 2012 and 2011:

(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
September 30, 2013 (Unaudited)					
Grade:					
Pass	$ 4,151	$ 4,607	$ 7,604	$ 1,517	$ 606
Watch	—	761	767	114	505
Special mention	—	—	—	—	—
Substandard	6,388	1,493	502	769	73
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
	$ 10,539	$ 6,861	$ 8,873	$ 2,400	$ 1,184
December 31, 2012					
Grade:					
Pass	$ 4,912	$ 5,444	$ 9,179	$ 1,582	$ 920
Watch	25	577	588	25	69
Special mention	—	—	—	1,085	278
Substandard	6,410	1,930	531	—	101
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
	$ 11,347	$ 7,951	$ 10,298	$ 2,692	$ 1,368
December 31, 2011					
Grade:					
Pass	$ 5,181	$ 5,643	$ 10,018	$ 2,632	$ 589
Watch	—	—	—	92	77
Special mention	2,000	128	—	93	—
Substandard	10,779	2,358	666	782	48

(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
Doubtful	244	—	—	—	—
Loss	—	—	—	—	—
	$ 18,204	$ 8,129	$ 10,684	$ 3,599	$ 714

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Loan portfolio aging analysis
When a loan is 10 days past due, the Bank sends the borrower a late notice. The 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 Bank may mail the borrower a letter reminding the borrower of the delinquency. By the 90th day of delinquency, if there is no payment arrangement or workout plan in place, the Bank may send the borrower a final demand for payment.
The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount 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 and Nonaccrual Status	Total Past Due Loans	Total Current Loans	Loans > 90 Days and Accruing
September 30, 2013 (Unaudited)						
Construction, development and land loans	$ —	$ —	$ 1,746	$ 1,746	$ 8,793	$ —
Loans secured by residential properties	—	—	779	779	6,081	—
Loans secured by non-residential properties	—	—	435	435	8,438	—
Commercial and industrial loans	—	—	280	280	2,120	—
Consumer, personal and other loans	7	—	73	80	1,104	—
Total	$ 7	$ —	$ 3,313	$ 3,320	$ 26,536	$ —
December 31, 2012						
Construction, development and land loans	$ —	$ —	$ 2,248	$ 2,248	$ 9,099	$ —
Loans secured by residential properties	—	—	748	748	7,203	—
Loans secured by non-residential properties	—	—	—	—	10,298	—
Commercial and industrial loans	75	—	300	375	2,317	—
	75	—	—	75	1,293	—

(In thousands)	31 – 60 Days Past Due	61 – 90 Days Past Due	Greater > Than 90 Days and Nonaccrual Status	Total Past Due Loans	Total Current Loans	Loans > 90 Days and Accruing
Consumer, personal and other loans						
Total	$ 150	$ —	$ 3,296	$ 3,446	$ 30,210	$ —
December 31, 2011						
Construction, development and land loans	$ —	$ 1,400	$ 3,736	$ 5,136	$ 13,068	$ —
Loans secured by residential properties	—	—	718	718	7,411	—
Loans secured by non-residential properties	53	103	—	156	10,528	—
Commercial and industrial loans	300	—	—	300	3,299	—
Consumer, personal and other loans	—	—	—	—	714	—
Total	$ 353	$ 1,503	$ 4,454	$ 6,310	$ 35,020	$ —

Loans on nonaccrual status

Loans on nonaccrual status may be accounted for on either the cash basis method or the principal recapture method until qualifying for return to accrual status. As of December 31, 2011, all loans on nonaccrual status were accounted for on the principal recapture method. During 2012, one of these loans was transferred to the cash basis method. At September 30, 2013, all loans were accounted for on the principal recapture method.

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The following table is a summary of nonaccrual loans by portfolio segment as of September 30, 2013 and December 31, 2012 and 2011:

(In thousands)	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
Construction, development and land loans	$ 4,573	$ 5,387	$ 10,540
Loans secured by residential properties	1,398	1,083	1,550
Loans secured by non-residential properties	502	453	520
Commercial and industrial loans	554	348	357
Consumer, personal and other loans	73	—	—
Total	$ 7,100	$ 7,271	$ 12,967

