

Bankwell Financial Group, Inc.  
Form 10-Q  
May 10, 2016

**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 **March 31, 2016**

**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 April 30, 2016, there were 7,530,791 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 March 31, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Income for the three months ended March 31, 2016 and 2015</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015</u>	5
<u>Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2016 and 2015</u>	6
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015</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>	46
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	59
<u>Item 4. Controls and Procedures</u>	59

**PART II – OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	59
<u>Item 1A. Risk Factors</u>	59
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 3. Defaults Upon Senior Securities</u>	60
<u>Item 4. Mine Safety Disclosures</u>	60
<u>Item 5. Other Information</u>	60
<u>Item 6. Exhibits</u>	60

<b><u>Signatures</u></b>	61
--------------------------	----

<b>Certifications</b>	62
-----------------------	----

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

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and due from banks	\$69,512	\$49,562
Federal funds sold	3,194	\$39,035
Cash and cash equivalents	72,706	88,597
Held to maturity investment securities, at amortized cost	17,010	10,226
Available for sale investment securities, at fair value	91,528	40,581
Loans receivable (net of allowance for loan losses of \$14,810 at March 31, 2016 and \$14,169 at December 31, 2015)	1,177,905	1,129,748
Foreclosed real estate	878	1,248
Accrued interest receivable	4,370	4,071
Federal Home Loan Bank stock, at cost	7,158	6,554
Premises and equipment, net	10,830	11,163
Bank-owned life insurance	23,929	23,755
Goodwill	2,589	2,589
Other intangible assets	612	652
Deferred income taxes, net	8,814	8,337
Other assets	1,881	2,851
<b>Total assets</b>	<b>\$1,420,210</b>	<b>\$1,330,372</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest bearing deposits	\$165,968	\$164,553
Interest bearing deposits	927,766	882,389
<b>Total deposits</b>	<b>1,093,734</b>	<b>1,046,942</b>
Advances from the Federal Home Loan Bank	160,000	120,000
Subordinated debentures	25,012	25,000
Accrued expenses and other liabilities	6,856	6,661
<b>Total liabilities</b>	<b>1,285,602</b>	<b>1,198,603</b>

Commitments and Contingencies	-	-
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,530,791 and 7,516,291 shares issued at March 31, 2016 and December 31, 2015, respectively	113,052	112,579
Retained earnings	21,578	18,963
Accumulated other comprehensive (loss) income	(22 )	227
Total shareholders' equity	134,608	131,769
Total liabilities and shareholders' equity	\$1,420,210	\$1,330,372

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 March 31,	
	2016	2015
Interest and dividend income		
Interest and fees on loans	\$ 13,283	\$ 10,757
Interest and dividends on securities	684	504
Interest on cash and cash equivalents	37	12
Total interest income	14,004	11,273
Interest expense		
Interest expense on deposits	1,740	1,038
Interest on borrowings	866	341
Total interest expense	2,606	1,379
Net interest income	11,398	9,894
Provision for loan losses	646	733
Net interest income after provision for loan losses	10,752	9,161
Noninterest income		
Service charges and fees	245	208
Bank owned life insurance	174	183
Gains and fees from sales of loans	110	89
Gain on sale of foreclosed real estate, net	-	18
Other	143	101
Total noninterest income	672	599
Noninterest expense		
Salaries and employee benefits	3,811	3,962
Occupancy and equipment	1,408	1,349
Data processing	407	336
Professional services	366	325
FDIC insurance	169	158
Director fees	155	148
Marketing	139	148
Foreclosed real estate	72	5
Amortization of intangibles	40	51
Other	513	490

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

Total noninterest expense	7,080	6,972
Income before income tax expense	4,344	2,788
Income tax expense	1,353	915
Net income	\$ 2,991	\$ 1,873
Net income attributable to common shareholders	\$ 2,991	\$ 1,846

Earnings Per Common Share:

Basic	\$ 0.40	\$ 0.26
Diluted	\$ 0.40	\$ 0.26

Weighted Average Common Shares Outstanding:

Basic	7,380,217	7,028,499
Diluted	7,431,747	7,056,141
Dividends per common share	\$ 0.05	\$ -

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2016	2015
Net income	\$2,991	\$1,873
Other comprehensive loss:		
Unrealized gains on securities:		
Unrealized holding gains on available for sale securities	1,024	326
Reclassification adjustment for (gain) loss realized in net income	-	-
Net change in unrealized gain	1,024	326
Income tax expense	(358 )	(127 )
Unrealized gains on securities, net of tax	666	199
Unrealized losses on interest rate swaps:		
Unrealized losses on interest rate swaps designated as cash flow hedges	(1,408 )	(568 )
Income tax benefit	493	221
Unrealized losses on interest rate swaps, net of tax	(915 )	(347 )
Total other comprehensive loss	(249 )	(148 )
Comprehensive income	\$2,742	\$1,725

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	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	7,516,291	\$112,579	\$18,963	\$ 227	\$131,769
Net income	-	-	2,991	-	2,991
Other comprehensive loss, net of tax	-	-	-	(249 )	(249 )
Cash dividends declared (\$0.05 per share)	-	-	(376 )	-	(376 )
Stock-based compensation expense	-	249	-	-	249
Forfeitures of restricted stock	-	-	-	-	-
Issuance of restricted stock	-	-	-	-	-
Stock options exercised	14,500	224	-	-	224
Balance at March 31, 2016	7,530,791	\$113,052	\$21,578	\$ (22 )	\$134,608

	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	-	-	-	1,873	-	1,873
Other comprehensive loss, net of tax	-	-	-	-	(148 )	(148 )
Preferred stock cash dividends	-	-	-	(27 )	-	(27 )
Stock-based compensation expense	-	-	242	-	-	242
Issuance of restricted stock	40,000	-	-	-	-	-
Stock options exercised	17,770	-	258	-	-	258
Balance at March 31, 2015	7,243,252	\$10,980	\$107,765	\$12,280	\$ 383	\$131,408

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$2,991	\$1,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	130	38
Provision for loan losses	646	733
Provision for deferred taxes	(343 )	(229 )
Depreciation and amortization	428	403
Increase in cash surrender value of bank-owned life insurance	(174 )	(183 )
Loan principal sold	(1,268 )	(3,122 )
Proceeds from sales of loans	1,378	3,797
Net gain on sales of loans	(110 )	(89 )
Equity-based compensation	249	242
Net accretion of purchase accounting adjustments	(35 )	(41 )
Loss (gain) on sale and write-downs of foreclosed real estate	51	(18 )
Net change in:		
Deferred loan fees	166	96
Accrued interest receivable	(299 )	(19 )
Other assets	(358 )	(142 )
Accrued expenses and other liabilities	195	(530 )
Net cash provided by operating activities	3,647	2,809
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	273	284
Proceeds from principal repayments on held to maturity securities	52	53
Net proceeds from sales and calls of available for sale securities	900	14,280
Purchases of available for sale securities	(51,228 )	-
Purchase of held to maturity securities	(6,835 )	-
Net increase in loans	(48,995 )	(48,936)
Purchases of premises and equipment	(95 )	(613 )
Purchase of Federal Home Loan Bank stock	(604 )	(685 )
Proceeds from sale of foreclosed real estate	320	138
Net cash used by investing activities	(106,212)	(35,479)

See accompanying notes to consolidated financial statements (unaudited)



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

	Three Months Ended March 31,	
	2016	2015
Cash flows from financing activities		
Net change in time certificates of deposit	\$38,025	\$(7,242 )
Net change in other deposits	8,788	6,550
Amortization of debt issuance costs	13	-
Net change in FHLB advances	40,000	4,000
Proceeds from exercise of options	224	258
Dividends paid on common stock	(376 )	-
Dividends paid on preferred stock	-	(27 )
Net cash provided by financing activities	86,674	3,539
Net decrease in cash and cash equivalents	(15,891)	(29,131)
Cash and cash equivalents:		
Beginning of year	88,597	48,559
End of period	\$72,706	\$19,428
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	\$2,616	\$1,258
Income taxes	1,063	1,020
Noncash investing and financing activities		
Loans transferred to foreclosed real estate	\$-	\$-

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 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, 2016. 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, 2015.

