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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2016**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________to________

Commission File Number: **001-36448**

Bankwell Financial Group, Inc.

(Exact Name of Registrant as specified in its Charter)

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

220 Elm Street

New Canaan, Connecticut 06840

(203) 652-0166

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

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

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

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

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

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

As of July 31, 2016, there were 7,552,558 shares of the registrant's common stock outstanding.

Bankwell Financial Group, Inc.

Form 10-q

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Bankwell Financial Group, Inc.

Consolidated Balance Sheets - (unaudited)

(Dollars in thousands, except share data)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$92,745	$ 49,562
Federal funds sold	1,932	39,035
Cash and cash equivalents	94,677	88,597
Held to maturity investment securities, at amortized cost	16,959	10,226
Available for sale investment securities, at fair value	83,837	40,581
Loans receivable (net of allowance for loan losses of $16,100 at June 30, 2016 and $14,169 at December 31, 2015)	1,256,949	1,129,748
Foreclosed real estate	492	1,248
Accrued interest receivable	4,708	4,071
Federal Home Loan Bank stock, at cost	7,393	6,554
Premises and equipment, net	10,659	11,163
Bank-owned life insurance	24,103	23,755
Goodwill	2,589	2,589
Other intangible assets	572	652
Deferred income taxes, net	9,487	8,337
Other assets	3,695	2,851
Total assets	$1,516,120	$ 1,330,372
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$178,917	$ 164,553
Interest bearing deposits	1,001,674	882,389
Total deposits	1,180,591	1,046,942
Advances from the Federal Home Loan Bank	165,000	120,000
Subordinated debentures	25,025	25,000
Accrued expenses and other liabilities	8,382	6,661
Total liabilities	1,378,998	1,198,603

Commitments and Contingencies	-	-
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,544,458 and 7,516,291 shares issued at June 30, 2016 and December 31, 2015, respectively	113,309	112,579
Retained earnings	24,097	18,963
Accumulated other comprehensive (loss) income	(284)	227
Total shareholders' equity	137,122	131,769
Total liabilities and shareholders' equity	$1,516,120	$ 1,330,372

See accompanying notes to consolidated financial statements (unaudited)

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Bankwell Financial Group, Inc.

Consolidated Statements of Income – (unaudited)

(Dollars in thousands, except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest and dividend income				
Interest and fees on loans	$ 13,970	$ 11,897	$ 27,253	$ 22,653
Interest and dividends on securities	711	474	1,395	978
Interest on cash and cash equivalents	30	17	67	29
Total interest income	14,711	12,388	28,715	23,660
Interest expense				
Interest expense on deposits	1,962	1,231	3,702	2,269
Interest on borrowings	870	416	1,736	757
Total interest expense	2,832	1,647	5,438	3,026
Net interest income	11,879	10,741	23,277	20,634
Provision for loan losses	1,301	654	1,947	1,387
Net interest income after provision for loan losses	10,578	10,087	21,330	19,247
Noninterest income				
Service charges and fees	235	233	480	441
Bank owned life insurance	174	185	348	368
Gain on sale of foreclosed real estate, net	128	-	128	18
Gains and fees from sales of loans	114	349	224	438
Net gain on sale of available for sale securities	92	-	92	-
Other	110	87	253	187
Total noninterest income	853	854	1,525	1,452
Noninterest expense				
Salaries and employee benefits	3,817	4,057	7,628	8,019
Occupancy and equipment	1,392	1,310	2,800	2,659
Data processing	377	405	784	741
Professional services	370	369	736	694
Marketing	263	271	402	418
FDIC insurance	168	163	337	321
Director fees	140	141	295	289
Amortization of intangibles	40	51	80	102
Foreclosed real estate	30	6	102	10

