

Bankwell Financial Group, Inc.
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended **September 30, 2015**

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

Commission File Number: **001-36448**

Bankwell Financial Group, Inc.

(Exact Name of Registrant as specified in its Charter)

Connecticut **20-8251355**
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

220 Elm Street

New Canaan, Connecticut 06840

(203) 652-0166

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of October 31, 2015, there were 7,301,785 shares of the registrant's common stock outstanding.

Bankwell Financial Group, Inc.

Form 10-Q

Table of Contents

PART I – FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	3
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014</u>	5
<u>Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2015 and 2014</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	68
<u>Item 4. Controls and Procedures</u>	68

PART II – OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	69
<u>Item 1A. Risk Factors</u>	69
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	69
<u>Item 3. Defaults Upon Senior Securities</u>	69
<u>Item 4. Mine Safety Disclosures</u>	69
<u>Item 5. Other Information</u>	69
<u>Item 6. Exhibits</u>	69

<u>Signatures</u>	70
--------------------------	----

Certifications	71
-----------------------	----

PART 1 – FINANCIAL INFORMATION**Item 1. Financial Statements****Bankwell Financial Group, Inc.****Consolidated Balance Sheets - (unaudited)***(Dollars in thousands, except share data)*

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$86,830	\$48,559
Held to maturity investment securities, at amortized cost	11,282	11,454
Available for sale investment securities, at fair value	45,023	65,009
Loans held for sale	252	586
Loans receivable (net of allowance for loan losses of \$13,720 at September 30, 2015 and \$10,860 at December 31, 2014)	1,108,439	915,981
Foreclosed real estate	1,328	950
Accrued interest receivable	3,831	3,323
Federal Home Loan Bank stock, at cost	6,918	6,109
Premises and equipment, net	11,505	11,910
Bank-owned life insurance	23,578	23,028
Goodwill	2,589	2,589
Other intangible assets	694	848
Deferred income taxes, net	8,604	7,156
Other assets	2,472	2,029
Total assets	\$1,313,345	\$1,099,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	\$148,732	\$166,030
Interest bearing deposits	876,957	669,409
Total deposits	1,025,689	835,439
Advances from the Federal Home Loan Bank	120,000	129,000
Subordinated debentures	25,037	-
Accrued expenses and other liabilities	6,831	5,882
Total liabilities	1,177,557	970,321
Commitments and Contingencies	-	-

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Shareholders' equity		
Preferred stock, senior noncumulative perpetual, Series C, no par; 10,980 shares issued at September 30, 2015 and December 31, 2014, respectively; liquidation value of \$1,000 per share	10,980	10,980
Common stock, no par value; 10,000,000 shares authorized, 7,252,429 and 7,185,482 shares issued at September 30, 2015 and December 31, 2014, respectively	108,319	107,265
Retained earnings	16,764	10,434
Accumulated other comprehensive (loss) income	(275)	531
Total shareholders' equity	135,788	129,210
Total liabilities and shareholders' equity	\$1,313,345	\$1,099,531

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.**Consolidated Statements of Income – (unaudited)***(Dollars in thousands, except per share amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income				
Interest and fees on loans	\$12,662	\$8,054	\$35,315	\$23,040
Interest and dividends on securities	491	569	1,469	1,417
Interest on cash and cash equivalents	33	45	62	116
Total interest income	13,186	8,668	36,846	24,573
Interest expense				
Interest expense on deposits	1,637	905	3,905	2,257
Interest on borrowings	632	168	1,389	427
Total interest expense	2,269	1,073	5,294	2,684
Net interest income	10,917	7,595	31,552	21,889
Provision for loan losses	1,489	566	2,876	847
Net interest income after provision for loan losses	9,428	7,029	28,676	21,042
Noninterest income				
Gains and fees from sales of loans	447	366	885	1,008
Service charges and fees	234	153	675	420
Bank owned life insurance	182	135	549	305
Other	348	103	535	475
Total noninterest income	1,211	757	2,644	2,208
Noninterest expense				
Salaries and employee benefits	3,798	2,786	11,817	9,412
Occupancy and equipment	1,370	1,066	4,029	3,162
Data processing	416	314	1,157	949
Professional services	339	394	1,033	1,035
Marketing	288	135	707	463
FDIC insurance	166	120	487	345
Director fees	136	177	424	460
Foreclosed real estate	81	9	73	21
Amortization of intangibles	51	27	153	80
Merger and acquisition related expenses	-	145	-	408
Other	513	357	1,610	1,134

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Total noninterest expense	7,158	5,530	21,490	17,469
Income before income tax expense	3,481	2,256	9,830	5,781
Income tax expense	1,228	765	3,418	1,940
Net income	\$2,253	\$1,491	\$6,412	\$3,841
Net income attributable to common shareholders	\$2,226	\$1,464	\$6,330	\$3,759
Earnings Per Common Share:				
Basic	\$0.31	\$0.22	\$0.88	\$0.72
Diluted	\$0.31	0.22	\$0.87	0.72
Weighted Average Common Shares Outstanding:				
Basic	7,044,586	6,483,210	7,038,517	5,099,325
Diluted	7,059,117	6,501,984	7,057,450	5,124,261

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.**Consolidated Statements of Comprehensive Income – (unaudited)***(In thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$ 2,253	\$ 1,491	\$ 6,412	\$ 3,841
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on available for sale securities	190	(253)	(262)	180
Reclassification adjustment for (gain) loss realized in net income	-	-	-	-
Net change in unrealized gain (loss)	190	(253)	(262)	180
Income tax (expense) benefit	(74)	99	102	(70)
Unrealized gains (losses) on securities, net of tax	116	(154)	(160)	110
Unrealized (losses) gains on interest rate swaps:				
Unrealized (losses) gains on interest rate swaps designated as cash flow hedge	(826)	218	(1,058)	111
Income tax benefit (expense)	322	(85)	412	(43)
Unrealized (losses) gains on interest rate swap, net of tax	(504)	133	(646)	68
Total other comprehensive (loss) income	(388)	(21)	(806)	178
Comprehensive income	\$ 1,865	\$ 1,470	\$ 5,606	\$ 4,019

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.**Consolidated Statements of Shareholders' Equity – (unaudited)***(In thousands, except share data)*

	Number of Outstanding Shares	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	7,185,482	\$ 10,980	\$107,265	\$ 10,434	\$ 531	\$129,210
Net income	-	-	-	6,412	-	6,412
Other comprehensive loss, net of tax	-	-	-	-	(806)	(806)
Preferred stock cash dividends	-	-	-	(82)	-	(82)
Stock-based compensation expense	-	-	796	-	-	796
Forfeitures of restricted stock	(2,623)	-	-	-	-	-
Issuance of restricted stock	51,800	-	-	-	-	-
Stock options exercised	17,770	-	258	-	-	258
Balance at September 30, 2015	7,252,429	\$ 10,980	\$108,319	\$ 16,764	\$ (275)	\$135,788

	Number of Outstanding Shares	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	3,876,393	\$ 10,980	\$52,105	\$ 5,976	\$ 424	\$69,485
Net income	-	-	-	3,841	-	3,841
Other comprehensive income, net of tax	-	-	-	-	178	178
Preferred stock cash dividends	-	-	-	(82)	-	(82)
Stock-based compensation expense	-	-	164	-	-	164
Forfeitures of restricted stock	(49,916)	-	-	-	-	-
Issuance of restricted stock	10,510	-	-	-	-	-
Stock options exercised	20,305	-	207	-	-	207
Issuance of 2,702,703 shares, net of expenses	2,702,703	-	44,704	-	-	44,704
Balance at September 30, 2014	6,559,995	\$ 10,980	\$97,180	\$ 9,735	\$ 602	\$118,497

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.**Consolidated Statements of Cash Flows – (unaudited)***(In thousands)*

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$6,412	\$3,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	89	82
Provision for loan losses	2,876	847
Provision for deferred taxes	(1,074)	(213)
Depreciation and amortization	1,256	835
Increase in cash surrender value of bank-owned life insurance	(549)	(305)
Loan principal sold	(13,082)	(22,465)
Proceeds from sales of loans	14,301	23,572
Net gain on sales of loans	(885)	(1,008)
Equity-based compensation	796	164
Net accretion of purchase accounting adjustments	(104)	(352)
Loss on sale and write-downs of foreclosed real estate	104	-
Net change in:		
Deferred loan fees	612	583
Accrued interest receivable	(508)	(311)
Other assets	(1,054)	(3,524)
Accrued expenses and other liabilities	949	167
Net cash provided by operating activities	10,139	1,913
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	1,612	3,307
Proceeds from principal repayments on held to maturity securities	165	2,308
Net proceeds from sales and calls of available for sale securities	18,030	1,620
Purchases of available for sale securities	-	(43,763)
Purchase of bank-owned life insurance	-	(12,500)
Net increase in loans	(196,984)	(109,323)
Purchases of premises and equipment	(851)	(1,562)
Purchase of Federal Home Loan Bank stock	(809)	-
Proceeds from sale of foreclosed real estate	400	-
Net cash used by investing activities	(178,437)	(159,913)

See accompanying notes to consolidated financial statements (unaudited)

Consolidated Statements of Cash Flows- (Continued)*(In thousands)*

	Nine Months Ended September 30,	
	2015	2014
Cash flows from financing activities		
Net change in time certificates of deposit	\$ 119,805	\$ 38,569
Net change in other deposits	70,551	(4,845)
Increase in subordinated debt	25,037	-
Net change in FHLB advances	(9,000)	33,000
Proceeds from issuance of common stock	-	44,704
Proceeds from exercise of options	258	207
Dividends paid on preferred stock	(82)	(82)
Net cash provided by financing activities	206,569	111,553
Net increase (decrease) in cash and cash equivalents	38,271	(46,447)
Cash and cash equivalents:		
Beginning of year	48,559	82,013
End of period	\$ 86,830	\$ 35,566
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	\$ 4,825	\$ 2,742
Income taxes	5,076	450
Noncash investing and financing activities		
Loans transferred to foreclosed real estate	\$ 883	\$-

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Bankwell Financial Group, Inc. (the “Company” or “Bankwell”) is a bank holding company headquartered in New Canaan, Connecticut. The Company offers a broad range of financial services through its banking subsidiary, Bankwell Bank (the “Bank”). The Bank was originally chartered as two separate banks, The Bank of New Canaan (“BNC”) and The Bank of Fairfield (“TBF”). In September 2013, BNC and TBF were merged and rebranded as “Bankwell Bank.” In November 2013, the Bank acquired The Wilton Bank (“Wilton”), which added one branch and approximately \$25.1 million in loans and \$64.2 million in deposits. In October 2014, the Bank acquired Quinnipiac Bank and Trust Company (“Quinnipiac”) which added two branches and approximately \$97.8 million in loans and \$100.6 million in deposits.

The Bank is a Connecticut state chartered 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 and New Haven County regions of Connecticut, with branch locations in New Canaan, Stamford, Fairfield, Wilton, Norwalk, Hamden and North Haven, Connecticut.

Principles of consolidation

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

Use of estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. 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 the fair value of acquired assets, the allowance for loan losses, stock-based compensation and derivative instrument valuation.

Basis of consolidated financial statement presentation

The unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and Rule 10-1 of Regulation S-X and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying unaudited interim consolidated financial statements have been included. Interim results are not necessarily reflective of the results that may be expected for the year ending December 31, 2015. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on Form 10-K for the year ended December 31, 2014.

Significant concentrations of credit risk

Most of the Company's activities are with customers located within Fairfield and New Haven Counties 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 loans. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Reclassification

Certain prior period amounts have been reclassified to conform to the 2015 financial statement presentation. These reclassifications only changed the reporting categories and did not affect the results of operations or consolidated financial position.