### **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 2016 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. 2014-09 – 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 were effective for the Company as of January 1, 2016. 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 was effective for the Company as of January 1, 2016. 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. 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 recorded \$0.5 million of debt issuance costs incurred as a direct deduction from the debt liability.

*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. The amendments were effective for the Company as of January 1, 2016. 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. 2016-01, Financial Instruments – Overall (Subtopic 825-10): “Recognition and Measurement of Financial Assets and Financial Liabilities.”* The ASU has been issued to improve the recognition and measurement of financial instruments by requiring 1) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 3) the use of the exit price notion when measuring fair value of financial instruments for disclosure purposes; and 4) separate presentation by the reporting organization in other comprehensive income for the portion of the total change in the fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard is effective for the Company beginning on January 1, 2018. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

*ASU 2016-02, Leases (Topic 842).* The amendments in this update require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for annual periods, and interim periods within those annual periods,

beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. 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)**

*ASU 2016-09, Compensation – Stock Compensation (Topic 718): “Improvements to Employee Share-Based Payment Accounting.”* This ASU changes how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled, the guidance on employers’ accounting for an employee’s use of shares to satisfy the employer’s statutory income tax withholding obligation and for forfeitures is changing and the update requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The amendments in this update will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. 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 March 31, 2016 were as follows:

	March 31, 2016			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	\$57,316	\$685	\$(5 )	\$57,996
Due from five through ten years	294	6	-	300
Due after ten years	400	-	-	400
	58,010	691	(5 )	58,696
State agency, U.S. Territories and municipal obligations				
Due from one through five years	825	48	-	873
Due from five through ten years	9,694	475	(388 )	9,781
Due after ten years	5,995	385	-	6,380
	16,514	908	(388 )	17,034
Corporate bonds				
Due in less than one year	1,007	17	-	1,024
Due from one through five years	9,215	283	-	9,498
Due from five through ten years	1,012	37	-	1,049
	11,234	337	-	11,571
Government-sponsored mortgage backed securities				
No contractual maturity	4,121	113	(7 )	4,227
	4,121	113	(7 )	4,227
Total available for sale securities	\$89,879	\$2,049	\$(400 )	\$91,528
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				

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

Due after ten years	\$15,823	\$-	\$-	\$15,823
Corporate bonds				
Due from one through five years	1,000	-	(40 )	960
Government-sponsored mortgage backed securities				
No contractual maturity	187	19	-	206
Total held to maturity securities	\$17,010	\$19	\$(40 )	\$16,989

**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, 2015 were as follows:

	December 31, 2015			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	\$6,198	\$ -	\$(77 )	\$6,121
Due from five through ten years	394	4	(2 )	396
Due after ten years	647	-	(21 )	626
	7,239	4	(100 )	7,143
State agency, U.S. Territories and municipal obligations				
Due from one through five years	520	39	-	559
Due from five through ten years	9,762	361	(322 )	9,801
Due after ten years	6,778	367	(1 )	7,144
	17,060	767	(323 )	17,504
Corporate bonds				
Due in less than one year	1,010	22	-	1,032
Due from one through five years	9,233	156	(9 )	9,380
Due from five through ten years	1,013	12	-	1,025
	11,256	190	(9 )	11,437
Government-sponsored mortgage backed securities				
No contractual maturity	4,400	107	(10 )	4,497
	4,400	107	(10 )	4,497
Total available for sale securities	\$39,955	\$ 1,068	\$(442 )	\$40,581
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				
Due after ten years	\$9,026	\$ -	\$ -	\$9,026
Corporate bonds				
Due from one through five years	1,000	-	(19 )	981

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

Government-sponsored mortgage backed securities

No contractual maturity	200	21	-	221
Total held to maturity securities	\$10,226	\$ 21	\$(19 )	\$10,228

There were no sales of, or realized gains or losses on investment securities during the three months ended March 31, 2016 and 2015.

At March 31, 2016 and December 31, 2015, securities with approximate fair values of \$6.0 million and \$5.9 million were pledged as collateral for public deposits, respectively.

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

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 March 31, 2016 and December 31, 2015:

	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)					
<b>March 31, 2016</b>						
U.S. Government and agency obligations	\$ 998	\$ (2 )	\$ 1,097	\$ (3 )	\$2,095	\$ (5 )
State agency, U.S. Territories and municipal obligations	-	-	608	(388 )	608	(388 )
Corporate bonds	960	(40 )	-	-	960	(40 )
Government-sponsored mortgage backed securities	339	(2 )	450	(5 )	789	(7 )
Total investment securities	\$ 2,297	\$ (44 )	\$ 2,155	\$ (396 )	\$4,452	\$ (440 )
<b>December 31, 2015</b>						
U.S. Government and agency obligations	\$ 5,486	\$ (60 )	\$ 1,259	\$ (40 )	\$6,745	\$ (100 )
State agency, U.S. Territories and municipal obligations	126	(1 )	665	(322 )	791	(323 )
Corporate bonds	1,970	(28 )	-	-	1,970	(28 )
Government-sponsored mortgage backed securities	768	(4 )	413	(6 )	1,181	(10 )
Total investment securities	\$ 8,350	\$ (93 )	\$ 2,337	\$ (368 )	\$10,687	\$ (461 )

There were 15 and 29 investment securities as of March 31, 2016 and December 31, 2015, 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 state agency, U.S. Territories, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, U.S. Territories, municipal and corporate bonds are all rated above investment grade except for one U.S. Territory bond (a Commonwealth of Puerto Rico senior lien sales tax financing corporate bond or "COFINA" bond) with a cost of \$995.0 thousand and a market value of \$607.5 thousand that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, thus far, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with a strong debt service coverage. In February 2016, the Commonwealth of Puerto Rico proposed a voluntary debt restructuring of all of its outstanding debt. The voluntary restructuring proposal has been rejected by most creditors. In addition, a "debt moratorium" was announced on May 2, 2016 by the Commonwealth of Puerto Rico and, as a result, it appears that there may be potential litigation and negotiations relating to its debt obligations. These events could impact our assessment and the valuation of this bond in the future. Given the uncertainty surrounding the timing and impact of these events the Company will continue to monitor the ongoing negotiations and review the bond for potential other than temporary impairment as events unfold.

**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 March 31, 2016 and December 31, 2015:

(In thousands)	March 31, 2016			December 31, 2015		
	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	\$181,345	\$2,789	\$184,134	\$174,311	\$2,873	\$177,184
Commercial	697,600	53,971	751,571	643,524	54,018	697,542
Construction	82,435	93	82,528	81,242	1,031	82,273
Home equity	9,319	6,470	15,789	9,146	6,780	15,926
	970,699	63,323	1,034,022	908,223	64,702	972,925
Commercial business	139,897	21,006	160,903	150,479	22,374	172,853
Consumer	63	1,489	1,552	117	1,618	1,735
Total loans	1,110,659	85,818	1,196,477	1,058,819	88,694	1,147,513
Allowance for loan losses	(14,787 )	(23 )	(14,810 )	(14,128 )	(41 )	(14,169 )
Deferred loan origination fees, net	(3,771 )	-	(3,771 )	(3,605 )	-	(3,605 )
Unamortized loan premiums	9	-	9	9	-	9
Loans receivable, net	\$1,092,110	\$85,795	\$1,177,905	\$1,041,095	\$88,653	\$1,129,748

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.

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

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

(In thousands)	Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	\$ 871	\$ 1,382
Acquisition	-	-
Accretion	(49 )	(94 )
Other (a)	(51 )	(63 )
Balance at end of period	\$ 771	\$ 1,225

- 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.

