Bankwell Financial Group, Inc.
Form 10-Q
November 14, 2014

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, 2014

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 o
Non-accelerated filer þ (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 October 31, 2014, there were 7,068,382 shares of the registrant's common stock outstanding.

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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, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$35,566	$82,013
Held to maturity investment securities, at amortized cost (Note 2)	11,502	13,816
Available for sale investment securities, at fair value (Note 2)	67,537	28,597
Loans held for sale	-	100
Loans receivable (net of allowance for loan losses of $9,552 at September 30, 2014 and $8,382 at December 31, 2013) (Note 3)	730,148	621,830
Foreclosed real estate	829	829
Accrued interest receivable	2,670	2,360
Federal Home Loan Bank stock, at cost	4,834	4,834
Premises and equipment, net	7,787	7,060
Bank-owned life insurance	22,837	10,031
Other intangible assets	401	481
Deferred income taxes, net	5,804	5,845
Other assets	5,600	1,822
Total assets	$895,515	$779,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$151,146	$118,618
Interest bearing deposits	544,117	542,927
Total deposits	695,263	661,545
Advances from the Federal Home Loan Bank	77,000	44,000
Accrued expenses and other liabilities	4,755	4,588
Total liabilities	777,018	710,133
Shareholders' equity (Notes 4, 5 and 7)		
Preferred stock, senior noncumulative perpetual, Series C, no par; 10,980 shares issued at September 30, 2014 and December 31, 2013, respectively; liquidation value of $1,000 per share	10,980	10,980
Common stock, no par value; 10,000,000 shares authorized, 6,559,995 and 3,876,393 shares issued at September 30, 2014 and December 31, 2013, respectively	97,180	52,105
Retained earnings	9,735	5,976
Accumulated other comprehensive income	602	424
Total shareholders' equity	118,497	69,485

Total liabilities and shareholders’ equity	$895,515	$779,618

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,	
	2014	2013	2014	2013
Interest and dividend income				
Interest and fees on loans	$8,054	$6,748	$23,040	$19,619
Interest and dividends on securities	569	355	1,417	1,040
Interest on cash and cash equivalents	45	18	116	39
Total interest income	8,668	7,121	24,573	20,698
Interest expense				
Interest expense on deposits	905	600	2,257	1,553
Interest on Borrowings	168	127	427	417
Total interest expense	1,073	727	2,684	1,970
Net interest income	7,595	6,394	21,889	18,728
Provision for loan losses	566	47	847	489
Net interest income after provision for loan losses	7,029	6,347	21,042	18,239
Noninterest income				
Gains and fees from sales of loans	366	972	1,008	1,737
Service charges and fees	153	100	420	297
Bank owned life insurance	135	-	305	-
Net gain on sale of available for sale securities	-	-	-	648
Gain (loss) on sale of foreclosed real estate, net	-	(16)	-	49
Other	103	27	475	141
Total noninterest income	757	1,083	2,208	2,872
Noninterest expense				
Salaries and employee benefits	2,786	2,894	9,412	8,146
Occupancy and equipment	1,066	836	3,162	2,410
Professional services	394	422	1,035	1,212
Data processing	314	280	949	787
Director fees	177	142	460	426
Merger and acquisition related expenses	145	-	408	64
Marketing	135	378	463	776
FDIC insurance	120	36	345	267
Amortization of intangibles	27	-	80	-
Foreclosed real estate	9	1	21	4
Other	357	342	1,134	950
Total noninterest expense	5,530	5,331	17,469	15,042

Income before income tax expense	2,256	2,099	5,781	6,069
Income tax expense	765	780	1,940	2,270
Net income	$1,491	$1,319	$3,841	$3,799
Net income attributable to common shareholders	$1,441	$1,271	$3,677	$3,660
Earnings per common share - basic	$0.22	$0.38	$0.72	$1.12
Earnings per common share - diluted	0.22	0.37	0.72	1.10

