Bankwell Financial Group, Inc.
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **September 30, 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 Incorporation or organization)	(I.R.S. Employer 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. þ 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). þ 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 þ
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 þ No

As of October 31, 2016, there were 7,571,658 shares of the registrant’s common stock outstanding.

Bankwell Financial Group, Inc.

Form 10-Q

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Bankwell Financial Group, Inc.

Consolidated Balance Sheets - (unaudited)

(Dollars in thousands, except share data)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 94,731	$ 49,562
Federal funds sold	1,357	39,035
Cash and cash equivalents	96,088	88,597
Held to maturity investment securities, at amortized cost	16,909	10,226
Available for sale investment securities, at fair value	82,752	40,581
Loans held for sale	400	-
Loans receivable (net of allowance for loan losses of $17,250 at September 30, 2016 and $14,169 at December 31, 2015)	1,305,065	1,129,748
Foreclosed real estate	272	1,248
Accrued interest receivable	4,499	4,071
Federal Home Loan Bank stock, at cost	7,943	6,554
Premises and equipment, net	10,314	11,163
Bank-owned life insurance	24,277	23,755
Goodwill	2,589	2,589
Other intangible assets	532	652
Deferred income taxes, net	9,874	8,337
Other assets	4,072	2,851
Total assets	$ 1,565,586	$ 1,330,372
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 176,405	$ 164,553
Interest bearing deposits	1,040,537	882,389
Total deposits	1,216,942	1,046,942
Advances from the Federal Home Loan Bank	175,000	120,000
Subordinated debentures	25,038	25,000
Accrued expenses and other liabilities	8,034	6,661
Total liabilities	1,425,014	1,198,603

Commitments and Contingencies	-	-
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,562,508 and 7,516,291 shares issued at September 30, 2016 and December 31, 2015, respectively	113,650	112,579
Retained earnings	26,859	18,963
Accumulated other comprehensive income	63	227
Total shareholders' equity	140,572	131,769
Total liabilities and shareholders' equity	$ 1,565,586	$ 1,330,372

See accompanying notes to consolidated financial statements (unaudited)

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Bankwell Financial Group, Inc.

Consolidated Statements Of Income – (unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and dividend income				
Interest and fees on loans	$14,914	$12,660	$42,167	$35,310
Interest and dividends on securities	688	493	2,083	1,474
Interest on cash and cash equivalents	31	33	98	62
Total interest income	15,633	13,186	44,348	36,846
Interest expense				
Interest expense on deposits	2,160	1,637	5,862	3,905
Interest on borrowings	946	632	2,682	1,389
Total interest expense	3,106	2,269	8,544	5,294
Net interest income	12,527	10,917	35,804	31,552
Provision for loan losses	1,219	1,489	3,166	2,876
Net interest income after provision for loan losses	11,308	9,428	32,638	28,676
Noninterest income				
Service charges and fees	241	234	721	675
Bank owned life insurance	174	182	522	549
Gains and fees from sales of loans	163	447	387	885
Gain on sale of foreclosed real estate, net	-	-	128	-
Net gain on sale of available for sale securities	-	-	92	-
Other	172	348	425	535
Total noninterest income	750	1,211	2,275	2,644
Noninterest expense				
Salaries and employee benefits	3,909	3,798	11,537	11,817
Occupancy and equipment	1,435	1,370	4,235	4,029
Professional services	521	339	1,257	1,033
Data processing	417	416	1,201	1,157
Marketing	242	288	644	707
FDIC insurance	177	166	514	487
Director fees	128	136	423	424
Foreclosed real estate	47	81	149	73

Amortization of intangibles	39	51	119	153
Other	566	513	1,697	1,610
Total noninterest expense	7,481	7,158	21,776	21,490
Income before income tax expense	4,577	3,481	13,137	9,830
Income tax expense	1,437	1,228	4,110	3,418
Net income	$3,140	$2,253	$9,027	$6,412
Net income attributable to common shareholders	$3,140	$2,226	$9,027	$6,330
Earnings Per Common Share:				
Basic	$0.42	$0.31	$1.20	$0.88
Diluted	$0.41	$0.31	$1.19	$0.87
Weighted Average Common Shares Outstanding:				
Basic	7,397,067	7,044,586	7,388,364	7,038,517
Diluted	7,488,752	7,059,117	7,459,283	7,057,450
Dividends per common share	$0.05	$-	$0.15	$-

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

Consolidated Statements Of Comprehensive Income – (unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$ 3,140	$ 2,253	$ 9,027	$ 6,412
Other comprehensive income (loss):				
Unrealized (losses) gains on securities:				
Unrealized holding (losses) gains on available for sale securities	(371)	190	986	(262)
Reclassification adjustment for (gain) loss realized in net income	-	-	(92)	-
Net change in unrealized (losses) gains	(371)	190	894	(262)
Income tax benefit (expense)	130	(74)	(313)	102
Unrealized (losses) gains on securities, net of tax	(241)	116	581	(160)
Unrealized gains (losses) on interest rate swaps:				
Unrealized gains (losses) on interest rate swaps designated as cash flow hedges	904	(826)	(1,147)	(1,058)
Income tax (expense) benefit	(316)	322	402	412
Unrealized gains (losses) on interest rate swaps, net of tax	588	(504)	(745)	(646)
Total other comprehensive income (loss), net of tax	347	(388)	(164)	(806)
Comprehensive income	$ 3,487	$ 1,865	$ 8,863	$ 5,606

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	-	-	9,027	-	9,027
Other comprehensive loss, net of tax	-	-	-	(164)	(164)
Cash dividends declared ($0.15 per share)	-	-	(1,131)	-	(1,131)
Stock-based compensation expense	-	788	-	-	788
Forfeitures of restricted stock	(683)	-	-	-	-
Issuance of restricted stock	29,300	-	-	-	-
Stock options exercised	17,600	283	-	-	283
Balance at September 30, 2016	7,562,508	$113,650	$26,859	$ 63	$140,572

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

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

Consolidated Statements Of Cash Flows – (unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income	$9,027	$6,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	493	89
Provision for loan losses	3,166	2,876
Provision for deferred taxes	(1,448)	(1,074)
Net gain on sales of available for sale securities	(92)	-
Depreciation and amortization	1,305	1,256
Increase in cash surrender value of bank-owned life insurance	(522)	(549)
Loan principal sold	(6,214)	(13,082)
Proceeds from sales of loans	6,201	14,301
Net gain on sales of loans	(387)	(885)
Stock-based compensation	788	796
Net accretion of purchase accounting adjustments	(107)	(104)
Gain on sale and write-downs of foreclosed real estate	25	104
Net change in:		
Deferred loan fees	316	612
Accrued interest receivable	(428)	(508)
Other assets	(2,130)	(1,054)
Accrued expenses and other liabilities	1,374	949
Net cash provided by operating activities	11,367	10,139
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	734	1,612
Proceeds from principal repayments on held to maturity securities	155	165
Net proceeds from sales and calls of available for sale securities	8,813	18,030
Purchases of available for sale securities	(51,228)	-
Purchases of held to maturity securities	(6,834)	-
Net increase in loans	(178,861)	(196,984)
Purchases of premises and equipment	(456)	(851)
Purchase of Federal Home Loan Bank stock	(1,390)	(809)
Proceeds from sale of foreclosed real estate	951	400
Net cash used by investing activities	(228,116)	(178,437)

See accompanying notes to consolidated financial statements (unaudited)

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Consolidated Statements Of Cash Flows- *(Continued)*

(In thousands)

	Nine Months Ended September 30, 2016	2015
Cash flows from financing activities		
Net change in time certificates of deposit	$157,904	$119,805
Net change in other deposits	12,145	70,551
Increase in subordinated debt	-	25,037
Amortization of debt issuance costs	39	-
Net change in FHLB advances	55,000	(9,000)
Proceeds from exercise of options	283	258
Dividends paid on common stock	(1,131)	-
Dividends paid on preferred stock	-	(82)
Net cash provided by financing activities	224,240	206,569
Net increase in cash and cash equivalents	7,491	38,271
Cash and cash equivalents:		
Beginning of year	88,597	48,559
End of period	$96,088	$86,830
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	$8,429	$4,825
Income taxes	6,379	5,076
Noncash investing and financing activities		
Loans transferred to foreclosed real estate	$-	$883

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

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

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

Principles of consolidation

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

Use of estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the consolidated 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 consolidated 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.