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.

**Bankwell Financial Group, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

*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.

**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 months ended March 31, 2016 and 2015, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Home Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended March 31, 2016							
Originated							
Beginning balance	\$ 1,444	\$ 7,693	\$1,504	\$ 174	\$ 3,310	\$ 3	\$14,128
Charge-offs	-	-	-	-	-	(1)	(1)
Recoveries	-	-	-	-	-	5	5
Provisions	59	741	79	4	(224)	(4)	655
Ending balance	\$ 1,503	\$ 8,434	\$1,583	\$ 178	\$ 3,086	\$ 3	\$14,787
Acquired							
Beginning balance	\$ -	\$ 12	\$-	\$ -	\$ 24	\$ 5	\$41
Charge-offs	-	-	(7)	-	-	(2)	(9)
Recoveries	-	-	-	-	-	-	-
Provisions	-	1	7	-	(18)	1	(9)
Ending balance	\$ -	\$ 13	\$-	\$ -	\$ 6	\$ 4	\$23
Total							
Beginning balance	\$ 1,444	\$ 7,705	\$1,504	\$ 174	\$ 3,334	\$ 8	\$14,169
Charge-offs	-	-	(7)	-	-	(3)	(10)
Recoveries	-	-	-	-	-	5	5
Provisions	59	742	86	4	(242)	(3)	646
Ending balance	\$ 1,503	\$ 8,447	\$1,583	\$ 178	\$ 3,092	\$ 7	\$14,810

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

	Residential Real Estate	Commercial Real Estate	Home Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended March 31, 2015							
Originated							
Beginning balance	\$ 1,431	\$ 5,480	\$ 1,102	\$ 205	\$ 2,638	\$ 4	\$ 10,860
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	1
Provisions	(25 )	587	118	(2 )	44	(2 )	720
Ending balance	\$ 1,406	\$ 6,067	\$ 1,220	\$ 203	\$ 2,682	\$ 3	\$ 11,581
Acquired							
Beginning balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	2	2
Provisions	-	-	-	-	12	1	13
Ending balance	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ 3	\$ 15
Total							
Beginning balance	\$ 1,431	\$ 5,480	\$ 1,102	\$ 205	\$ 2,638	\$ 4	\$ 10,860
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	3	3
Provisions	(25 )	587	118	(2 )	56	(1 )	733
Ending balance	\$ 1,406	\$ 6,067	\$ 1,220	\$ 203	\$ 2,694	\$ 6	\$ 11,596

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 March 31, 2016 and December 31, 2015:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
March 31, 2016						
Loans individually evaluated for impairment:						
Residential real estate	\$ 1,833	\$ -	\$ -	\$ -	\$ 1,833	\$ -
Commercial real estate	5,813	-	595	-	6,408	-
Home equity	414	-	196	-	610	-
Commercial business	859	70	1,396	1	2,255	71
Consumer	-	-	4	4	4	4
Subtotal	8,919	70	2,191	5	11,110	75
Loans collectively evaluated for impairment:						
Residential real estate	179,512	1,503	2,789	-	182,301	1,503
Commercial real estate	691,787	8,435	53,376	13	745,163	8,448
Construction	82,435	1,583	93	-	82,528	1,583
Home equity	8,905	178	6,274	-	15,179	178
Commercial business	139,038	3,015	19,610	5	158,648	3,020
Consumer	63	3	1,485	-	1,548	3
Subtotal	1,101,740	14,717	83,627	18	1,185,367	14,735
Total	\$ 1,110,659	\$ 14,787	\$ 85,818	\$ 23	\$ 1,196,477	\$ 14,810

**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, 2015						
Loans individually evaluated for impairment:						
Residential real estate	\$ 1,833	\$ 2	\$ -	\$ -	\$ 1,833	\$ 2
Commercial real estate	4,291	-	762	12	5,053	12
Home equity	422	-	197	-	619	-
Commercial business	1,977	71	1,433	21	3,410	92
Consumer	-	-	7	5	7	5
Subtotal	8,523	73	2,399	38	10,922	111
Loans collectively evaluated for impairment:						
Residential real estate	172,478	1,442	2,873	-	175,351	1,442
Commercial real estate	639,233	7,692	53,256	-	692,489	7,692
Construction	81,242	1,504	1,031	-	82,273	1,504
Home equity	8,724	174	6,583	-	15,307	174
Commercial business	148,502	3,239	20,941	3	169,443	3,242
Consumer	117	4	1,611	-	1,728	4
Subtotal	1,050,296	14,055	86,295	3	1,136,591	14,058
Total	\$ 1,058,819	\$ 14,128	\$ 88,694	\$ 41	\$ 1,147,513	\$ 14,169

**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 March 31, 2016 and December 31, 2015:

	Commercial Credit Quality Indicators					
	At March 31, 2016			At December 31, 2015		
	Commercial		Commercial	Commercial		Commercial
	Real Estate	Construction	Business	Real Estate	Construction	Business
	(In thousands)					
Originated loans:						
Pass	\$691,787	\$ 82,435	\$ 137,764	\$638,709	\$ 81,242	\$ 148,748
Special mention	2,593	-	1,547	1,595	-	1,118
Substandard	3,220	-	522	3,220	-	549
Doubtful	-	-	-	-	-	-
Loss	-	-	64	-	-	64
Total originated loans	697,600	82,435	139,897	643,524	81,242	150,479
Acquired loans:						
Pass	51,453	93	19,441	52,427	230	20,794
Special mention	1,307	-	635	-	-	598
Substandard	1,211	-	930	1,591	801	982
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	53,971	93	21,006	54,018	1,031	22,374
Total	\$751,571	\$ 82,528	\$ 160,903	\$697,542	\$ 82,273	\$ 172,853

	Residential and Consumer Credit Quality Indicators					
	At March 31, 2016			At December 31, 2015		
	Residential		Consumer	Residential		Consumer
	Real Estate	Home Equity	Consumer	Real Estate	Home Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	\$179,512	\$ 8,904	\$ 63	\$172,478	\$ 8,725	\$ 117
Special mention	864	78	-	864	80	-
Substandard	969	337	-	969	341	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	181,345	9,319	63	174,311	9,146	117

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

Acquired loans:						
Pass	2,789	6,230	1,419	2,873	6,545	1,539
Special mention	-	-	-	-	-	-
Substandard	-	240	70	-	235	79
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	2,789	6,470	1,489	2,873	6,780	1,618
Total	\$184,134	\$ 15,789	\$ 1,552	\$177,184	\$ 15,926	\$ 1,735

**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 March 31, 2016 and December 31, 2015:

	As of March 31, 2016					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	\$-	\$ -	\$969	\$ 969	\$180,376	\$ -
Commercial real estate	-	-	-	-	697,600	-
Construction	1,068	-	-	1,068	81,367	-
Home equity	195	-	-	195	9,124	-
Commercial business	-	-	64	64	139,833	-
Consumer	-	-	4	4	59	-
Total originated loans	1,263	-	1,037	2,300	1,108,359	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,789	-
Commercial real estate	655	-	595	1,250	52,721	89
Construction	-	-	-	-	93	-
Home equity	100	162	190	452	6,018	-
Commercial business	278	-	174	452	20,554	-
Consumer	16	-	-	16	1,473	-
Total acquired loans	1,049	162	959	2,170	83,648	89
Total loans	\$2,312	\$ 162	\$1,996	\$ 4,470	\$1,192,007	\$ 89

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

As of December 31, 2015

	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	\$-	\$ -	\$969	\$ 969	\$173,342	\$ -
Commercial real estate	-	311	-	311	643,213	-
Construction	-	-	-	-	81,242	-
Home equity	198	-	-	198	8,948	-
Commercial business	1,078	100	343	1,521	148,958	-
Consumer	-	-	-	-	117	-
Total originated loans	1,276	411	1,312	2,999	1,055,820	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,873	-
Commercial real estate	333	-	762	1,095	52,923	218
Construction	-	-	801	801	230	801
Home equity	100	162	191	453	6,327	-
Commercial business	262	71	101	434	21,940	86
Consumer	17	-	-	17	1,601	-
Total acquired loans	712	233	1,855	2,800	85,894	1,105
Total loans	\$1,988	\$ 644	\$3,167	\$ 5,799	\$1,141,714	\$ 1,105

**Loans on nonaccrual status**

The following is a summary of nonaccrual loans by portfolio segment as of March 31, 2016 and December 31, 2015:

March 31, 2016	December 31, 2015
----------------------	----------------------



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

	(In thousands)	
Residential real estate	\$969	\$ 970
Commercial real estate	1,113	1,264
Home equity	392	395
Commercial business	918	1,160
Consumer	6	2
Total	\$3,398	\$ 3,791

The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled \$13 thousand and \$25 thousand, respectively for the three months ended March 31, 2016, and 2015. There was no and \$1 thousand actual interest income recognized on these loans for the three months ended March 31, 2016, and 2015, respectively.