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net income	$ 1,491	$ 1,319	$ 3,841	$ 3,799
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on available for sale securities	(253)	(13)	180	(920)
Reclassification adjustment for (gain) loss realized in net income	-	-	-	(648)
Net change in unrealized gain (loss)	(253)	(13)	180	(1,568)
Tax effect - (expense) benefit	99	5	(70)	610
Unrealized gains (losses) on securities, net of tax	(154)	(8)	110	(958)
Unrealized gains (losses) on interest rate swap:				
Unrealized gains (losses) on interest rate swaps designated as cash flow hedge	218	-	111	-
Tax effect - (expense) benefit	(85)	-	(43)	-
Unrealized gains (losses) on interest rate swap	133	-	68	-
Total other comprehensive income (loss)	(21)	(8)	178	(958)
Comprehensive income	$ 1,470	$ 1,311	$ 4,019	$ 2,841

See accompanying notes to consolidated financial statements (unaudited)

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

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2012	$ 10,980	$ 38,117	$ 926	$ 1,511	$ 51,534
Net income	-	-	3,799	-	3,799
Other comprehensive loss, net of tax	-	-	-	(958)	(958)
Preferred stock dividends	-	-	(84)	-	(84)
Stock based compensation expense	-	205	-	-	205
Capital from exercise of stock options	-	471	-	-	471
Capital from private placement	-	13,178	-	-	13,178
Balance at September 30, 2013	$ 10,980	$ 51,971	$ 4,641	$ 553	$ 68,145

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	$ 10,980	$ 52,105	$ 5,976	$ 424	$ 69,485
Net income	-	-	3,841	-	3,841
Other comprehensive income, net of tax	-	-	-	178	178
Preferred stock dividends	-	-	(82)	-	(82)
Stock based compensation expense	-	164	-	-	164
Capital from exercise of stock options	-	207	-	-	207
Issuance of 2,702,703 shares, net of expenses	-	44,704	-	-	44,704
Balance at September 30, 2014	$ 10,980	$ 97,180	$ 9,735	$ 602	$ 118,497

See accompanying notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities		
Net income	$3,841	$3,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	82	151
Provision for loan losses	847	489
Benefit for deferred taxes	(213)	(43)
Net gain on sales of available for sale securities	-	(648)
Depreciation and amortization	835	440
Increase in cash surrender value of bank-owned life insurance	(305)	-
Loans originated for sale	(22,465)	(59,580)
Proceeds from sales of loans	23,572	61,316
Net gain on sales of loans	(1,008)	(1,737)
Equity-based compensation	164	205
Net accretion of purchase accounting adjustments	(352)	-
Gain on sale of foreclosed real estate	-	(49)
Net change in:		
Deferred loan fees	583	297
Accrued interest receivable	(311)	(55)
Other assets	(3,524)	(71)
Accrued expenses and other liabilities	167	(1,390)
Net cash provided by operating activities	1,913	3,124
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	3,307	638
Proceeds from principal repayments on held to maturity securities	2,308	145
Net proceeds from sales and calls of available for sale securities	1,620	10,194
Purchases of held to maturity securities	-	(7,700)
Purchase of available for sale securities	(43,763)	-
Purchase of bank-owned life insurance	(12,500)	-
Net increase in loans	(109,323)	(54,334)
Purchases of premises and equipment	(1,562)	(450)
Purchase of Federal Home Loan Bank stock	-	(134)
Proceeds from sale of foreclosed real estate	-	1,011
Net cash used by investing activities	(159,913)	(50,630)

See accompanying notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30, 2014	2013
Cash flows from financing activities		
Net change in time certificates of deposit	$38,569	$68,400
Net change in other deposits	(4,845)	13,643
Net proceeds (repayments) from short term FHLB advances	40,000	(13,000)
Net proceeds (repayments) from long term FHLB advances	(7,000)	(13,000)
Proceeds from issuance of common stock	44,704	13,178
Proceeds from exercise of options	207	471
Dividends paid on preferred stock	(82)	(84)
Net cash provided by financing activities	111,553	69,608
Net increase (decrease) in cash and cash equivalents	(46,447)	22,102
Cash and cash equivalents:		
Beginning of year	82,013	28,927
End of period	$35,566	$51,029
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	$2,742	$1,872
Income taxes	450	2,042
Noncash investing and financing activities	-	-

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. See Note 12, Mergers and Acquisitions, for further information on the acquisition.