Recent accounting pronouncements

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

ASU No. 2014-01 - Investments - Equity Method and Joint Ventures (Topic 323) - "Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The ASU permits an entity to make an accounting policy election to account for its investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportionate amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The decision to apply the proportionate amortization method of accounting should be applied consistently to all qualifying affordable housing project investments. A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The amendments were effective for the Company as of January 1, 2015. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) 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 agreement. In addition, the amendments require disclosure of both the amount of foreclosed residential real estate property held by

the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. The amendments were effective for the Company as of January 1, 2015. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606). The ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, to clarify and converge revenue recognition principles under US GAAP and IFRS. The update outlines five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; (v) recognize revenue when each performance obligation is satisfied. The update requires more comprehensive disclosures, relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue, and cash flows arising from contracts with customers, which will mainly impact construction and high-tech industries. The most significant potential impact to banking entities relates to less prescriptive derecognition requirements on the sale of OREO property. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Accordingly, the amendments are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. An entity may elect either a full retrospective or a modified retrospective application. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-12, Compensation-Stock Compensation (Topic 718) - "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)." The ASU provides explicit guidance to account for a performance target that could be achieved after the requisite service period as a performance condition. For awards within the scope of this Update, the Task Force decided that an entity should apply existing guidance in Topic 718 as it relates to share-based payments with performance conditions that affect vesting. Consistent with that guidance, performance conditions that affect vesting should not be reflected in estimating the fair value of an award at the grant date. Compensation cost should be recognized when it is probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual and interim periods beginning after December 15, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU has been issued to reduce diversity in practice in the classification of foreclosed residential mortgage loans held by creditors that are fully guaranteed under certain government programs, including

the Federal Housing Administration guarantees. A residential mortgage loan would be derecognized and a separate other receivable would be recognized upon foreclosure if the loan has both of the following characteristics: (i) the loan has a government guarantee that is not separable from the loan before foreclosure entitling the creditor to the full unpaid principal balance of the loan; and (ii) at the time of foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover the full unpaid principal balance of the loan through the guarantee. Notably, upon foreclosure, the separate other receivable would be measured based on the current amount of the loan balance expected to be recovered under the guarantee. The amendments were effective for the Company as of January 1, 2015. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

ASU No. 2014-17, Business Combinations (Topic 805) – "Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)." Current generally accepted accounting principles (GAAP) offer limited guidance for determining whether and at what threshold an acquirer (acquired entity) can reflect the acquirer's accounting and reporting basis (pushdown accounting) in its separate financial statements. The objective of this ASU is to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. The amendments in this Update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments in this ASU were effective for the Company on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20) – "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. Under this ASU, separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. The existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The new guidance also requires similar separate presentation of items that are both unusual and infrequent. The standard is effective for both public and private companies for periods beginning after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application. If adopted prospectively, both the nature and amount of any subsequent adjustments to previously reported extraordinary items must be disclosed. The Company does not expect the application of this guidance will have a material impact on the Company's financial statements.

ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Account Standards Codification (ASC) and improves current GAAP by: 1) placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; 2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE); and 3) changing consolidation conclusions for public and private companies in several industries that typically make use of

limited partnerships or VIEs. The amendments are effective for annual and interim periods beginning after December 15, 2015. An entity can elect to adopt the amendments using either a full retrospective method or a modified retrospective method. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-20) – “Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Company elected to early adopt the provisions of ASU 2015-03 upon issuance of its subordinated debentures on August 19, 2015 and record \$0.5 million of debt issuance costs incurred as a direct deduction from the debt liability.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

ASU No. 2015-16, Business Combinations (Topic 805) – “Simplifying the Accounting for Measurement-Period Adjustments.” This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****2.****Investment Securities**

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities at September 30, 2015 were as follows:

	September 30, 2015			
	Amortized	Gross	Unrealized	Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due in less than one year	\$499	\$2	\$-	\$501
Due from one through five years	5,199	4	(4)	5,199
Due from five through ten years	1,729	18	(11)	1,736
Due after ten years	798	1	(13)	786
	8,225	25	(28)	8,222
State agency and municipal obligations				
Due from one through five years	521	42	-	563
Due from five through ten years	9,501	321	(330)	9,492
Due after ten years	7,046	381	(21)	7,406
	17,068	744	(351)	17,461
Corporate bonds				
Due in less than one year	2,999	1	-	3,000
Due from one through five years	8,210	256	-	8,466
Due from five through ten years	3,069	33	-	3,102
	14,278	290	-	14,568
Government-sponsored mortgage backed securities				
Due from one through five years	77	-	-	77
Due after ten years	4,581	120	(6)	4,695
	4,658	120	(6)	4,772
Total available for sale securities	\$44,229	\$1,179	\$(385)	\$45,023
Held to maturity securities:				
U.S. Government and agency obligations				

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Due in less than one year	\$1,002	\$-	\$-	\$1,002
State agency and municipal obligations				
Due after ten years	9,064	-	-	9,064
Corporate bonds				
Due from five through ten years	1,000	-	(5)	995
Government-sponsored mortgage backed securities				
Due after ten years	216	24	-	240
Total held to maturity securities	\$11,282	\$24	\$(5)	\$11,301

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities at December 31, 2014 were as follows:

	December 31, 2014			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due in less than one year	\$497	\$ 9	\$ -	\$506
Due from one through five years	3,998	-	(69)	3,929
Due from five through ten years	17,055	27	(79)	17,003
Due after ten years	3,004	4	(28)	2,980
	24,554	40	(176)	24,418
State agency and municipal obligations				
Due from five through ten years	9,297	295	(48)	9,544
Due after ten years	8,500	544	(4)	9,040
	17,797	839	(52)	18,584
Corporate bonds				
Due in less than one year	5,764	44	(6)	5,802
Due from one through five years	4,150	268	-	4,418
Due from five through ten years	6,121	8	(24)	6,105
	16,035	320	(30)	16,325
Government-sponsored mortgage backed securities				
Due from one through five years	99	1	-	100
Due after ten years	5,468	131	(17)	5,582
	5,567	132	(17)	5,682
Total available for sale securities	\$63,953	\$ 1,331	\$ (275)	\$65,009
Held to maturity securities:				
U.S. Government and agency obligations				
Due in less than one year	\$1,010	\$ -	\$ -	\$1,010
State agency and municipal obligations				
Due after ten years	9,179	-	-	9,179

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Corporate bonds				
Due from five through ten years	1,000	-	(15)	985
Government-sponsored mortgage backed securities				
Due after ten years	265	31	-	296
Total held to maturity securities	\$11,454	\$ 31	\$(15)	\$11,470

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

There were no sales of, or realized gains or losses on investment securities during the three and nine months ended September 30, 2015 and 2014.

At September 30, 2015 and December 31, 2014, securities with approximate fair values of \$6.0 million and \$5.9 million were pledged as collateral for public deposits, respectively.

The following table provides information regarding investment securities with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at September 30, 2015 and December 31, 2014:

	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)					
September 30, 2015						
U.S. Government and agency obligations	\$ 1,296	\$ (3)	\$ 2,374	\$ (25)	\$3,670	\$ (28)
State agency and municipal obligations	1,439	(350)	-	-	1,439	(350)
Corporate bonds	-	-	995	(5)	995	(5)
Government-sponsored mortgage backed securities	458	(4)	246	(3)	704	(7)
Total investment securities	\$ 3,193	\$ (357)	\$ 3,615	\$ (33)	\$6,808	\$ (390)
December 31, 2014						
U.S. Government and agency obligations	\$ 4,515	\$ (56)	\$ 5,878	\$ (120)	\$10,393	\$ (176)
State agency and municipal obligations	1,771	(52)	-	-	1,771	(52)
Corporate bonds	6,783	(40)	995	(5)	7,778	(45)
Government-sponsored mortgage backed securities	1,406	(17)	-	-	1,406	(17)
Total investment securities	\$ 14,475	\$ (165)	\$ 6,873	\$ (125)	\$21,348	\$ (290)

There were 22 and 42 investment securities as of September 30, 2015 and December 31 2014, respectively, in which the fair value of the security was less than the amortized cost of the security.

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or are issued by one of the shareholder-owned corporations chartered by the U.S. Government and therefore the contractual cash flows are guaranteed and as a result the unrealized losses in this portfolio are not considered other than temporarily impaired.

The Company continually monitors its municipal bond and corporate bond portfolios and at this time these portfolios have minimal default risk because corporate and municipal bonds are all rated above investment grade except for one municipal bond with a face value of \$1.0 million that is rated two notches below investment grade. The Company has determined that all unrealized losses on all securities that are investment grade are not other than temporarily impaired. The Company has determined that the unrealized loss on the municipal bond that is below investment grade is not other than temporarily impaired because payments are backed by a senior lien position on cash receipts from sales tax revenue with a strong debt service coverage of over 5.0x. As such, there is no concern in terms of whether there will be enough sales tax revenue in the future to continue to receive all principal and interest payments.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

Government-sponsored mortgage backed securities are fully guaranteed by U.S. Government agencies and as a result the unrealized losses in this portfolio are not considered other than temporarily impaired.

3. Loans Receivable and Allowance for Loan Losses

Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 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 September 30, 2015 and December 31, 2014:

(In thousands)	September 30, 2015			December 31, 2014		
	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	\$168,830	\$2,932	\$171,762	\$169,833	\$5,198	\$175,031
Commercial	632,410	51,673	684,083	458,506	62,675	521,181
Construction	83,986	1,007	84,993	62,258	971	63,229
Home equity	8,915	7,365	16,280	10,226	7,940	18,166
	894,141	62,977	957,118	700,823	76,784	777,607
Commercial business	138,621	28,021	166,642	120,360	28,899	149,259
Consumer	30	1,909	1,939	243	2,653	2,896
Total loans	1,032,792	92,907	1,125,699	821,426	108,336	929,762
Allowance for loan losses	(13,675)	(45)	(13,720)	(10,860)	-	(10,860)
Deferred loan origination fees, net	(3,549)	-	(3,549)	(2,937)	-	(2,937)
Unamortized loan premiums	9	-	9	16	-	16
Loans receivable, net	\$1,015,577	\$92,862	\$1,108,439	\$807,645	\$108,336	\$915,981

Lending activities are conducted principally in the Fairfield and New Haven county regions 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 typically collateralized by first or second mortgages on real estate.

Certain acquired loans were determined to have evidence of credit deterioration at the acquisition date. Such loans are accounted for in accordance with ASC 310-30.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following tables summarize activity in the accretable yields for the acquired loan portfolio that falls under the purview of ASC 310-30:

(In thousands)	Three Months Ended September 30,	
	2015	2014
Balance at beginning of period	\$ 1,134	\$ 817
Acquisition	-	-
Accretion	(21)	(81)
Other (a)	(145)	-
Balance at end of period	\$ 968	\$ 736

a) Represents changes in cash flows expected to be collected due to loan sales or payoffs.

(In thousands)	Nine Months Ended September 30,	
	2015	2014
Balance at beginning of period	\$ 1,382	\$ 1,418
Acquisition	-	-
Accretion	(137)	(338)
Other (a)	(277)	(344)
Balance at end of period	\$ 968	\$ 736

a) Represents changes in cash flows expected to be collected due to loan sales or 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, depending on the borrowers' creditworthiness and the type of collateral. The market value of collateral is monitored on an ongoing basis. Real estate is the primary form of collateral. Other important forms of collateral are business assets, 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 residential lending allows that, generally, the amount of the loan may not exceed 80% of the original appraised value of the property. In certain situations, the amount may be up to 90-95% LTV either with private mortgage insurance being required for that

portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community's low/moderate income housing program, a religious or civic organization. Private mortgage insurance is required for that portion of the residential first mortgage 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.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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: 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 combined maximum of 80% of the appraised value of the property and the Company requires a first or second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

Commercial Business: 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: This portfolio segment includes loans secured by savings 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.