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. 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 ASU 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, for the Company, on January 1, 2019, 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.

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 the Company on January 1, 2017 and interim periods within that annual period. 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.

ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today’s “incurred loss” model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The amendments in this update will be effective for the Company on January 1, 2020, including interim periods within that fiscal year. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of its pending adoption of this guidance on the Company’s financial statements.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

ASU No. 2016-15, Statement of Cash Flows (Topic 230): "Classification of Certain Cash Receipts and Cash Payments." This ASU changes how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The amendments address the classification of the following eight items in the statement of cash flows; debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the Predominance Principle. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. 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 value of available for sale and held to maturity securities at September 30, 2016 were as follows:

	September 30, 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	$53,980	$600	$(1)	$54,579
Due after ten years	100	-	(1)	99
	54,080	600	(2)	54,678
State agency, U.S. Territories and municipal obligations				
Due from one through five years	826	44	-	870
Due from five through ten years	10,216	517	(248)	10,485
Due after ten years	4,923	292	(10)	5,205
	15,965	853	(258)	16,560
Corporate bonds				
Due in less than one year	2,023	21	-	2,044
Due from one through five years	9,165	305	-	9,470
	11,188	326	-	11,514
Total available for sale securities	$81,233	$1,779	$(260)	$82,752
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				
Due from one through five years	$2,135	$-	$-	$2,135
Due after ten years	13,614	-	-	13,614
	15,749	-	-	15,749
Corporate bonds				
Due from one through five years	1,000	-	(25)	975
Government-sponsored mortgage backed securities				
No contractual maturity	160	17	-	177
Total held to maturity securities	$16,909	$17	$(25)	$16,901

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The amortized cost, gross unrealized gains and losses and fair value 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
Government-sponsored mortgage backed securities				
No contractual maturity	200	21	-	221

Total held to maturity securities	$10,226	$21	$(19)	$10,228

The realized gain on the sale of investment securities totaled $92 thousand for the nine months ended September 30, 2016. There were no sales of or realized gains or losses on investment securities during the three months ended September 30, 2016 and the three and nine months ended September 30, 2015.

At September 30, 2016 and December 31, 2015, securities with approximate fair values of $6.1 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 September 30, 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)					
September 30, 2016						
U.S. Government and agency obligations	$ 1,098	$ (2)	$ -	$ -	$ 1,098	$ (2)
State agency, U.S. Territories and municipal obligations	402	(10)	748	(248)	1,150	(258)
Corporate bonds	975	(25)	-	-	975	(25)
Total investment securities	$ 2,475	$ (37)	$ 748	$ (248)	$ 3,223	$ (285)
December 31, 2015						
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 5 and 29 investment securities as of September 30, 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, 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 $747.5 thousand as of September 30, 2016 that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, as of September 30, 2016, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with strong debt service coverage. Subsequent to September 30, 2016, on November 2, 2016, the Company sold the COFINA bond resulting in a $251.6 thousand realized loss.

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Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

3. Loans Receivable and Allowance for Loan Losses

Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 are referred to as "acquired" loans as a result of the manner in which they are accounted for. All other loans are referred to as "originated" loans. Accordingly, selected credit quality disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

The following table sets forth a summary of the loan portfolio at September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	$176,206	$2,790	$178,996	$174,311	$2,873	$177,184
Commercial	770,237	46,769	817,006	643,524	54,018	697,542
Construction	104,801	114	104,915	81,242	1,031	82,273
Home equity	8,791	6,259	15,050	9,146	6,780	15,926
	1,060,035	55,932	1,115,967	908,223	64,702	972,925
Commercial business	188,705	19,895	208,600	150,479	22,374	172,853
Consumer	618	1,042	1,660	117	1,618	1,735
Total loans	1,249,358	76,869	1,326,227	1,058,819	88,694	1,147,513
Allowance for loan losses	(17,215)	(35)	(17,250)	(14,128)	(41)	(14,169)
Deferred loan origination fees, net	(3,921)	-	(3,921)	(3,605)	-	(3,605)
Unamortized loan premiums	9	-	9	9	-	9
Loans receivable, net	$1,228,231	$76,834	$1,305,065	$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.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 733	$ 1,134	$ 871	$ 1,382
Acquisition	-	-	-	-
Accretion	(36)	(21)	(123)	(137)
Other (a)	-	(145)	(51)	(277)
Balance at end of period	$ 697	$ 968	$ 697	$ 968

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 extends credit of up to 80% of the market value of the collateral, depending on the borrowers' creditworthiness and the type of collateral. The borrower's ability to service the debt 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 exceed 80% 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 may be 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.

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Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

Home Equity: This portfolio segment primarily includes home equity loans and home equity lines of credit secured by owner occupied one-to-four family residential properties. Loans of this type are written at a combined maximum of 80% of the appraised value of the property and the Company requires a first or second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

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

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

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Allowance for loan losses

The following tables set forth the activity in the Company's allowance for loan losses for the three and nine months ended September 30, 2016 and 2015, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended September 30, 2016							
Originated							
Beginning balance	$1,484	$ 8,625	$ 1,920	$ 179	$ 3,792	$ 39	$16,039
Charge-offs	-	-	-	-	(59)	(2)	(61)
Recoveries	-	-	-	-	-	2	2
Provisions	(4)	472	159	(9)	306	311	1,235
Ending balance	$1,480	$ 9,097	$ 2,079	$ 170	$ 4,039	$ 350	$17,215
Acquired							
Beginning balance	$-	$ 23	$ -	$ 11	$ 24	$ 3	$61
Charge-offs	-	-	-	-	(10)	-	(10)
Recoveries	-	-	-	-	-	-	-
Provisions	-	6	-	(11)	(11)	-	(16)
Ending balance	$-	$ 29	$ -	$ -	$ 3	$ 3	$35
Total							
Beginning balance	$1,484	$ 8,648	$ 1,920	$ 190	$ 3,816	$ 42	$16,100
Charge-offs	-	-	-	-	(69)	(2)	(71)
Recoveries	-	-	-	-	-	2	2
Provisions	(4)	478	159	(20)	295	311	1,219
Ending balance	$1,480	$ 9,126	$ 2,079	$ 170	$ 4,042	$ 353	$17,250

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended September 30, 2015							
Originated							
Beginning balance	$1,454	$ 6,832	$ 1,138	$ 169	$ 2,618	$ 9	$12,220
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	1
Provisions	(40)	722	399	11	369	(7)	1,454
Ending balance	$1,414	$ 7,554	$ 1,537	$ 180	$ 2,987	$ 3	$13,675
Acquired							
Beginning balance	$-	$ -	$ -	$ -	$ 10	$ -	$10
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	-	10	-	-	20	5	35
Ending balance	$-	$ 10	$ -	$ -	$ 30	$ 5	$45
Total							
Beginning balance	$1,454	$ 6,832	$ 1,138	$ 169	$ 2,628	$ 9	$12,230
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	1
Provisions	(40)	732	399	11	389	(2)	1,489
Ending balance	$1,414	$ 7,564	$ 1,537	$ 180	$ 3,017	$ 8	$13,720