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 region of Connecticut, with branch locations in New Canaan, Stamford, Fairfield and Wilton Connecticut. The Company has received approval from its regulators to establish a branch location in Norwalk, Connecticut, which is expected to open in the first quarter of 2015. In addition, The Company acquired Quinnipiac Bank and Trust Company on October 1, 2014. The acquisition expanded the Company’s branch locations to New Haven County, Connecticut, adding a branch in Hamden Connecticut and North Haven, Connecticut. See note 13, *Subsequent Events* for further information about the merger with Quinnipiac Bank and Trust Company.

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 interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to deferred taxes, the fair values of financial instruments and the determination of the allowance for loan losses.

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, 2014. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Registration Statement on Form S-1 for the year ended December 31, 2013.

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)

Derivative Instruments

The Company enters into interest rate swap agreements as part of the Company's interest rate risk management strategy. Management applies the hedge accounting provisions of Accounting Standards Codification ("ASC") Topic 815, and formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the various hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge's inception and for each reporting period thereafter, to assess whether the derivative used in its hedging transaction is expected to be and has been highly effective in offsetting changes in the fair value or cash flows of the hedged item. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value of the derivative in earnings after termination of the hedge relationship.

The Company has characterized all of its interest rate swaps that qualify under Topic 815 hedge accounting as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by interest rate fluctuations, and are recorded at fair value in other assets within the consolidated balance sheet. Changes in the fair value of these cash flow hedges are initially recorded in accumulated other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any hedge ineffectiveness assessed as part of the Company's quarterly analysis is recorded directly to earnings.

Reclassification

Certain prior period amounts have been reclassified to conform to the 2014 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. 2013-11-Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force).

As a result of applying this ASU, an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss ("NOL") or other tax credit carryforward when settlement in this manner is available under the tax law. The assessment of whether settlement is available under the tax law would be based on facts and circumstances as of the balance sheet reporting date and would not consider future events (e.g., upcoming expiration of related NOL carryforwards). This classification should not affect an entity's analysis of the realization of its deferred tax assets. Gross presentation in the roll forward of unrecognized tax positions in the notes to the financial statements will still be required. For the Company, the update was effective prospectively for annual reporting periods beginning on or after January 1, 2014, and interim periods within those annual periods. Retrospective application is permitted. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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

ASU No. 2014-04 - Troubled Debt Restructuring 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 amendments in this update apply to all creditors who obtain physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to requirements of the applicable jurisdiction. The amendments in this update are effective for the Company for annual reporting periods beginning on or after January 1, 2015, and interim periods within those annual periods. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 660).

This update requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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 amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) 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 amendments in this update are effective for the Company for annual periods and interim periods beginning on or after January 1, 2016. Earlier adoption is permitted. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

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

ASU No. 2014-14 - Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure a Consensus of the FASB Emerging Issues Task Force.

The objective of this update is to reduce the diversity in classification of government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this update are effective for the Company for annual periods and interim periods beginning on or after January 1, 2016. Earlier adoption is permitted. Adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

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

2. Investment Securities

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities at September 30, 2014 were as follows:

	September 30, 2014			
	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	$ 4,994	$ 5	$ (59)	$ 4,940
Due from five through ten years	20,995	15	(174)	20,836
Due after ten years	7,961	2	(4)	7,959
	33,950	22	(237)	33,735
State agency and municipal obligations				
Due from five through ten years	9,314	248	(63)	9,499
Due after ten years	7,244	562	(4)	7,802
	16,558	810	(67)	17,301
Corporate bonds				
Due in less than one year	1,000	6	-	1,006
Due from one through five years	8,206	338	(9)	8,535
Due from five through ten years	6,126	-	(70)	6,056
	15,332	344	(79)	15,597
Government-sponsored mortgage-backed securities	822	82	-	904
Total available for sale securities	$ 66,662	$ 1,258	$ (383)	$ 67,537
Held to maturity securities:				
U.S. Government and agency obligations				
Due from one through five years	$ 1,013	$ 1	$ -	$ 1,014
State agency and municipal obligations				
Due after ten years	9,210	-	-	9,210
Corporate bonds				
Due from five through ten years	1,000	2	-	1,002
Government-sponsored mortgage-backed securities	279	34	-	313
Total held to maturity securities	$ 11,502	$ 37	$ -	$ 11,539

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, 2013 were as follows:

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

There were no sales of, or realized gains or losses on investment securities during the three and nine months ended September 30, 2014. The realized gain on the sale of investment securities totaled $0 and $648 thousand for the three and nine months ended September 30, 2013, respectively.

