Bankwell Financial Group, Inc.
Form 10-Q
May 11, 2015

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 March 31, 2015

o 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 (State or other jurisdiction of Incorporation or organization)	20-8251355 (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 o 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 o 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 o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 30, 2015, there were 7,241,686 shares of the registrant’s common stock outstanding.

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Item 1. Financial Statements
Bankwell Financial Group, Inc.
Consolidated Balance Sheets - (Unaudited)
(Dollars in thousands, except share data)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$19,428	$ 48,559
Held to maturity investment securities, at amortized cost	11,398	11,454
Available for sale investment securities, at fair value	50,736	65,009
Loans held for sale	-	586
Loans receivable (net of allowance for loan losses of $11,596 at March 31, 2015 and $10,860 at December 31, 2014)	964,034	915,981
Foreclosed real estate	830	950
Accrued interest receivable	3,342	3,323
Federal Home Loan Bank stock, at cost	6,794	6,109
Premises and equipment, net	12,120	11,910
Bank-owned life insurance	23,211	23,028
Goodwill	2,589	2,589
Other intangible assets	797	848
Deferred income taxes, net	7,436	7,156
Other assets	1,748	2,029
Total assets	$1,104,463	$ 1,099,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$142,920	$ 166,030
Interest bearing deposits	691,783	669,409
Total deposits	834,703	835,439
Advances from the Federal Home Loan Bank	133,000	129,000
Accrued expenses and other liabilities	5,352	5,882
Total liabilities	973,055	970,321
Commitments and Contingencies	-	-
Shareholders' equity		
Preferred stock, senior noncumulative perpetual, Series C, no par; 10,980 shares issued at March 31, 2015 and December 31, 2014, respectively; liquidation value of $1,000 per share	10,980	10,980
Common stock, no par value; 10,000,000 shares authorized, 7,243,252 and 7,185,482 shares issued at March 31, 2015 and December 31, 2014, respectively	107,765	107,265
Retained earnings	12,280	10,434

Accumulated other comprehensive income	383	531
Total shareholders' equity	131,408	129,210
Total liabilities and shareholders' equity	$1,104,463	$ 1,099,531

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.
Consolidated Statements Of Income – (Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2015	2014
Interest and dividend income		
Interest and fees on loans	$10,757	$7,428
Interest and dividends on securities	504	411
Interest on cash and cash equivalents	12	22
Total interest income	11,273	7,861
Interest expense		
Interest expense on deposits	1,038	622
Interest on borrowings	341	93
Total interest expense	1,379	715
Net interest income	9,894	7,146
Provision for loan losses	733	211
Net interest income after provision for loan losses	9,161	6,935
Noninterest income		
Service charges and fees	208	124
Bank owned life insurance	183	85
Gains and fees from sales of loans	89	428
Gain on sale of foreclosed real estate, net	18	-
Other	101	132
Total noninterest income	599	769
Noninterest expense		
Salaries and employee benefits	3,962	3,342
Occupancy and equipment	1,349	1,065
Data processing	336	335
Professional services	325	369
FDIC insurance	158	118
Director fees	148	139
Marketing	148	110
Amortization of intangibles	51	27
Foreclosed real estate	5	14
Merger and acquisition related expenses	-	141
Other	490	381
Total noninterest expense	6,972	6,041
Income before income tax expense	2,788	1,663

Income tax expense	915	540
Net income	$1,873	$1,123
Net income attributable to common shareholders	$1,846	$1,096
Earnings Per Common Share:		
Basic	$0.26	$0.28
Diluted	$0.26	$0.28
Weighted Average Common Shares Outstanding:		
Basic	7,028,499	3,762,080
Diluted	7,056,141	3,795,946

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.
Consolidated Statements Of Comprehensive Income – (Unaudited)
(In thousands)

	Three Months Ended March 31, 2015	2014
Net income	$1,873	$1,123
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains on available for sale securities	326	245
Reclassification adjustment for (gain) loss realized in net income	-	-
Net change in unrealized gain	326	245
Income tax expense	(127)	(95)
Unrealized gains on securities, net of tax	199	150
Unrealized (losses) gains on interest rate swaps:		
Unrealized (losses) gains on interest rate swaps designated as cash flow hedge	(568)	87
Income tax benefit (expense)	221	(53)
Unrealized (losses) gains on interest rate swap, net of tax	(347)	34
Total other comprehensive (loss) income	(148)	184
Comprehensive income	$1,725	$1,307

See accompanying notes to consolidated financial statements (unaudited)