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Nine Months Ended September 30, 2016							
Originated							
Beginning balance	$1,444	$ 7,693	$ 1,504	$ 174	$ 3,310	$ 3	$14,128
Charge-offs	-	-	-	-	(59)	(10)	(69)
Recoveries	-	-	-	-	-	7	7
Provisions	36	1,404	575	(4)	788	350	3,149
Ending balance	$1,480	$ 9,097	$ 2,079	$ 170	$ 4,039	$ 350	$17,215
Acquired							
Beginning balance	$-	$ 12	$ -	$ -	$ 24	$ 5	$41
Charge-offs	-	-	(7)	-	(10)	(6)	(23)
Recoveries	-	-	-	-	-	-	-
Provisions	-	17	7	-	(11)	4	17
Ending balance	$-	$ 29	$ -	$ -	$ 3	$ 3	$35
Total							
Beginning balance	$1,444	$ 7,705	$ 1,504	$ 174	$ 3,334	$ 8	$14,169
Charge-offs	-	-	(7)	-	(69)	(16)	(92)
Recoveries	-	-	-	-	-	7	7
Provisions	36	1,421	582	(4)	777	354	3,166
Ending balance	$1,480	$ 9,126	$ 2,079	$ 170	$ 4,042	$ 353	$17,250

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The following tables are a summary, by portfolio segment and impairment methodology, of the allowance for loan losses and related portfolio balances at September 30, 2016 and December 31, 2015:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
September 30, 2016						
Loans individually evaluated for impairment:						
Residential real estate	$969	$ -	$ -	$ -	$969	$ -
Commercial real estate	3,684	2	563	7	4,247	9
Home equity	263	-	454	-	717	-
Commercial business	576	5	1,213	3	1,789	8
Consumer	341	341	3	3	344	344
Subtotal	5,833	348	2,233	13	8,066	361
Loans collectively evaluated for impairment:						
Residential real estate	175,237	1,480	2,790	-	178,027	1,480
Commercial real estate	766,553	9,095	46,206	22	812,759	9,117
Construction	104,801	2,079	114	-	104,915	2,079
Home equity	8,528	170	5,805	-	14,333	170
Commercial business	188,129	4,034	18,682	-	206,811	4,034
Consumer	277	9	1,039	-	1,316	9
Subtotal	1,243,525	16,867	74,636	22	1,318,161	16,889
Total	$1,249,358	$ 17,215	$76,869	$ 35	$1,326,227	$ 17,250

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at September 30, 2016 and December 31, 2015:

	Commercial Credit Quality Indicators							
	At September 30, 2016				At December 31, 2015			
	Commercial Real Estate	Construction	Commercial Business	Total	Commercial Real Estate	Construction	Commercial Business	Total
	(In thousands)							
Originated loans:								
Pass	$762,916	$ 104,801	$ 186,984	$1,054,701	$638,709	$ 81,242	$ 148,748	$868,699
Special mention	3,637	-	1,262	4,899	1,595	-	1,118	2,713
Substandard	3,684	-	459	4,143	3,220	-	549	3,769
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	64	64
Total originated loans	770,237	104,801	188,705	1,063,743	643,524	81,242	150,479	875,245
Acquired loans:								
Pass	43,770	114	18,962	62,846	52,427	230	20,794	73,451
Special mention	1,847	-	162	2,009	-	-	598	598
Substandard	1,152	-	771	1,923	1,591	801	982	3,374
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total acquired loans	46,769	114	19,895	66,778	54,018	1,031	22,374	77,243
Total loans:								
Pass	806,686	104,915	205,946	1,117,547	691,136	81,472	169,542	942,150
Special mention	5,484	-	1,424	6,908	1,595	-	1,716	3,311
Substandard	4,836	-	1,230	6,066	4,811	801	1,531	7,143
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	64	64
Total loans	$817,006	$ 104,915	$ 208,600	$1,130,521	$697,542	$ 82,273	$ 172,853	$952,668

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

	Residential and Consumer Credit Quality Indicators							
	At September 30, 2016				At December 31, 2015			
	Residential				Residential			
	Real Estate	Home Equity	Consumer	Total	Real Estate	Home Equity	Consumer	Total
	(In thousands)							
Originated loans:								
Pass	$175,237	$ 8,528	$ 277	$184,042	$172,478	$ 8,725	$ 117	$181,320
Special mention	-	72	-	72	864	80	-	944
Substandard	969	191	-	1,160	969	341	-	1,310
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	341	341	-	-	-	-
Total originated loans	176,206	8,791	618	185,615	174,311	9,146	117	183,574
Acquired loans:								
Pass	2,790	5,805	1,039	9,634	2,873	6,545	1,539	10,957
Special mention	-	-	-	-	-	-	-	-
Substandard	-	454	3	457	-	235	79	314
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total acquired loans	2,790	6,259	1,042	10,091	2,873	6,780	1,618	11,271
Total loans:								
Pass	178,027	14,333	1,316	193,676	175,351	15,270	1,656	192,277
Special mention	-	72	-	72	864	80	-	944
Substandard	969	645	3	1,617	969	576	79	1,624
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	341	341	-	-	-	-
Total loans	$178,996	$ 15,050	$ 1,660	$195,706	$177,184	$ 15,926	$ 1,735	$194,845

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 or may take other appropriate legal action. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The following tables set forth certain information with respect to our loan portfolio delinquencies by portfolio segment and amount as of September 30, 2016 and December 31, 2015:

	As of September 30, 2016					
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
Originated Loans						
Real estate loans:						
Residential real estate	$-	$ -	$ 969	$ 969	$ 175,237	$ 176,206
Commercial real estate	303	-	-	303	769,934	770,237
Construction	-	-	-	-	104,801	104,801
Home equity	132	-	-	132	8,659	8,791
Commercial business	941	-	-	941	187,764	188,705
Consumer	341	-	-	341	277	618
Total originated loans	1,717	-	969	2,686	1,246,672	1,249,358
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,790	2,790
Commercial real estate	167	-	563	730	46,039	46,769
Construction	-	-	-	-	114	114
Home equity	-	-	454	454	5,805	6,259
Commercial business	134	52	-	186	19,709	19,895
Consumer	17	-	-	17	1,025	1,042
Total acquired loans	318	52	1,017	1,387	75,482	76,869
Total loans	$2,035	$ 52	$ 1,986	$ 4,073	$ 1,322,154	$ 1,326,227

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	As of December 31, 2015					
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
Originated Loans						
Real estate loans:						
Residential real estate	$-	$ -	$ 969	$ 969	$ 173,342	$ 174,311
Commercial real estate	-	311	-	311	643,213	643,524
Construction	-	-	-	-	81,242	81,242
Home equity	198	-	-	198	8,948	9,146
Commercial business	1,078	100	343	1,521	148,958	150,479
Consumer	-	-	-	-	117	117
Total originated loans	1,276	411	1,312	2,999	1,055,820	1,058,819
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	2,873	2,873
Commercial real estate	333	-	762	1,095	52,923	54,018
Construction	-	-	801	801	230	1,031
Home equity	100	162	191	453	6,327	6,780
Commercial business	262	71	101	434	21,940	22,374
Consumer	17	-	-	17	1,601	1,618
Total acquired loans	712	233	1,855	2,800	85,894	88,694
Total loans	$1,988	$ 644	$ 3,167	$ 5,799	$ 1,141,714	$ 1,147,513

There were no loans delinquent greater than 90 days and still accruing as of September 30, 2016 and there were $1.1 million of loans delinquent greater than 90 days and still accruing as of December 31, 2015.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
	(In thousands)	
Residential real estate	$969	$ 970
Commercial real estate	1,104	1,264
Home equity	645	395
Commercial business	585	1,160
Consumer	341	2
Total	$3,644	$ 3,791

The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled $15 thousand and $38 thousand, respectively for the three months ended September 30, 2016, and 2015. The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled $39 thousand and $110 thousand, respectively for the nine months ended September 30, 2016, and 2015. There was no and $3 thousand actual interest income recognized on these loans for the nine months ended September 30, 2016, and 2015, respectively.