At September 30, 2014 and December 31, 2013, securities with approximate fair values of $6.8 million and $6.2 million, respectively, were pledged as collateral for public deposits.

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, 2014 and December 31, 2013:

	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, 2014						
U.S. Government and agency obligations	$16,947	$(54)	$5,815	$(183)	$22,762	$(237)
State agency & municipal obligations	3,024	(67)	-	-	3,024	(67)
Corporate bonds	7,053	(73)	993	(6)	8,046	(79)
Total investment securities	$27,024	$(194)	$6,808	$(189)	$33,832	$(383)
December 31, 2013						
U.S. Government and agency obligations	$5,797	$(222)	$910	$(89)	$6,707	$(311)
Corporate bonds	-	-	1,961	(38)	1,961	(38)
Total investment securities	$5,797	$(222)	$2,871	$(127)	$8,668	$(349)

There were thirty one and eight individual investment securities as of September 30, 2014 and December 31 2013, 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 portfolio and at this time this portfolio has minimal default risk because corporate and municipal bonds are all rated above investment grade. The U.S. Government and agency obligations, state agency and municipal bonds, and corporate bonds have experienced declines due to general market conditions. Management determined that there has been no deterioration in credit quality subsequent to purchase and believes that unrealized losses are temporary, resulting from recent market conditions.

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 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, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	$ 167,362	$ -	$ 167,362	$ 155,874	$ -	$ 155,874
Commercial	394,004	6,911	400,915	305,823	9,939	315,762
Construction	52,387	893	53,280	44,187	7,308	51,495
Home equity	9,539	3,294	12,833	9,625	3,872	13,497
	623,292	11,098	634,390	515,509	21,119	536,628
Commercial business	105,123	2,038	107,161	92,173	2,374	94,547
Consumer	190	343	533	225	612	837
Total loans	728,605	13,479	742,084	607,907	24,105	632,012
Allowance for loan losses	(9,552)	-	(9,552)	(8,382)	-	(8,382)
Deferred loan origination fees, net	(2,400)	-	(2,400)	(1,785)	(31)	(1,816)
Unamortized loan premiums	16	-	16	16	-	16
Loans receivable, net	$ 716,669	$ 13,479	$ 730,148	$ 597,756	$ 24,074	$ 621,830

Lending activities are conducted principally in the Fairfield County region of Connecticut, and consist of residential and commercial real estate loans, commercial business loans and a variety of consumer loans. Loans may also be granted for the construction of residential homes and commercial properties. All residential and commercial mortgage loans are collateralized by first or second mortgages on real estate.

The following table summarizes activity in the accretable yields for the acquired loan portfolio for the three and nine months ended September 30, 2014:

(In thousands)	Three Months Ended September 30, 2014
Balance at beginning of period	$ 817
Acquisition	-
Accretion	(81)

Other (a)		-
Balance at end of period	$	736

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

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, or a religious or civic organization. Private mortgage insurance is required for that portion of the residential loan in excess of 80% of the appraised value of the property.

Credit quality of loans and the allowance for loan losses

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

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

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

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

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

Home Equity: 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 second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

Bankwell Financial Group, Inc.

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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. The unallocated allowance was $0 at September 30, 2014 and December 31, 2013, respectively.