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

	Number of Outstanding Shares	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	3,876,393	$10,980	$52,105	$5,976	$ 424	$69,485
Net income	-	-	-	1,123	-	1,123
Other comprehensive income, net of tax	-	-	-	-	184	184
Preferred stock cash dividends	-	-	-	(27)	-	(27)
Stock-based compensation expense	-	-	150	-	-	150
Forfeitures of restricted stock	(3,608)	-	-	-	-	-
Stock options exercised	18,905	-	191	-	-	191
Balance at March 31, 2014	3,891,690	$10,980	$52,446	$7,072	$ 608	$71,106

	Number of Outstanding Shares	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	7,185,482	$10,980	$107,265	$10,434	$ 531	$129,210
Net income	-	-	-	1,873	-	1,873
Other comprehensive income, net of tax	-	-	-	-	(148)	(148)
Preferred stock cash dividends	-	-	-	(27)	-	(27)
Stock-based compensation expense	-	-	242	-	-	242
Issuance of restricted stock	40,000	-	-	-	-	-
Stock options exercised	17,770	-	258	-	-	258
Balance at March 31, 2015	7,243,252	$10,980	$107,765	$12,280	$ 383	$131,408

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$1,873	$1,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	38	24
Provision for loan losses	733	211
(Provision) benefit for deferred taxes	(229)	89
Depreciation and amortization	403	206
Increase in cash surrender value of bank-owned life insurance	(183)	(85)
Loan principal sold	(3,122)	(16,040)
Proceeds from sales of loans	3,797	16,569
Net gain on sales of loans	(89)	(428)
Equity-based compensation	242	150
Net accretion of purchase accounting adjustments	(41)	(204)
Gain on sale of foreclosed real estate	(18)	-
Net change in:		
Deferred loan fees	96	174
Accrued interest receivable	(19)	16
Other assets	(142)	265
Accrued expenses and other liabilities	(530)	(1,864)
Net cash provided by operating activities	2,809	206
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	284	110
Proceeds from principal repayments on held to maturity securities	53	34
Net proceeds from sales and calls of available for sale securities	14,280	400
Purchases of available for sale securities	-	(7,247)
Net increase in loans	(48,936)	(24,911)
Purchases of premises and equipment	(613)	(1,205)
Purchase of Federal Home Loan Bank stock	(685)	-
Proceeds from sale of foreclosed real estate	138	-
Net cash used by investing activities	(35,479)	(32,819)

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31, 2015	2014
Cash flows from financing activities		
Net change in time certificates of deposit	$(7,242)	$13,571
Net change in other deposits	6,550	4,111
Net proceeds from FHLB advances	4,000	15,000
Proceeds from exercise of options	258	191
Dividends paid on preferred stock	(27)	(27)
Net cash provided by financing activities	3,539	32,846
Net (decrease) increase in cash and cash equivalents	(29,131)	233
Cash and cash equivalents:		
Beginning of year	48,559	82,013
End of period	$19,428	$82,246
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	$1,258	$885
Income taxes	$1,020	$200

See accompanying notes to consolidated financial statements (unaudited)

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of consolidation

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

Use of estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the fair value of acquired assets, the allowance for loan losses, stock-based compensation and derivative instrument valuation.

Basis of consolidated financial statement presentation

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

Significant concentrations of credit risk

Most of the Company’s activities are with customers located within Fairfield County and the surrounding region of Connecticut, and declines in property values in these areas could significantly impact the Company. The Company has significant concentrations in commercial real estate loans. Management does not believe they present any special risk. The Company does not have any significant concentrations in any one industry or customer.

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

Reclassification

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

Recent accounting pronouncements

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

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

ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) –"Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)". The ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (i) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (ii) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar agreement. In addition, the amendments require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. The amendments were effective for the Company on January 1, 2015. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

ASU No. 2014-09 - 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. 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.

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

ASU No. 2014-12, Compensation-Stock Compensation (Topic 718) - "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)". The ASU provides explicit guidance to account for a performance target that could be achieved after the requisite service period as a performance condition. For awards within the scope of this Update, the Task Force decided that an entity should apply existing guidance in Topic 718 as it relates to share-based payments with performance conditions that affect vesting. Consistent with that guidance, performance conditions that affect vesting should not be reflected in estimating the fair value of an award at the grant date. Compensation cost should be recognized when it is probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual and interim periods beginning after January 1, 2016. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) –"Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)". The ASU has been issued to reduce diversity in practice in the classification of foreclosed residential mortgage loans held by creditors that are fully guaranteed under certain government programs, including the Federal Housing Administration guarantees. A residential mortgage loan would be derecognized and a separate other receivable would be recognized upon foreclosure if the loan has both of the following characteristics: (i) the loan has a government guarantee that is not separable from the loan before foreclosure entitling the creditor to the full unpaid principal balance of the loan; and (ii) at the time of foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover the full unpaid principal balance of the loan through the guarantee. Notably, upon foreclosure, the separate other receivable would be measured based on the current amount of the loan balance expected to be recovered under the guarantee. The amendments were effective for the Company on January 1, 2015. This ASU did not impact the Company's financial statements and the Company does not expect the application of this guidance will have a material impact on the Company's financial statements in the future.