Included in nonaccrual loans at September 30, 2013 and December 31, 2012, respectively, are approximately $3,787,000 and $3,975,000 of loans which are performing in accordance with their contractual terms, however, these loans have not been returned to accrual status because they have not yet met necessary performance standards.
The amount of income that was contractually due but not recognized on nonperforming loans totaled $286,236 and $386,683 for the nine months ended September 30, 2013 and 2012 and $357,905 and $686,633 for the years ended December 31, 2012 and 2011, respectively.
Impaired loans
An impaired loan generally is one for which it is probable, based on current information, that the Bank will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Bank classifies a problem asset as impaired, it provides a specific reserve for that portion of the asset that is deemed uncollectible.
The following table is a summary of impaired loans by portfolio segment as of September 30, 2013 and December 31, 2012 and 2011:

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
September 30, 2013 (Unaudited)					
Impaired loans with no specific allowance recorded:					
Construction, development and land loans	$ 4,797	$ 5,264	$ —	$ 4,770	$ 61
Loans secured by residential properties	1,398	1,544	—	1,198	12
Loans secured by non-residential properties	502	663	—	512	—
Commercial and industrial loans	420	915	—	442	5
Consumer, personal and other loans	252	252	—	265	16
Total impaired loans with no specific allowance recorded	$ 7,369	$ 8,638	$ —	$ 7,187	$ 94
Impaired loans with an allowance recorded:					
Construction, development and land loans	$ —	$ —	$ —	$ —	$ —
Loans secured by residential properties	—	—	—	—	—
Loans secured by non-residential properties	—	—	—	—	—
Commercial and industrial loans	231	240	114	236	1
Consumer, personal and other loans	80	80	80	78	4
	$ 311	$ 320	$ 194	$ 314	$ 5

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
Total impaired loans with an allowance recorded					
Total impaired loans	$ 7,680	$ 8,958	$ 194	$ 7,501	$ 99

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(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
December 31, 2012					
Impaired loans with no specific allowance recorded:					
Construction, development and land loans	$ 4,266	$ 4,769	$ —	$ 5,987	$ 82
Loans secured by residential properties	1,735	1,879	—	1,761	49
Loans secured by non-residential properties	531	668	—	570	7
Commercial and industrial loans	448	921	—	360	—
Consumer, personal and other loans	353	353	—	369	28
Total impaired loans with no specific allowance recorded	$ 7,333	$ 8,590	$ —	$ 9,047	$ 166
Impaired loans with an allowance recorded:					
Construction, development and land loans	$ 1,349	$ 1,972	$ 49	$ 1,349	$ —
Loans secured by residential properties	—	—	—	—	—
Loans secured by non-residential properties	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—
Consumer, personal and other loans	6	6	6	6	1
Total impaired loans with an allowance recorded	$ 1,355	$ 1,978	$ 55	$ 1,355	$ 1
Total impaired loans	$ 8,688	$ 10,568	$ 55	$ 10,402	$ 167
December 31, 2011					
Impaired loans with no specific allowance recorded:					
Construction, development and land loans	$ 10,779	$ 11,249	$ —	$ 11,175	$ 25
Loans secured by residential properties	1,550	1,655	—	1,574	—
Loans secured by non-residential properties	613	700	—	656	8
Commercial and industrial loans	357	437	—	768	—
Consumer, personal and other loans	—	—	—	—	—
Total impaired loans with no specific allowance recorded	$ 13,299	$ 14,041	$ —	$ 14,173	$ 33
Impaired loans with an allowance recorded:					
Construction, development and land loans	$ 244	$ 244	$ 122	$ 244	$ —

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
Loans secured by residential properties	—	—	—	—	—
Loans secured by non-residential properties	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—
Consumer, personal and other loans	6	6	6	6	1
Total impaired loans with an allowance recorded	$ 250	$ 250	$ 128	$ 250	$ 1
Total impaired loans	$ 13,549	$ 14,291	$ 128	$ 14,423	$ 34

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Troubled debt restructurings
The following table presents loans whose terms were modified under TDRs as of September 30, 2013 and December 31, 2012 and 2011:

	September 30, 2013	December 31, 2012	December 31, 2011
(In thousands)	**(Unaudited)**		
Construction, development and land loans	$ 3,262	$ 3,373	$ 7,287
Loans secured by residential properties	1,336	1,395	786
Loans secured by non-residential properties	502	531	511
Commercial and industrial loans	219	148	57
Consumer, personal and other loans	252	278	—
Total TDRs	$ 5,571	$ 5,725	$ 8,641
TDRs included in nonperforming loans and leases	$ 4,919	$ 4,388	$ 8,065
TDRs in compliance with modified terms	$ 652	$ 1,337	$ 576

At December 31, 2012, the Bank had a $1,000,000 commitment to lend additional funds to a borrower with a loan which has been modified as a TDR. The new loan is a construction loan secured by a first mortgage, with a loan-to-value ratio of approximately 80%.