**Bankwell Financial Group, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

At March 31, 2016 and December 31, 2015, there were \$169 thousand of commitments to lend additional funds to any borrower on nonaccrual status.

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling \$0.1 million and \$1.1 million, respectively at March 31, 2016 and December 31, 2015. 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 March 31, 2016 and December 31, 2015:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(In thousands)					
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	\$ 1,833	\$ 969	\$ 1,833	\$ 969	\$ -	\$ -
Commercial real estate	5,813	4,291	5,813	4,291	-	-
Home equity	414	422	419	424	-	-
Commercial business	353	1,351	378	1,372	-	-
Total impaired loans without a valuation allowance	8,413	7,033	8,443	7,056	-	-
Impaired loans with a valuation allowance:						
Residential real estate	-	864	-	864	-	2
Commercial business	506	626	506	690	70	71
Total impaired loans with a valuation allowance	506	1,490	506	1,554	70	73
Total originated impaired loans	\$ 8,919	\$ 8,523	\$ 8,949	\$ 8,610	\$ 70	\$ 73
Acquired						
Impaired loans without a valuation allowance:						
Commercial real estate	\$ 595	\$ 611	\$ 678	\$ 678	\$ -	\$ -
Commercial business	1,277	963	1,281	963	-	-
Home equity	196	197	200	200	-	-
Total impaired loans without a valuation allowance	2,068	1,771	2,159	1,841	-	-
Impaired loans with a valuation allowance:						
Commercial Real Estate	-	151	-	151	-	12
Commercial business	119	470	131	480	1	21
Consumer	4	7	4	7	4	5

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

Total impaired loans with a valuation allowance	123	628	135	638	5	38
Total acquired impaired loans	\$2,191	\$ 2,399	\$ 2,294	\$ 2,479	\$ 5	\$ 38

28

**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 March 31, 2016 and December 31, 2015:

	Average Recorded Investment		Interest Income Recognized	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(In thousands)			
<b>Originated</b>				
Impaired loans without a valuation allowance:				
Residential real estate	\$ 1,833	\$ 973	\$ 7	\$ 27
Commercial real estate	5,821	4,308	60	124
Home equity	418	429	2	10
Commercial business	357	1,374	2	49
Total impaired loans without a valuation allowance	8,429	7,084	71	210
Impaired loans with a valuation allowance:				
Residential real estate	-	864	-	28
Commercial business	518	673	6	34
Total impaired loans with a valuation allowance	518	1,537	6	62
Total originated impaired loans	\$ 8,947	\$ 8,621	\$ 77	\$ 272
<b>Acquired</b>				
Impaired loans without a valuation allowance:				
Commercial real estate	\$ 602	\$ 602	\$ -	\$ 6
Commercial business	1,288	999	14	54
Home equity	197	198	-	2
Total impaired loans without a valuation allowance	2,087	1,799	14	62
Impaired loans with a valuation allowance:				
Commercial real estate	-	151	-	3
Commercial business	123	506	-	14
Consumer	4	7	1	1
Total impaired loans with a valuation allowance	127	664	1	18
Total acquired impaired loans	\$ 2,214	\$ 2,463	\$ 15	\$ 80

**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. Troubled debt restructurings are classified as impaired loans.

If a performing loan is restructured into a TDR it remains in performing status. If a nonperforming loan is restructured into a TDR, it continues to be carried in nonaccrual status. Nonaccrual classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months.

Troubled debt restructured loans are reported as such for at least one year from the date of restructuring.

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

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 \$6.4 million at March 31, 2016 and \$7.3 million at December 31, 2015.

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

(Dollars in thousands)	Number of Loans		Outstanding Recorded Investment			
	2016	2015	Pre-Modification		Post-Modification	
Three Months Ended March 31,			2016	2015	2016	2015
Commercial real estate	-	2	\$ -	\$ 3,220	\$ -	\$ 3,220
Commercial business	-	1	-	54	-	54
Total	-	3	\$ -	\$ 3,274	\$ -	\$ 3,274

All TDRs at March 31, 2016 and December 31, 2015 were performing in compliance with their modified terms, except for two non-accrual loans totaling \$1.1 million at March 31, 2016 and December 31, 2015.

The following table provides information on how loans were modified as a TDR during the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Maturity/amortization concession	\$ -	\$ 54
Maturity and payment concession	-	3,220
Total	\$ -	\$ 3,274

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the three months ended March 31, 2016 and 2015, 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.

Prior to the public offering, the Company issued shares in various offerings.



**Bankwell Financial Group, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

**Preferred stock**

In 2011, the Company elected to participate in the Treasury’s Small Business Lending Fund Program (“SBLF”).

The Company sold 10,980 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, no par (the “Series C Preferred Stock”), having a liquidation preference of \$1,000 per preferred share, to the Treasury. The transaction resulted in net capital proceeds to the Company of \$5.9 million, of which at least 90% was invested in the Bank as Tier 1 Capital.

The Series C Preferred stock paid noncumulative dividends. The Company paid dividends at a rate of 1.0% since issuance.

On November 20, 2015 the Company redeemed the \$10.98 million (10,980 shares) of preferred stock. The shares were redeemed at their liquidation value of \$1,000 per share plus accrued dividends through November 20, 2015. The redemption was approved by the Company’s primary federal regulator and was funded with the Company’s surplus capital. With this redemption, the Company has redeemed all of its outstanding SBLF stock.

**Warrants**

BNC’s October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the “Offerings”) call for the issuance of Units. Each Unit issued pursuant to the Offerings represented one share of common stock and one nontransferable 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 extended the exercise period to October 5, 2015 through December 5, 2015. Each warrant allowed a holder to purchase .3221 shares of common stock at an exercise price of \$14.00 per share. 945,789 Warrants were available to purchase up to 304,639 shares of common stock at \$14.00 per share for a maximum offering of \$4,264,946. As a result of the offering, 838,369 Warrants were exercised for 269,992 shares of common stock for total gross proceeds of \$3,779,888. There are no longer any outstanding Warrants following the close of this offering.

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 \$17.86. None of the warrants have been exercised as of December 31, 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.

On January 27, 2016 The Company's Board of Directors declared a \$0.05 per share cash dividend, payable February 22, 2016 to shareholders of record on February 12, 2016. The Company did not repurchase any of its common stock during 2016 or 2015.