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, 2014 and 2013, by portfolio segment:

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

Provisions	-	-	-	-	(1)	-	-	(1)
Ending balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total								
Beginning balance	$ 1,392	$ 4,024	$ 776	$ 188	$ 2,292	$ 6	$ 307	$ 8,985
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	1	-	1
Provisions	19	637	115	3	99	-	(307)	566
Ending balance	$ 1,411	$ 4,661	$ 891	$ 191	$ 2,391	$ 7	$ -	$ 9,552

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	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)							
Three Months Ended September 30, 2013								
Beginning balance	$ 1,326	$ 3,672	$ 1,013	$ 213	$ 1,766	$ 91	$ 143	8,224
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	6	-	6
Provisions	143	(81)	(85)	(1)	286	(87)	(128)	47
Ending balance	$ 1,469	$ 3,591	$ 928	$ 212	$ 2,052	$ 10	$ 15	$ 8,277

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

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Unallocated	Total

	(In thousands)							
Nine Months Ended September 30, 2013								
Beginning balance	$ 1,230	$ 3,842	$ 929	$ 220	$ 1,718	$ 2	$ -	$ 7,941
Charge-offs	-	(166)	-	-	-	(3)	-	(169)
Recoveries	-	-	-	-	-	16	-	16
Provisions	239	(85)	(1)	(8)	334	(5)	15	489
Ending balance	$ 1,469	$ 3,591	$ 928	$ 212	$ 2,052	$ 10	$ 15	$ 8,277

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Bankwell Financial Group, Inc.
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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.

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, 2014 and December 31, 2013:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
September 30, 2014						
Loans individually evaluated for impairment:						
Residential real estate	$ 864	$ -	$ -	$ -	$ 864	$ -
Commercial real estate	2,895	22	-	-	2,895	22
Construction	-	-	-	-	-	-
Home equity	94	-	-	-	94	-
Commercial business	1,977	17	631	-	2,608	17
Consumer	-	-	-	-	-	-
Subtotal	$ 5,830	$ 39	$ 631	$ -	$ 6,461	$ 39
Loans collectively evaluated for impairment:						
Residential real estate	$ 166,498	$ 1,411	$ -	$ -	$ 166,498	$ 1,411
Commercial real estate	391,109	4,639	6,911	-	398,020	4,639
Construction	52,387	891	893	-	53,280	891
Home equity	9,445	191	3,294	-	12,739	191
Commercial business	103,146	2,374	1,407	-	104,553	2,374
Consumer	190	7	343	-	533	7
Subtotal	$ 722,775	$ 9,513	$ 12,848	$ -	$ 735,623	$ 9,513
Unallocated Allowance	-	-	-	-	-	-
Total	$ 728,605	$ 9,552	$ 13,479	$ -	$ 742,084	$ 9,552

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	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
December 31, 2013						
Loans individually evaluated for impairment:						
Residential real estate	$1,867	$73	$-	$-	$1,867	$73
Commercial real estate	1,117	56	-	-	1,117	56
Construction	-	-	-	-	-	-
Home equity	97	4	-	-	97	4
Commercial business	642	12	-	-	642	12
Consumer	-	-	-	-	-	-
Subtotal	$3,723	$145	$-	$-	$3,723	$145
Loans collectively evaluated for impairment:						
Residential real estate	$154,007	$1,237	$-	$-	$154,007	$1,237
Commercial real estate	304,706	3,560	9,939	-	314,645	3,560
Construction	44,187	1,032	7,308	-	51,495	1,032
Home equity	9,528	187	3,872	-	13,400	187
Commercial business	91,531	2,212	2,374	-	93,905	2,212
Consumer	225	9	612	-	837	9
Subtotal	$604,184	$8,237	$24,105	$-	$628,289	$8,237
Total	$607,907	$8,382	$24,105	$-	$632,012	$8,382

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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.