5.

• Premises and Equipment

At September 30, 2013 and December 31, 2012 and 2011, premises and equipment consisted of the following:

	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
Land and buildings	$ 4,994,694	$ 4,990,319	$ 4,980,967
Furniture and equipment	511,846	509,818	502,002
Less accumulated depreciation and amortization	(1,193,997)	(1,108,161)	(986,019)
Total premises and equipment	$ 4,312,543	$ 4,391,976	$ 4,496,950

Depreciation and amortization expense amounted to $85,837 and $92,647 for the nine months ended September 30, 2013 and 2012 and $122,142 and $126,553 for the years ended December 31, 2012 and 2011, respectively.

6.

• Deposits

Deposits consisted of the following at September 30, 2013 and December 31, 2012 and 2011:

	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
Noninterest bearing demand deposits	$ 13,421,916	$ 14,085,959	$ 15,533,054
Interest bearing accounts:			
NOW, money market and savings	38,831,079	41,480,905	38,744,647

	September 30, 2014		December 31, 2013		2012
Time certificates of deposit	1[illegible],4[illegible]0,994		12,314,314		12,169,856
Total interest bearing	49,272,073		53,795,219		50,914,503
Total deposits	$ 62,693,989	$	67,881,178	$	66,447,557

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Time certificates of deposit in denominations of $100,000 or more were approximately $6,205,000 at September 30, 2013, and $7,425,000 and $7,140,000 as of December 31, 2012 and 2011, respectively. Interest expense related to such deposits was $26,324 and $34,372 at September 30, 2013 and 2012, and $45,622 and $66,894 for 2012 and 2011, respectively.
The Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law in 2010, permanently raised the maximum deposit insurance amount to $250,000. At September 30, 2013, and December 31, 2012 and 2011, time certificates of deposit in denominations of $250,000 or more were approximately $3,257,000, $4,230,000 and $3,209,000, respectively.
Contractual maturities of time certificates of deposit as of September 30, 2013 and December 31, 2012, were as follows:

	September 30, 2013 (Unaudited)	December 31, 2012	2011
Less than one year	$ 9,607,058	$ 11,196,559	$ 10,676,597
One year to two years	477,070	867,382	1,093,418
Two years to three years	182,521	184,867	212,434
Three years to five years	94,345	65,506	187,407
Greater than five years	80,000	—	—
Total time certificates of deposit	$ 10,440,994	$ 12,314,314	$ 12,169,856

7.

- Commitments and Contingencies

Leases
The Bank leases excess office space to a tenant under a noncancelable operating lease, which was renewed in February, 2013. For the nine months ended September 30, 2013 and 2012, rental income under noncancelable leases were $82,575 and $82,531, respectively, compared with $113,756 and $108,121 for the years ended December 31, 2012 and 2011.
At September 30, 2013 and December 31, 2012, future minimum lease payments receivable are as follows:

	September 30, 2013 (Unaudited)	December 31, 2012
2013	$ 20,994	$ 83,972
2014	6,998	6,998
	$ 27,992	$ 90,970

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

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8.

• Federal Home Loan Bank of Boston Stock and Advances

As a member of the FHLBB, the Bank is required to maintain an investment in capital stock of the FHLBB, as collateral, in an amount equal to a percentage of certain loans outstanding and contracts secured by real estate, including mortgage-backed securities, and advances outstanding with the FHLBB. No ready market exists for FHLBB stock and it has no quoted market value. For disclosure purposes, market value equals cost since the Bank can redeem the stock with FHLBB at cost.

Additionally, at September 30, 2013 and December 31, 2012 the Bank has access to a pre-approved secured line of credit with the FHLBB of $450,000 and the ability to borrow up to a certain percentage of the value of the Bank's qualified collateral, as defined in the FHLBB Statement of Products Policy, at the time of the borrowing. In accordance with an agreement with the FHLBB, the qualified collateral must be free and clear of liens, pledges and encumbrances. There were no advances outstanding at September 30, 2013 and December 31, 2012 and 2011.