At September 30, 2016 and December 31, 2015, there were no and $169 thousand of commitments to lend additional funds to any borrower on nonaccrual status, respectively.

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling $0.0 million and $1.1 million, respectively at September 30, 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 September 30, 2016 and December 31, 2015:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(In thousands)					
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	$969	$ 969	$ 969	$ 969	$ -	$ -
Commercial real estate	3,202	4,291	3,202	4,291	-	-
Home equity	263	422	272	424	-	-
Commercial business	182	1,351	182	1,372	-	-
Total impaired loans without a valuation allowance	4,616	7,033	4,625	7,056	-	-
Impaired loans with a valuation allowance:						
Residential real estate	-	864	-	864	-	2
Commercial real estate	482	-	482	-	2	-
Commercial business	394	626	394	690	5	71
Consumer	341	-	341	-	341	-
Total impaired loans with a valuation allowance	1,217	1,490	1,217	1,554	348	73
Total originated impaired loans	$5,833	$ 8,523	$ 5,842	$ 8,610	$ 348	$ 73
Acquired						
Impaired loans without a valuation allowance:						
Commercial real estate	$420	$ 611	$ 534	$ 678	$ -	$ -
Home equity	454	197	462	200	-	-
Commercial business	865	963	881	963	-	-
Total impaired loans without a valuation allowance	1,739	1,771	1,877	1,841	-	-
Impaired loans with a valuation allowance:						

Commercial Real Estate	143	151	143	151	7	12
Commercial business	348	470	348	480	3	21
Consumer	3	7	3	7	3	5
Total impaired loans with a valuation allowance	494	628	494	638	13	38
Total acquired impaired loans	$2,233	$ 2,399	$ 2,371	$ 2,479	$ 13	$ 38

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Bankwell Financial Group, Inc.

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The following table summarizes the average recorded investment balance of impaired loans and interest income recognized on impaired loans by portfolio segment as of September 30, 2016 and December 31, 2015:

	Average Recorded Investment		Interest Income Recognized	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(In thousands)			
Originated				
Impaired loans without a valuation allowance:				
Residential real estate	$969	$ 973	$ -	$ 27
Commercial real estate	3,217	4,308	77	124
Home equity	270	429	2	10
Commercial business	216	1,374	10	49
Total impaired loans without a valuation allowance	4,672	7,084	89	210
Impaired loans with a valuation allowance:				
Residential real estate	-	864	-	28
Commercial real estate	496	-	18	-
Commercial business	431	673	17	34
Consumer	343	-	-	-
Total impaired loans with a valuation allowance	1,270	1,537	35	62
Total originated impaired loans	$5,942	$ 8,621	$ 124	$ 272
Acquired				
Impaired loans without a valuation allowance:				
Commercial real estate	$442	$ 602	$ -	$ 6
Home equity	457	198	3	2
Commercial business	914	999	32	54
Total impaired loans without a valuation allowance	1,813	1,799	35	62
Impaired loans with a valuation allowance:				
Commercial real estate	144	151	-	3
Commercial business	361	506	16	14
Consumer	3	7	1	1
Total impaired loans with a valuation allowance	508	664	17	18

Total acquired impaired loans	$2,321	$ 2,463	$ 52	$ 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.

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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.

The recorded investment in TDRs was $4.7 million at September 30, 2016 and $7.3 million at December 31, 2015.

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

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
(Dollars in thousands)	2016	2015	2016	2015	2016	2015
Three Months Ended September 30,						
Commercial real estate	-	-	$ -	$ -	$ -	$ -
Commercial business	1	-	65	-	65	-
Total	1	-	$ 65	$ -	$ 65	$ -

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
(Dollars in thousands)	2016	2015	2016	2015	2016	2015
Nine Months Ended September 30,						
Commercial real estate	-	3	$ -	$ 4,044	$ -	$ 4,044
Commercial business	3	1	324	44	324	44
Total	3	4	$ 324	$ 4,088	$ 324	$ 4,088

All TDRs at September 30, 2016 and December 31, 2015 were performing in compliance with their modified terms, except for two non-accrual loans totaling $1.0 million at September 30, 2016 and two non-accrual loans totaling $1.1 million at December 31, 2015.

The following table provides information on how loans were modified as a TDR during the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Maturity/amortization concession	$ -	$ -	$ -	$ 825
Maturity concession	65	-	324	-
Maturity and payment concession	-	-	-	3,263
Total	$ 65	$ -	$ 324	$ 4,088

There were no loans modified in a troubled debt restructuring, for which there was a payment default during the three and nine months ended September 30, 2016 and 2015, respectively.

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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.

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

Bank of New Canaan’s October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the “Offerings”) called 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 September 30, 2016. The warrants expire on March 6, 2018.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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. On April 27, 2016 the Company's Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company's Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company's Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

The Company did not repurchase any of its common stock during 2016 or 2015.

5. Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives accounted for as cash flow hedges. The Company's total comprehensive income or loss for the three and nine months ended September 30, 2016 and 2015 is reported in the Consolidated Statements of Comprehensive Income.

The following tables present the changes in accumulated other comprehensive income (loss) by component, net of tax for the three and nine months ended September 30, 2016 and 2015:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	(In thousands)		
Balance at June 30, 2016	$1,227	$ (1,511)	$ (284)
Other comprehensive (loss) income before reclassifications	(241)	588	347
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive (loss) income	(241)	588	347
Balance at September 30, 2016	$986	$ (923)	$ 63

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Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swap	Total
	(In thousands)		
Balance at December 31, 2015	$405	$ (178)	$ 227
Other comprehensive income (loss) before reclassifications	673	(745)	(72)
Amounts reclassified from accumulated other comprehensive income	(92)	-	(92)
Net other comprehensive income (loss)	581	(745)	(164)
Balance at September 30, 2016	$986	$ (923)	$ 63

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

	for Sale Securities		
	(In thousands)		
Balance at December 31, 2014	$644	$ (113)	$ 531
Other comprehensive loss before reclassifications	(160)	(646)	(806)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive loss	(160)	(646)	(806)
Balance at September 30, 2015	$484	$ (759)	$ (275)

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Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)		(In thousands, except per share data)	
Net income	$ 3,140	$ 2,253	$ 9,027	$ 6,412
Preferred stock dividends	-	(27)	-	(82)
Dividends to participating securities	(6)	-	(18)	-
Undistributed earnings allocated to participating securities	(56)	(63)	(155)	(170)
Net income for earnings per share calculation	$ 3,078	$ 2,163	$ 8,854	$ 6,160
Weighted average shares outstanding, basic	7,397	7,045	7,388	7,039
Effect of dilutive equity-based awards	92	14	71	18
Weighted average shares outstanding, diluted	7,489	7,059	7,459	7,057

Net earnings per common share:				
Basic earnings per common share	$ 0.42	$ 0.31	$ 1.20	$ 0.88
Diluted earnings per common share	0.41	0.31	1.19	0.87

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.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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 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.

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 regulatory risk based capital ratios in addition to the amount necessary to meet its minimum risk-based capital requirements. The required minimum conservation buffer began to be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Management believes, as of September 30, 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.

Bankwell Financial Group, Inc.