**Bankwell Financial Group, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****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 months ended March 31, 2016 and 2015 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 months ended March 31, 2016 and 2015:

	Net Unrealized Gain (Loss) on Available for Sale Securities (In thousands)	Net Unrealized Gain (Loss) on Interest Rate Swap	Total	
Balance at December 31, 2015	\$405	\$ (178)	) \$227	
Other comprehensive income (loss) before reclassifications	666	(915)	)	(249)
Amounts reclassified from accumulated other comprehensive income	-	-	-	
Net other comprehensive income (loss)	666	(915)	) (249)	)
Balance at March 31, 2016	\$1,071	\$ (1,093)	) \$(22)	)

Net Unrealized Gain (Loss) on Available	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
--	---	-------

	for Sale Securities <i>(In thousands)</i>			
Balance at December 31, 2014	\$644	\$ (113	)	\$531
Other comprehensive income (loss) before reclassifications	199	(347	)	(148)
Amounts reclassified from accumulated other comprehensive income	-	-	-	
Net other comprehensive income (loss)	199	(347	)	(148)
Balance at March 31, 2015	\$843	\$ (460	)	\$383

## 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. Restricted stock awards include the right to receive non forfeitable dividends, and are therefore, considered to participate with common stock in undistributed earnings for purposes of computing EPS.

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

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

The following is a reconciliation of earnings available to common 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 March 31,	
	2016	2015
	(In thousands, except per share data)	
Net income	\$ 2,991	\$ 1,873
Preferred stock dividends	-	(27 )
Dividends to participating securities	(6 )	-
Undistributed earnings allocated to participating securities	(49 )	(46 )
Net income for earnings per share calculation	\$ 2,936	\$ 1,800
Weighted average shares outstanding, basic	7,380	7,028
Effect of dilutive equity-based awards	52	28
Weighted average shares outstanding, diluted	7,432	7,056
Net earnings per common share:		
Basic earnings per common share	\$ 0.40	\$ 0.26
Diluted earnings per common share	0.40	0.26

**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 100-200 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 March 31, 2016, the Bank and Company meet all capital adequacy requirements to which they are subject and satisfies the criteria for a "well capitalized" institution. 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 March 31, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
March 31, 2016						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 146,362	12.24%	\$ 53,797	4.50 %	\$ 77,707	6.50 %
Total Capital to Risk-Weighted Assets	161,172	13.48%	95,640	8.00 %	119,550	10.00 %
Tier I Capital to Risk-Weighted Assets	146,362	12.24%	71,730	6.00 %	95,640	8.00 %
Tier I Capital to Average Assets	146,362	10.85%	53,963	4.00 %	67,454	5.00 %
Bankwell Financial Group, Inc.						
March 31, 2016						

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

Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 131,673	10.98%	\$ 53,962	4.50 %	N/A	N/A
Total Capital to Risk-Weighted Assets	171,495	14.30%	95,933	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	131,673	10.98%	71,950	6.00 %	N/A	N/A
Tier I Capital to Average Assets	131,673	9.59 %	54,923	4.00 %	N/A	N/A



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

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Bankwell Bank</b>						
December 31, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 142,651	12.18%	\$ 52,709	4.50 %	\$ 76,135	6.50 %
Total Capital to Risk-Weighted Assets	156,820	13.39%	93,705	8.00 %	117,131	10.00 %
Tier I Capital to Risk-Weighted Assets	142,651	12.18%	70,279	6.00 %	93,705	8.00 %
Tier I Capital to Average Assets	142,651	10.84%	52,620	4.00 %	65,775	5.00 %
<b>Bankwell Financial Group, Inc.</b>						
December 31, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 128,692	10.92%	\$ 53,052	4.50 %	N/A	N/A
Total Capital to Risk-Weighted Assets	167,867	14.24%	94,315	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	128,692	10.92%	70,736	6.00 %	N/A	N/A
Tier I Capital to Average Assets	128,692	9.75 %	52,819	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 March 31, 2016, there were 537,024 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 three months ended March 31, 2016 and 2015, the Company recorded expense related to options granted under the various share option plans of approximately \$2 thousand and \$4 thousand, respectively.

There were no options granted during the three months ended March 31, 2016.

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

A summary of the status of outstanding share options as of and for the three months ended March 31, 2016 is presented below:

	Three Months Ended March 31, 2016	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	158,408	\$ 18.12
Exercised	(14,500 )	15.48
Forfeited	-	-
Expired	(900 )	16.00
Options outstanding at end of period	143,008	18.40
Options exercisable at end of period	141,558	18.43

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 three months ended March 31, 2016 was \$60 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 three months ended March 31, 2016:

	Three Months Ended March 31, 2016
	Weighted

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

	Number of Shares	Average Grant Date Fair Value
Unvested at beginning of period	143,323	\$ 15.92
Granted	-	-
Vested	(4,900 )	14.80
Forfeited	-	-
Unvested at end of period	138,423	17.69

The Company's restricted stock expense for the three months ended March 31, 2016 and 2015 was \$247 thousand and \$238 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. At the time of the grant, the maximum number of shares that can vest was 49,400. The actual number of shares to be vested was 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 have vested over a period from December 1, 2017 to December 1, 2019 based on meeting the price targets. In addition, the grantees must have been 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.

In January 2016 the Company modified the market conditions restricted stock grant. The total shares originally granted for the \$29.00 price target have been modified to a time based restricted stock grant. The shares will vest over a four year period with the first installment to vest on December 1, 2016 and the remaining shares to vest on each annual anniversary thereafter. In addition, the shares originally granted for the \$25.00 and \$27.00 price targets have been modified. These shares may vest over a period from the date of the modification to December 1, 2019 based on meeting the price targets. The price targets will be met when the 30 day average stock price meets or exceeds the price targets. The Company determined the fair market value of the modified awards for the \$25.00 and \$27.00 price targets in accordance with *ASC 718 – Stock Compensation* using the Monte Carlo simulation model deemed appropriate for this type of modification. The Company will expense an incremental cost associated with this modification of \$2.19 for the awards that vest at the \$25 stock price, \$2.03 for the awards that vest at the \$27 stock price and \$13.66 for the awards that were modified to a time based grant. The remaining and incremental expense will be recognized on a straight line basis over the requisite service period. The Company recognized \$49 thousand and \$43 thousand in stock compensation expense for the three months ended March 31, 2016 and 2015 for these restricted stock awards, respectively.

**9. Derivative Instruments**

Information about derivative instruments at March 31, 2016 and December 31, 2015 is as follows:

**March 31, 2016:**

(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	0.63	%	1.62% \$ (490 )
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.63	%	1.83% (759 )
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.63	%	1.48% (422 )
Interest rate swap on forward-starting FHLB advance	\$25,000	5.0 years	0.63	%	1.22% (11 )
					\$ (1,682 )

**Bankwell Financial Group, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)****December 31, 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	0.61	%	1.62%
					\$ (181 )
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.61	%	1.83%
					(276 )
Interest rate swap on FHLB advance	\$25,000	5.0 years	0.61	%	1.48%
					181
					\$ (276 )

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.

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
FHLB 90-day advance	\$25,000	July 1, 2016	5.0 years	Bank of Montreal

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



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

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 months ended March 31, 2016 and 2015:

(In thousands)	Three Months Ended March 31,	
	2016	2015
Interest rate swap on FHLB advance:		
Unrealized loss recognized in accumulated other comprehensive income	\$ (1,408 )	\$ (568 )
Income tax benefit on items recognized in accumulated other comprehensive income	493	221
Other comprehensive loss	\$ (915 )	\$ (347 )
Interest expense recognized on hedged FHLB advance	\$ 204	\$ 182

**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 March 31, 2016 or December 31, 2015. 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 March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016				
	Carrying	Fair			
	Value	Value	Level 1	Level 2	Level 3
	(In thousands)				
<b>Financial Assets:</b>					
Cash and due from banks	\$69,512	\$69,512	\$69,512	\$-	\$-
Federal funds sold	3,194	3,194	3,194	-	-
Available for sale securities	91,528	91,528	-	91,528	-
Held to maturity securities	17,010	16,989	-	16,989	-
Loans held for sale	-	-	-	-	-
Loans receivable, net	1,177,905	1,191,660	-	-	1,191,660
Accrued interest receivable	4,370	4,370	-	-	4,370
FHLB stock	7,158	7,158	-	-	7,158
<b>Financial Liabilities:</b>					
Demand deposits	\$165,968	\$165,968	\$-	\$-	\$165,968
NOW and money market	379,079	379,079	-	-	379,079
Savings	73,987	73,987	-	-	73,987
Time deposits	474,700	476,993	-	-	476,993
Advances from the FHLB	160,000	160,556	-	-	160,556
Subordinated debentures	25,012	25,099	-	-	25,099
Derivative liability	1,682	1,682	-	1,682	-