9.

• Income Taxes

The components of the provision (benefit) for income taxes for the nine months ended September 30, 2013 and 2012, and the years ended December 31, 2012 and 2011 were as follows:

	For the Nine Months Ended September 30,		For the Years Ended December 31,	
	2013	2012	2012	2011
	(Unaudited)			
Current provision	$ —	$ —	$ —	$ 18,299
Deferred provision (benefit)	(374,499)	(288,172)	(601,928)	(737,840)
Total provision (benefit) for taxes before change in valuation allowance	(374,499)	(288,172)	(601,928)	(719,541)
Change in valuation allowance	374,499	288,172	601,928	2,070,312
Total provision for income taxes	$ —	$ —	$ —	$ 1,350,771

A reconciliation of the anticipated income tax provision (computed by applying the statutory federal income tax rate of 34% to income before income taxes) to the amount reported in the statement of operations for the nine months ended September 30, 2013 and 2012, and the years ended December 31, 2012 and 2011 is as follows:

	For the Nine Months Ended September 30,		For the Years Ended December 31,	
	2013	2012	2012	2011
	(Unaudited)			
Benefit for income taxes at statutory federal rate	$ (327,817)	$ (252,354)	$ (592,501)	$ (652,442)
State taxes, net of federal benefit	(47,196)	(36,332)	(73,837)	(95,704)
Valuation allowance on deferred tax assets	374,499	288,172	601,928	2,070,312
Non-deductible expenses	514	514	1,028	1,946

	For the Nine Months Ended September 30,		For the Years Ended December 31,	
Other	—	—	63,382	26,659
Total provision (benefit) for income taxes	$ —	$ —	$ —	$ 1,350,771

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Deferred income taxes reflect the impact of "temporary differences" between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The Bank records a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not, that some or all of the benefit related to the deferred tax assets will not be realized. The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. Management has reviewed the deferred tax position of the Bank at December 31, 2012. The deferred tax position has been affected by several significant transactions in the past three years, including increased provisions for loan losses, and the increasing levels of non-accrual loans.
The Bank has approximately $5,929,000 of federal net operating losses available to be carried forward at December 31, 2012. The ability to use these losses will begin to expire in 2030. The Bank also has approximately $10,729,000 of net operating losses available to be carried forward for State of Connecticut income tax purposes. Under Connecticut tax law, corporations are not allowed to carry net operating losses incurred back to open tax years, but instead must carry the losses forward to apply against future taxable income, for up to 12 years. These losses will begin to expire in 2021. Due to the magnitude of the tax losses, management has concluded that it is not more-likely-than-not that the Bank will be unable to realize its deferred tax assets related to net operating losses. The Bank has established a valuation allowance equal to 100% against these deferred tax assets at September 30, 2013 and December 31, 2012.
At September 30, 2013, December 31, 2012 and 2011, the components of deferred taxes were as follows:

	September 30, 2013	December 31, 2012	December 31, 2011
Deferred tax assets:			
Allowance for loan losses	$ 49,547	$ 177,885	$ 251,759
Deferred loan fees	11,625	19,473	25,228
Net operating loss carryforwards	2,696,044	2,464,815	2,166,140
Nonaccrual interest	285,018	404,312	121,337
Other	17,893	23,921	21,169
Gross deferred tax asset	3,060,127	3,090,406	2,585,633
Valuation allowance	(3,009,061)	(3,026,565)	(2,424,637)
Deferred tax asset, net of valuation allowance	51,066	63,841	160,996
Deferred tax liabilities:			
Premises and equipment	(3,614)	(11,236)	(27,283)
Prepaid expenses	(47,452)	(52,605)	(133,713)
Deferred tax liability	(51,066)	(63,841)	(160,996)
Net deferred taxes	$ —	$ —	$ —

Retained earnings at December 31, 2012 includes a contingency allowance for loan losses of $27,000, which represents the tax allowance balance existing at December 31, 1987, and is maintained in accordance with provisions of the Internal Revenue Code applicable to savings banks. It is not anticipated that the Bank will incur a federal income tax liability related to the reduction of this allowance and accordingly, deferred income taxes of $10,700 has not been recognized as of December 31, 2012.
At September 30, 2013, the Bank is subject to unexpired statutes of limitation for examination of its tax returns for U.S Federal and Connecticut income taxes for the years 2010, 2011 and 2012. An examination of the Bank's 2009 federal income tax return resulted in no changes.