The following tables are a summary of the loan portfolio quality indicators by portfolio segment at September 30, 2014 and December 31, 2013:

Commercial Credit Quality Indicators

	At September 30, 2014			At December 31, 2013		
	Commercial Real Estate	Construction	Commercial Business	Commercial Real Estate	Construction	Commercial Business
	(In thousands)					
Originated loans:						
Pass	$ 387,877	$ 52,387	$ 99,354	$ 304,469	$ 44,187	$ 91,093
Special mention	1,571	-	5,191	237	-	438
Substandard	4,556	-	578	1,117	-	642
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	394,004	52,387	105,123	305,823	44,187	92,173
Acquired loans:						
Pass	5,878	-	1,138	9,580	4,639	1,806
Special mention	-	-	53	24	161	252
Substandard	1,033	893	847	335	2,508	316
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	6,911	893	2,038	9,939	7,308	2,374
Total	$ 400,915	$ 53,280	$ 107,161	$ 315,762	$ 51,495	$ 94,547

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	Residential and Consumer Credit Quality Indicators					
	At September 30, 2014			At December 31, 2013		
	Residential			Residential		
	Real Estate	Home Equity	Consumer	Real Estate	Home Equity	Consumer
	(In thousands)					
Originated loans:						
Pass	$166,498	$9,372	$190	$153,443	$9,447	$225
Special mention	864	167	-	2,431	178	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total originated loans	167,362	9,539	190	155,874	9,625	225
Acquired loans:						
Pass	-	3,294	343	-	3,826	469
Special mention	-	-	-	-	-	143
Substandard	-	-	-	-	46	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total acquired loans	-	3,294	343	-	3,872	612
Total	$167,362	$12,833	$533	$155,874	$13,497	$837

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 September 30, 2014 and December 31, 2013:

	As of September 30, 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	$-	$-	$-	$-	$167,362	$-
Commercial real estate	-	-	1,102	1,102	392,902	-
Construction	-	-	-	-	52,387	-
Home equity	-	-	-	-	9,539	-
Commercial business	-	-	-	-	105,123	-
Consumer	-	1	-	1	189	-
Total originated loans	-	1	1,102	1,103	727,502	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	416	416	6,495	416
Construction	-	-	893	893	-	893
Home equity	-	-	-	-	3,294	-
Commercial business	-	-	-	-	2,038	-
Consumer	1	-	-	1	342	-
Total acquired loans	1	-	1,309	1,310	12,169	1,309
Total loans	$1	$1	$2,411	$2,413	$739,671	$1,309

	As of December 31, 2013					
	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Carrying Amount > 90 Days and Accruing
	(In thousands)					
Originated Loans						
Real estate loans:						
Residential real estate	$-	$-	$1,003	$1,003	$154,871	$-
Commercial real estate	-	-	-	-	305,823	-
Construction	-	-	-	-	44,187	-

Home equity	-	-	-	-	9,625	-
Commercial business	-	-	-	-	92,173	-
Consumer	-	-	-	-	225	-
Total originated loans	-	-	1,003	1,003	606,904	-
Acquired Loans						
Real estate loans:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	797	797	9,142	797
Construction	-	-	2,508	2,508	4,800	2,508
Home equity	-	-	-	-	3,872	-
Commercial business	-	-	315	315	2,059	315
Consumer	-	-	-	-	612	-
Total acquired loans	-	-	3,620	3,620	20,485	3,620
Total loans	$-	$-	$4,623	$4,623	$627,389	$3,620

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Bankwell Financial Group, Inc.
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Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Residential real estate	$ -	$ 1,003
Commercial real estate	1,246	-
Total	$ 1,246	$ 1,003

The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled $51 thousand, and $67 thousand, respectively for the nine months ended September 30, 2014, and 2013. The amount of income that was contractually due but not recognized on originated nonaccrual loans totaled $18 thousand, and $27 thousand, respectively for the three months ended September 30, 2014 and 2013. There was $4 thousand and $8 thousand actual interest income recognized on these loans for the nine months ended September 30, 2014, and 2013.

At September 30, 2014 and December 31, 2013, there were no commitments to lend additional funds to any borrower on nonaccrual status.