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

	December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
(In thousands)					
<b>Financial Assets:</b>					
Cash and due from banks	\$49,562	\$49,562	\$49,562	\$-	\$-
Federal funds sold	39,035	39,035	39,035	-	-
Available for sale securities	40,581	40,581	-	40,581	-
Held to maturity securities	10,226	10,228	-	10,228	-
Loans held for sale	-	-	-	-	-
Loans receivable, net	1,129,748	1,135,227	-	-	1,135,227
Accrued interest receivable	4,071	4,071	-	-	4,071
FHLB stock	6,554	6,554	-	-	6,554
<b>Financial Liabilities:</b>					
Demand deposits	\$164,553	\$164,553	\$-	\$-	\$164,553
NOW and money market	347,846	347,846	-	-	347,846
Savings	97,846	97,846	-	-	97,846
Time deposits	436,697	438,214	-	-	438,214
Advances from the FHLB	120,000	120,025	-	-	120,025
Subordinated debentures	25,000	24,505	-	-	24,505
Derivative liability	276	276	-	276	-

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

*Cash and due from banks, federal funds sold 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 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.

**Bankwell Financial Group, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**

*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.

*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 March 31, 2016 and December 31, 2015, 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 months ended March 31, 2016 and the year ended December 31, 2015.

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
March 31, 2016:			
Available for sale investment securities:			
U.S. Government and agency obligations	\$-	\$58,696	\$ -
State agency, U.S. territories and municipal obligations	-	17,034	-
Corporate bonds	-	11,571	-
Mortgage backed securities	-	4,227	-
Derivative Liability	-	(1,682)	-
December 31, 2015:			
Available for sale investment securities:			
U.S. Government and agency obligations	\$-	\$7,143	\$ -
State agency, U.S. territories and municipal obligations	-	17,504	-
Corporate bonds	-	11,437	-
Mortgage backed securities	-	4,497	-
Derivative Liability	-	(276)	-

*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 March 31, 2016 and December 31, 2015, 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
March 31, 2016:			
Impaired loans	\$-	\$ -	\$11,110
Foreclosed real estate	-	-	878
December 31, 2015:			
Impaired loans	\$-	\$ -	\$10,922
Foreclosed real estate	-	-	1,248

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at March 31, 2016 and December 31, 2015:

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range
March 31, 2016:				
Impaired loans	\$ 11,110	Appraisals	Discount for dated appraisals	8.00% to 10.00%
		Discounted cash flows	Discount rate	3.25% to 6.25%
Foreclosed real estate	\$ 878	Appraisals	Discount for dated appraisals	10.0% to 20.0%
December 31, 2015:				
Impaired loans	\$ 10,922	Appraisals	Discount for dated appraisals	8.00% to 10.00%
		Discounted cash flows	Discount rate	

				3.25% to 7.00%
Foreclosed real estate	\$ 1,248	Appraisals	Discount for dated appraisals	10.0% to 25.0%

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

**12.**

**Subordinated Debentures**

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rate 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 annum 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. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency.

## **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, 2015 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 and New Haven Counties, Connecticut. We have a history of building long-term customer relationships and attracting new customers through what we believe is our strong customer service and our ability to deliver a diverse product offering.

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 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, 2015 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 being 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 Bank into Bankwell Bank. The Wilton Bank had one branch located in Wilton, Connecticut.

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 used the net proceeds for general corporate purposes, which included 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 and whole financial institutions in or around our existing market that furthered 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.

On August 19, 2015 the Company completed a private placement of \$25.5 million in aggregate principal amount of fixed rate 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.

On November 20, 2015 the Company redeemed \$10.98 million (10,980 shares) of preferred stock issued pursuant to the United States Department of Treasury (“Treasury”) under the Small Business Lending Fund Program (the “SBLF”). The shares were redeemed at their liquidation value of \$1,000 per share plus accrued dividends through November 20, 2015. The redemption was approved by the Company’s primary federal regulator and was funded with the Company’s surplus capital. With this redemption, the Company has redeemed all of its outstanding SBLF stock.

On January 27, 2016 the Company’s Board of Directors declared a \$0.05 per share cash dividend, payable February 22, 2016 to shareholders of record on February 12, 2016.

### **Earnings Overview**

Net income available to common shareholders was \$3.0 million, or \$0.40 per diluted share, and \$1.8 million, or \$0.26 per diluted share, for the three months ended March 31, 2016 and 2015, respectively. Returns on average equity and average assets for the three months ended March 31, 2016 were 9.01% and 0.89%, respectively, compared to 5.81% and 0.70%, respectively, for the three months ended March 31, 2015.

For the three months ended March 31, 2016, we had net interest income of \$11.4 million, an increase of \$1.5 million, or 15.2%, over the three months ended March 31, 2015. Our net interest margin (fully taxable equivalent basis) for the three months ended March 31, 2016 and 2015 was 3.54% and 3.89%, respectively. We experienced an increase in our non-interest income, which totaled \$672 thousand for the three months ended March 31, 2016 representing 5.6% of our total revenue, up from \$599 thousand, or 5.7% of total revenue, for the three months ended March 31, 2015.

## **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 March 31, 2016 and 2015 was \$11.5 million and \$10.0 million, respectively. Our net interest margin decreased 35 basis points to 3.54% for the three months ended March 31, 2016, compared to the three months ended March 31, 2015 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.

FTE basis interest income for the three months ended March 31, 2016 increased by \$2.8 million, or 24.2%, to \$14.1 million, compared to FTE basis interest income for the three months ended March 31, 2015 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were \$1.3 billion for the three months ended March 31, 2016, up by \$275.3 million from the three months ended March 31, 2015. The average balance of total loans increased \$225.8 million, or 24.1%, contributing \$2.5 million to the increase in interest income. Commercial real estate and commercial business loan average balances grew by \$188.4 million and \$19.9 million, respectively. The average yield on interest earning assets decreased from 4.43% from the three months ended March 31, 2015 to 4.29% for the three months ended March 31, 2016 due mainly to a lower yield on commercial real estate loans.



Interest expense for the three months ended March 31, 2016, increased by \$1.3 million, or 89.0%, compared to interest expense for the three months ended March 31, 2015 due to a \$255.7 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.

*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 months ended March 31, 2016 and 2015.