Other	618	607	1,131	1,097
Total noninterest expense	7,215	7,380	14,295	14,350
Income before income tax expense	4,216	3,561	8,560	6,349
Income tax expense	1,320	1,275	2,673	2,190
Net income	$ 2,896	$ 2,286	$ 5,887	$ 4,159
Net income attributable to common shareholders	$ 2,896	$ 2,259	$ 5,887	$ 4,104
Earnings Per Common Share:				
Basic	$ 0.38	$ 0.31	$ 0.78	$ 0.57
Diluted	$ 0.38	$ 0.31	$ 0.78	$ 0.57
Weighted Average Common Shares Outstanding:				
Basic	7,387,712	7,042,290	7,383,965	7,035,432
Diluted	7,467,954	7,056,916	7,446,456	7,056,566
Dividends per common share	$ 0.05	$ -	$ 0.10	$ -

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

Consolidated Statements of Comprehensive Income – (unaudited)

(In thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 2,896	$ 2,286	$ 5,887	$ 4,159
Other comprehensive loss:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) on available for sale securities	332	(778)	1,357	(452)
Reclassification adjustment for (gain) loss realized in net income	(92)	-	(92)	-
Net change in unrealized gains (losses)	240	(778)	1,265	(452)
Income tax (expense) benefit	(84)	303	(443)	176
Unrealized gains (losses) on securities, net of tax	156	(475)	822	(276)
Unrealized (losses) gains on interest rate swaps:				
Unrealized (losses) gains on interest rate swaps designated as cash flow hedges	(643)	336	(2,051)	(232)
Income tax benefit (expense)	225	(131)	718	90
Unrealized (losses) gains on interest rate swaps, net of tax	(418)	205	(1,333)	(142)
Total other comprehensive loss, net of tax	(262)	(270)	(511)	(418)
Comprehensive income	$ 2,634	$ 2,016	$ 5,376	$ 3,741

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

Consolidated Statements of Shareholders' Equity – (unaudited)

(In thousands, except share data)

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	7,516,291	$112,579	$18,963	$ 227	$131,769
Net income	-	-	5,887	-	5,887
Other comprehensive loss, net of tax	-	-	-	(511)	(511)
Cash dividends declared ($0.10 per share)	-	-	(753)	-	(753)
Stock-based compensation expense	-	506	-	-	506
Forfeitures of restricted stock	(633)	-	-	-	-
Issuance of restricted stock	14,300	-	-	-	-
Stock options exercised	14,500	224	-	-	224
Balance at June 30, 2016	7,544,458	$113,309	$24,097	$ (284)	$137,122

	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	-	-	-	4,159	-	4,159
Other comprehensive loss, net of tax	-	-	-	-	(418)	(418)
Preferred stock cash dividends	-	-	-	(55)	-	(55)
Stock-based compensation expense	-	-	515	-	-	515
Forfeitures of restricted stock	(2,548)	-	-	-	-	-
Issuance of restricted stock	40,000	-	-	-	-	-
Stock options exercised	17,770	-	258	-	-	258
Balance at June 30, 2015	7,240,704	$10,980	$108,038	$14,538	$ 113	$133,669

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

Consolidated Statements of Cash Flows – (unaudited)

(In thousands)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities		
Net income	$5,887	$4,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	369	66
Provision for loan losses	1,947	1,387
Provision for deferred taxes	(875)	(536)
Net gain on sales of available for sale securities	(92)	-
Depreciation and amortization	865	833
Increase in cash surrender value of bank-owned life insurance	(348)	(367)
Loan principal sold	(3,555)	(7,174)
Proceeds from sales of loans	3,779	8,198
Net gain on sales of loans	(224)	(438)
Stock-based compensation	506	515
Net accretion of purchase accounting adjustments	(73)	(77)
Gain (loss) on sale and write-downs of foreclosed real estate	62	(18)
Net change in:		
Deferred loan fees	304	347
Accrued interest receivable	(637)	(251)
Other assets	(2,736)	673
Accrued expenses and other liabilities	1,721	(458)
Net cash provided by operating activities	6,900	6,859
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	650	583
Proceeds from principal repayments on held to maturity securities	104	108
Net proceeds from sales and calls of available for sale securities	8,308	17,030
Purchases of available for sale securities	(51,228)	-
Purchases of held to maturity securities	(6,835)	-
Net increase in loans	(129,494)	(107,551)
Purchases of premises and equipment	(361)	(791)
Purchase of Federal Home Loan Bank stock	(839)	(809)
Proceeds from sale of foreclosed real estate	694	138
Net cash used by investing activities	(179,001)	(91,292)