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10.

- 401(k) Profit Sharing Plan

The Bank's employees are eligible to participate in The Wilton Bank, Inc. 401(k) Plan (the "Plan"). The Plan covers substantially all employees who are 21 years of age and have completed one year of service in which the employee worked a minimum of 1,000 hours. Under the terms of the Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Bank may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in Bank contributions after completing six years of service. The Bank contributed $44,282 and $43,518 for the nine months ended September 30, 2013 and 2012, and $58,249 and $62,685 to the Plan during 2012 and 2011, respectively.
11.

- Earnings (Loss) Per Share

The following is information about the computation of earnings (loss) per share for the nine months ended September 30, 2013 and 2012, and the years ended December 31, 2012 and 2011:

	Net Loss	Shares	Per Share Amount
September 30, 2013 (Unaudited)			
Basic loss per share attributable to common shareholders	$ (1,484,821)	372,985	$ (3.98)
Effect of dilutive securities	—	—	—
Diluted loss per share attributable to common shareholders	$ (1,484,821)	372,985	$ (3.98)
September 30, 2012 (Unaudited)			
Basic loss per share attributable to common shareholders	$ (1,136,270)	372,985	$ (3.05)
Effect of dilutive securities	—	—	—
Diluted loss per share attributable to common shareholders	$ (1,136,270)	372,985	$ (3.05)
December 31, 2012			
Basic loss per share attributable to common shareholders	$ (1,741,327)	372,985	$ (4.67)
Effect of dilutive securities	—	—	—
Diluted loss per share attributable to common shareholders	$ (1,741,327)	372,985	$ (4.67)
December 31, 2011			
Basic loss per share attributable to common shareholders	$ (3,269,719)	372,985	$ (8.77)
Effect of dilutive securities	—	—	—
Diluted loss per share attributable to common shareholders	$ (3,269,719)	372,985	$ (8.77)

12.

- Stock Options

The Bank has adopted two stock option plans, the 1995 Director Stock Plan (the “Director Plan”) and the 1995 Employee Stock Option Plan (the “Employee Plan”) under which an aggregate of 110,000 shares of the Bank’s common stock were reserved for issuance upon the exercise of both incentive options and non-qualified options granted under these plans.

Under both plans, the exercise price of each option is the fair value of the Bank’s common stock on the date of the option grant. Options are exercisable for ten years from the date of grant. The Bank recognizes compensation cost relating to option transactions in the financial statements with measurement based upon the fair value of the equity instruments issued. For the nine months ended September 30, 2013 and 2012, and years ended December 31, 2012 and 2011, no awards were granted and no compensation expense was recognized for stock options.

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At September 30, 2013 and December 31, 2012, there were no options available for future grants under the Director Plan or the Employee Plan.
A summary of the status of stock options at September 30, 2013, and December 31, 2012 and 2011, and changes during the periods then ended is as follows:

	September 30, 2013 (Unaudited)		**December 31,**			
			2012		**2011**	
	Number of Shares	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**
Outstanding at beginning of year	200	$ 56.05	200	$ 56.05	400	$ 48.29
Granted	—	—	—	—	—	
Exercised	—	—	—	—	—	
Terminated	—	—	—	—	(200)	40.54
Outstanding and exercisable at end of period	200	56.05	200	56.05	200	56.05

At September 30, 2013 and December 31, 2012 and 2011, the exercise prices on outstanding options ranged from $54.25 to $57.85. The remaining contractual lives for the options outstanding at December 31, 2012 ranged from 1.13 years to 1.53 years, with a weighted-average remaining contractual life of 1.34 years.
13.

- Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. The Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.
In July 2010, the Bank agreed to the issuance of a formal, written Consent Agreement with the FDIC and the State of Connecticut Department of Banking ("DOB"). Under the terms of the Consent Agreement, the Bank is 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. In addition, the Bank must report quarterly to the Board of Directors and to the FDIC and DOB on the Bank's progress in complying with the Consent Agreement. The Consent Agreement also requires the Bank to review, adopt and implement a number of policies and programs related to credit and operational issues. It further provides for certain asset growth restrictions for a limited period of time together with the reduction of the Bank's risk position in certain loans which are classified as substandard, or doubtful, and a restriction on the extension of credit to borrowers whose loans are so criticized. Failure to comply with the Consent Agreement and the minimum capital requirements

specified above may subject the Bank to further regulatory actions.