An unallocated component is maintained, when needed, 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 allocated and general reserves in the portfolio. The unallocated allowance is used to provide for an unidentified loss that may exist in emerging problem loans that cannot be fully quantified or may be affected by conditions not fully understood as of the balance sheet date.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****Allowance for loan losses**

The following tables set forth the activity in the Company's allowance for loan losses for the three and nine months ended September 30, 2015 and 2014, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Three Months Ended September 30, 2015								
Originated								
Beginning balance	\$ 1,454	\$ 6,832	\$ 1,138	\$ 169	\$ 2,618	\$ 9	\$ -	\$ 12,220
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	(40)	722	399	11	369	(7)	-	1,454
Ending balance	\$ 1,414	\$ 7,554	\$ 1,537	\$ 180	\$ 2,987	\$ 3	\$ -	\$ 13,675
Acquired								
Beginning balance	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ 10
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	-	10	-	-	20	5	-	35
Ending balance	\$ -	\$ 10	\$ -	\$ -	\$ 30	\$ 5	\$ -	\$ 35
Total								
Beginning balance	\$ 1,454	\$ 6,832	\$ 1,138	\$ 169	\$ 2,628	\$ 9	\$ -	\$ 12,230
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	(40)	732	399	11	389	(2)	-	1,489
Ending balance	\$ 1,414	\$ 7,564	\$ 1,537	\$ 180	\$ 3,017	\$ 8	\$ -	\$ 13,720

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Three Months Ended September 30, 2014								
Originated								
Beginning balance	\$ 1,392	\$ 4,024	\$ 776	\$188	\$ 2,291	\$ 6	\$ 307	\$8,984
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	19	637	115	3	100	-	(307)	567
Ending balance	\$ 1,411	\$ 4,661	\$ 891	\$191	\$ 2,391	\$ 7	\$ -	\$9,552
Acquired								
Beginning balance	\$ -	\$ -	\$ -	\$-	\$ 1	\$ -	\$ -	\$1
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	(1)	-	-	(1)
Ending balance	\$ -	\$ -	\$ -	\$-	\$ -	\$ -	\$ -	\$-
Total								
Beginning balance	\$ 1,392	\$ 4,024	\$ 776	\$188	\$ 2,292	\$ 6	\$ 307	\$8,985
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	19	637	115	3	99	-	(307)	566
Ending balance	\$ 1,411	\$ 4,661	\$ 891	\$191	\$ 2,391	\$ 7	\$ -	\$9,552

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Nine Months Ended September 30, 2015								
Originated								
Beginning balance	\$ 1,431	\$ 5,480	\$ 1,102	\$ 205	\$ 2,638	\$ 4	\$ -	\$10,860
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	(17)	2,074	435	(25)	349	(2)	-	2,814
Ending balance	\$ 1,414	\$ 7,554	\$ 1,537	\$180	\$ 2,987	\$ 3	\$ -	\$13,675
Acquired								
Beginning balance	\$ -	\$ -	\$ -	\$-	\$ -	\$ -	\$ -	\$-
Charge-offs	-	-	-	-	(15)	(6)	-	(21)
Recoveries	-	-	-	-	-	4	-	4
Provisions	-	10	-	-	45	7	-	62
Ending balance	\$ -	\$ 10	\$ -	\$-	\$ 30	\$ 5	\$ -	\$45
Total								
Beginning balance	\$ 1,431	\$ 5,480	\$ 1,102	\$205	\$ 2,638	\$ 4	\$ -	\$10,860
Charge-offs	-	-	-	-	(15)	(6)	-	(21)
Recoveries	-	-	-	-	-	5	-	5
Provisions	(17)	2,084	435	(25)	394	5	-	2,876
Ending balance	\$ 1,414	\$ 7,564	\$ 1,537	\$180	\$ 3,017	\$ 8	\$ -	\$13,720

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Nine Months Ended September 30, 2014								
Originated								
Beginning balance	\$ 1,310	\$ 3,616	\$ 1,032	\$ 190	\$ 2,225	\$ 9	\$ -	\$ 8,382
Charge-offs	-	-	-	-	-	(1)	-	(1)
Recoveries	-	-	-	-	-	424	-	424
Provisions	101	1,045	(141)	1	166	(425)	-	747
Ending balance	\$ 1,411	\$ 4,661	\$ 891	\$ 191	\$ 2,391	\$ 7	\$ -	\$ 9,552
Acquired								
Beginning balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charge-offs	-	-	(100)	-	-	-	-	(100)
Recoveries	-	-	-	-	-	-	-	-
Provisions	-	-	100	-	-	-	-	100
Ending balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total								
Beginning balance	\$ 1,310	\$ 3,616	\$ 1,032	\$ 190	\$ 2,225	\$ 9	\$ -	\$ 8,382
Charge-offs	-	-	(100)	-	-	(1)	-	(101)
Recoveries	-	-	-	-	-	424	-	424
Provisions	101	1,045	(41)	1	166	(425)	-	847
Ending balance	\$ 1,411	\$ 4,661	\$ 891	\$ 191	\$ 2,391	\$ 7	\$ -	\$ 9,552

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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following tables are a summary, by portfolio segment and impairment methodology, of the allowance for loan losses and related portfolio balances at September 30, 2015 and December 31, 2014:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
September 30, 2015						
Loans individually evaluated for impairment:						
Residential real estate	\$864	\$ 2	\$-	\$ -	\$864	\$ 2
Commercial real estate	4,743	22	633	10	5,376	32
Home equity	426	7	198	-	624	7
Commercial business	1,603	8	1,108	24	2,711	32
Consumer	-	-	5	5	5	5
Subtotal	7,636	39	1,944	39	9,580	78
Loans collectively evaluated for impairment:						
Residential real estate	167,966	1,412	2,932	-	170,898	1,412
Commercial real estate	627,667	7,532	51,040	-	678,707	7,532
Construction	83,986	1,537	1,007	-	84,993	1,537
Home equity	8,489	173	7,167	-	15,656	173
Commercial business	137,018	2,979	26,913	6	163,931	2,985
Consumer	30	3	1,904	-	1,934	3
Subtotal	1,025,156	13,636	90,963	6	1,116,119	13,642
Total	\$1,032,792	\$ 13,675	\$92,907	\$ 45	\$1,125,699	\$ 13,720

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
December 31, 2014						
Loans individually evaluated for impairment:						
Residential real estate	\$864	\$ -	\$-	\$ -	\$864	\$ -
Commercial real estate	4,996	23	-	-	4,996	23
Home equity	91	-	-	-	91	-
Commercial business	1,701	10	629	-	2,330	10
Subtotal	7,652	33	629	-	8,281	33
Loans collectively evaluated for impairment:						
Residential real estate	168,969	1,431	5,198	-	174,167	1,431
Commercial real estate	453,510	5,457	62,675	-	516,185	5,457
Construction	62,258	1,102	971	-	63,229	1,102
Home equity	10,135	205	7,940	-	18,075	205
Commercial business	118,659	2,628	28,270	-	146,929	2,628
Consumer	243	4	2,653	-	2,896	4
Subtotal	813,774	10,827	107,707	-	921,481	10,827
Total	\$821,426	\$ 10,860	\$108,336	\$ -	\$929,762	\$ 10,860

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.

Loans that are considered to be impaired are analyzed to determine whether a loss is possible and if so, a calculation is performed to determine the possible loss amount. If it is determined that the loss amount is \$0, no reserve is held

against the asset. If a loss is calculated, then a specific reserve for that asset is determined.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at September 30, 2015 and December 31, 2014:

	Commercial Credit Quality Indicators					
	At September 30, 2015			At December 31, 2014		
	Commercial		Commercial	Commercial		Commercial
	Real Estate	Construction	Business	Real Estate	Construction	Business
	(In thousands)					
Originated loans:						
Pass	\$627,140	\$ 83,986	\$137,018	\$452,974	\$ 62,258	\$ 115,323
Special mention	2,050	-	1,026	2,096	-	5,037
Substandard	3,220	-	577	3,436	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	632,410	83,986	138,621	458,506	62,258	120,360
Acquired loans:						
Pass	49,903	233	26,744	61,017	136	27,074
Special mention	-	-	550	-	-	659
Substandard	1,770	774	727	1,658	835	1,166
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	51,673	1,007	28,021	62,675	971	28,899
Total	\$684,083	\$ 84,993	\$166,642	\$521,181	\$ 63,229	\$ 149,259

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Residential and Consumer Credit Quality Indicators					
	At September 30, 2015			At December 31, 2014		
	Residential Home			Residential Home		
	Real Estate	Equity	Consumer	Real Estate	Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	\$167,966	\$8,489	\$30	\$168,969	\$10,135	\$ 243
Special mention	864	83	-	864	91	-
Substandard	-	343	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	168,830	8,915	30	169,833	10,226	243
Acquired loans:						
Pass	2,823	6,983	1,823	5,022	7,925	2,653
Special mention	109	-	-	-	-	-
Substandard	-	382	86	176	15	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	2,932	7,365	1,909	5,198	7,940	2,653
Total	\$171,762	\$16,280	\$1,939	\$175,031	\$18,166	\$ 2,896

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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 generally 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. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015					Carrying Amount > 90 Days and Accruing
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	
	(In thousands)					
Originated Loans						
Real estate loans:						
Residential real estate	\$833	\$ 969	\$-	\$ 1,802	\$167,028	\$ -
Commercial real estate	313	1,565	970	2,848	629,562	-
Construction	1,750	-	-	1,750	82,236	-
Home equity	-	-	198	198	8,717	-
Commercial business	105	-	225	330	138,291	-
Consumer	-	-	-	-	30	-
Total originated loans	3,001	2,534	1,393	6,928	1,025,864	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	109	109	2,823	-
Commercial real estate	307	-	1,124	1,431	50,242	224
Construction	135	-	774	909	98	774
Home equity	294	-	183	477	6,888	-
Commercial business	1,371	-	241	1,612	26,409	84
Consumer	2	-	-	2	1,907	-
Total acquired loans	2,109	-	2,431	4,540	88,367	1,082
Total loans	\$5,110	\$ 2,534	\$3,824	\$ 11,468	\$1,114,231	\$ 1,082

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

As of December 31, 2014

	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	\$-	\$ -	\$-	\$ -	\$ 169,833	\$ -
Commercial real estate	-	-	3,436	3,436	455,070	216
Construction	-	-	-	-	62,258	-
Home equity	-	-	-	-	10,226	-
Commercial business	-	-	-	-	120,360	-
Consumer	-	-	-	-	243	-
Total originated loans	-	-	3,436	3,436	817,990	216
Acquired Loans						
Real estate loans:						
Residential real estate	339	-	294	633	4,565	176
Commercial real estate	685	677	836	2,198	60,477	466
Construction	-	-	835	835	136	835
Home equity	-	40	-	40	7,900	-
Commercial business	178	386	305	869	28,030	305
Consumer	3	-	-	3	2,650	-
Total acquired loans	1,205	1,103	2,270	4,578	103,758	1,782
Total loans	\$ 1,205	\$ 1,103	\$ 5,706	\$ 8,014	\$ 921,748	\$ 1,998

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
--	--------------------------	-------------------------

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

	(In thousands)	
Commercial real estate	1,603	3,220
Home equity	396	-
Commercial business	368	142
Total	\$2,367	\$ 3,362

The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled \$38 thousand and \$18 thousand, respectively for the three months ended September 30, 2015, and 2014. The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled \$110 thousand and \$51 thousand, respectively for the nine months ended September 30, 2015, and 2014. There was no actual interest income recognized on these loans for the three months ended September 30, 2015, and 2014. There was \$3 thousand and \$4 thousand actual interest income recognized on these loans for the nine months ended September 30, 2015, and 2014.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

At September 30, 2015 and December 31, 2014, there were \$169 thousand and no commitments to lend additional funds to any borrower on nonaccrual status, respectively.