See accompanying notes to consolidated financial statements (unaudited)

Consolidated Statements of Cash Flows- *(Continued)*

(In thousands)

	Six Months Ended June 30, 2016	2015
Cash flows from financing activities		
Net change in time certificates of deposit	$107,009	$39,449
Net change in other deposits	26,675	76,772
Amortization of debt issuance costs	26	-
Net change in FHLB advances	45,000	(5,000)
Proceeds from exercise of options	224	258
Dividends paid on common stock	(753)	-
Dividends paid on preferred stock	-	(55)
Net cash provided by financing activities	178,181	111,424
Net increase in cash and cash equivalents	6,080	26,991
Cash and cash equivalents:		
Beginning of year	88,597	48,559
End of period	$94,677	$75,550
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	$5,405	$2,878
Income taxes	4,479	2,491
Noncash investing and financing activities		
Loans transferred to foreclosed real estate	$-	$-

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

1. Nature Of Operations And Summary Of Significant Accounting Policies

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

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

Principles of consolidation

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

Use of estimates

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

Basis of consolidated financial statement presentation

The unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and Rule 10-1 of Regulation S-X and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying unaudited interim consolidated financial statements have been included. Interim results are not necessarily reflective of the results that may be expected for the year ending December 31, 2016. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on Form 10-K for the year ended December 31, 2015.

Significant concentrations of credit risk

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

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

Reclassification

Certain prior period amounts have been reclassified to conform to the 2016 financial statement presentation. These reclassifications only changed the reporting categories and did not affect the consolidated results of operations or consolidated financial position.

Recent accounting pronouncements

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

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

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

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU has been issued to improve the recognition and measurement of financial instruments by requiring 1) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 3) the use of the exit price notion when measuring fair value of financial instruments for disclosure purposes; and 4) separate presentation by the reporting organization in other comprehensive income for the portion of the total change in the fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard is effective for the Company beginning on January 1, 2018. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU 2016-09, Compensation – Stock Compensation (Topic 718): "Improvements to Employee Share-Based Payment Accounting." This ASU changes how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled, the guidance on employers' accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and for forfeitures is changing and the update requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The amendments in this update will be effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments." The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The amendments in this update will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of its pending adoption of this guidance on the Company's financial statements.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

2. Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at June 30, 2016 were as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	$54,099	$828	$-	$54,927
Due from five through ten years	31	2	-	33
Due after ten years	100	-	-	100
	54,230	830	-	55,060
State agency, U.S. Territories and municipal obligations				
Due from one through five years	825	49	-	874
Due from five through ten years	10,320	556	(300)	10,576
Due after ten years	5,359	366	-	5,725
	16,504	971	(300)	17,175
Corporate bonds				
Due in less than one year	1,004	9	-	1,013
Due from one through five years	9,196	336	-	9,532
Due from five through ten years	1,011	45	-	1,056
	11,211	390	-	11,601
Government-sponsored mortgage backed securities				
No contractual maturity	1	-	-	1
Total available for sale securities	$81,946	$2,191	$(300)	$83,837
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				
Due from one through five years	$2,135	$-	$-	$2,135
Due after ten years	13,652	-	-	13,652
	15,787	-	-	15,787
Corporate bonds				
Due from one through five years	1,000	-	(8)	992

Government-sponsored mortgage backed securities				
No contractual maturity	172	17	-	189
Total held to maturity securities	$16,959	$17	$(8)	$16,968