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling $1.9 million and $6.2 million, respectively at September 30, 2014 and December 31, 2013. Such loans otherwise meet the Company’s definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are accounted for on either a pool or individual basis and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

Impaired loans

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

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The following table summarizes impaired loans by portfolio segment as of September 30, 2014 and December 31, 2013:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(In thousands)					
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	$864	$-	$864	$-	$-	$-
Commercial real estate	2,440	-	2,455	-	-	-
Home equity	94	-	94	-	-	-
Commercial business	1,344	-	1,350	-	-	-
Total impaired loans without a valuation allowance	$4,742	$-	$4,763	$-	$-	$-
Impaired loans with a valuation allowance:						
Residential real estate	$-	$1,867	$-	$1,880	$-	$73
Commercial real estate	455	1,117	455	1,117	22	56
Home equity	-	97	-	97	-	4
Commercial business	633	642	633	642	17	12
Total impaired loans with a valuation allowance	$1,088	$3,723	$1,088	$3,736	$39	$145
Total originated impaired loans	$5,830	$3,723	$5,851	$3,736	$39	$145
Acquired						
Impaired loans without a valuation allowance:						
Commercial business	$631	$-	$631	$-	$-	$-
Total impaired loans without a valuation allowance	$631	$-	$631	$-	$-	$-
Total acquired impaired loans	$631	$-	$631	$-	$-	$-

The following table summarizes the average recorded investment balance of impaired loans and interest income recognized on impaired loans by portfolio segment for the nine months ended September 30, 2014 and 2013:

	Average Recorded Investment		Interest Income Recognized	
Nine months ended September 30,	2014	2013	2014	2013
	(In thousands)			
Originated				
Impaired loans without a valuation allowance:				

Residential real estate	$864	$-	$21	$-
Commercial real estate	1,714	-	21	-
Home equity	96	-	2	-
Commercial business	1,434	-	48	-
Total impaired loans without a valuation allowance	$4,108	$-	$92	$-
Impaired loans with a valuation allowance:				
Residential real estate	$-	$1,900	$-	$29
Commercial real estate	459	1,131	24	38
Home equity	665	246	-	6
Commercial business	-	690	27	28
Total impaired loans with a valuation allowance	$1,124	$3,967	$51	$101
Total originated impaired loans	$5,232	$3,967	$143	$101
Acquired				
Impaired loans without a valuation allowance:				
Commercial business	$599	$-	$20	$-
Total impaired loans without a valuation allowance	$599	$-	$20	$-
Total acquired impaired loans	$599	$-	$20	$-

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Bankwell Financial Group, Inc.
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Troubled debt restructurings (TDRs)

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

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

The recorded investment in TDRs was $2.1 million at September 30, 2014 and $1.6 million at December 31, 2013.

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

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
(Dollars in thousands)	2014	2013	2014	2013	2014	2013
Three months ended September 30,						
Commercial business	1	-	$241	$-	$241	$-
Total	1	-	$241	$-	$241	$-

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
(Dollars in thousands)	2014	2013	2014	2013	2014	2013
Nine months ended September 30,						
Commercial real estate	2	-	$ 1,324	$-	$1,324	$-
Home equity	-	1	-	94	-	94
Commercial business	4	-	796	-	796	-
Total	6	1	$ 2,120	$94	$2,120	$94

All TDRs at September 30, 2014 and December 31, 2013 were performing in compliance under their modified terms.

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The following table provides information on how loans were modified as a TDR during the three and nine months ended September 30, 2014 and 2013.

	Three months		Nine months	
Periods ended September 30,	2014	2013	2014	2013
	(In thousands)			
Maturity/amortization concession	$241	$-	$962	$94
Payment concession	$-	$-	$1,158	$-
Total	$241	$-	$2,120	$94

There was $1.1 million and no loans modified in a troubled debt restructuring, for which there was a payment default during the three or nine months ended September 30, 2014 and 2013, 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.

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

Preferred stock

In 2011, the Company elected to participate in the U.S. Treasury's Small Business Lending Fund Program ("SBLF"). The SBLF is a $30 billion fund established under the Small Business Jobs Act of 2010 to encourage lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. The SBLF is intended to expand the ability to lend to small businesses, in order to help stimulate the economy and promote job growth. The transaction resulted in net capital proceeds to the Company of $5.9 million, of which at least 90% was invested in the Banks as Tier 1 Capital.