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

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

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

ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Account Standards Codification (ASC) and improves current GAAP by: 1) placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; 2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE); and 3) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments are effective for annual and interim periods beginning after December 15, 2015. An entity can elect to adopt the amendments using either a full retrospective method or a modified retrospective method. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-20): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for annual and interim periods beginning after December 15, 2015. The amendments should be applied on a retrospective basis and the necessary disclosures for a change in an accounting principle should be made. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

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

2. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities at March 31, 2015 were as follows:

	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due in less than one year	$498	$7	$-	$505
Due from one through five years	4,099	-	(21)	4,078
Due from five through ten years	5,583	25	(13)	5,595
Due after ten years	800	5	(12)	793
	10,980	37	(46)	10,971
State agency and municipal obligations				
Due from five through ten years	9,762	355	(127)	9,990
Due after ten years	8,025	579	(1)	8,603
	17,787	934	(128)	18,593
Corporate bonds				
Due in less than one year	5,052	50	(4)	5,098
Due from one through five years	4,137	266	-	4,403
Due from five through ten years	6,116	136	-	6,252
	15,305	452	(4)	15,753
Government-sponsored mortgage backed securities				
Due from one through five years	88	1	-	89
Due after ten years	5,194	147	(11)	5,330
	5,282	148	(11)	5,419
Total available for sale securities	$49,354	$1,571	$(189)	$50,736
Held to maturity securities:				
U.S. Government and agency obligations				
Due in less than one year	$1,007	$1	$-	$1,008
State agency and municipal obligations				
Due after ten years	9,139	-	-	9,139
Corporate bonds				
Due from five through ten years	1,000	-	(26)	974
Government-sponsored mortgage backed securities				
Due after ten years	252	30	-	282

Total held to maturity securities	$11,398	$31	$(26)	$11,403

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

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

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due in less than one year	$497	$9	$-	$506
Due from one through five years	3,998	-	(69)	3,929
Due from five through ten years	17,055	27	(79)	17,003
Due after ten years	3,004	4	(28)	2,980
	24,554	40	(176)	24,418
State agency and municipal obligations				
Due from five through ten years	9,297	295	(48)	9,544
Due after ten years	8,500	544	(4)	9,040
	17,797	839	(52)	18,584
Corporate bonds				
Due in less than one year	5,764	44	(6)	5,802
Due from one through five years	4,150	268	-	4,418
Due from five through ten years	6,121	8	(24)	6,105
	16,035	320	(30)	16,325
Government-sponsored mortgage backed securities				
Due from one through five years	99	1	-	100
Due after ten years	5,468	131	(17)	5,582
	5,567	132	(17)	5,682
Total available for sale securities	$63,953	$1,331	$(275)	$65,009
Held to maturity securities:				
U.S. Government and agency obligations				
Due in less than one year	$1,010	$-	$-	$1,010
State agency and municipal obligations				
Due after ten years	9,179	-	-	9,179
Corporate bonds				
Due from five through ten years	1,000	-	(15)	985
Government-sponsored mortgage backed securities				
Due after ten years	265	31	-	296
Total held to maturity securities	$11,454	$31	$(15)	$11,470

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

There were no sales of, or realized gains or losses on investment securities during the three months ended March 31, 2015 and 2014.

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

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

	Length of Time in Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In thousands)			
March 31, 2015						
U.S. Government and agency obligations	$ 3,925	$ (23)	$ 1,977	$ (22)	$ 5,902	$ (45)
State agency and municipal obligations	1,046	(128)	-	-	1,046	(128)
Corporate bonds	974	(26)	996	(4)	1,970	(30)
Government-sponsored mortgage backed securities	1,120	(12)	-	-	1,120	(12)
Total investment securities	$ 7,065	$ (189)	$ 2,973	$ (26)	$ 10,038	$ (215)
December 31, 2014						
U.S. Government and agency obligations	$ 4,515	$ (56)	$ 5,878	$ (120)	$ 10,393	$ (176)
State agency and municipal obligations	1,771	(52)	-	-	1,771	(52)
Corporate bonds	6,783	(40)	995	(5)	7,778	(45)
Government-sponsored mortgage backed securities	1,406	(17)	-	-	1,406	(17)
Total investment securities	$ 14,475	$ (165)	$ 6,873	$ (125)	$ 21,348	$ (290)

There were 28 and 42 investment securities as of March 31, 2015 and December 31 2014, respectively, in which the fair value of the security was less than the amortized cost of the security. Management believes the unrealized losses are temporary and are the result of recent market conditions, and determined that there has been no deterioration in credit quality subsequent to purchase.