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The capital amounts and ratios for the Bank and the Company at September 30, 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						
September 30, 2016						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$153,398	11.64%	$ 59,309	4.50 %	$85,669	6.50 %
Total Capital to Risk-Weighted Assets	169,886	12.89%	105,439	8.00 %	131,799	10.00%
Tier I Capital to Risk-Weighted Assets	153,398	11.64%	79,079	6.00 %	105,439	8.00 %
Tier I Capital to Average Assets	153,398	10.45%	58,706	4.00 %	73,383	5.00 %
Bankwell Financial Group, Inc.						
September 30, 2016						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$136,858	10.34%	$ 59,538	4.50 %	N/A	N/A
Total Capital to Risk-Weighted Assets	178,447	13.49%	105,845	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	136,858	10.34%	79,384	6.00 %	N/A	N/A
Tier I Capital to Average Assets	136,858	9.14 %	59,908	4.00 %	N/A	N/A

(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						
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 %
Bankwell Financial Group, Inc.						
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

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Restrictions on dividends

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

8. Stock-Based Compensation

Equity award plans

The Company has five equity award plans, which are collectively referred to as the "Plan." The current plan under which any future issuances of equity awards will be made is the 2012 BNC Financial Group, Inc. Stock Plan, or the "2012 Plan," amended on June 26, 2013. All equity awards made under the 2012 Plan are made by means of an award agreement, which contains the specific terms and conditions of the grant. To date, all equity awards have been in the form of share options or restricted stock. At September 30, 2016, there were 480,807 shares reserved for future issuance under the 2012 Plan.

Stock Options: The Company accounts for stock options based on the fair value at the date of grant and records option related expense over the vesting period of such awards on a straight line basis. For the nine months ended September 30, 2016 and 2015, the Company recorded expense related to options granted under the various share option plans of approximately $7 thousand and $11 thousand, respectively.

There were no options granted during the nine months ended September 30, 2016.

A summary of the status of outstanding share options as of and for the nine months ended September 30, 2016 is presented below:

	Nine Months Ended September 30, 2016	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	195,928	$ 18.07
Exercised	(17,600)	16.09
Expired	(10,820)	17.85
Options outstanding at end of period	167,508	18.29
Options exercisable at end of period	166,058	18.32

Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date. The total intrinsic value of share options exercised during the nine months ended September 30, 2016 was $72 thousand.

Bankwell Financial Group, Inc.

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

The following table presents the activity for restricted stock for the nine months ended September 30, 2016:

	Nine Months Ended September 30, 2016	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	143,323	$ 15.92
Granted	29,300	22.30
Vested	(11,232)	16.04
Forfeited	(683)	20.04
Unvested at end of period	160,708	18.55

The Company's restricted stock expense for the nine months ended September 30, 2016 and 2015 was $781 thousand and $796 thousand, respectively.

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 $161 thousand and $128 thousand in stock compensation expense for the nine months ended September 30, 2016 and 2015 for these restricted stock awards, respectively.

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9. Derivative Instruments

Information about derivative instruments at September 30, 2016 and December 31, 2015 is as follows:

September 30, 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	3-month LIBOR	1.62%	$ (347)
Interest rate swap on FHLB advance	$25,000	5.0 years	3-month LIBOR	1.83%	(618)
Interest rate swap on FHLB advance	$25,000	5.0 years	3-month LIBOR	1.48%	(367)
Interest rate swap on FHLB advance	$25,000	5.0 years	3-month LIBOR	1.22%	(92)
					$ (1,424)

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	3-month LIBOR	1.62%	$ (181)
Interest rate swap on FHLB advance	$25,000	5.0 years	3-month LIBOR	1.83%	(276)
Interest rate swap on FHLB advance	$25,000	5.0 years	3-month LIBOR	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:

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(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.

Changes in the consolidated statements of comprehensive income related to interest rate derivatives designated as hedges of cash flows were as follows for the three and nine months ended September 30, 2016 and 2015:

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Interest rate swap on FHLB advance:				
Unrealized gains (losses) recognized in accumulated other comprehensive income	$ 904	$ (826)	$ (1,147)	$ (1,058)
Income tax (expense) benefit on items recognized in accumulated other comprehensive income	(316)	322	402	412
Other comprehensive income (loss)	$ 588	$ (504)	$ (745)	$ (646)
Interest expense recognized on hedged FHLB advance	$ 386	$ 253	$ 999	$ 681

10. Fair Value of Financial Instruments

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either September 30, 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 September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$94,731	$94,731	$94,731	$-	$-
Federal funds sold	1,357	1,357	1,357	-	-
Available for sale securities	82,752	82,752	-	82,752	-
Held to maturity securities	16,909	16,901	-	16,901	-
Loans held for sale	400	400	-	400	-
Loans receivable, net	1,305,065	1,318,755	-	-	1,318,755
Accrued interest receivable	4,499	4,499	-	-	4,499
FHLB stock	7,943	7,943	-	-	7,943
Financial Liabilities:					
Demand deposits	$176,405	$176,405	$-	$-	$176,405
NOW and money market	382,484	382,484	-	-	382,484
Savings	63,501	63,501	-	-	63,501
Time deposits	594,552	597,417	-	-	597,417
Advances from the FHLB	175,000	175,652	-	-	175,652
Subordinated debentures	25,038	23,252	-	-	23,252
Derivative liability	1,424	1,424	-	1,424	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

	December 31, 2015				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
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 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
Financial Liabilities:					
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 for similar loans.

Loans receivable: For variable rate loans which reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of fixed rate loans are estimated by discounting the future cash flows using the 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.

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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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Financial instruments measured at fair value on a recurring basis

The following tables detail the financial instruments carried at fair value on a recurring basis at September 30, 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 nine months ended September 30, 2016 and the year ended December 31, 2015.

(In thousands)	Fair Value Level 1	Level 2	Level 3
September 30, 2016:			
Available for sale investment securities:			
U.S. Government and agency obligations	$-	$54,678	$ -
State agency, U.S. territories and municipal obligations	-	16,560	-
Corporate bonds	-	11,514	-
Derivative liability	-	(1,424)	-
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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The following table details the financial instruments carried at fair value on a nonrecurring basis at September 30, 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
September 30, 2016:			
Impaired loans	$-	$ -	$8,066
Foreclosed real estate	-	-	272
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 September 30, 2016 and December 31, 2015:

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range
September 30, 2016:				
Impaired loans	$ 8,066	Appraisals	Discount to appraised value	8.00% to 18.00%
		Discounted cash flows	Discount rate	4.25% to 6.25%
Foreclosed real estate	$ 272	Appraisals	Discount to appraised value	20.00%
December 31, 2015:				
Impaired loans	$ 10,922	Appraisals	Discount to appraised value	8.00% to 10.00%
		Discounted cash flows	Discount rate	3.25% to 7.00%
Foreclosed real estate	$ 1,248	Appraisals	Discount to appraised value	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.

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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 as well as providing equity capital to the Bank. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency, which was reaffirmed in the third quarter of 2016.

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 rated subordinated notes (the “Notes”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or the early redemption date.

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. On April 27, 2016 the Company's Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company's Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company's Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

Earnings Overview

Net income available to common shareholders was $3.1 million, or $0.41 per diluted share, and $2.2 million, or $0.31 per diluted share, for the three months ended September 30, 2016 and 2015, respectively. Returns on average equity and average assets for the three months ended September 30, 2016 were 8.96% and 0.85%, respectively, compared to 6.92% and 0.69%, respectively, for the three months ended September 30, 2015.

Net income available to common shareholders was $9.0 million, or $1.19 per diluted share, and $6.3 million, or $0.87 per diluted share, for the nine months ended September 30, 2016 and 2015, respectively. Returns on average equity and average assets for the nine months ended September 30, 2016 were 8.84% and 0.85%, respectively, compared to 6.45% and 0.74%, respectively, for the nine months ended September 30, 2015.

For the three months ended September 30, 2016, we had net interest income of $12.5 million, an increase of $1.6 million, or 14.7%, over the three months ended September 30, 2015. Our net interest margin (fully taxable equivalent basis) for the three months ended September 30, 2016 and 2015 was 3.57% and 3.67%, respectively. We experienced a decrease in our non-interest income, which totaled $750 thousand for the three months ended September 30, 2016 representing 5.6% of our total revenue, down from $1.2 million, or 10.0% of total revenue, for the three months ended September 30, 2015.