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

The Series C Preferred Stock has no maturity date and ranks senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The Series C Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Series C Preferred Stock, and is redeemable at any time by the Company, subject to the approval of its federal banking regulator. The redemption price is the aggregate liquidation preference of the SBLF Preferred Stock plus accrued but unpaid dividends and pro rata portion of any lending incentive fee. All redemptions must be in an amount at least equal to 25% of the number of originally issued shares of SBLF Preferred Stock, or 100% of the then-outstanding shares if less than 25% of the number of shares originally issued. In connection with the IPO, the U.S. Treasury exercised its piggyback registration rights under the SBLF and the Series C Preferred Stock held by the U.S. Treasury was registered under the Securities Act of 1933, as amended.

Warrants

The initial and secondary offerings completed in 2002 and 2007 each call for the issuance of Units. Each Unit issued pursuant to these two offerings represented one share of common stock and one non-transferable Warrant. The Warrants were exercisable at any time from and including October 1, 2009 and prior to or on November 30, 2009, unless extended or accelerated by the board of directors in their discretion. The board of directors has extended the exercise period to October 1, 2015 through December 1, 2015. Each Warrant allows a holder to purchase. 3221 shares of common stock at an exercise price of $14.00 per share. None of the Warrants have been exercised as of September 30, 2014. Assuming that all of the Warrants issued are exercised in full during the exercise period, the Company would receive $4.3 million in gross capital and issue 304,640 shares of common stock.

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Dividends

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

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

For the nine months ended September 30, 2014 and 2013, the Company declared and paid cash dividends on preferred stock of $82 thousand and $84 thousand, respectively. To date, the Company has not declared or paid dividends on its common stock, nor has it repurchased any of its common stock.

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 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, 2014 and 2013 is reported in the Consolidated Statements of Comprehensive Income.

The following table presents the changes in accumulated other comprehensive income (loss) by component, net of tax for the three and nine months ended September 30, 2014 and 2013:

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

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

	for Sale Securities (In thousands)		
Balance at December 31, 2013	$ 424	$ -	$ 424
Other comprehensive income (loss) before reclassifications	110	68	178
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net other comprehensive income (loss)	110	68	178
Balance at September 30, 2014	$ 534	$ 68	$ 602

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	Net Unrealized Gain (Loss) on Available for Sale Securities (In thousands)
Balance at June 30, 2013	$ 561
Other comprehensive loss before reclassifications	(8)
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive loss	(8)
Balance at September 30, 2013	$ 553

	Net Unrealized Gain (Loss) on Available for Sale Securities (In thousands)
Balance at December 31, 2012	$ 1,511
Other comprehensive loss before reclassifications	(958)
Amounts reclassified from accumulated other comprehensive income	-
Net other comprehensive loss	(958)
Balance at September 30, 2013	$ 553

6. Earnings per share

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

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

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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,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income	$1,491	$1,319	$3,841	$3,799
Preferred stock dividends	(27)	(29)	(82)	(84)
Dividends and undistributed earnings allocated to participating securities	(23)	(19)	(82)	(55)
Net income available to common shareholders	$1,441	$1,271	$3,677	$3,660
Weighted average shares outstanding, basic	6,483	3,355	5,099	3,278
Effect of dilutive equity-based awards	19	58	25	60
Weighted average shares outstanding, diluted	6,502	3,413	5,124	3,338
Net earnings per common share:				
Basic earnings per common share	$0.22	$0.38	$0.72	$1.12
Diluted earnings per common share	0.22	0.37	0.72	1.10

7. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Company to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets, as defined by regulation. Management believes, as of September 30, 2014, the Bank and Company meet all capital adequacy requirements to which they are subject. As of September 30, 2014, the Bank was well capitalized under the regulatory framework for prompt corrective action, as shown in the following schedules. There are no conditions or events since then that management believes have changed this category.

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The capital amounts and ratios for the Bank and Company at September 30, 2014 and December 31, 2013, were as follows:

(Dollars in thousands)	Actual Capital Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Bankwell Bank						
September 30, 2014						
Total Capital to Risk-Weighted Assets	$ 112,989	15.27 %	$ 59,199	8.00 %	$ 73,999	10.00 %
Tier I Capital to Risk-Weighted Assets	103,735					