	Three Months Ended March 31,					
	2016			2015		
(Dollars in thousands)	Average		Yield	Average		Yield
	Balance	Interest	/ Rate	Balance	Interest	/ Rate
<b>Assets:</b>						
Cash and Fed funds sold	\$32,764	\$37	0.45 %	\$18,868	\$12	0.25 %
Securities (1)	101,987	763	2.99	66,508	592	3.56
<b>Loans:</b>						
Commercial real estate	712,628	8,325	4.62	524,215	6,270	4.78
Residential real estate	177,353	1,596	3.60	173,304	1,579	3.65
Construction (2)	86,482	969	4.43	67,885	794	4.68
Commercial business	165,987	2,190	5.22	146,056	1,856	5.08
Home equity	15,603	157	4.03	18,067	170	3.82
Consumer	1,738	21	4.87	2,806	34	4.85
Acquired loans (net of mark)	1,431	25	7.15	3,106	54	7.06
Total loans	1,161,222	13,283	4.53	935,439	10,757	4.60
Federal Home Loan Bank stock	6,560	56	3.44	6,440	26	1.59
Total earning assets	1,302,533	14,139	4.29 %	1,027,255	11,387	4.43 %
Other assets	54,733			52,634		
Total assets	\$1,357,266			\$1,079,889		
<b>Liabilities and shareholders' equity:</b>						
<b>Interest -bearing liabilities:</b>						
NOW	\$56,617	38	0.27 %	\$52,568	15	0.11 %
Money market	306,105	398	0.52	229,984	281	0.50
Savings	82,061	86	0.42	79,958	86	0.44
Time	454,312	1,218	1.08	306,072	656	0.87
Total interest-bearing deposits	899,095	1,740	0.78	668,582	1,038	0.63
Borrowed money	145,444	866	2.39	120,217	341	1.15
Total interest bearing liabilities	1,044,539	2,606	1.00 %	788,799	1,379	0.71 %
Noninterest-bearing deposits	172,574			153,674		
Other liabilities	6,679			6,604		
Total Liabilities	1,223,792			949,077		
Shareholders' equity	133,474			130,812		
Total liabilities and shareholders' equity	\$1,357,266			\$1,079,889		
Net interest income (3)		\$11,533			\$10,008	
Interest rate spread			3.29 %			3.72 %

Net interest margin (4)	3.54 %	3.89 %
-------------------------	--------	--------

---

(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 \$135 thousand and \$114 thousand, respectively, for the three months ended March 31, 2016 and 2015.

(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		
	March 31, 2016 vs 2015		
	Increase (Decrease)		
	Volume	Rate	Total
Interest and dividend income:			
Cash and Fed funds sold	\$12	\$13	\$25
Securities	277	(106)	171
Loans:			
Commercial real estate	2,183	(128)	2,055
Residential real estate	37	(20)	17
Construction	208	(33)	175
Commercial business	259	75	334
Home equity	(24)	11	(13)
Consumer	(13)	-	(13)
Acquired loans (net of mark)	(30)	1	(29)
Total loans	2,620	(94)	2,526
Federal Home Loan Bank stock	-	30	30
Total change in interest and dividend income	2,909	(157)	2,752
Interest expense:			
Deposits:			
NOW	1	22	23
Money market	98	19	117
Savings	3	(3)	-
Time	369	193	562
Total deposits	471	231	702
Borrowed money	84	441	525
Total change in interest expense	555	672	1,227
Change in net interest income	\$2,354	\$(829)	\$1,525

*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 months ended March 31, 2016, there was a \$23 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 March 31, 2016 was \$646 thousand compared to \$733 thousand provision for loan losses for the three months ended March 31, 2015. For further information, see sections titled Asset Quality and Allowance for Loan Losses.

### *Noninterest Income*

The following table compares noninterest income for the three months ended March 31, 2016 and 2015:

	Three Months Ended		Change	
	March 31, 2016	2015	\$	%
(Dollars in thousands)				
Service charges and fees	\$245	\$208	\$37	18 %
Bank owned life insurance	174	183	(9 )	(5 )
Gains and fees from sales of loans	110	89	21	24
Gain on sale of foreclosed real estate, net	-	18	(18)	(100)
Other	143	101	42	42
Total noninterest income	\$672	\$599	\$73	12 %

Noninterest income increased \$73 thousand to \$672 thousand for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. During the three months ended March 31, 2016, the Company recorded \$110 thousand of gains on the sale of \$1.3 million of loans. During the three months ended March 31, 2015, the Company recorded \$89 thousand in gains on the sale of \$3.8 million of loans. Service charges and fees increased \$37 thousand from \$208 thousand for the three months ended March 31, 2015 to \$245 thousand for the three months ended March 31, 2016, primarily driven by increased service charges on checking accounts and increased ATM and debit card fees. Other income increased \$42 thousand from \$101 thousand for the three months ended March 31, 2015 to \$143 thousand for the three months ended March 31, 2016, primarily driven by income recognized on the early pay-off of purchased credit impaired loans.



***Noninterest Expense***

The following tables compare noninterest expense for the three months ended March 31, 2016, and 2015:

(Dollars in thousands)	Three Months Ended		Change	
	March 31, 2016	March 31, 2015	\$	%
Salaries and employee benefits	\$3,811	\$3,962	\$(151)	(4)%
Occupancy and equipment	1,408	1,349	59	4
Data processing	407	336	71	21
Professional services	366	325	41	13
FDIC insurance	169	158	11	7
Director fees	155	148	7	5
Marketing	139	148	(9)	(6)
Foreclosed real estate	72	5	67	1,340
Amortization of intangibles	40	51	(11)	(22)
Merger and acquisition related expenses	-	-	-	-
Other	513	490	23	5
Total noninterest expense	\$7,080	\$6,972	\$108	2%

Noninterest expense increased \$108 thousand to \$7.1 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily driven by a \$71 thousand increase in data processing and a \$67 thousand increase in foreclosed real estate. The increase in noninterest expense was offset by a decrease in salaries and employee benefits. Salaries and employee benefits decreased \$151 thousand to \$3.8 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The decrease in salaries and employee benefits was a result of an increase in open positions. Total full time equivalent employees decreased by 5 employees from 128 employees at March 31, 2015 to 123 employees at March 31, 2016.

***Income Tax Expense***

Income tax expense for the three months ended March 31, 2016 and 2015 totaled \$1.4 million and \$915 thousand, respectively. The effective tax rates for the three months ended March 31, 2016 and 2015 were 31.1%, and 32.8%, respectively. The decrease in the effective tax rate is driven by the formation of the passive investment company (PIC) in the fourth quarter of 2015 which reduced state income taxes, the decrease in the effective tax rate is partially offset by an increase in the federal tax rate from 34% to 35% due to the Company's growth and a reduction in the Bank's tax preferred income.



## **Financial Condition**

### *Summary*

At March 31, 2016, total assets were \$1.4 billion, an \$89.8 million, or 6.8%, increase over December 31, 2015. Total loans outstanding and total deposits totaled \$1.2 billion and \$1.1 billion, respectively at March 31, 2016. Our credit quality remained strong, with nonperforming assets to total assets of 0.30% and the allowance for loan losses to total loans was 1.24%. Total shareholders' equity at March 31, 2016 and December 31, 2015 was \$134.6 million and \$131.8 million, respectively. Tangible book value was \$17.76 per share at March 31, 2016 compared to \$17.43 per share at December 31, 2015.

**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 \$1.2 billion at March 31, 2016, up by \$49.0 million, or 4.3%, from December 31, 2015. Commercial real estate loans have experienced the most significant growth, up by \$54.0 million.

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

(In thousands)	March 31, 2016			December 31, 2015			Change Total
	Originated	Acquired	Total	Originated	Acquired	Total	
Real estate loans:							
Residential	\$181,345	\$2,789	\$184,134	\$174,311	\$2,873	\$177,184	\$6,950
Commercial	697,600	53,971	751,571	643,524	54,018	697,542	54,029
Construction	82,435	93	82,528	81,242	1,031	82,273	255
Home equity	9,319	6,470	15,789	9,146	6,780	15,926	(137 )
	970,699	63,323	1,034,022	908,223	64,702	972,925	61,097
Commercial business	139,897	21,006	160,903	150,479	22,374	172,853	(11,950)
Consumer	63	1,489	1,552	117	1,618	1,735	(183 )
Total loans	\$1,110,659	\$85,818	\$1,196,477	\$1,058,819	\$88,694	\$1,147,513	\$48,964

**Asset Quality**

Asset quality metrics remained strong through the first quarter of 2016. Nonperforming assets totaled \$4.3 million and represented 0.30% of total assets at March 31, 2016, compared to \$5.0 million and 0.38% of total assets at December 31, 2015. Nonaccrual loans totaled \$3.4 million at March 31, 2016, a decrease of \$0.4 million compared to December 31, 2015. The balance of foreclosed real estate decreased \$370 thousand and totaled \$0.9 million at March 31, 2016 when compared to December 31, 2015.