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling \$1.1 million and \$1.9 million, respectively at September 30, 2015 and December 31, 2014. 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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following table summarizes impaired loans by portfolio segment as of September 30, 2015 and December 31, 2014:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
	(In thousands)					
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	\$ -	\$ 864	\$ -	\$ 864	\$ -	\$ -
Commercial real estate	4,299	4,543	4,299	4,544	-	-
Home equity	83	91	83	91	-	-
Commercial business	1,115	1,145	1,133	1,153	-	-
Total impaired loans without a valuation allowance	5,497	6,643	1,216	6,652	-	-
Impaired loans with a valuation allowance:						
Residential real estate	864	-	864	-	2	-
Commercial real estate	444	453	444	453	22	23
Home Equity	343	-	345	-	7	-
Commercial business	488	556	488	556	8	10
Total impaired loans with a valuation allowance	2,139	1,009	2,141	1,009	39	33
Total originated impaired loans	\$ 7,636	\$ 7,652	\$ 3,357	\$ 7,661	\$ 39	\$ 33
Acquired						
Impaired loans without a valuation allowance:						
Commercial real estate	\$ 483	\$ -	\$ 534	\$ -	\$ -	\$ -
Commercial business	424	629	424	629	-	-
Home equity	198	-	200	-	-	-
Total impaired loans without a valuation allowance	1,105	629	1,158	629	-	-
Impaired loans with a valuation allowance:						
Commercial Real Estate	150	-	150	-	10	-

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Commercial business	684	-	692	-	24	-
Consumer	5	-	5	-	5	-
Total impaired loans with a valuation allowance	839	-	847	-	39	-
Total acquired impaired loans	\$ 1,944	\$ 629	\$ 2,005	\$ 629	\$ 39	\$ -

32

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following table summarizes the average recorded investment balance of impaired loans and interest income recognized on impaired loans by portfolio segment as of September 30, 2015 and December 31, 2014:

	Average Recorded Investment		Interest Income Recognized	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
	(In thousands)			
Originated				
Impaired loans without a valuation allowance:				
Residential real estate	\$ -	\$ 864	\$ -	\$ 28
Commercial real estate	4,312	4,034	98	223
Home equity	87	95	2	3
Commercial business	1,132	1,226	32	52
Total impaired loans without a valuation allowance	5,531	6,219	132	306
Impaired loans with a valuation allowance:				
Residential real estate	864	-	21	-
Commercial real estate	448	457	21	29
Home Equity	344	-	6	-
Commercial business	521	596	21	32
Total impaired loans with a valuation allowance	2,177	1,053	69	61
Total originated impaired loans	\$ 7,708	\$ 7,272	\$ 201	\$ 367
Acquired				
Impaired loans without a valuation allowance:				
Commercial real estate	\$ 453	\$ -	\$ -	\$ -
Commercial business	440	607	15	28
Home equity	199	-	2	-
Total impaired loans without a valuation allowance	1,092	607	17	28
Impaired loans with a valuation allowance:				
Commercial real estate	152	-	3	-
Commercial business	711	-	11	-
Consumer	6	-	-	-
Total impaired loans with a valuation allowance	869	-	14	-
Total acquired impaired loans	\$ 1,961	\$ 607	\$ 31	\$ 28

Troubled debt restructurings (TDRs)

Modifications to a loan are considered to be a troubled debt restructuring when one or both of the following conditions is met: 1) the borrower is experiencing financial difficulties and/or 2) the modification constitutes a concession that is not in line with market rates and/or terms. Modified terms are dependent upon the financial position and needs of the individual borrower. Trouble debt restructurings are classified as impaired loans.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

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 \$7.4 million at September 30, 2015 and \$3.6 million at December 31, 2014.

The following tables present loans whose terms were modified as TDRs during the periods presented:

(Dollars in thousands)	Number of Loans		Outstanding Recorded Investment			
	2015	2014	Pre-Modification		Post-Modification	
	2015	2014	2015	2014	2015	2014
Three Months Ended September 30,						
Commercial real estate	-	-	\$ -	\$ -	\$ -	\$ -
Commercial business	-	1	-	241	-	241
Total	-	1	\$ -	\$ 241	\$ -	\$ 241

(Dollars in thousands)	Number of Loans		Outstanding Recorded Investment			
	2015	2014	Pre-Modification		Post-Modification	
	2015	2014	2015	2014	2015	2014
Nine Months Ended September 30,						
Commercial real estate	3	2	\$4,044	\$1,324	\$4,044	\$1,324
Commercial business	1	4	44	796	44	796
Total	4	6	\$4,088	\$2,120	\$4,088	\$2,120

All TDRs at September 30, 2015 and December 31, 2014 were performing in compliance with their modified terms.

The following table provides information on how loans were modified as a TDR during the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Maturity/amortization concession	\$ -	\$ 241	\$ 825	\$ 962
Payment concession	-	-	-	1,158
Maturity and payment concession	-	-	3,263	-
Total	\$ -	\$ 241	\$ 4,088	\$ 2,120

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the three and nine months ended September 30, 2015 and 2014, respectively.

4. Shareholders' Equity

Common stock

On May 15, 2014, the Company priced 2,702,703 common shares in its initial public offering (“IPO”) at \$18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market. The Company issued a total of 2,702,703 common shares in its IPO, which closed on May 20, 2014. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses.

Between 2007 and 2013, four private placements for the sale of common stock were completed for the purpose of capitalizing the Company and allowing for continued growth. The private placement offerings were in addition to the initial and secondary offerings completed in 2002 and 2007, respectively. A total of 3,429,623 shares were issued and net proceeds of \$47.8 million were received in connection with these offerings.

Preferred stock

In 2011, the Company elected to participate in the U.S. 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 expand the ability to lend to small businesses, in order to help stimulate the economy and promote job growth. The transaction resulted in net capital proceeds to the Company of \$5.9 million, of which at least 90% was invested in the Bank of New Canaan and the Bank of Fairfield 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, was 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, which is 1.0%. 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. In connection with the IPO, the U.S. Treasury exercised its piggyback registration rights under the SBLF and the Series C Preferred Stock held by the U.S. Treasury was registered under the Securities Act of 1933, as amended.

Warrants

The initial and secondary offerings completed in 2002 and 2007 each call for the issuance of Units. Each Unit issued pursuant to these two 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 5, 2015 through December 5, 2015. 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 September 30, 2015. Assuming that all of the Warrants issued are exercised in full during the exercise period, the Company would receive \$4.3 million in gross capital and issue 304,640 shares of common stock.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

As a result of the acquisition of Quinnipiac on October 1, 2014 the Company issued 68,600 warrants to former Quinnipiac warrant holders in accordance with the merger agreement. Each warrant was automatically converted into a warrant to purchase 0.56 shares of the Company's common stock for an exercise price of \$17.56. None of the warrants have been exercised as of September 30, 2015. The warrants expire on March 6, 2018.

Dividends

The Company's shareholders are entitled to dividends when and if declared by the board of directors, out of funds legally available. 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 Connecticut statutes, regulatory approval is required to pay dividends in excess of the Bank's profits retained in the current year plus retained profits from the previous two years. The bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

The payment of dividends is subject to additional restrictions in connection with the SBLF preferred stock.

For the nine months ended September 30, 2015 and 2014, the Company paid cash dividends on preferred stock of \$82 thousand. On October 29, 2015 the Company's Board of Directors declared a \$0.05 per share cash dividend, payable December 21, 2015 to shareholders of record on December 11, 2015.

5. Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives accounted for as cash flow hedges. The Company's total comprehensive income or loss for the three and nine months ended September 30, 2015 and 2014 is reported in the Consolidated Statements of Comprehensive Income.

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax for the three and nine months ended September 30, 2015 and 2014:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap (In thousands)	Total
Balance at June 30, 2015	\$ 368	\$ (255)	) \$113
Other comprehensive income (loss) before reclassifications	116	(504)	) (388)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive income (loss)	116	(504)	) (388)
Balance at September 30, 2015	\$ 484	\$ (759)	) \$(275)

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap (In thousands)	Total
Balance at June 30, 2014	\$ 689	\$ (66)	) \$623
Other comprehensive (loss) income before reclassifications	(154)	) 133	(21)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive (loss) income	(154)	) 133	(21)
Balance at September 30, 2014	\$ 535	\$ 67	\$602

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap (In thousands)	Total
Balance at December 31, 2014	\$ 644	\$ (113)	) \$531
Other comprehensive income (loss) before reclassifications	(160)	) (646)	) (806)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive (loss)	(160)	) (646)	) (806)
Balance at September 30, 2015	\$ 484	\$ (759)	) \$(275)

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap (In thousands)	Total
Balance at December 31, 2013	\$ 424	\$ -	\$424
Other comprehensive income before reclassifications	111	67	178
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive income	111	67	178
Balance at September 30, 2014	\$ 535	\$ 67	\$602

6.**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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share data)		(In thousands, except per share data)	
Net income	\$ 2,253	\$ 1,491	\$ 6,412	\$ 3,841
Preferred stock dividends	(27)	(27)	(82)	(82)
Dividends and undistributed earnings allocated to participating securities	(63)	(23)	(170)	(82)
Net income for earnings per share calculation	\$ 2,163	\$ 1,441	\$ 6,160	\$ 3,677
Weighted average shares outstanding, basic	7,045	6,483	7,039	5,099
Effect of dilutive equity-based awards	14	19	18	25
Weighted average shares outstanding, diluted	7,059	6,502	7,057	5,124
Net earnings per common share:				
Basic earnings per common share	\$ 0.31	\$ 0.22	\$ 0.88	\$ 0.72
Diluted earnings per common share	0.31	0.22	0.87	0.72

7. Regulatory Matters

The Federal Reserve, the FDIC and the other federal and state bank regulatory agencies establish regulatory capital guidelines for U.S. banking organizations.

As of January 1, 2015, the Company and the Bank became subject to new capital rules set forth by the Federal Reserve, the FDIC and the other federal and state bank regulatory agencies. The new capital rules revise the banking agencies' leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act (the Basel III Capital Rules).

The Basel III Capital Rules establish a new minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets; set the minimum leverage ratio at 4% of total assets; increased the minimum Tier 1 capital to risk-weighted assets requirement from 4% to 6%; and retained the minimum total capital to risk-weighted assets requirement at 8.0%. A “well-capitalized” institution must generally maintain capital ratios 200 basis points higher than the minimum guidelines.

The Basel III Capital Rules also change the risk weights assigned to certain assets. The Basel III Capital Rules assigned a higher risk weight (150%) to loans that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The Basel III Capital Rules also alter the risk weighting for other assets, including marketable equity securities that are risk weighted generally at 300%. The Basel III Capital Rules require certain components of accumulated other comprehensive income (loss) to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. The Bank did exercise its opt-out option and will exclude the unrealized gain (loss) on investment securities component of accumulated other comprehensive income (loss) from regulatory capital.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The "capital conservation buffer" is being phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer will be effective.

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.

Management believes, as of September 30, 2015, the Bank and Company meet all capital adequacy requirements to which they are subject. There are no conditions or events since then that management believes have changed this conclusion.

The capital amounts and ratios for the Bank and the Company at September 30, 2015 were as follows:

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank September 30, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 126,831	10.75 %	\$ 52,004	4.50 %	\$ 75,116	6.50 %
Total Capital to Risk-Weighted Assets	137,959	11.94 %	92,451	8.00 %	115,564	10.00 %
Tier I Capital to Risk-Weighted Assets	124,239	10.75 %	69,338	6.00 %	92,541	8.00 %
Tier I Capital to Average Assets	124,239	9.84 %	50,508	4.00 %	63,136	5.00 %
Bankwell Financial Group, Inc. September 30, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 122,219	10.51 %	\$ 52,308	4.50 %	N/A	N/A

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Total Capital to Risk-Weighted Assets	171,956	14.79%	92,993	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	133,199	11.46%	69,744	6.00 %	N/A	N/A
Tier I Capital to Average Assets	133,199	10.29%	51,760	4.00 %	N/A	N/A

As of December 31, 2014, the Bank and Company were subject to different regulatory capital requirements administered by federal and state banking agencies. Quantitative measures established by regulation to ensure capital adequacy required 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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The capital amounts and ratios for the Bank and Company at December 31, 2014, were as follows:

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
<u>December 31, 2014</u>						
Total Capital to Risk-Weighted Assets	\$ 125,339	13.55%	\$ 74,003	8.00 %	\$ 92,503	10.00 %
Tier I Capital to Risk-Weighted Assets	115,359	12.47%	37,001	4.00 %	55,502	6.00 %
Tier I Capital to Average Assets	115,359	11.12%	41,485	4.00 %	51,856	5.00 %
Bankwell Financial Group, Inc.						
<u>December 31, 2014</u>						
Total Capital to Risk-Weighted Assets	\$ 135,223	14.59%	\$ 74,136	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	125,243	13.51%	37,068	4.00 %	N/A	N/A
Tier I Capital to Average Assets	125,243	11.78%	42,516	4.00 %	N/A	N/A

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 Connecticut statutes, regulatory approval is required to pay dividends in excess of the Bank's profits retained in the current year plus retained profits from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

8. Stock-Based Compensation**Equity award plans**

The Company has five equity award plans, which are collectively referred to as the "Plan." The current plan under which any future issuances of equity awards will be made is the 2012 BNC Financial Group, Inc. Stock Plan, or the

“2012 Plan,” amended on June 26, 2013. 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. To date, all equity awards have been in the form of share options or restricted stock. At September 30, 2015, there were 465,582 shares reserved for future issuance under the 2012 Plan.