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or are issued by one of the shareholder-owned corporations chartered by the U.S. Government and therefore the contractual cash flows are guaranteed. The Company continually monitors its municipal bond and corporate bond portfolios and at this time these portfolios have minimal default risk because corporate and municipal bonds are all rated above investment grade. Government-sponsored mortgage backed securities are fully guaranteed by U.S. Government agencies.

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Bankwell Financial Group, Inc.
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3. Loans Receivable and Allowance for Loan Losses

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

The following table sets forth a summary of the loan portfolio at March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	$168,016	$4,613	$172,629	$169,833	$5,198	$175,031
Commercial	508,459	57,660	566,119	458,506	62,675	521,181
Construction	67,654	1,070	68,724	62,258	971	63,229
Home equity	10,515	7,897	18,412	10,226	7,940	18,166
	754,644	71,240	825,884	700,823	76,784	777,607
Commercial business	118,493	31,833	150,326	120,360	28,899	149,259
Consumer	55	2,382	2,437	243	2,653	2,896
Total loans	873,192	105,455	978,647	821,426	108,336	929,762
Allowance for loan losses	(11,581)	(15)	(11,596)	(10,860)	-	(10,860)
Deferred loan origination fees, net	(3,033)	-	(3,033)	(2,937)	-	(2,937)
Unamortized loan premiums	16	-	16	16	-	16
Loans receivable, net	$858,594	$105,440	$964,034	$807,645	$108,336	$915,981

Lending activities are conducted principally in the Fairfield County 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 collateralized by first or second mortgages on real estate.

The following table summarizes activity in the accretable yields for the acquired loan portfolio for the three months ended March 31, 2015 and 2014:

(In thousands)	Three Months Ended March 31, 2015	2014
Balance at beginning of period	$1,382	$1,418
Acquisition	-	-
Accretion	(94)	(140)

Other (a)	(63)	(50)
Balance at end of period	$1,225	$1,228

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

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Risk management

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% of the market value of the collateral, depending on the borrowers' creditworthiness and the type of collateral. The market value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are business assets, time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. The Company's policy for residential lending allows that, generally, the amount of the loan may not exceed 80% of the original appraised value of the property. In certain situations, the amount may be up to 90-95% LTV either with private mortgage insurance being required for that portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community's low/moderate income housing program, a religious or civic organization. Private mortgage insurance is required for that portion of the residential first mortgage loan in excess of 80% of the appraised value of the property.

Credit quality of loans and the allowance for loan losses

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

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

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

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

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

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

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

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

An unallocated component is maintained, when needed, to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio. The unallocated allowance is used to provide for an unidentified loss that may exist in emerging problem loans that cannot be fully quantified or may be affected by conditions not fully understood as of the balance sheet date.

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

Allowance for loan losses

The following tables set forth the activity in the Company's allowance for loan losses for the three months ended March 31, 2015 and 2014, by portfolio segment:

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

Bankwell Financial Group, Inc.
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	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Three Months Ended March 31, 2014								
Originated								
Beginning balance	$1,310	$ 3,616	$ 1,032	$190	$ 2,225	$9	$ -	$8,382
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	10	-	10
Provisions	(12)	151	(20)	2	106	(16)	-	211
Ending balance	$1,298	$ 3,767	$ 1,012	$192	$ 2,331	$3	$ -	$8,603
Acquired								
Beginning balance	$-	$ -	$ -	$-	$ -	$-	$ -	$-
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Ending balance	$-	$ -	$ -	$-	$ -	$-	$ -	$-
Total								
Beginning balance	$1,310	$ 3,616	$ 1,032	$190	$ 2,225	$9	$ -	$8,382
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	10	-	10
Provisions	(12)	151	(20)	2	106	(16)	-	211
Ending balance	$1,298	$ 3,767	$ 1,012	$192	$ 2,331	$3	$ -	$8,603