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

(In thousands)	At March 31, 2016			At December 31, 2015		
	Originated	Acquired	Total	Originated	Acquired	Total
Nonaccrual loans:						
Real estate loans:						
Residential	\$969	\$ -	\$969	\$970	\$ -	\$970
Commercial	969	144	1,113	970	294	1,264
Construction	-	-	-	-	-	-
Home equity	196	196	392	198	197	395
Consumer	4	2	6	-	2	2
Commercial business	276	642	918	562	598	1,160
Total non accrual loans	2,414	984	3,398	2,700	1,091	3,791
Property acquired through foreclosure or repossession, net	-	878	878	-	1,248	1,248
Total nonperforming assets	\$2,414	\$ 1,862	\$4,276	\$2,700	\$ 2,339	\$5,039
Nonperforming assets to total assets	0.17 %	0.13 %	0.30 %	0.20 %	0.18 %	0.38 %
Nonaccrual loans to total loans	0.22 %	1.15 %	0.28 %	0.25 %	1.25 %	0.33 %
Total past due loans to total loans	0.21 %	2.53 %	0.37 %	0.28 %	3.20 %	0.51 %
Accruing loans 90 days or more past due	\$-	\$ 89	\$89	\$-	\$ 1,105	\$1,105

### *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 March 31, 2016, our allowance for loan losses was \$14.8 million and represented 1.24% of total loans, compared to \$14.2 million, or 1.23% of total loans, at December 31, 2015. The net increase in the allowance primarily reflects a provision of \$646 thousand.

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	
	March 31,	
	2016	2015
Balance at beginning of period	\$ 14,169	\$ 10,860
Charge-offs:		
Construction	(7 )	-
Consumer	(3 )	-
Total charge-offs	(10 )	-
Recoveries:		
Consumer	5	3
Total recoveries	5	3
Net charge-offs (recoveries)	5	(3 )
Provision charged to earnings	646	733
Balance at end of period	\$ 14,810	\$ 11,596
Net charge-offs (recoveries) to average loans	0.00 %	0.00 %
Allowance for loan losses to total loans	1.24 %	1.18 %

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

(Dollars in thousands)	At March 31, 2016		At December 31, 2015	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Residential real estate	\$ 1,503	15.39 %	\$ 1,406	17.64 %
Commercial real estate	8,447	62.82	6,067	57.85
Construction	1,583	6.90	1,220	7.02
Home equity	178	1.32	203	1.88
Commercial business	3,092	13.44	2,694	15.36
Consumer	7	0.13	6	0.25
Total allowance for loan losses	\$ 14,810	100.00 %	\$ 11,596	100.00 %

The allocation of the allowance for loan losses at March 31, 2016 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at March 31, 2016 is appropriate to cover probable losses.

*Investment Securities*

At March 31, 2016, the carrying value of our investment securities portfolio totaled \$108.5 million and represented 8% of total assets, compared to \$50.8 million and represented 4% of total assets at December 31, 2015. The increase of \$57.7 million, or 113.6%, primarily reflects purchases of U.S. Government agency obligations totaling \$51.2 million and purchases of municipal bonds totaling \$6.8 million. We purchase investment grade securities with a focus on earnings, duration exposure and for use as collateral for public funds. There were no sales of available-for-sale investment securities during the first quarter of 2016.

The net unrealized gain position on our investment portfolio at March 31, 2016 and December 31, 2015 was \$1.6 million and \$628 thousand, respectively and included gross unrealized losses of \$440 thousand and \$461 thousand, respectively. The gross unrealized losses were concentrated in State agency, U.S. territories and municipal obligations, reflecting the unrealized loss on the Commonwealth of Puerto Rico COFINA bond. The Company continually monitors its state agency, U.S. Territories, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, U.S. Territories, municipal and corporate bonds are all rated above investment grade except for one U.S. Territory bond (a Commonwealth of Puerto Rico senior lien sales tax financing corporate bond or "COFINA" bond) with a cost of \$995.0 thousand and a market value of \$607.5 thousand that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, thus far, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with a strong debt service coverage. In February 2016, the Commonwealth of Puerto Rico proposed a voluntary debt restructuring of all of its outstanding debt. The voluntary restructuring proposal has been rejected by most creditors. In addition, a "debt moratorium" was announced on May 2, 2016 by the Commonwealth of Puerto Rico and, as a result, it appears that there may be potential litigation and negotiations relating to its debt obligations. These events could impact our assessment and the valuation of this bond in the future. Given the uncertainty surrounding the timing and impact of these events the Company will continue to monitor the ongoing negotiations and review the bond for potential other than temporary impairment as events unfold.

### *Sources of Funds*

Total deposits were \$1.1 billion at March 31, 2016, an increase of \$46.8 million, from the balance at December 31, 2015 primarily reflecting increases in certificates of deposits and money market accounts. Certificates of deposit increased \$38.0 million from \$436.7 million at December 31, 2015 to \$474.7 million at March 31, 2016. Money markets increased \$19.6 million from \$296.8 million at December 31, 2015 to \$316.4 million at March 31, 2016. Brokered deposits totaled \$74.4 million at March 31, 2016 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 \$160.0 million at March 31, 2016 compared to \$120.0 million at December 31, 2015. The increase of \$40.0 million, or 33.3%, 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 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 March 31, 2016, the Company had cash and cash equivalents of \$72.7 million and available-for-sale securities of \$91.5 million. At March 31, 2016, outstanding commitments to originate loans totaled \$48.1 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled \$56.5 million. Time deposits scheduled to mature in one year or less at March 31, 2016 totaled \$267.0 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 \$134.6 million at March 31, 2016 compared to \$131.8 million at December 31, 2015. The increase of \$2.8 million primarily reflected net income of \$3.0 million for the three months ended March 31, 2016. The ratio of total equity to total assets was 9.48% at March 31, 2016, which compares to 9.90% at December 31, 2015.



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 March 31, 2016, 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 March 31, 2016, the Bank's ratio of total common equity tier 1 capital to risk-weighted assets was 12.24%, total capital to risk-weighted assets was 13.48%, Tier 1 capital to risk-weighted assets was 12.24% and Tier 1 capital to average assets was 10.85%.

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 became 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 imposed 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 rules started to be phased in on January 1, 2015 (and the capital conservation buffer on 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 February 22, 2016 to shareholders of record on February 12, 2016.

### ***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 March 31, 2016 and December 31, 2015:

Parallel Ramp	Estimated Percent Change in Net Interest Income	
	March 31, 2016	December 31, 2015
Rate Changes (basis points)		
-100	(1.76 )%	(1.49 )%
+200	(1.20 )	(2.49 )

Parallel Shock	Estimated Percent Change in Net Interest Income	
	March 31, 2016	December 31, 2015
Rate Changes (basis points)		
-100	(4.04 )%	(3.47 )%
+100	(0.59 )	(2.36 )
+200	(1.55 )	(4.94 )
+300	(3.46 )	(8.65 )

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	
	March 31, 2016	December 31, 2015
-100	(4.90 )%	(3.80 )%
+100	(7.80 )	(7.80 )
+200	(17.50 )	(17.20 )
+300	(26.30 )	(25.40 )

The net interest income at risk simulation results indicate that as of March 31, 2016, we remain liability sensitive. The liability sensitivity is due to the fact that there are more liabilities than assets subject to repricing as market rates change. 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 to their businesses. In the opinion of management, no material loss is expected from any such pending 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 15, 2016, filed with the SEC.

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

None.

**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)

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 March 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements 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: May 10, 2016 /s/ Christopher R. Gruseke  
Christopher R. Gruseke  
President and Chief Executive Officer

Date: May 10, 2016 /s/ Ernest J. Verrico, Sr.  
Ernest J. Verrico, Sr.  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial and Accounting  
Officer)