Share Options: The Company accounts for stock options based on the fair value at the date of grant and records option related expense over the vesting period of such awards on a straight line basis. For the nine months ended September 30, 2015 and 2014, the Company recorded expense related to options granted under the various share option plans of approximately \$11 thousand and \$24 thousand, respectively.

There were no options granted during the nine months ended September 30, 2015.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

A summary of the status of outstanding share options as of and for the nine months ended September 30, 2015 is presented below:

	Nine Months Ended September 30, 2015	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	204,793	\$ 17.42
Exercised	(17,770)	14.50
Forfeited	(300)	15.00
Expired	(11,495)	16.79
Options outstanding at end of period	175,228	17.76
Options exercisable at end of period	170,728	17.84

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 nine months ended September 30, 2015 was \$89 thousand.

Restricted Stock: Restricted stock provides grantees with rights to shares of common stock upon completion of a service period. Shares of unvested restricted stock are considered participating securities. Restricted stock awards generally vest over one to five years.

The following table presents the activity for restricted stock for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015	
	Number of	Weighted Average Grant Date

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

	Shares	Fair Value
Unvested at beginning of period	165,862	\$ 18.08
Granted	51,800	18.73
Vested	(8,307)	15.75
Forfeited	(2,623)	17.73
Unvested at end of period	206,732	18.34

The Company's restricted stock expense for the nine months ended September 30, 2015 and 2014 was \$796 thousand and \$141 thousand, respectively.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

Market Conditions Restricted Stock: On December 9, 2014 the Company issued restricted stock with market and service conditions pursuant to the Company's 2012 Stock Plan. The maximum number of shares that can vest is 49,400. The actual number of shares to be vested will be based on market criteria over a five-year period ending on December 1, 2019 based on the Company's stock price being at or above \$25.00, \$27.00 and \$29.00 per share over a 60-day consecutive period. These shares may vest over a period from December 1, 2017 to December 1, 2019 based on meeting the price targets. In addition, the grantees must be employed with the Company on the vesting date to receive the shares. The Company determined the fair value of these market condition awards in accordance with ASC 718 – *Stock Compensation* using the Monte Carlo simulation model deemed appropriate for this type of grant. The grant date fair value for these grants was \$11.63 for the awards that vest at the \$25 stock price, \$10.30 for the awards that vest at the \$27 stock price and \$9.10 for the awards that vest at the \$29 stock price. The grant date fair value for the Company's stock was \$18.99 per share. The Company recognized \$128 thousand in stock compensation expense for the nine months ended September 30, 2015 for these restricted stock awards.

9. Derivative Instruments

Information about derivative instruments at September 30, 2015 and December 31, 2014 is as follows:

September 30, 2015:

(Dollars in thousands)	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	\$25,000	4.7 years	0.33	%	1.62% \$ (476)
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.33	%	1.83% (625)
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.33	%	1.48% (143)
					\$ (1,244)

December 31, 2014:

Fair Value

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

(Dollars in thousands)	Notional Amount	Original Maturity	Received	Paid	Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	\$25,000	4.7 years	0.26	% 1.62%	\$ (73)
Interest rate swap on forward-starting FHLB advance	\$25,000	5.0 years	0.26	% 1.83%	(113)
					\$ (186)

The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The Bank assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The Bank's cash flow hedge positions are all forward starting interest rate swap transactions. The Bank entered into the following forward starting interest rate swap transactions:

(Dollars in thousands)	Notional Amount	Effective Date of Hedged Borrowing	Duration of Borrowing	Counterparty
Type of borrowing:				
FHLB 90-day advance	\$ 25,000	April 1, 2014	4.7 years	Bank of Montreal
FHLB 90-day advance	\$ 25,000	January 2, 2015	5.0 years	Bank of Montreal
FHLB 90-day advance	\$ 25,000	August 26, 2015	5.0 years	Bank of Montreal

This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Bank from floating interest rate variability.

Changes in the consolidated statements of comprehensive income related to interest rate derivatives designated as hedges of cash flows were as follows for the three and nine months ended September 30, 2015 and 2014:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest rate swap on FHLB advance:				
Unrealized (loss) gain recognized in accumulated other comprehensive income	\$ (826)	\$ 218	\$ (1,058)	\$ 111
Income tax benefit (expense) on items recognized in accumulated other comprehensive income	322	(85)	412	(43)
Other comprehensive (loss) income	\$ (504)	\$ 133	\$ (646)	\$ 68
Interest expense recognized on hedged FHLB advance	\$ 213	\$ 88	\$ 578	\$ 176

10. Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement 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 September 30, 2015 or December 31, 2014. 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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015				
	Carrying	Fair			
	Value	Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	\$86,830	\$86,830	\$86,830	\$-	\$-
Available for sale securities	45,023	45,023	-	45,023	-
Held to maturity securities	11,282	11,301	-	11,301	-
Loans held for sale	252	252	-	252	-
Loans receivable, net	1,108,439	1,114,785	-	-	1,114,785
Accrued interest receivable	3,831	3,831	-	-	3,831
FHLB stock	6,918	6,918	-	-	6,918
Financial Liabilities:					
Demand deposits	\$148,732	\$148,732	\$-	\$-	\$148,732
NOW and money market	346,850	346,850	-	-	346,850
Savings	101,749	101,749	-	-	101,749
Time deposits	428,358	430,602	-	-	430,602
Advances from the FHLB	120,000	120,154	-	-	120,154
Subordinated debentures	25,037	25,037	-	-	25,037
Derivative liability	1,244	1,244	-	1,244	-

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

	December 31, 2014				
	Carrying	Fair			
	Value	Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	\$48,559	\$48,559	\$48,559	\$-	\$-
Available for sale securities	65,009	65,009	-	65,009	-
Held to maturity securities	11,454	11,470	-	11,470	-
Loans held for sale	586	586	-	586	-
Loans receivable, net	915,981	920,031	-	-	920,031
Accrued interest receivable	3,323	3,323	-	-	3,323
FHLB stock	6,109	6,109	-	-	6,109
Financial Liabilities:					
Demand deposits	\$166,030	\$166,030	\$-	\$-	\$166,030
NOW and money market	276,501	276,501	-	-	276,501
Savings	84,457	84,457	-	-	84,457
Time deposits	308,451	310,165	-	-	310,165
Advances from the FHLB	129,000	128,961	-	-	128,961
Derivative liability	186	186	-	186	-

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

Cash and due from banks and accrued interest receivable: 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.

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.

Derivative asset (liability): The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

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.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Borrowings and Subordinated Debentures: The fair value of the Company's borrowings and subordinated debentures is estimated using a discounted cash flow calculation that applies discount rates currently offered based on similar maturities.

11. Fair Value Measurements

The Company is required to account for certain assets and liabilities 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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****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 September 30, 2015 and December 31, 2014, 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 three and nine months ended September 30, 2015 and the year ended December 31, 2014.

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
September 30, 2015:			
Available-for-sale investment securities:			
U.S. Government and agency obligations	\$-	\$8,222	\$ -
State agency and municipal obligations	-	17,461	-
Corporate bonds	-	14,568	-
Mortgage backed securities	-	4,772	-
Derivative liability	-	(1,244)	-
December 31, 2014:			
Available-for-sale investment securities:			
U.S. Government and agency obligations	\$-	\$24,418	\$ -
State agency and municipal obligations	-	18,584	-
Corporate bonds	-	16,325	-
Mortgage backed securities	-	5,682	-
Derivative liability	-	(186)	-

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.

Derivative liabilities: The Company's derivative liabilities consist of transactions as part of management's strategy to manage interest rate risk. The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Financial instruments measured at fair value on a nonrecurring basis

Certain assets are measured at fair value on a non-recurring basis in accordance with GAAP. 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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

The following table details the financial instruments carried at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014, 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
September 30, 2015:			
Impaired loans	\$-	\$ -	\$9,580
Foreclosed real estate	-	-	1,328
December 31, 2014:			
Impaired loans	\$-	\$ -	\$8,281
Foreclosed real estate	-	-	950

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014:

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range
September 30, 2015:				
Impaired loans	\$ 9,580	Appraisals	Discount for dated appraisals	8.00% - 10.00%
		Discounted cash flows	Discount rate	3.25% - 7.00%
Foreclosed real estate	\$ 1,328	Appraisals	Discount for dated appraisals	10.00% - 66.00%
December 31, 2014:				
Impaired loans	\$ 8,281	Appraisals	Discount for dated appraisals	-
		Discounted cash flows	Discount rate	3.25% to 8.25%
Foreclosed real estate	\$ 950	Appraisals	Discount for dated appraisals	7.34% to 66.6%

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. For those loans where the primary source of repayment is cash flow from operations, adjustments include impairment amounts calculated based on the perceived collectability of interest payments on the basis of a discounted cash flow analysis utilizing a discount rate equivalent to the original note rate.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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.

Bankwell Financial Group, Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****12. Mergers and Acquisitions**

On October 1, 2014, the Company acquired all of the outstanding common shares of Quinnipiac Bank & Trust Company (“Quinnipiac”). Quinnipiac had two banking offices primarily serving south-central Connecticut and has merged with and into Bankwell Bank.

Quinnipiac shareholders received 510,122 shares of the Company common stock and \$3.6 million in cash. As of September 30, 2014, Quinnipiac had assets with a carrying value of approximately \$117.8 million, including loans outstanding with a carrying value of approximately \$97.1 million, as well as deposits with a carrying value of approximately \$100.4 million and a book value of \$10.1 million. The results of Quinnipiac’s operations are included in the Company’s Consolidated Statement of Income from the date of acquisition.

The assets and liabilities in the Quinnipiac 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 Quinnipiac's assets acquired and liabilities assumed are summarized in the following tables:

Consideration paid: <i>(In thousands)</i>	Amount
Cash consideration paid to Quinnipiac shareholders	\$3,648
Equity consideration paid to Quinnipiac shareholders	9,676
Total Consideration paid	13,324

Recognized amounts of identifiable assets acquired and (liabilities) assumed: <i>(In thousands)</i>	As Acquired	Fair Value Adjustments	As Recorded at Acquisition
Cash	\$6,195	\$ -	\$ 6,195
Available for sale investments securities	8,533	(29)a	8,504
Loans	97,103	748 b	97,851
Premises and equipment	4,046	-	4,046
Other real estate owned	129		129
Core deposit intangibles	-	530 c	530
Deferred tax assets, net	1,070	(388)d	682
Other assets	756	-	756

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Deposits	(100,391)	(252	)e	(100,643)
FHLB advances	(7,000)			(7,000)
Other liabilities	(315)	-		(315)
Total identifiable net assets	\$10,126	\$ 609		10,735
Goodwill				\$ 2,589

Explanation of fair value adjustments:

(a) The adjustment represents the mark to market adjustment on available for sale investment securities.

(b) The adjustment represents the adjustment 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.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

(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 8.8 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 0.57% as they bore somewhat higher rates than the prevailing market.

Except for collateral dependent loans with deteriorated credit quality, the fair values for loans acquired from Quinnipiac 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 Quinnipiac's allowance for credit losses associated with the loans that were acquired as the loans were initially recorded at fair value.