At December 31, 2012, the Bank was not in compliance with the Consent Agreement’s minimum 12% Tier 1 Capital requirement. However, the Bank was in compliance with the two risk-based capital requirements as described above, as well as other requirements in the Consent Agreement. The Bank has submitted an updated Capital Plan to the FDIC and DOB. The Capital Plan describes actions the Bank will take to return the Tier 1 capital to the minimum required under the Consent Agreement. Subsequent to year end, the Capital Plan was accepted by the Bank’s regulators.

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Restrictions on dividends
While the Consent Agreement is in effect, the Bank may not pay dividends or any other form of payment representing a reduction in capital without the prior written approval of the FDIC and the DOB. In addition to the Consent Agreement, certain other restrictions exist regarding the ability of the 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. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements. The Bank suspended its dividend in March, 2010.
The Bank's actual capital amounts and ratios at September 30, 2013, and December 31, 2012 and 2011 were as follows:

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
September 30, 2013 (Unaudited)						
Total Capital to Risk-Weighted Assets	$ 7,037	18.10%	$ 3,110	8.00%	$ 3,888	10.00%
Tier 1 Capital to Risk-Weighted Assets	6,546	16.84%	1,555	4.00%	2,333	6.00 %
Tier 1 Capital to Average Assets	6,546	9.24 %	2,834	4.00%	3,542	5.00 %
December 31, 2012						
Total Capital to Risk-Weighted Assets	$ 8,583	19.70%	$ 3,486	8.00%	$ 4,357	10.00%
Tier 1 Capital to Risk-Weighted Assets	8,031	18.43%	1,743	4.00%	2,614	6.00 %
Tier 1 Capital to Average Assets	8,031	10.81%	2,970	4.00%	3,713	5.00 %
December 31, 2011						
Total Capital to Risk-Weighted Assets	$ 10,429	20.09%	$ 4,153	8.00%	$ 5,192	10.00%
Tier 1 Capital to Risk-Weighted Assets	9,772	18.82%	2,077	4.00%	3,115	6.00 %
Tier 1 Capital to Average Assets	9,772	12.97%	3,014	4.00%	3,768	5.00 %

14.

- Related Party Transactions

The Bank currently precludes Directors and Officers of the Bank and their affiliates from entering into lending transactions with the Bank except for overdraft protection with a maximum line of credit of $5,000. Amounts outstanding under such lines of credit were $731, $878 and $523 at September 30, 2013, December 31, 2012 and

2011, respectively.
Related party deposits aggregated approximately $2,060,000, $1,788,000 and $1,330,000 at September 30, 2013, December 31, 2012 and 2011, respectively.
The Bank rents storage space on a month-to-month basis from an individual who is a director of the Bank. Expense related to this rental approximated $4,200 for the nine months ended September 30, 2013 and $5,600 the years ended December 31, 2012 and 2011, respectively.
15.

- Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the 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 Bank has in particular classes of financial instruments.
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The contractual amounts of commitments to extend credit represents the amounts of potential accounting loss should: the contract be fully drawn upon; the customer default; and; the value of any existing collateral becomes worthless. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that the Bank controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.
Financial instruments whose contract amounts represent credit risk are as follows at September 30, 2013, and December 31, 2012 and 2011:

	September 30,	December 31,	
	2013	2012	2011
(In thousands)	**(Unaudited)**		
Commitments to extend credit:			
Undisbursed home equity lines of credit	$ 3,381	$ 3,037	$ 3,636
Undisbursed loans secured by real estate	1,982	2,830	3,418
Future loan commitments	481	2,710	377
Undisbursed commercial lines of credit	1,699	1,912	2,718
Overdraft protection lines	565	596	632
	$ 8,108	$ 11,085	$ 10,781

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower.
16.

- Fair Values of Financial Instruments

GAAP requires disclosure of fair value information for financial instruments, whether or not recognized in the statements of financial condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. Certain financial instruments are excluded from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.
The information presented should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only required for a limited portion of the Bank's assets. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Bank's disclosures and those of other banks may not be meaningful.