For the nine months ended September 30, 2016, we had net interest income of $35.8 million, an increase of $4.3 million, or 13.5%, over the nine months ended September 30, 2015. Our net interest margin (fully taxable equivalent basis) for the nine months ended September 30, 2016 and 2015 was 3.54% and 3.83%, respectively. We experienced a decrease in our non-interest income, which totaled $2.3 million for the nine months ended September 30, 2016 representing 6.0% of our total revenue, down from $2.6 million, or 7.7% of total revenue, for the nine months ended September 30, 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, late charges and 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. 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.

FTE net interest income for the three months ended September 30, 2016 and 2015 was $12.7 million and $11.1 million, respectively. FTE net interest income for the nine months ended September 30, 2016 and 2015 was $36.2 million and $31.9 million, respectively. Net interest income was favorable impacted by higher average balances, offset by lower margins. Our net interest margin decreased 10 basis points to 3.57% for the three months ended September 30, 2016, compared to the three months ended September 30, 2015 and decreased 29 basis points to 3.54% for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015. The decrease in the net interest margin was primarily due to higher rates on interest bearing deposits driven by promotional rate increases to remain competitive in the market place and the addition of $25.5 million of 5.75% fixed rate subordinated debentures in August of 2015.

FTE basis interest income for the three months ended September 30, 2016 increased by $2.5 million, or 18.7%, to $15.8 million, compared to FTE basis interest income for the three months ended September 30, 2015 due primarily to loan growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were $1.4 billion for the three months ended September 30, 2016, up by $213.6 million or 17.7% compared to the three months ended September 30, 2015. The average yield on interest earning assets was basically flat, increasing slightly from 4.31% for the three months ended September 30, 2015 to 4.34% for the three months ended September 30, 2016 due mainly to higher yields on the Federal Home Loan Bank Stock, Cash and Fed Funds offsetting lower yields on commercial real estate loans.

FTE basis interest income for the nine months ended September 30, 2016 increased by $7.6 million, or 20.4%, to $44.8 million, compared to FTE basis interest income for the nine months ended September 30, 2015 due primarily to growth in our commercial real estate and commercial business portfolios. Average interest-earning assets were $1.4 billion for the nine months ended September 30, 2016, up by $257.3 million or 23.2% from the nine months ended September 30, 2015, offset by lower yields on earning assets. The average balance of total loans increased $222.5 million, or 22.2%, contributing $7.8 million to the increase in interest income. Commercial real estate and commercial business loan average balances grew by $171.1 million and $27.4 million, respectively. The average yield on interest earning assets decreased from 4.42% for the nine months ended September 30, 2015 to 4.31% for the nine months ended September 30, 2016 due mainly to lower yields on newly originated loans.

Interest expense for the three months ended September 30, 2016, increased by $0.9 million, or 39.6%, compared to interest expense for the three months ended September 30, 2015 due to a $185.5 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 certificates of deposits to remain competitive in the market place and borrowed money as a result of the issuance of the subordinated debt in August of 2015.

Interest expense for the nine months ended September 30, 2016, increased by $3.3 million, or 61.4%, compared to interest expense for the nine months ended September 30, 2015 due to a $235.0 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 certificates of deposits to remain competitive in the market place and borrowed money as a result of the issuance of the subordinated debt in August of 2015.

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

The following tables present the average balances and yields earned on interest-earning assets and average balances and weighted average rates paid on our funding liabilities for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,					
	2016			2015		
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Assets:						
Cash and Fed funds sold	$28,305	$29	0.41 %	$62,597	$33	0.21 %
Securities (1)	98,480	762	3.09	57,234	551	3.85
Loans:						
Commercial real estate	788,429	9,305	4.62	645,488	7,871	4.77
Residential real estate	178,106	1,600	3.59	175,908	1,569	3.57
Construction (2)	107,197	1,230	4.49	79,722	912	4.48
Commercial business	195,881	2,584	5.16	157,867	2,075	5.14
Home equity	14,706	156	4.23	16,422	155	3.75
Consumer	1,467	20	5.51	2,184	27	4.87
Acquired loans (net of mark)	482	19	15.60	2,558	51	7.91
Total loans	1,286,268	14,914	4.54	1,080,149	12,660	4.59
Federal Home Loan Bank stock	7,400	65	3.51	6,918	47	2.71
Total earning assets	1,420,453	15,770	4.34 %	1,206,898	13,291	4.31 %
Other assets	56,762			89,978		
Total assets	$1,477,215			$1,296,876		
Liabilities and shareholders' equity:						
Interest -bearing liabilities:						
NOW	$53,515	16	0.12 %	$56,104	15	0.11 %
Money market	330,263	484	0.58	293,150	408	0.55
Savings	62,689	64	0.40	103,555	214	0.82
Time	540,823	1,597	1.17	401,968	1,005	0.99
Total interest-bearing deposits	987,290	2,161	0.87	854,777	1,642	0.76
Borrowed money	171,385	946	2.20	118,391	583	1.95
Total interest bearing liabilities	1,158,675	3,107	1.07 %	973,168	2,225	0.91 %
Noninterest-bearing deposits	170,500			161,354		
Other liabilities	8,591			33,257		
Total Liabilities	1,337,766			1,167,779		
Shareholders' equity	139,449			129,097		
Total liabilities and shareholders' equity	$1,477,215			$1,296,876		
Net interest income (3)		$12,663			$11,066	
Interest rate spread			3.27 %			3.40 %

Net interest margin (4)	3.57 %	3.67 %

(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 $136 thousand and $149 thousand, respectively, for the three months ended September 30, 2016 and 2015.
(4) Annualized net interest income as a percentage of earning assets.

	Nine Months Ended September 30,			2015		
	2016					
(Dollars in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Assets:						
Cash and Fed funds sold	$30,559	$94	0.41 %	$37,037	$61	0.22 %
Securities (1)	102,107	2,321	3.03	61,233	1,706	3.72
Loans:						
Commercial real estate	754,163	26,385	4.60	583,024	21,469	4.86
Residential real estate	178,699	4,807	3.59	174,389	4,727	3.61
Construction (2)	96,635	3,298	4.48	71,900	2,509	4.60
Commercial business	178,453	7,082	5.21	151,017	5,866	5.12
Home equity	15,206	468	4.11	17,551	494	3.77
Consumer	1,707	66	5.14	2,487	90	4.85
Acquired loans (net of mark)	863	61	9.46	2,877	155	7.22
Total loans	1,225,726	42,167	4.52	1,003,245	35,310	4.64
Federal Home Loan Bank stock	7,173	184	3.43	6,741	110	2.17
Total earning assets	1,365,565	44,766	4.31 %	1,108,256	37,187	4.42 %
Other assets	55,145			57,388		
Total assets	$1,420,710			$1,165,644		
Liabilities and shareholders' equity:						
Interest -bearing liabilities:						
NOW	$55,742	87	0.21 %	$57,017	48	0.11 %
Money market	319,289	1,331	0.56	253,662	1,007	0.53
Savings	71,243	215	0.40	95,242	492	0.69
Time	502,177	4,230	1.13	341,658	2,358	0.92
Total interest-bearing deposits	948,451	5,863	0.83	747,579	3,905	0.70
Borrowed money	158,247	2,682	2.26	124,129	1,389	1.50
Total interest bearing liabilities	1,106,698	8,545	1.03 %	871,708	5,294	0.81 %
Noninterest-bearing deposits	170,088			154,825		
Other liabilities	7,479			6,137		
Total Liabilities	1,284,265			1,032,670		
Shareholders' equity	136,445			132,974		
Total liabilities and shareholders' equity	$1,420,710			$1,165,644		
Net interest income (3)		$36,221			$31,893	
Interest rate spread			3.28 %			3.61 %
Net interest margin (4)			3.54 %			3.83 %

(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 $417 thousand and $341 thousand, respectively, for the nine months ended September 30, 2016 and 2015.