Information about the acquired loan portfolio subject to purchased credit impaired accounting guidance (ASC 310-30) as of October 1, 2014 was as follows:

(In thousands)	October 1, 2014
Contractually required principal and interest at acquisition	\$ 1,729
Contractual cash flows not expected to be collected (nonaccretable discount)	(6)
Expected cash flows at acquisition	1,723
Interest component of expected cash flows (accretable discount)	(478)
Fair value of acquired loans	\$ 1,245

13. Subordinated Debentures

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rated subordinated notes (the “Notes”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or the early redemption date.

The Notes have been structured to qualify for the Company as Tier 2 capital under regulatory guidelines. The Company will use the net proceeds from the sales of the Notes for general corporate purposes, including a plan to redeem the \$11.0 million outstanding of its Senior Noncumulative Perpetual Preferred Stock issued in 2011 to the U.S. Treasury under the Small Business Lending Fund Program by December 31, 2015. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency.

14. Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements through November 9, 2015, the date upon which the Company’s consolidated financial statements were available to be issued.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

On October 8, 2015, the Bank established a new wholly-owned subsidiary, Bankwell Loan Servicing Group, Inc. (a Passive Investment Company “PIC”). The PIC was organized in accordance with Connecticut statutes to hold and manage certain loans that are collateralized by real estate. Income earned by the PIC is exempt from Connecticut income tax and any dividends paid by the PIC to the Bank are not taxable income for Connecticut income tax purposes.

The impact of forming the PIC will be reflected during the fourth quarter and will result in an immaterial charge to the statement of income reflecting the net impact of writing off state deferred tax assets that will no longer be realized and substantially reducing the state income tax provision.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained elsewhere in this report on Form 10-Q. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the Company's Form 10-K filed for the year ended December 31, 2014 in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" We assume no obligation to update any of these forward-looking statements.

General

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

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

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

Critical Accounting Policies and Estimates

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

We believe that accounting estimates for the fair value of acquired assets, the allowance for loan losses, stock-based compensation and derivative instrument valuation are particularly critical and susceptible to significant near-term change. These accounting estimates are discussed further in the Company's Form 10-K filed for the year ended December 31, 2014 in the section "Critical Accounting Policies and Estimates" under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

We are focused on becoming the “Hometown” bank and the banking provider of choice in our highly attractive market area, and to serve as a locally based alternative to our larger competitors. We aim to do this through:

- responsive, customer-centric products and services and a community focus;
- strategic acquisitions;
- utilization of efficient and scalable infrastructure;
- disciplined focus on risk management; and
- organic growth.

On November 5, 2013 we completed the merger of Wilton into Bankwell Bank.

On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its IPO at \$18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses. We intend to use the net proceeds for general corporate purposes, which may include maintaining liquidity at the holding company, providing equity capital to the Bank to fund balance sheet growth, our working capital needs, and funding acquisitions of branches, whole financial institutions and related lines of businesses in or around our existing market that further our objectives.

On October 1, 2014 Quinnipiac merged with and into Bankwell Bank. Quinnipiac had one branch located in Hamden, Connecticut and a second branch located in the neighboring town of North Haven, Connecticut. The results discussed below for the three and nine months ended September 30, 2014 do not reflect any results from Quinnipiac.

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rated subordinated notes (the “Notes”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or the early redemption date.

Earnings Overview

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

Net income available to common shareholders was \$2.2 million, or \$0.31 per diluted share, and \$1.5 million, or \$0.22 per diluted share, for the three months ended September 30, 2015 and 2014, respectively. Returns on average equity and average assets for the three months ended September 30, 2015 were 6.92% and 0.69%, respectively, compared to 5.02% and 0.67%, respectively, for the three months ended September 30, 2014.

Net income available to common shareholders was \$6.3 million, or \$0.87 per diluted share, and \$3.8 million, or \$0.72 per diluted share, for the nine months ended September 30, 2015 and 2014, respectively. Returns on average equity and average assets for the nine months ended September 30, 2015 were 6.45% and 0.74%, respectively, compared to 5.84% and 0.62%, respectively, for the nine months ended September 30, 2014.

For the three months ended September 30, 2015, we had net interest income of \$10.9 million, an increase of \$3.3 million, or 43.7%, over the three months ended September 30, 2014. Our net interest margin (fully taxable equivalent basis) for the three months ended September 30, 2015 and 2014 was 3.67% and 3.69%, respectively. We experienced an increase in our non-interest income, which totaled \$1.2 million for the three months ended September 30, 2015 representing 10.0% of our total revenue, up from \$757 thousand, or 9.1% of total revenue, for the three months ended September 30, 2014.

For the nine months ended September 30, 2015, we had net interest income of \$31.6 million, an increase of \$9.7 million, or 44.1%, over the nine months ended September 30, 2014. Our net interest margin (fully taxable equivalent basis) for the nine months ended September 30, 2015 and 2014 was 3.83% and 3.78%, respectively. We experienced an increase in our non-interest income, which totaled \$2.6 million for the nine months ended September 30, 2015 representing 7.7% of our total revenue, up from \$2.2 million, or 9.2% of total revenue, for the nine months ended September 30, 2014.

Results of Operations

Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of our operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees and late charges. The following tables and discussion present net interest income on a fully taxable equivalent, or FTE basis, by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. We convert tax-exempt income to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages. Interest income on loans includes the effect of deferred loan fees and costs accounted for as yield adjustments. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts.

FTE net interest income for the three months ended September 30, 2015 and 2014 was \$11.1 million and \$7.7 million, respectively. FTE net interest income for the nine months ended September 30, 2015 and 2014 was \$31.9 million and \$22.2 million, respectively. Our net interest margin decreased 2 basis points to 3.67% for the three months ended September 30, 2015, compared to the three months ended September 30, 2014 due primarily to higher rates on interest bearing deposits, driven by promotional rate increases to remain competitive in the market place and to attract additional deposits and the addition of \$25.5 million of 5.75% fixed rate subordinated debentures in the third quarter of 2015, offset by higher loan prepayment penalty income and a shift in earning assets to higher yielding commercial real estate loans. Our net interest margin increased 5 basis points to 3.83% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014 due primarily to higher loan pre-payment penalty income concentrated in the second quarter and a shift in the earning assets to higher yielding commercial real estate loans, offset by an increase in rates on interest bearing deposits driven by promotional rate increases to remain competitive in the market place and to attract additional deposits and the addition of \$25.5 million of 5.75% fixed rate subordinated debentures in the third quarter of 2015.

FTE basis interest income for the three months ended September 30, 2015 increased by \$4.5 million, or 51.3%, to \$13.3 million, compared to FTE basis interest income for the three months ended September 30, 2014 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were \$1.2 billion for the three months ended September 30, 2015, up by \$371.4 million from the three months ended

September 30, 2014. The average balance of total loans increased \$385.7 million, or 55.5%, contributing \$4.6 million to the increase in interest income. Commercial real estate and commercial business loan average balances grew by \$280.4 million and \$56.7 million, respectively. The average yield on interest earning assets increased from 4.11% from the three months ended September 30, 2014 to 4.31% for the three months ended September 30, 2015 due mainly to a change in portfolio mix towards higher yielding commercial and commercial real estate loans.

FTE basis interest income for the nine months ended September 30, 2015 increased by \$12.3 million, or 49.3%, to \$37.2 million, compared to FTE basis interest income for the nine months ended September 30, 2014 due primarily to loan growth in our commercial real estate and commercial business portfolios, offset by lower discount accretion on acquired loans. Average interest-earning assets were \$1.1 billion for the nine months ended September 30, 2015, up by \$326.3 million from the nine months ended September 30, 2014. The average balance of total loans increased \$338.5 million, or 50.9%, contributing \$12.3 million to the increase in interest income. Commercial real estate and commercial business loan average balances grew by \$241.5 million and \$51.9 million, respectively. The average yield on interest earning assets increased from 4.20% from the nine months ended September 30, 2014 to 4.42% for the nine months ended September 30, 2015 due mainly to a change in portfolio mix towards higher yielding commercial and commercial real estate loans.

Interest expense for the three months ended September 30, 2015, increased by \$1.2 million, or 107.4%, compared to interest expense for the three months ended September 30, 2014 due to a \$361.3 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts and borrowed money, and increased rates on deposits, primarily due to promotional rates on money markets and certificates of deposits to remain competitive in the market place and borrowed money as a result of the issuance of the subordinated debt in the third quarter of 2015.

Interest expense for the nine months ended September 30, 2015, increased by \$2.6 million, or 97.2%, compared to interest expense for the nine months ended September 30, 2014 due to a \$279.6 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts and borrowed money, and increased rates on time deposits and borrowed money as a result of the issuance of the subordinated debt in the third quarter of 2015.

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

The following tables present the average balances and yields earned on interest-earning assets and average balances and weighted average rates paid on our funding liabilities for the three and nine months ended September 30, 2015 and 2014.

(Dollars in thousands)	Three Months Ended September 30,						
	2015			2014			
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	
Assets:							
Cash and Fed funds sold	\$62,597	\$33	0.21 %	\$64,752	\$45	0.28 %	
Securities (1)	57,234	549	3.84	71,536	666	3.73	
Loans:							
Commercial real estate	645,488	7,873	4.77	365,042	4,473	4.79	
Residential real estate	175,908	1,569	3.57	166,123	1,499	3.61	
Construction (2)	79,722	912	4.48	47,261	570	4.72	
Commercial business	157,867	2,075	5.14	101,184	1,296	5.01	
Home equity	16,422	155	3.75	12,786	121	3.75	
Consumer	2,184	27	4.87	698	15	8.75	
Acquired loans (net of mark)	2,558	51	7.91	1,327	81	24.15	
Total loans	1,080,149	12,662	4.59	694,421	8,055	4.54	
Federal Home Loan Bank stock	6,918	47	2.71	4,834	18	1.49	
Total earning assets	1,206,898	13,291	4.31 %	835,543	8,784	4.11 %	
Other assets	89,978			47,383			
Total assets	\$1,296,876			\$882,926			
Liabilities and shareholders' equity:							
Interest -bearing liabilities:							
NOW	\$56,104	15	0.11 %	\$52,298	15	0.11 %	
Money market	293,150	408	0.55	175,111	218	0.49	
Savings	103,555	214	0.82	79,505	65	0.33	
Time	401,968	1,005	0.99	257,616	607	0.93	
Total interest-bearing deposits	854,777	1,642	0.76	564,530	905	0.64	
Borrowed money	118,391	583	1.95	47,333	168	1.41	
Total interest bearing liabilities	973,168	2,225	0.91 %	611,863	1,073	0.70 %	
Noninterest-bearing deposits	161,354			138,272			
Other liabilities	33,257			14,918			
Total Liabilities	1,167,779			765,053			
Shareholders' equity	129,097			117,873			
Total liabilities and shareholders' equity	\$1,296,876			\$882,926			
Net interest income (3)		\$11,066			\$7,711		
Interest rate spread			3.40 %			3.41 %	
Net interest margin (4)			3.67 %			3.69 %	

- (1) Average balances and yields for securities are based on amortized cost.
- (2) Includes commercial and residential real estate construction.
- (3) The adjustment for securities and loans taxable equivalency amounted to \$149 thousand and \$116 thousand, respectively, for the three months ended September 30, 2015 and 2014.
- (4) Annualized net interest income as a percentage of earning assets.