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As of September 30, 2013, and December 31, 2012 and 2011, the carrying amounts and fair values of the Bank's financial instruments were:

	September 30, 2013 (Unaudited)		**December 31, 2012**		**2011**	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**	**Carrying Amounts**	**Fair Value**
Financial assets:						
Cash and due from banks	$29,286,177	$29,286,177	$28,374,762	$28,374,762	$21,482,956	$21,482,956
Certificates of deposit	3,500,000	3,500,000	5,750,000	5,750,000	4,000,000	4,000,000
Held-to-maturity securities	1,023,934	1,021,410	1,032,219	1,029,380	2,499,457	2,511,560
Loans receivable, net	28,938,703	28,736,906	32,495,420	32,554,000	39,960,305	39,299,000
FHLBB stock	257,600	257,600	391,500	391,500	530,800	530,800
Accrued interest receivable	79,133	79,133	107,858	107,858	119,088	119,088
Financial liabilities:						
Demand deposits	13,421,916	13,421,916	14,085,959	14,085,959	15,533,054	15,533,054
NOW, money market and savings deposits	38,831,079	38,831,079	41,480,905	41,480,905	38,744,647	38,744,647
Time deposits	10,440,994	10,447,220	12,314,314	12,324,000	12,169,856	12,191,000
Accrued interest payable	23,740	23,740	39,935	39,935	42,815	42,815

17.

- Fair Value Measurements

The Bank uses fair value measurements to record certain assets at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value is best determined using quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.
Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there had been a significant decrease in the volume and level of activity for the asset or liability, a change in the valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

The Bank’s fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three categories within the hierarchy are as follows:
Level 1 —

- Quoted prices in active markets for identical assets or liabilities.

Level 2 —

- Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; and model-based valuation techniques for which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 —

- Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes. The fair values disclosed do not reflect any premium or discount that could result from the sale of a large volume of a particular financial instrument, nor do they reflect the possible tax ramifications or estimated transaction costs.
At September 30, 2013, December 31, 2012 and 2011, the Bank had no financial instruments measured at fair value on a recurring basis.
The Bank uses fair value measurements to record certain financial instruments at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically involve the application of lower-of-cost-or-market value accounting or write-downs of individual assets.
Impaired loans and foreclosed real estate are carried at fair value on a nonrecurring basis. Collateral dependent loans and foreclosed real estate are considered Level 3, as the fair value is based on an appraisal and the adjustments to comparable sales made by the appraiser are unobservable. Non-collateral dependent loans are measured using a discounted cash flow technique and are also considered Level 3, as the inputs are the Bank's own assumptions.
At September 30, 2013, and December 31, 2012 and 2011, financial instruments measured at fair value on a nonrecurring basis were as follows:

	Carrying Value			
	Level 1	**Level 2**	**Level 3**	**Total**
September 30, 2013 (Unaudited)				
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 7,679,706	$ 7,679,706
Foreclosed real estate	—	—	1,894,779	1,894,779
December 31, 2012				
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 8,688,307	$ 8,688,307
Foreclosed real estate	—	—	3,269,863	3,269,863
December 31, 2011				
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 13,549,406	$ 13,549,406
Foreclosed real estate	—	—	2,868,547	2,868,547

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The following table presents the valuation methodology and unobservable inputs for Level 3 financial instruments measured at fair value on a nonrecurring basis as of September 30, 2013 and December 31, 2012:

	Fair Value	Valuation Methodology	Unobservable Input	Range (Weighted Average)
September 30, 2013 (Unaudited)				
Impaired loans	$ 7,680,000	Appraisals	Discount for dated appraisals and selling costs	6.75% – 23.75%
Foreclosed real estate	$ 1,894,779	Appraisals	Discount for dated appraisals and selling costs	7.30% – 10.00%
December 31, 2012				
Impaired loans	$ 8,688,307	Appraisals	Discount for dated appraisals and selling costs	6.75% – 40.00%
Foreclosed real estate	$ 3,269,863	Appraisals	Discount for dated appraisals and selling costs	7.30% – 10.00%

18.

- Subsequent Event

At September 30, 2013, the Bank had entered into a definitive merger agreement (the “Agreement”) with Bankwell Financial Group, Inc., (“BFG”), under which BFG will acquire the Bank. On September 30, 2013 the shareholders of the Bank approved the Agreement. The acquisition by BFG closed on November 5, 2013, whereby BFG acquired all outstanding common shares of the Bank for a price of $13.50 per share.

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2,702,703 Shares

Common Stock

PROSPECTUS
May 15, 2014

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

Through and including June 9, 2014 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.