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

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

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

	Three Months Ended September 30, 2016 vs 2015 Increase (Decrease)			Nine Months Ended September 30, 2016 vs 2015 Increase (Decrease)		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Cash and Fed funds sold	$ (24)	$ 20	$ (4)	$ (12)	$ 45	$ 33
Securities	335	(124)	211	973	(358)	615
Loans:						
Commercial real estate	1,694	(260)	1,434	6,017	(1,101)	4,916
Residential real estate	20	11	31	116	(36)	80
Construction	315	3	318	843	(54)	789
Commercial business	501	8	509	1,083	133	1,216
Home equity	(17)	18	1	(69)	43	(26)
Consumer	(10)	3	(7)	(29)	5	(24)
Acquired loans (net of mark)	(60)	28	(32)	(132)	38	(94)
Total loans	2,443	(189)	2,254	7,829	(972)	6,857
Federal Home Loan Bank stock	3	15	18	7	67	74
Total change in interest and dividend income	2,757	(278)	2,479	8,797	(1,218)	7,579
Interest expense:						
Deposits:						
NOW	(1)	2	1	(1)	40	39
Money market	54	22	76	271	53	324
Savings	(65)	(85)	(150)	(104)	(173)	(277)
Time	389	203	592	1,274	598	1,872
Total deposits	377	142	519	1,440	518	1,958
Borrowed money	286	77	363	450	843	1,293
Total change in interest expense	663	219	882	1,890	1,361	3,251
Change in net interest income	$ 2,094	$ (497)	$ 1,597	$ 6,907	$ (2,579)	$ 4,328

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.

The provision for loan losses for the three months ended September 30, 2016 was $1.2 million compared to $1.5 million provision for loan losses for the three months ended September 30, 2015. The provision for loan losses for the nine months ended September 30, 2016 was $3.2 million compared to $2.9 million provision for loan losses for the nine months ended September 30, 2015. For further information, see sections titled Asset Quality and Allowance for Loan Losses.

Noninterest Income

The following tables compare noninterest income for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2016	2015	$	%
Service charges and fees	$ 241	$ 234	$7	3 %
Bank owned life insurance	174	182	(8)	(4)
Gains and fees from sales of loans	163	447	(284)	(64)
Other	172	348	(176)	(51)
Total noninterest income	$ 750	$ 1,211	$(461)	(38)%

Noninterest income decreased $461 thousand to $750 thousand for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease was primarily driven by a decrease in the gains and fees from the sales of loans and other income. During the three months ended September 30, 2016, the Company recorded $163 thousand of gains on the sale of $2.3 million of loans. During the three months ended September 30, 2015, the Company recorded $447 thousand in gains on the sale of $5.7 million of loans. Other income decreased $176 thousand to $172 thousand for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease in other income was driven by a decrease in income recognized on the early pay-off of purchased credit impaired loans.

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2016	2015	$	%
Service charges and fees	$ 721	$ 675	$46	7 %

Bank owned life insurance	522	549	(27)	(5)
Gains and fees from sales of loans	387	885	(498)	(56)
Gain on sale of foreclosed real estate, net	128	-	128	100
Net gain on sale of available for sale securities	92	-	92	100
Other	425	535	(110)	(21)
Total noninterest income	$ 2,275	$ 2,644	$(369)	(14)%

Noninterest income decreased $369 thousand to $2.3 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was primarily driven by a decrease in the gains and fees from the sales of loans, offset by gains on the sale of foreclosed real estate and gains on the sale of available for sale securities. During the nine months ended September 30, 2016, the Company recorded $387 thousand of gains on the sale of $5.8 million of loans. During the nine months ended September 30, 2015, the Company recorded $885 thousand in gains on the sale of $13.4 million of loans.

Noninterest Expense

The following tables compare noninterest expense for the three and nine months ended September 30, 2016, and 2015:

	Three Months Ended September 30,		Change	
(Dollars in thousands)	2016	2015	$	%
Salaries and employee benefits	$ 3,909	$ 3,798	$ 111	3 %
Occupancy and equipment	1,435	1,370	65	5
Professional services	521	339	182	54
Data processing	417	416	1	0
Marketing	242	288	(46)	(16)
FDIC insurance	177	166	11	7
Director fees	128	136	(8)	(6)
Foreclosed real estate	47	81	(34)	(42)
Amortization of intangibles	39	51	(12)	(24)
Other	566	513	53	10
Total noninterest expense	$ 7,481	$ 7,158	$ 323	5 %

Noninterest expense increased $323 thousand to $7.5 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was primarily driven by an increase in salaries and employee benefits and professional services. Salaries and employee benefits increased $111 thousand to $3.9 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase in salaries and employee benefits was a result of an increase in full time equivalent employees. Total full time equivalent employees increased by 4 employees from 124 employees at September 30, 2015 to 128 employees at September 30, 2016. Professional services increased $182 thousand to $521 thousand for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase in professional services was a result of an increase in fees paid in relation to strategic initiatives.

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	2016	2015	$	%
Salaries and employee benefits	$ 11,537	$ 11,817	$ (280)	(2)%
Occupancy and equipment	4,235	4,029	206	5
Professional services	1,257	1,033	224	22
Data processing	1,201	1,157	44	4
Marketing	644	707	(63)	(9)
FDIC insurance	514	487	27	6
Director fees	423	424	(1)	(0)
Foreclosed real estate	149	73	76	104

Amortization of intangibles	119	153	(34)	(22)
Other	1,697	1,610	87	5
Total noninterest expense	$ 21,776	$ 21,490	$ 286	1 %

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Noninterest expense increased $286 thousand to $21.8 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily driven by an increase in professional services and occupancy and equipment expense, offset be a decrease in salaries and employee benefits. Professional services increased $224 thousand for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as a result of an increase in fees paid in relation to strategic initiatives. Occupancy and equipment expense increased $206 thousand for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as a result of an increase in IT related expenses to support growth initiatives and rent expense related to the opening of the Norwalk branch in March of 2015. Salaries and employee benefits decreased $280 thousand for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as a result of a decrease in average full time equivalent employees. The average full time equivalent employees decreased by 3 employees from 127 average full time equivalent employees for the nine months ended September 30, 2015 to 124 full time equivalent employees for the nine months ended September 30, 2016.

Income Tax Expense

Income tax expense for the three months ended September 30, 2016 and 2015 totaled $1.4 million and $1.2 million, respectively. The effective tax rates for the three months ended September 30, 2016 and 2015 were 31.4%, and 35.3%, respectively. Income tax expense for the nine months ended September 30, 2016 and 2015 totaled $4.1 million and $3.4 million, respectively. The effective tax rates for the nine months ended September 30, 2016 and 2015 were 31.3%, and 34.8%, 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.

Financial Condition

Summary

At September 30, 2016, total assets were $1.6 billion, a $235.2 million, or 17.7%, increase over December 31, 2015. Total loans and deposits were $1.3 billion and $1.2 billion, respectively at September 30, 2016. Our credit quality remained strong, with nonperforming assets to total assets of 0.25% and the allowance for loan losses to total loans was 1.30%. Total shareholders' equity at September 30, 2016 and December 31, 2015 was $140.6 million and $131.8 million, respectively. Tangible book value was $18.57 per share at September 30, 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 $1.3 billion at September 30, 2016, up by $178.7 million, or 15.6%, from December 31, 2015. Commercial real estate loans have experienced the most significant growth, up by $119.5 million.