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

(Dollars in thousands)	Nine Months Ended September 30,						
	2015			2014			
	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate	
Assets:							
Cash and Fed funds sold	\$37,037	\$61	0.22 %	\$58,699	\$116	0.26 %	
Securities (1)	61,233	1,699	3.70	53,723	1,697	4.21	
Loans:							
Commercial real estate	583,024	21,476	4.86	341,480	12,523	4.84	
Residential real estate	174,389	4,727	3.61	161,049	4,362	3.61	
Construction (2)	71,900	2,509	4.60	46,317	1,615	4.60	
Commercial business	151,017	5,866	5.12	99,113	3,705	4.93	
Home equity	17,551	494	3.77	13,373	370	3.70	
Consumer	2,487	90	4.85	640	42	8.88	
Acquired loans (net of mark)	2,877	155	7.22	2,753	425	20.64	
Total loans	1,003,245	35,317	4.64	664,725	23,042	4.57	
Federal Home Loan Bank stock	6,741	110	2.17	4,834	54	1.48	
Total earning assets	1,108,256	37,187	4.42 %	781,981	24,909	4.20 %	
Other assets	57,388			39,993			
Total assets	\$1,165,644			\$821,974			
Liabilities and shareholders' equity:							
Interest -bearing liabilities:							
NOW	\$57,017	48	0.11 %	\$52,544	43	0.11 %	
Money market	253,662	1,007	0.53	173,104	564	0.44	
Savings	95,242	492	0.69	93,328	216	0.31	
Time	341,658	2,358	0.92	224,765	1,434	0.85	
Total interest-bearing deposits	747,579	3,905	0.70	543,741	2,257	0.55	
Borrowed money	124,129	1,389	1.50	48,370	427	1.18	
Total interest bearing liabilities	871,708	5,294	0.81 %	592,111	2,684	0.61 %	
Noninterest-bearing deposits	154,825			129,074			
Other liabilities	6,137			12,808			
Total Liabilities	1,032,670			733,993			
Shareholders' equity	132,974			87,981			
Total liabilities and shareholders' equity	\$1,165,644			\$821,974			
Net interest income (3)		\$31,893			\$22,225		
Interest rate spread			3.61 %			3.59 %	
Net interest margin (4)			3.83 %			3.78 %	

(1) Average balances and yields for securities are based on amortized cost.

(2) Includes commercial and residential real estate construction.

(3) The adjustment for securities and loans taxable equivalency amounted to \$341 thousand and \$336 thousand, respectively, for the nine months ended September 30, 2015 and 2014.

(4) Annualized net interest income as a percentage of earning assets.

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

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

(In thousands)	Three Months Ended September 30, 2015 vs 2014			Nine Months Ended September 30, 2015 vs 2014		
	Increase (Decrease) Volume	Increase (Decrease) Rate	Total	Increase (Decrease) Volume	Increase (Decrease) Rate	Total
Interest and dividend income:						
Cash and Fed funds sold	\$ (1)	\$ (11)	\$ (12)	\$ (38)	\$ (17)	\$ (55)
Securities	(136)	19	(117)	222	(220)	2
Loans:						
Commercial real estate	3,420	(20)	3,400	8,897	56	8,953
Residential real estate	88	(18)	70	362	3	365
Construction	372	(30)	342	893	1	894
Commercial business	744	35	779	2,010	151	2,161
Home equity	34	-	34	117	7	124
Consumer	21	(9)	12	75	(27)	48
Acquired loans (net of mark)	46	(76)	(30)	18	(288)	(270)
Total loans	4,725	(118)	4,607	12,372	(97)	12,275
Federal Home Loan Bank stock	10	19	29	26	30	56
Total change in interest and dividend income	4,598	(91)	4,507	12,582	(304)	12,278
Interest expense:						
Deposits:						
NOW	-	-	-	4	1	5
Money market	162	28	190	302	141	443
Savings	25	124	149	4	272	276
Time	359	39	398	798	126	924
Total deposits	546	191	737	1,108	540	1,648
Borrowed money	330	85	415	822	140	962
Total change in interest expense	876	276	1,152	1,930	680	2,610
Change in net interest income	\$ 3,722	\$ (367)	\$ 3,355	\$ 10,652	\$ (984)	\$ 9,668

Provision for Loan Losses

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

Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A provision for loan losses will be recorded for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date. As of and for the three and nine months ended September 30, 2015, there was a \$45 thousand provision or allowance for loan losses related to the loan portfolios that we acquired.

The provision for loan losses for the three months ended September 30, 2015 was \$1.5 million compared to \$566 thousand provision for loan losses for the three months ended September 30, 2014. The provision for loan losses for the nine months ended September 30, 2015 was \$2.9 million compared to \$847 thousand provision for loan losses for the nine months ended September 30, 2014. For further information, see sections titled Asset Quality and Allowance for Loan Losses.

Noninterest Income

The following tables compare noninterest income for the three and nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Three Months Ended		Change	
	September 30, 2015	September 30, 2014	\$	%
Gains and fees from sales of loans	\$ 447	\$ 366	\$81	22 %
Service charges and fees	234	153	81	53
Bank owned life insurance	182	135	47	35
Other	348	103	245	238
Total noninterest income	\$ 1,211	\$ 757	\$454	60 %

Noninterest income increased \$454 thousand to \$1.2 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. During the three months ended September 30, 2015, the Company recorded \$447 thousand of gains on the sale of \$5.7 million of loans. During the three months ended September 30, 2014, the Company recorded \$366 thousand in gains on the sale of \$4.3 million of loans. Service charges and fees increased \$81 thousand from \$153 thousand for the three months ended September 30, 2014 to \$234 thousand for the three months ended September 30, 2015, primarily driven by increased service charges on checking accounts and increased ATM and debit card fees. Other income increased \$245 thousand from \$103 thousand for the three months ended September 30, 2014 to \$348 thousand for the three months ended September 30, 2015, primarily driven by income recognized on the pay-off of purchased credit impaired loans.

	Nine Months Ended		Change	
	September 30,	September 30,	\$	%

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

(Dollars in thousands)	2015	2014	\$	%
Gains and fees from sales of loans	\$ 885	\$ 1,008	\$(123)	(12)%
Service charges and fees	675	420	255	61
Bank owned life insurance	549	305	244	80
Other	535	475	60	13
Total noninterest income	\$ 2,644	\$ 2,208	\$436	20 %

60

Noninterest income increased \$436 thousand to \$2.6 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. During the nine months ended September 30, 2015, the Company recorded \$885 thousand of gains on the sale of \$13.4 million of loans. During the nine months ended September 30, 2014, the Company recorded \$1.0 million in gains on the sale of \$22.6 million of loans. Service charges and fees increased \$255 thousand from \$420 thousand for the nine months ended September 30, 2014 to \$675 thousand for the nine months ended September 30, 2015, primarily driven by increased service charges on checking accounts and increased ATM and debit card fees. The cash surrender value of bank owned life insurance increased by \$244 thousand due to the purchase of an additional tranche of \$12.5 million in the third quarter of 2014.

Noninterest Expense

The following tables compare noninterest expense for the three and nine months ended September 30, 2015, and 2014:

(Dollars in thousands)	Three Months Ended		Change	
	September 30, 2015	September 30, 2014	\$	%
Salaries and employee benefits	\$3,798	\$2,786	\$1,012	36 %
Occupancy and equipment	1,370	1,066	304	29
Data processing	416	314	102	32
Professional services	339	394	(55)	(14)
Marketing	288	135	153	113
FDIC insurance	166	120	46	38
Director fees	136	177	(41)	(23)
Foreclosed real estate	81	9	72	100
Amortization of intangibles	51	27	24	89
Merger and acquisition related expenses	-	145	(145)	(100)
Other	513	357	156	44
Total noninterest expense	\$7,158	\$5,530	\$1,628	29 %

Noninterest expense increased \$1.6 million to \$7.2 million for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. The increase was primarily driven by a \$1.0 million increase in salaries and employee benefits. The increase in salaries and employee benefits was driven by higher staffing levels, stock based compensation, medical costs and incentive accruals. Full time equivalent employees increased 21 employees from 103 full time equivalent employees at September 30, 2014 to 124 full time equivalent employees at September 30, 2015. In addition, the increase was driven by a \$304 thousand increase in occupancy and equipment. The increase in occupancy and equipment was driven by increased costs associated with the addition of the two branches added as a result of the Quinnipiac Bank acquisition and the opening of a branch in Norwalk, Connecticut.

Edgar Filing: Bankwell Financial Group, Inc. - Form 10-Q

(Dollars in thousands)	Nine Months Ended		Change		
	September 30, 2015	2014	\$	%	
Salaries and employee benefits	\$11,817	\$9,412	\$2,405	26	%
Occupancy and equipment	4,029	3,162	867	27	
Data processing	1,157	949	208	22	
Professional services	1,033	1,035	(2)	(0)	
Marketing	707	463	244	53	
FDIC insurance	487	345	142	41	
Director fees	424	460	(36)	(8)	
Foreclosed real estate	73	21	52	248	
Amortization of intangibles	153	80	73	91	
Merger and acquisition related expenses	-	408	(408)	(100)	
Other	1,610	1,134	476	42	
Total noninterest expense	\$21,490	\$17,469	\$4,021	23	%

Noninterest expense increased \$4.0 million to \$21.5 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. The increase was primarily driven by a \$2.4 million increase in salaries and employee benefits. The increase in salaries and employee benefits was driven by higher staffing levels, stock based compensation, medical costs and incentive accruals. In addition, the increase was driven by an \$867 thousand increase in occupancy and equipment. The increase in occupancy and equipment was driven by increased costs associated with the addition of the two branches added as a result of the Quinnipiac Bank acquisition and the opening of a branch in Norwalk Connecticut.

Income Tax Expense

Income tax expense for the three months ended September 30, 2015 and 2014 totaled \$1.2 million and \$765 thousand, respectively. The effective tax rates for the three months ended September 30, 2015 and 2014 were 35.3%, and 33.9%, respectively. The increase in the effective tax rate is driven by fully taxable income increasing at a faster rate than tax-preferred or exempt income for the three months ended September 30, 2015 compared to the three months ended September 30, 2014.

Income tax expense for the nine months ended September 30, 2015 and 2014 totaled \$3.4 million and \$1.9 million, respectively. The effective tax rates for the nine months ended September 30, 2015 and 2014 were 34.8%, and 33.6%, respectively. The increase in the effective tax rate is driven by fully taxable income increasing at a faster rate than tax-preferred or exempt income for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

Financial Condition

Summary

At September 30, 2015, total assets were \$1.3 billion, a \$213.8 million, or 19.4%, increase over December 31, 2014. Total loans outstanding and total deposits totaled \$1.1 billion and \$1.0 billion, respectively at September 30, 2015. Our credit quality remained strong, with nonperforming assets to total assets of 0.28% and the allowance for loan losses to total loans was 1.22%. Total shareholders' equity at September 30, 2015 and December 31, 2014 was \$135.8 million and \$129.2 million, respectively. Tangible book value was \$17.25 per share at September 30, 2015 compared to \$16.35 per share at December 31, 2014.

Loan Portfolio

We originate commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within our market of Fairfield and New Haven Counties and the surrounding Connecticut region. Our loan portfolio is the largest category of our earning assets. Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 are referred to as “acquired” loans as a result of the manner in which they are accounted for. All other loans are referred to as “originated” loans. Accordingly, selected disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

Total loans before deferred loan fees and the allowance for loan losses were \$1.1 billion at September 30, 2015, up by \$195.9 million, or 21.07%, from December 31, 2014. Commercial real estate loans have experienced the most significant growth, up by \$162.9 million.

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

(In thousands)	September 30, 2015			December 31, 2014			Change Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Real estate loans:							
Residential	\$168,830	\$2,932	\$171,762	\$169,833	\$5,198	\$175,031	\$(3,269)
Commercial	632,410	51,673	684,083	458,506	62,675	521,181	162,902
Construction	83,986	1,007	84,993	62,258	971	63,229	21,764
Home equity	8,915	7,365	16,280	10,226	7,940	18,166	(1,886)
	894,141	62,977	957,118	700,823	76,784	777,607	179,511
Commercial business	138,621	28,021	166,642	120,360	28,899	149,259	17,383
Consumer	30	1,909	1,939	243	2,653	2,896	(957)
Total loans	\$1,032,792	\$92,907	\$1,125,699	\$821,426	\$108,336	\$929,762	\$195,937

Asset Quality

Asset quality metrics remained strong through the third quarter of 2015. Nonperforming assets totaled \$3.7 million and represented 0.28% of total assets at September 30, 2015, compared to \$4.3 million and 0.39% of total assets at December 31, 2014. Nonaccrual loans totaled \$2.4 million at September 30, 2015, a decrease of \$1.0 million compared to December 31, 2014. The balance of foreclosed real estate increased \$378 thousand and totaled \$1.3 million at September 30, 2015 when compared to December 31, 2014.