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Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

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

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	$6,198	$ -	$ (77)	$6,121
Due from five through ten years	394	4	(2)	396
Due after ten years	647	-	(21)	626
	7,239	4	(100)	7,143
State agency, U.S. Territories and municipal obligations				
Due from one through five years	520	39	-	559
Due from five through ten years	9,762	361	(322)	9,801
Due after ten years	6,778	367	(1)	7,144
	17,060	767	(323)	17,504
Corporate bonds				
Due in less than one year	1,010	22	-	1,032
Due from one through five years	9,233	156	(9)	9,380
Due from five through ten years	1,013	12	-	1,025
	11,256	190	(9)	11,437
Government-sponsored mortgage backed securities				
No contractual maturity	4,400	107	(10)	4,497
	4,400	107	(10)	4,497
Total available for sale securities	$39,955	$ 1,068	$ (442)	$40,581
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				
Due after ten years	$9,026	$ -	$ -	$9,026
Corporate bonds				
Due from one through five years	1,000	-	(19)	981
Government-sponsored mortgage backed securities				
No contractual maturity	200	21	-	221
Total held to maturity securities	$10,226	$ 21	$ (19)	$10,228

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

At June 30, 2016 and December 31, 2015, securities with approximate fair values of $6.1 million and $5.9 million were pledged as collateral for public deposits, respectively.

Bankwell Financial Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

The following table provides information regarding investment securities with unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position at June 30, 2016 and December 31, 2015:

	Length of Time in Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
June 30, 2016						
State agency, U.S. Territories and municipal obligations	$ -	$ -	$ 695	$ (300)	$ 695	$ (300)
Corporate bonds	993	(8)	-	-	993	(8)
Total investment securities	$ 993	$ (8)	$ 695	$ (300)	$ 1,688	$ (308)
December 31, 2015						
U.S. Government and agency obligations	$ 5,486	$ (60)	$ 1,259	$ (40)	$ 6,745	$ (100)
State agency, U.S. Territories and municipal obligations	126	(1)	665	(322)	791	(323)
Corporate bonds	1,970	(28)	-	-	1,970	(28)
Government-sponsored mortgage backed securities	768	(4)	413	(6)	1,181	(10)
Total investment securities	$ 8,350	$ (93)	$ 2,337	$ (368)	$ 10,687	$ (461)

There were 2 and 29 investment securities as of June 30, 2016 and December 31, 2015, respectively, in which the fair value of the security was less than the amortized cost of the security.

The Company continually monitors its state agency, U.S. Territories, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, U.S. Territories, municipal and corporate bonds are all rated above investment grade except for one U.S. Territory bond (a Commonwealth of Puerto Rico senior lien sales tax financing corporate bond or "COFINA" bond) with a cost of $995.0 thousand and a market value of $695.0 thousand that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, thus far, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with a strong debt service coverage. In February

2016, the Commonwealth of Puerto Rico proposed a voluntary debt restructuring of all of its outstanding debt. The voluntary restructuring proposal has been rejected by most creditors. In addition, a “debt moratorium” was announced on May 2, 2016 by the Commonwealth of Puerto Rico and, as a result, it appears that there may be potential litigation and negotiations relating to its debt obligations. On June 30, 2016 the PROMESA (Puerto Rico Oversight, Management and Economic Stability Act) Bill was signed into law by the U.S. Congress. The Bill established a seven member oversight board whose task includes creating a fiscal plan for Puerto Rico and to negotiate with creditors to determine bondholder payment and recoveries. Board members must be appointed by the President of the United States no later than September 15, 2016. These events could impact our assessment and the valuation of this bond in the future. Given the uncertainty surrounding the timing and impact of these events the Company will continue to monitor the ongoing negotiations and review the bond for potential other than temporary impairment as events unfold.