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

(In thousands)	September 30, 2016			December 31, 2015			Change
	Originated	Acquired	Total	Originated	Acquired	Total	Total
Real estate loans:							
Residential	$176,206	$2,790	$178,996	$174,311	$2,873	$177,184	$1,812
Commercial	770,237	46,769	817,006	643,524	54,018	697,542	119,464
Construction	104,801	114	104,915	81,242	1,031	82,273	22,642
Home equity	8,791	6,259	15,050	9,146	6,780	15,926	(876)
	1,060,035	55,932	1,115,967	908,223	64,702	972,925	143,042
Commercial business	188,705	19,895	208,600	150,479	22,374	172,853	35,747
Consumer	618	1,042	1,660	117	1,618	1,735	(75)
Total loans	$1,249,358	$76,869	$1,326,227	$1,058,819	$88,694	$1,147,513	$178,714

Asset Quality

Asset quality metrics remained strong through the third quarter of 2016. Nonperforming assets totaled $3.9 million and represented 0.25% of total assets at September 30, 2016, compared to $5.0 million and 0.38% of total assets at December 31, 2015. Nonaccrual loans totaled $3.6 million at September 30, 2016, a decrease of $0.1 million compared to December 31, 2015. The balance of foreclosed real estate decreased $976 thousand and totaled $272 thousand at September 30, 2016 when compared to December 31, 2015.

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

	At September 30, 2016			At December 31, 2015		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Nonaccrual loans:						
Real estate loans:						
Residential	$969	$ -	$969	$970	$ -	$970
Commercial	960	144	1,104	970	294	1,264
Home equity	191	454	645	198	197	395
Consumer	341	-	341	-	2	2
Commercial business	420	165	585	562	598	1,160
Total non accrual loans	2,881	763	3,644	2,700	1,091	3,791
Property acquired through foreclosure or repossession, net	-	272	272	-	1,248	1,248
Total nonperforming assets	$2,881	$ 1,035	$3,916	$2,700	$ 2,339	$5,039

Nonperforming assets to total assets	0.18 %	0.07 %	0.25 %	0.20 %	0.18 %	0.38 %
Nonaccrual loans to total loans	0.23 %	0.99 %	0.27 %	0.25 %	1.25 %	0.33 %
Total past due loans to total loans	0.21 %	1.80 %	0.31 %	0.28 %	3.20 %	0.51 %
Accruing loans 90 days or more past due	$-	$ -	$-	$-	$ 1,105	$1,105

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Allowance for Loan Losses

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

At September 30, 2016, our allowance for loan losses was $17.3 million and represented 1.30% 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 $3.2 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	**2015**
Balance at beginning of period	$ 16,100	$ 12,230	$ 14,169	$ 10,860
Charge-offs:				
Construction	-	-	(7)	-
Commercial business	(69)	-	(69)	(15)
Consumer	(2)	-	(16)	(6)
Total charge-offs	(71)	-	(92)	(21)
Recoveries:				
Consumer	2	1	7	5
Total recoveries	2	1	7	5
Net charge-offs (recoveries)	69	(1)	85	16
Provision charged to earnings	1,219	1,489	3,166	2,876
Balance at end of period	$ 17,250	$ 13,720	$ 17,250	$ 13,270
Net charge-offs (recoveries) to average loans	0.01 %	0.00 %	0.01 %	0.00 %
Allowance for loan losses to total loans	1.30 %	1.22 %	1.30 %	1.22 %

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:

	At September 30, 2016			At December 31, 2015		
(Dollars in thousands)	Amount	Percent of Loan Portfolio		Amount	Percent of Loan Portfolio	
Residential real estate	$1,480	13.50	%	$1,444	15.44	%
Commercial real estate	9,126	61.60		7,705	60.79	
Construction	2,079	7.91		1,504	7.17	
Home equity	170	1.13		174	1.39	
Commercial business	4,042	15.73		3,334	15.06	
Consumer	353	0.13		8	0.15	
Total allowance for loan losses	$17,250	100.00	%	$14,169	100.00	%

The allocation of the allowance for loan losses at September 30, 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 September 30, 2016 is appropriate to cover probable losses.

Investment Securities

At September 30, 2016, the carrying value of our investment securities portfolio totaled $99.7 million and represented 6.4% of total assets, compared to $50.8 million and represented 3.8% of total assets at December 31, 2015. The increase of $48.9 million, or 96.2%, 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.

The net unrealized gain position on our investment portfolio at September 30, 2016 and December 31, 2015 was $1.5 million and $628 thousand, respectively and included gross unrealized losses of $285 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 (“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 $747.5 thousand as of September 30, 2016 that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, as of September 30, 2016, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with strong debt service coverage. Subsequent to September 30, 2016, on November 2, 2016, the Company sold the COFINA bond resulting in a $251.6 thousand realized loss.

Sources of Funds

Total deposits were $1.2 billion at September 30, 2016, an increase of $170.0 million, from the balance at December 31, 2015 primarily reflecting increases in certificates of deposits and money market accounts. Certificates of deposit increased $157.9 million from $436.7 million at December 31, 2015 to $594.6 million at September 30, 2016. Money markets increased $30.0 million from $296.8 million at December 31, 2015 to $326.8 million at September 30, 2016. Brokered deposits totaled $103.8 million at September 30, 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 $175.0 million at September 30, 2016 compared to $120.0 million at December 31, 2015. The increase of $55.0 million, or 45.8%, reflects normal operating fluctuation in our borrowings.

Liquidity

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

The Company anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of September 30, 2016, the Company had cash and cash equivalents of $96.1 million and available-for-sale securities of $82.8 million. At September 30, 2016, outstanding commitments to originate loans totaled $46.6 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled $128.6 million. Time deposits scheduled to mature in one year or less at September 30, 2016 totaled $369.3 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 $140.6 million at September 30, 2016 compared to $131.8 million at December 31, 2015. The increase of $8.8 million primarily reflected net income of $9.0 million for the nine months ended September 30, 2016. The ratio of total equity to total assets was 8.98% at September 30, 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 September 30, 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 September 30, 2016, the Bank's ratio of total common equity tier 1 capital to risk-weighted assets was 11.64%, total capital to risk-weighted assets was 12.89%, Tier 1 capital to risk-weighted assets was 11.64% and Tier 1 capital to average assets was 10.45%.

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 for regulatory risk based capital ratios 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. The conservation buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on 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 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. On April 27, 2016 the Company’s Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company’s Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company's Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

Interest Rate Sensitivity Analysis

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

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

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning September 30, 2016 and December 31, 2015:

Parallel Ramp	Estimated Percent Change in Net Interest Income	
	September 30,	December 31,
Rate Changes (basis points)	2016	2015
-100	(1.58)%	(1.49)%
+200	(2.53)	(2.49)

Parallel Shock	Estimated Percent Change in Net Interest Income	
	September 30,	December 31,
Rate Changes (basis points)	2016	2015
-100	(3.65)%	(3.47)%

+100	(1.79)	(2.36)
+200	(3.90)	(4.94)
+300	(7.03)	(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.

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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:

	Estimated Percent Change in Economic Value of Equity			
Rate Changes (basis points)	September 30, 2016		December 31, 2015	
-100	(2.50	)%	(3.80	)%
+100	(9.10	)	(7.80	)
+200	(20.20	)	(17.20	)
+300	(30.30	)	(25.40	)

The net interest income at risk simulation results indicate that as of September 30, 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:

10.15	Employment Agreement of Penko Ivanov dated September 26, 2016
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
101	The following materials from Bankwell Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 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: November 9, 2016	/s/ Christopher R. Gruseke Christopher R. Gruseke President and Chief Executive Officer
Date: November 9, 2016	/s/ Ernest J. Verrico, Sr. Ernest J. Verrico, Sr. Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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