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

(In thousands)	At September 30, 2015			At December 31, 2014		
	Originated	Acquired	Total	Originated	Acquired	Total
Nonaccrual loans:						
Real estate loans:						
Commercial	970	633	1,603	3,220	-	3,220
Home equity	-	396	396	-	-	-
Commercial business	225	143	368	142	-	142
Total non accrual loans	1,195	1,172	2,367	3,362	-	3,362
Property acquired through foreclosure or repossession, net	-	1,328	1,328	-	950	950
Total nonperforming assets	\$1,195	\$2,500	\$3,695	\$3,362	\$950	\$4,312
Nonperforming assets to total assets	0.09 %	0.19 %	0.28 %	0.31 %	0.09 %	0.39 %
Nonaccrual loans to total loans	0.12 %	1.26 %	0.21 %	0.41 %	0.00 %	0.36 %
Total past due loans to total loans	0.67 %	4.89 %	1.02 %	0.42 %	4.23 %	0.86 %

Accruing loans 90 days or more past due	\$-	\$ 1,082	\$1,082	\$216	\$ 1,782	\$1,998
---	-----	----------	---------	-------	----------	---------

Allowance for Loan Losses

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

At September 30, 2015, our allowance for loan losses was \$13.7 million and represented 1.22% of total loans, compared to \$10.9 million, or 1.17% of total loans, at December 31, 2014. The net increase in the allowance primarily reflects a provision of \$2.9 million.

The following tables present the activity in our allowance for loan losses and related ratios for the dates indicated, and include both originated and acquired allowance activity:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Balance at beginning of period	\$12,230	\$8,985	\$10,860	\$8,382
Charge-offs:				
Construction	-	-	-	(100)
Commercial business	-	-	(15)	-
Consumer	-	-	(6)	(1)
Total charge-offs	-	-	(21)	(101)
Recoveries:				
Consumer	1	1	5	424
Total recoveries	1	1	5	424
Net (recoveries) charge-offs	(1)	(1)	16	(323)
Provision charged to earnings	1,489	566	2,876	847
Balance at end of period	\$13,720	\$9,552	\$13,720	\$9,552
Net charge-offs (recoveries) to average loans	0.00 %	0.00 %	0.00 %	(0.05)%
Allowance for loan losses to total loans	1.22 %	1.28 %	1.22 %	1.28 %

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

(Dollars in thousands)	At September 30, 2015		At December 31, 2014	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Residential real estate	\$1,414	15.26 %	\$1,431	18.83 %
Commercial real estate	7,564	60.77	5,480	56.06
Construction	1,537	7.55	1,102	6.80
Home equity	180	1.45	205	1.95
Commercial business	3,017	14.80	2,638	16.05
Consumer	8	0.17	4	0.31

Total allowance for loan losses \$13,720 100.00 % \$10,860 100.00 %

The allocation of the allowance for loan losses at September 30, 2015 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at September 30, 2015 is appropriate to cover probable losses.

Investment Securities

At September 30, 2015, the carrying value of our investment securities portfolio totaled \$56.3 million and represented 4% of total assets, compared to \$76.5 million and 7% of total assets at December 31, 2014. The decrease of \$20.2 million, or 26%, primarily reflects early calls and scheduled maturities of U.S. Government agency obligations. We purchase investment grade securities with a focus on earnings, duration exposure and for use as collateral for public funds. There were no purchases or sales of available-for-sale investment securities during the first, second or third quarters of 2015.

The net unrealized gain position on our investment portfolio at September 30, 2015 and December 31, 2014 was \$813 thousand and \$1.1 million, respectively and included gross unrealized losses of \$390 thousand and \$290 thousand, respectively. The gross unrealized losses were concentrated in U.S. Government, agency obligations and State agency and municipal obligations, mainly reflecting interest rate fluctuation since date of purchase. At September 30, 2015, we determined that all unrealized losses are temporary.

Sources of Funds

Total deposits were \$1.0 billion at September 30, 2015, an increase of \$190.3 million, from the balance at December 31, 2014 primarily reflecting increases in certificates of deposits and money market accounts. Certificates of deposit increased \$119.9 million from \$308.5 million at December 31, 2014 to \$428.4 million at September 30, 2015. Money markets increased \$80.7 million from \$216.2 million at December 31, 2014 to \$296.9 million at September 30, 2015. Brokered deposits totaled \$69.6 million at September 30, 2015 and represent customer money reciprocal deposits for customers that desire FDIC protection and one way CDARS. Brokered deposits are utilized as an additional source of funding.

We utilize advances from the Federal Home Loan Bank of Boston, or FHLBB, as part of our overall funding strategy and to meet short-term liquidity needs. Total FHLBB advances were \$120.0 million at September 30, 2015 compared to \$129.0 million at December 31, 2014. The decrease of \$9.0 million, or 7%, reflects normal operating fluctuation in our borrowings.

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rated subordinated notes (the "Notes") to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or any early redemption date. The Notes have been structured to qualify for the Company as Tier 2 capital under regulatory guidelines. The Company will use the net proceeds from the sales of the Notes for general corporate purposes, including a plan to redeem the \$11.0 million outstanding of its Senior Noncumulative Perpetual

Preferred Stock issued in 2011 to the U.S. Treasury under the Small Business Lending Fund Program by December 31, 2015. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency.

Liquidity

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

The Company anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of September 30, 2015, the Company had cash and cash equivalents of \$86.8 million and available-for-sale securities of \$45.0 million. At September 30, 2015, outstanding commitments to originate loans totaled \$38.9 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled \$134.7 million. Time deposits scheduled to mature in one year or less at September 30, 2015 totaled \$236.6 million. Historically, the Company's deposit flow history has been that a significant portion of such deposits remain with the Company.

Capital Resources

Total shareholders' equity was \$135.8 million at September 30, 2015 compared to \$129.2 million at December 31, 2014. The increase of \$6.6 million primarily reflected net income of \$6.4 million for the nine months ended September 30, 2015. The ratio of total equity to total assets was 10.3% at September 30, 2015, which compares to 11.8% at December 31, 2014.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At September 30, 2015, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At September 30, 2015, the Bank's ratio of total common equity tier 1 capital to risk-weighted assets was 10.75%, total capital to risk-weighted assets was 11.94%, Tier 1 capital to risk-weighted assets was 10.75% and Tier 1 capital to average assets was 9.84%.

In July 2013, the Federal Reserve published Basel III rules establishing a new comprehensive capital framework of U.S. banking organizations. Under the rules, effective January 1, 2015 for the Company and Bank, the minimum capital ratios will be a) 4.5% "Common Equity Tier 1" to risk-weighted assets, b) 6.0% Tier 1 capital to risk weighted assets and c) 8.0% total capital to risk-weighted assets. In addition, the new regulations will impose certain limitations on dividends, share buy-backs, discretionary payments on Tier 1 instruments and discretionary bonuses to executive officers if the organization does not maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of its risk-weighted assets, in addition to the amount needed to meet its minimum risk-based capital requirements, phased in over a 5 year period until January 1, 2019. Accordingly, while these proposed rules are slated for phase in commencing January 1, 2015 (and the capital conservation buffer beginning January 1, 2016), the Company believes it is well positioned to meet the requirements as they become effective.

On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its initial public offering at \$18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market. The net proceeds from the IPO were approximately \$44.7 million, after deducting the underwriting discount of approximately \$2.5 million and approximately \$1.3 million of expenses.

The Company's Board of Directors declared a \$0.05 per share cash dividend, payable December 21, 2015 to shareholders of record on December 11, 2015.

Interest Rate Sensitivity Analysis

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

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

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning September 30, 2015 and December 31, 2014:

Parallel Ramp	Estimated Percent Change in Net Interest Income	
	September 30, 2015	December 31, 2014
Rate Changes (basis points)		
-100	(1.29)%	(0.95)%
+200	(2.08)	(4.00)

Parallel Shock	Estimated Percent Change in Net Interest Income	
	September 30, 2015	December 31, 2014
Rate Changes (basis points)		
-100	(3.33)%	(3.26)%
+100	(1.48)	(3.07)
+200	(1.26)	(5.61)
+300	(1.93)	(9.00)

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

Economic value of equity at risk is calculated by estimating the net present value of all future cash flows across various parallel shock scenarios based on existing assets and liabilities compared to current interest rates. The base case scenario assumes that current interest rates remain unchanged in the future.

The following table sets forth the estimated percentage change in our economic value of equity at risk, assuming various shifts in interest rates:

Rate Changes (basis points)	Estimated Percent Change in Economic Value of Equity			
	September 30, 2015		December 31, 2014	
-100	(5.70	)%	(0.50)%
+100	(4.40	)	(8.50)
+200	(10.30	)	(18.20)
+300	(15.50	)	(26.90)

The interest rate risk position remains liability sensitive in the near-term with an emerging asset sensitive bias throughout the longer-term simulation horizon. The expected exposure over the first two to three years of the simulation has been reduced due to inflated overnight cash positions and an additional \$25 million interest rate swap. The Bank remains within all internally established policies for interest rate risk and the economic value of equity calculation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk Management

Interest rate risk management is our primary market risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity Analysis” herein for a discussion of our management of our interest rate risk.

Inflation Risk Management

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures:

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period reported on in this report, the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings.

(b) Change in internal controls:

There has been no change in the Company's internal controls over financial reporting during the quarter that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company and the Bank are periodically involved in various legal proceedings as normal incident their businesses. In the opinion of management, no material loss is expected from any such lawsuit.

Item 1a. Risk Factors

There have been no material changes in risk factors previously disclosed in the Company's Form 10-K dated March 16, 2015, filed with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On August 19, 2015, the Company completed the offering and sale of \$25,500,000 aggregate principal amount of its fixed rate 5.75% Subordinated Notes due August 15, 2025 (the "Notes"). The Notes were offered pursuant to a private placement of securities to accredited institutional investors and a Note Purchase Agreement. The Notes provide for quarterly interest payments only with the principal due in full on August 15, 2025, unless paid earlier. The Company, in its discretion, shall have the right to redeem or prepay any or all of the Notes, without premium or penalty prior to August 15, 2025: (a) in whole or in part, at any time on or after August 15, 2020 and prior to August 15, 2025, but in all cases in a principal amount with integral multiples of \$1,000, on any interest payment date; or (b) in whole, at any time, upon the occurrence of a Tier 2 Capital Event or a Tax Event as defined in the Notes, or if the Company is required to register as an investment company pursuant to the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.). Any such redemption will be at a price equal to 100% of the principal amount of the Note to be redeemed or prepaid on such date, plus interest accrued and unpaid to, but excluding, the date of redemption or prepayment. Keefe, Bruyette & Woods, A Stifel Company, served as the sole placement agent for the private offering, with an underwriting discount of 1.5% (\$382,500). The Company plans to use the net proceeds from the sales of the Notes for general corporate purposes, including to redeem the approximately \$11.0 million outstanding of its Senior Noncumulative Perpetual Preferred Stock issued in 2011 to the U.S. Treasury under the Small Business Lending Fund Program. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith:

31.1 Certification of Christopher R. Gruseke pursuant to Rule 13a-14(a)

31.2 Certification of Ernest J. Verrico, Sr. pursuant to Rule 13a-14(a)

69

32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following materials from Bankwell Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2015, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated 101 Statements of Financial Condition; (ii) Consolidated Statement of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Bankwell Financial Group, Inc.

Date: November 9, 2015 /s/ Christopher R. Gruseke
Christopher R. Gruseke
President and Chief Executive Officer

Date: November 9, 2015 /s/ Ernest J. Verrico, Sr.
Ernest J. Verrico, Sr.
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting
Officer)