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

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

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

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
March 31, 2015						
Loans individually evaluated for impairment:						
Residential real estate	$864	$2	$-	$-	$864	$2
Commercial real estate	4,975	22	513	-	5,488	22
Construction	-	-	-	-	-	-
Home equity	89	-	40	-	129	-
Commercial business	1,669	9	847	6	2,516	15
Consumer	-	-	7	1	7	1
Subtotal	7,597	33	1,407	7	9,004	40
Loans collectively evaluated for impairment:						
Residential real estate	167,152	1,404	4,613	-	171,765	1,404
Commercial real estate	503,484	6,045	57,147	-	560,631	6,045
Construction	67,654	1,220	1,070	-	68,724	1,220
Home equity	10,426	203	7,857	-	18,283	203
Commercial business	116,824	2,673	30,986	6	147,810	2,679
Consumer	55	3	2,375	2	2,430	5
Subtotal	865,595	11,548	104,048	8	969,643	11,556
Total	$873,192	$11,581	$105,455	$15	$978,647	$11,596

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

Credit quality indicators

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

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

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

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

	Commercial Credit Quality Indicators At March 31, 2015			At December 31, 2014		
	Commercial Real Estate	Construction	Commercial Business	Commercial Real Estate	Construction	Commercial Business
	(In thousands)					
Originated loans:						
Pass	$502,952	$67,654	$ 112,972	$452,974	$ 62,258	$ 115,323
Special mention	2,076	-	4,891	2,096	-	5,037
Substandard	3,431	-	630	3,436	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	508,459	67,654	118,493	458,506	62,258	120,360
Acquired loans:						
Pass	56,142	210	29,639	61,017	136	27,074
Special mention	-	-	831	-	-	659
Substandard	1,518	860	1,363	1,658	835	1,166
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	57,660	1,070	31,833	62,675	971	28,899
Total	$566,119	$68,724	$ 150,326	$521,181	$ 63,229	$ 149,259

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

	Residential and Consumer Credit Quality Indicators					
	At March 31, 2015			At December 31, 2014		
	Residential Real Estate	Home Equity	Consumer	Residential Real Estate	Home Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	$ 167,153	$ 10,424	$ 55	$ 168,969	$ 10,135	$ 243
Special mention	863	91	-	864	91	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	168,016	10,515	55	169,833	10,226	243
Acquired loans:						
Pass	4,499	7,840	2,382	5,022	7,925	2,653
Special mention	114	-	-	-	-	-
Substandard	-	57	-	176	15	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	4,613	7,897	2,382	5,198	7,940	2,653
Total	$ 172,629	$ 18,412	$ 2,437	$ 175,031	$ 18,166	$ 2,896

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, the Company will send the borrower a final demand for payment and may recommend foreclosure. A summary report of all loans 30 days or more past due is provided to the board of directors of the Company each month. Loans greater than 90 days past due are generally put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms.

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

	As of March 31, 2015					
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
	(In thousands)					
Originated Loans						
Real estate loans:						
Residential real estate	$2,595	$-	$-	$2,595	$165,421	$-
Commercial real estate	-	-	-	-	508,459	-
Construction	-	-	-	-	67,654	-
Home equity	268	-	-	268	10,247	-
Commercial business	179	-	-	179	118,314	-
Consumer	-	-	-	-	55	-
Total originated loans	3,042	-	-	3,042	870,150	-
Acquired Loans						
Real estate loans:						
Residential real estate	114	-	-	114	4,499	-
Commercial real estate	1,222	-	994	2,216	55,444	481
Construction	-	-	860	860	210	860
Home equity	-	-	9	9	7,888	-
Commercial business	239	-	310	549	31,284	261
Consumer	23	-	-	23	2,359	-
Total acquired loans	1,598	-	2,173	3,771	101,684	1,602
Total loans	$4,640	$-	$2,173	$6,813	$971,834	$1,602

Bankwell Financial Group, Inc.
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	As of December 31, 2014					
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
			(In thousands)			
Originated Loans						
Real estate loans:						
Residential real estate	$-	$-	$-	$-	$169,833	$-
Commercial real estate	-	-	3,436	3,436	455,070	216
Construction	-	-	-	-	62,258	-
Home equity	-	-	-	-	10,226	-
Commercial business	-	-	-	-	120,360	-
Consumer	-	-	-	-	243	-
Total originated loans	-	-	3,436	3,436	817,990	216
Acquired Loans						
Real estate loans:						
Residential real estate	339	-	294	633	4,565	176
Commercial real estate	685	677	836	2,198	60,477	466
Construction	-	-	835	835	136	835
Home equity	-	40	-	40	7,900	-
Commercial business	178	386	305	869	28,030	305
Consumer	3	-	-			