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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 June 30, 2016 and December 31, 2015:

	June 30, 2016			December 31, 2015		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	$178,215	$2,820	$181,035	$174,311	$2,873	$177,184
Commercial	735,713	49,329	785,042	643,524	54,018	697,542
Construction	97,823	442	98,265	81,242	1,031	82,273
Home equity	9,244	6,743	15,987	9,146	6,780	15,926
	1,020,995	59,334	1,080,329	908,223	64,702	972,925
Commercial business	174,871	19,196	194,067	150,479	22,374	172,853
Consumer	1,294	1,259	2,553	117	1,618	1,735
Total loans	1,197,160	79,789	1,276,949	1,058,819	88,694	1,147,513
Allowance for loan losses	(16,039)	(61)	(16,100)	(14,128)	(41)	(14,169)
Deferred loan origination fees, net	(3,909)	-	(3,909)	(3,605)	-	(3,605)
Unamortized loan premiums	9	-	9	9	-	9
Loans receivable, net	$1,177,221	$79,728	$1,256,949	$1,041,095	$88,653	$1,129,748

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

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

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at beginning of period	$ 771	$ 1,225	$ 871	$ 1,382
Acquisition	-	-	-	-
Accretion	(38)	(21)	(87)	(116)
Other (a)	-	(70)	(51)	(132)
Balance at end of period	$ 733	$ 1,134	$ 733	$ 1,134

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

Risk management

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

Credit quality of loans and the allowance for loan losses

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

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

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

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

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

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

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

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

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Allowance for loan losses

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

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended June 30, 2016							
Originated							
Beginning balance	$1,503	$ 8,434	$ 1,583	$ 178	$ 3,086	$ 3	$14,787
Charge-offs	-	-	-	-	-	(8)	(8)
Recoveries	-	-	-	-	-	1	1
Provisions	(19)	191	337	1	706	43	1,259
Ending balance	$1,484	$ 8,625	$ 1,920	$ 179	$ 3,792	$ 39	$16,039
Acquired							
Beginning balance	$-	$ 13	$ -	$ -	$ 6	$ 4	$23
Charge-offs	-	-	-	-	-	(4)	(4)
Recoveries	-	-	-	-	-	-	-
Provisions	-	10	-	11	18	3	42
Ending balance	$-	$ 23	$ -	$ 11	$ 24	$ 3	$61
Total							
Beginning balance	$1,503	$ 8,447	$ 1,583	$ 178	$ 3,092	$ 7	$14,810
Charge-offs	-	-	-	-	-	(12)	(12)
Recoveries	-	-	-	-	-	1	1
Provisions	(19)	201	337	12	724	46	1,301
Ending balance	$1,484	$ 8,648	$ 1,920	$ 190	$ 3,816	$ 42	$16,100

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	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial Business	Consumer	Total
	(In thousands)						
Three Months Ended June 30, 2015							
Originated							
Beginning balance	$1,406	$ 6,067	$ 1,220	$ 203	$ 2,682	$ 3	$11,581
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	48	765	(82)	(34)	(64)	6	639
Ending balance	$1,454	$ 6,832	$ 1,138	$ 169	$ 2,618	$ 9	$12,220
Acquired							
Beginning balance	$-	$ -	$ -	$ -	$ 12	$ 3	$15
Charge-offs	-	-	-	-	(15)	(6)	(21)
Recoveries	-	-	-	-	-	1	1
Provisions	-	-	-	-	13	2	15
Ending balance	$-	$ -	$ -	$ -	$ 10	$ -	$10
Total							
Beginning balance	$1,406	$ 6,067	$ 1,220	$ 203	$ 2,694	$ 6	$11,596
Charge-offs	-	-	-	-	(15)	(6)	(21)
Recoveries	-	-	-	-	-	1	1
Provisions	48	765	(82)	(34)	(51)	8	654
Ending balance	$1,454	$ 6,832	$ 1,138	$ 169	$ 2,628	$ 9	$12,230

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Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial