UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

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

Commission File Number: **001-36448**

Bankwell Financial Group, Inc.
(Exact Name of Registrant as specified in its Charter)

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

220 Elm Street
New Canaan, Connecticut 06840
(203) 652-0166
(Address, including zip code, and telephone number, including area code, of registrant ’ s principal executive offices)

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

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

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

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

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

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

Bankwell Financial Group, Inc.
Form 10-Q

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PART 1 – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS - (UNAUDITED)
(Dollars in thousands, except share data)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$ 94,731	$ 49,562
Federal funds sold	1,357	39,035
Cash and cash equivalents	96,088	88,597
Held to maturity investment securities, at amortized cost	16,909	10,226
Available for sale investment securities, at fair value	82,752	40,581
Loans held for sale	400	-
Loans receivable (net of allowance for loan losses of $17,250 at September 30, 2016 and $14,169 at December 31, 2015)	1,305,065	1,129,748
Foreclosed real estate	272	1,248
Accrued interest receivable	4,499	4,071
Federal Home Loan Bank stock, at cost	7,943	6,554
Premises and equipment, net	10,314	11,163
Bank-owned life insurance	24,277	23,755
Goodwill	2,589	2,589
Other intangible assets	532	652
Deferred income taxes, net	9,874	8,337
Other assets	4,072	2,851
Total assets	$ 1,565,586	$ 1,330,372
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 176,405	$ 164,553
Interest bearing deposits	1,040,537	882,389
Total deposits	1,216,942	1,046,942
Advances from the Federal Home Loan Bank	175,000	120,000
Subordinated debentures	25,038	25,000
Accrued expenses and other liabilities	8,034	6,661
Total liabilities	1,425,014	1,198,603
Commitments and Contingencies	-	-
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,562,508 and 7,516,291 shares issued at September 30, 2016 and December 31, 2015, respectively	113,650	112,579
Retained earnings	26,859	18,963
Accumulated other comprehensive income	63	227
Total shareholders' equity	140,572	131,769
Total liabilities and shareholders' equity	$ 1,565,586	$ 1,330,372

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME – (UNAUDITED)
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and dividend income				
Interest and fees on loans	$ 14,914	$ 12,660	$ 42,167	$ 35,310
Interest and dividends on securities	688	493	2,083	1,474
Interest on cash and cash equivalents	31	33	98	62
Total interest income	15,633	13,186	44,348	36,846
Interest expense				
Interest expense on deposits	2,160	1,637	5,862	3,905
Interest on borrowings	946	632	2,682	1,389
Total interest expense	3,106	2,269	8,544	5,294
Net interest income	12,527	10,917	35,804	31,552
Provision for loan losses	1,219	1,489	3,166	2,876
Net interest income after provision for loan losses	11,308	9,428	32,638	28,676
Noninterest income				
Service charges and fees	241	234	721	675
Bank owned life insurance	174	182	522	549
Gains and fees from sales of loans	163	447	387	885
Gain on sale of foreclosed real estate, net	-	-	128	-
Net gain on sale of available for sale securities	-	-	92	-
Other	172	348	425	535
Total noninterest income	750	1,211	2,275	2,644
Noninterest expense				
Salaries and employee benefits	3,909	3,798	11,537	11,817
Occupancy and equipment	1,435	1,370	4,235	4,029
Professional services	521	339	1,257	1,033
Data processing	417	416	1,201	1,157
Marketing	242	288	644	707
FDIC insurance	177	166	514	487
Director fees	128	136	423	424
Foreclosed real estate	47	81	149	73
Amortization of intangibles	39	51	119	153
Other	566	513	1,697	1,610
Total noninterest expense	7,481	7,158	21,776	21,490
Income before income tax expense	4,577	3,481	13,137	9,830
Income tax expense	1,437	1,228	4,110	3,418
Net income	$ 3,140	$ 2,253	$ 9,027	$ 6,412
Net income attributable to common shareholders	$ 3,140	$ 2,226	$ 9,027	$ 6,330
Earnings Per Common Share:				
Basic	$ 0.42	$ 0.31	$ 1.20	$ 0.88
Diluted	$ 0.41	$ 0.31	$ 1.19	$ 0.87
Weighted Average Common Shares Outstanding:				
Basic	7,397,067	7,044,586	7,388,364	7,038,517
Diluted	7,488,752	7,059,117	7,459,283	7,057,450
Dividends per common share	$ 0.05	$ -	$ 0.15	$ -

See accompanying notes to consolidated financial statements (unaudited)

BANKWELL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)
(In thousands)

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

See accompanying notes to consolidated financial statements (unaudited)

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

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2015	7,516,291	$ 112,579	$ 18,963	$ 227	$ 131,769
Net income	-	-	9,027	-	9,027
Other comprehensive loss, net of tax	-	-	-	(164)	(164)
Cash dividends declared ($0.15 per share)	-	-	(1,131)	-	(1,131)
Stock-based compensation expense	-	788	-	-	788
Forfeitures of restricted stock	(683)	-	-	-	-
Issuance of restricted stock	29,300	-	-	-	-
Stock options exercised	17,600	283	-	-	283
Balance at September 30, 2016	7,562,508	$ 113,650	$ 26,859	$ 63	$ 140,572

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

See accompanying notes to consolidated financial statements (unaudited)

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

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

See accompanying notes to consolidated financial statements (unaudited)

Consolidated Statements Of Cash Flows - *(C ontinued)*
(In thousands)

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

See accompanying notes to consolidated financial statements (unaudited)

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.

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.

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

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

ASU 2016-02, Leases (Topic 842). The amendments in this ASU require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for annual periods, and interim periods within those annual periods, beginning, for the Company, on January 1, 2019, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. The Company does not expect the application of this guidance to have a material impact on the Company ' s financial statements.

ASU 2016-09, Compensation Stock – Compensation (Topic 718): " Improvements to Employee Share-Based Payment Accounting. " This ASU changes how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize the income tax effects of awards in the statement of income when the awards vest or are settled, the guidance on employers ' accounting for an employee ' s use of shares to satisfy the employer ' s statutory income tax withholding obligation and for forfeitures is changing and the update requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The amendments in this update will be effective for the Company on January 1, 2017 and interim periods within that annual period. Early adoption is permitted. The Company does not expect the application of this guidance to have a material impact on the Company ' s financial statements.

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

ASU No. 2016-15, Statement of Cash Flows (Topic 230): " Classification of Certain Cash Receipts and Cash Payments. " This ASU changes how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The amendments address the classification of the following eight items in the statement of cash flows; debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the Predominance Principle. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company does not expect the application of this guidance to have a material impact on the Company ' s financial statements.

2. INVESTMENT SECURITIES

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

	September 30, 2016			
	Amortized 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	$ 53,980	$ 600	$ (1)	$ 54,579
Due after ten years	100	-	(1)	99
	54,080	600	(2)	54,678
State agency, U.S. Territories and municipal obligations				
Due from one through five years	826	44	-	870
Due from five through ten years	10,216	517	(248)	10,485
Due after ten years	4,923	292	(10)	5,205
	15,965	853	(258)	16,560
Corporate bonds				
Due in less than one year	2,023	21	-	2,044
Due from one through five years	9,165	305	-	9,470
	11,188	326	-	11,514
Total available for sale securities	$ 81,233	$ 1,779	$ (260)	$ 82,752
Held to maturity securities:				
State agency, U.S. Territories and municipal obligations				
Due from one through five years	$ 2,135	$ -	$ -	$ 2,135
Due after ten years	13,614	-	-	13,614
	15,749	-	-	15,749
Corporate bonds				
Due from one through five years	1,000	-	(25)	975
Government-sponsored mortgage backed securities				
No contractual maturity	160	17	-	177
Total held to maturity securities	$ 16,909	$ 17	$ (25)	$ 16,901

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

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

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

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

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

	Length of Time in Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
September 30, 2016						
U.S. Government and agency obligations	$ 1,098	$ (2)	$ -	$ -	$ 1,098	$ (2)
State agency, U.S. Territories and municipal obligations	402	(10)	748	(248)	1,150	(258)
Corporate bonds	975	(25)	-	-	975	(25)
Total investment securities	$ 2,475	$ (37)	$ 748	$ (248)	$ 3,223	$ (285)
December 31, 2015						
U.S. Government and agency obligations	$ 5,486	$ (60)	$ 1,259	$ (40)	$ 6,745	$ (100)
State agency, U.S. Territories and municipal obligations	126	(1)	665	(322)	791	(323)
Corporate bonds	1,970	(28)	-	-	1,970	(28)
Government-sponsored mortgage backed securities	768	(4)	413	(6)	1,181	(10)
Total investment securities	$ 8,350	$ (93)	$ 2,337	$ (368)	$ 10,687	$ (461)

There were 5 and 29 investment securities as of September 30, 2016 and December 31, 2015, respectively, in which the fair value of the security was less than the amortized cost of the security.

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or are issued by one of the shareholder-owned corporations chartered by the U.S. Government, therefore the contractual cash flows are guaranteed and as a result the unrealized losses in this portfolio are not considered other than temporarily impaired.

The Company continually monitors its state agency, U.S. Territories, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, U.S. Territories, municipal and corporate bonds are all rated above investment grade except for one U.S. Territory bond (a Commonwealth of Puerto Rico senior lien sales tax financing corporate bond or “COFINA” bond) with a cost of $995.0 thousand and a market value of $747.5 thousand as of September 30, 2016 that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, as of September 30, 2016, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with strong debt service coverage. Subsequent to September 30, 2016, on November 2, 2016, the Company sold the COFINA bond resulting in a $251.6 thousand realized loss.

3. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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

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

	September 30, 2016			December 31, 2015		
(In thousands)	Originated	Acquired	Total	Originated	Acquired	Total
Real estate loans:						
Residential	$ 176,206	$ 2,790	$ 178,996	$ 174,311	$ 2,873	$ 177,184
Commercial	770,237	46,769	817,006	643,524	54,018	697,542
Construction	104,801	114	104,915	81,242	1,031	82,273
Home equity	8,791	6,259	15,050	9,146	6,780	15,926
	1,060,035	55,932	1,115,967	908,223	64,702	972,925
Commercial business	188,705	19,895	208,600	150,479	22,374	172,853
Consumer	618	1,042	1,660	117	1,618	1,735
Total loans	1,249,358	76,869	1,326,227	1,058,819	88,694	1,147,513
Allowance for loan losses	(17,215)	(35)	(17,250)	(14,128)	(41)	(14,169)
Deferred loan origination fees, net	(3,921)	-	(3,921)	(3,605)	-	(3,605)
Unamortized loan premiums	9	-	9	9	-	9
Loans receivable, net	$ 1,228,231	$ 76,834	$ 1,305,065	$ 1,041,095	$ 88,653	$ 1,129,748

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

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

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

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

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

Risk management

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

Credit quality of loans and the allowance for loan losses

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

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

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

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

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.

Allowance for loan losses

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

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

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

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

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

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

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

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
			(In thousands)			
December 31, 2015						
Loans individually evaluated for impairment:						
Residential real estate	$ 1,833	$ 2	$ -	$ -	$ 1,833	$ 2
Commercial real estate	4,291	-	762	12	5,053	12
Home equity	422	-	197	-	619	-
Commercial business	1,977	71	1,433	21	3,410	92
Consumer	-	-	7	5	7	5
Subtotal	8,523	73	2,399	38	10,922	111
Loans collectively evaluated for impairment:						
Residential real estate	172,478	1,442	2,873	-	175,351	1,442
Commercial real estate	639,233	7,692	53,256	-	692,489	7,692
Construction	81,242	1,504	1,031	-	82,273	1,504
Home equity	8,724	174	6,583	-	15,307	174
Commercial business	148,502	3,239	20,941	3	169,443	3,242
Consumer	117	4	1,611	-	1,728	4
Subtotal	1,050,296	14,055	86,295	3	1,136,591	14,058
Total	$ 1,058,819	$ 14,128	$ 88,694	$ 41	$ 1,147,513	$ 14,169

Credit quality indicators

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

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

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

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

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

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company also contacts the borrower by phone if the delinquency is not corrected promptly after the notice has been sent.

When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, subsequent delinquency notices are issued and the account will be monitored on a regular basis thereafter. By the 90th day of delinquency, the Company will send the borrower a final demand for payment or may take other appropriate legal action. A summary report of all loans 30 days or more past due is provided to the board of directors of the Company each month. Loans greater than 90 days past due are generally put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms.

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

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

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

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

Loans on nonaccrual status

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

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

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

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

The preceding table excludes acquired loans that are accounted for as purchased credit impaired loans totaling $0.0 million and $1.1 million, respectively at September 30, 2016 and December 31, 2015. Such loans otherwise meet the Company's definition of a nonperforming loan but are excluded because the loans are included in loan pools that are considered performing. The discounts arising from recording these loans at fair value were due, in part, to credit quality. The acquired loans are accounted for on either a pool or individual basis and the accretable yield is being recognized as interest income over the life of the loans based on expected cash flows.

Impaired loans

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

The following table summarizes impaired loans by portfolio segment as of September 30, 2016 and December 31, 2015:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
			(In thousands)			
Originated						
Impaired loans without a valuation allowance:						
Residential real estate	$ 969	$ 969	$ 969	$ 969	$ -	$ -
Commercial real estate	3,202	4,291	3,202	4,291	-	-
Home equity	263	422	272	424	-	-
Commercial business	182	1,351	182	1,372	-	-
Total impaired loans without a valuation allowance	4,616	7,033	4,625	7,056	-	-
Impaired loans with a valuation allowance:						
Residential real estate	-	864	-	864	-	2
Commercial real estate	482	-	482	-	2	-
Commercial business	394	626	394	690	5	71
Consumer	341	-	341	-	341	-
Total impaired loans with a valuation allowance	1,217	1,490	1,217	1,554	348	73
Total originated impaired loans	$ 5,833	$ 8,523	$ 5,842	$ 8,610	$ 348	$ 73
Acquired						
Impaired loans without a valuation allowance:						
Commercial real estate	$ 420	$ 611	$ 534	$ 678	$ -	$ -
Home equity	454	197	462	200	-	-
Commercial business	865	963	881	963	-	-
Total impaired loans without a valuation allowance	1,739	1,771	1,877	1,841	-	-
Impaired loans with a valuation allowance:						
Commercial Real Estate	143	151	143	151	7	12
Commercial business	348	470	348	480	3	21
Consumer	3	7	3	7	3	5
Total impaired loans with a valuation allowance	494	628	494	638	13	38
Total acquired impaired loans	$ 2,233	$ 2,399	$ 2,371	$ 2,479	$ 13	$ 38

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

	Average Recorded Investment		Interest Income Recognized	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(In thousands)			
Originated				
Impaired loans without a valuation allowance:				
Residential real estate	$ 969	$ 973	$ -	$ 27
Commercial real estate	3,217	4,308	77	124
Home equity	270	429	2	10
Commercial business	216	1,374	10	49
Total impaired loans without a valuation allowance	4,672	7,084	89	210
Impaired loans with a valuation allowance:				
Residential real estate	-	864	-	28
Commercial real estate	496	-	18	-
Commercial business	431	673	17	34
Consumer	343	-	-	-
Total impaired loans with a valuation allowance	1,270	1,537	35	62
Total originated impaired loans	$ 5,942	$ 8,621	$ 124	$ 272
Acquired				
Impaired loans without a valuation allowance:				
Commercial real estate	$ 442	$ 602	$ -	$ 6
Home equity	457	198	3	2
Commercial business	914	999	32	54
Total impaired loans without a valuation allowance	1,813	1,799	35	62
Impaired loans with a valuation allowance:				
Commercial real estate	144	151	-	3
Commercial business	361	506	16	14
Consumer	3	7	1	1
Total impaired loans with a valuation allowance	508	664	17	18
Total acquired impaired loans	$ 2,321	$ 2,463	$ 52	$ 80

Troubled debt restructurings (TDRs)

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

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

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

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

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

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

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

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

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

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

4. SHAREHOLDERS' EQUITY

Common stock

On May 15, 2014, the Company priced 2,702,703 common shares in its initial public offering (" IPO ") at $18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market. The Company issued a total of 2,702,703 common shares in its IPO, which closed on May 20, 2014. The net proceeds from the IPO were approximately $44.7 million, after deducting the underwriting discount of approximately $2.5 million and approximately $1.3 million of expenses.

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

Preferred stock

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

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

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

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

Warrants

Bank of New Canaan ' s October 26, 2006 Stock Offering and the July 10, 2007 Private Placement (the " Offerings ") called for the issuance of Units. Each Unit issued pursuant to the Offerings represented one share of common stock and one nontransferable warrant. The warrants were exercisable at any time from and including October 1, 2009 and prior to or on November 30, 2009, unless extended or accelerated by the board of directors in their discretion. The board of directors extended the exercise period to October 5, 2015 through December 5, 2015. Each warrant allowed a holder to purchase .3221 shares of common stock at an exercise price of $14.00 per share. 945,789 Warrants were available to purchase up to 304,639 shares of common stock at $14.00 per share for a maximum offering of $4,264,946. As a result of the offering, 838,369 warrants were exercised for 269,992 shares of common stock for total gross proceeds of $3,779,888. There are no longer any outstanding warrants following the close of this offering.

As a result of the acquisition of Quinnipiac on October 1, 2014 the Company issued 68,600 warrants to former Quinnipiac warrant holders in accordance with the merger agreement. Each warrant was automatically converted into a warrant to purchase 0.56 shares of the Company ' s common stock for an exercise price of $17.86. None of the warrants have been exercised as of September 30, 2016. The warrants expire on March 6, 2018.

Dividends

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

On January 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable February 22, 2016 to shareholders of record on February 12, 2016. On April 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company’s Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

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

5. COMPREHENSIVE INCOME

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

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

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

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

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

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

6. EARNINGS PER SHARE

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

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

The following is a reconciliation of earnings available to common shareholders and basic weighted average common shares outstanding to diluted weighted average common shares outstanding, reflecting the application of the two-class method:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share data)		*(In thousands, except per share data)*	
Net income	$ 3,140	$ 2,253	$ 9,027	$ 6,412
Preferred stock dividends	-	(27)	-	(82)
Dividends to participating securities	(6)	-	(18)	-
Undistributed earnings allocated to participating securities	(56)	(63)	(155)	(170)
Net income for earnings per share calculation	$ 3,078	$ 2,163	$ 8,854	$ 6,160
Weighted average shares outstanding, basic	7,397	7,045	7,388	7,039
Effect of dilutive equity-based awards	92	14	71	18
Weighted average shares outstanding, diluted	7,489	7,059	7,459	7,057
Net earnings per common share:				
Basic earnings per common share	$ 0.42	$ 0.31	$ 1.20	$ 0.88
Diluted earnings per common share	0.41	0.31	1.19	0.87

7. REGULATORY MATTERS

The Federal Reserve, the FDIC and the other federal and state bank regulatory agencies establish regulatory capital guidelines for U.S. banking organizations.

As of January 1, 2015, the Company and the Bank became subject to new capital rules set forth by the Federal Reserve, the FDIC and the other federal and state bank regulatory agencies. The capital rules revise the banking agencies ’ leverage and risk-based capital requirements and the method for calculating risk weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act (the Basel III Capital Rules).

The Basel III Capital Rules establish a new minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets; set the minimum leverage ratio at 4% of total assets; increased the minimum Tier 1 capital to risk-weighted assets requirement from 4% to 6%; and retained the minimum total capital to risk weighted assets requirement at 8.0%. A “ well-capitalized ” institution must generally maintain capital ratios 100-200 basis points higher than the minimum guidelines.

The Basel III Capital Rules also change the risk weights assigned to certain assets. The Basel III Capital Rules assigned a higher risk weight (150%) to loans that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The Basel III Capital Rules also alter the risk weighting for other assets, including marketable equity securities that are risk weighted generally at 300%. The Basel III Capital Rules require certain components of accumulated other comprehensive income (loss) to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out is exercised. The Bank did exercise its opt-out option and will exclude the unrealized gain (loss) on investment securities component of accumulated other comprehensive income (loss) from regulatory capital.

The Basel III Capital Rules limit a banking organization ’ s capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a “ capital conservation buffer ” consisting of 2.5% of regulatory risk based capital ratios in addition to the amount necessary to meet its minimum risk-based capital requirements. The required minimum conservation buffer began to be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

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

Management believes, as of September 30, 2016, the Bank and Company meet all capital adequacy requirements to which they are subject and satisfies the criteria for a “ well capitalized ” institution. There are no conditions or events since then that management believes have changed this conclusion.

The capital amounts and ratios for the Bank and the Company at September 30, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
September 30, 2016						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 153,398	11.64%	$ 59,309	4.50%	$ 85,669	6.50%
Total Capital to Risk-Weighted Assets	169,886	12.89%	105,439	8.00%	131,799	10.00%
Tier I Capital to Risk-Weighted Assets	153,398	11.64%	79,079	6.00%	105,439	8.00%
Tier I Capital to Average Assets	153,398	10.45%	58,706	4.00%	73,383	5.00%
Bankwell Financial Group, Inc.						
September 30, 2016						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 136,858	10.34%	$ 59,538	4.50%	N/A	N/A
Total Capital to Risk-Weighted Assets	178,447	13.49%	105,845	8.00%	N/A	N/A
Tier I Capital to Risk-Weighted Assets	136,858	10.34%	79,384	6.00%	N/A	N/A
Tier I Capital to Average Assets	136,858	9.14%	59,908	4.00%	N/A	N/A

(Dollars in thousands)	Actual Capital		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
December 31, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 142,651	12.18%	$ 52,709	4.50%	$ 76,135	6.50%
Total Capital to Risk-Weighted Assets	156,820	13.39%	93,705	8.00%	117,131	10.00%
Tier I Capital to Risk-Weighted Assets	142,651	12.18%	70,279	6.00%	93,705	8.00%
Tier I Capital to Average Assets	142,651	10.84%	52,620	4.00%	65,775	5.00%
Bankwell Financial Group, Inc.						
December 31, 2015						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 128,692	10.92%	$ 53,052	4.50%	N/A	N/A
Total Capital to Risk-Weighted Assets	167,867	14.24%	94,315	8.00%	N/A	N/A
Tier I Capital to Risk-Weighted Assets	128,692	10.92%	70,736	6.00%	N/A	N/A
Tier I Capital to Average Assets	128,692	9.75%	52,819	4.00%	N/A	N/A

Restrictions on dividends

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

8. STOCK-BASED COMPENSATION

Equity award plans

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

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

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

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

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

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

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

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

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

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

Market Conditions Restricted Stock : On December 9, 2014 the Company issued restricted stock with market and service conditions pursuant to the Company ' s 2012 Stock Plan. At the time of the grant, the maximum number of shares that can vest was 49,400. The actual number of shares to be vested was based on market criteria over a five-year period ending on December 1, 2019 based on the Company's stock price being at or above $25.00, $27.00 and $29.00 per share over a 60-day consecutive period. These shares may have vested over a period from December 1, 2017 to December 1, 2019 based on meeting the price targets. In addition, the grantees must have been employed with the Company on the vesting date to receive the shares. The Company determined the fair value of these market condition awards in accordance with *ASC 718 Stock Compensation* using the Monte Carlo simulation model deemed appropriate for this type of grant. The grant date fair value for these grants was $11.63 for the awards that vest at the $25 stock price, $10.30 for the awards that vest at the $27 stock price and $9.10 for the awards that vest at the $29 stock price. The grant date fair value for the Company ' s stock was $18.99 per share.

In January 2016 the Company modified the market conditions restricted stock grant. The total shares originally granted for the $29.00 price target have been modified to a time based restricted stock grant. The shares will vest over a four year period with the first installment to vest on December 1, 2016 and the remaining shares to vest on each annual anniversary thereafter. In addition, the shares originally granted for the $25.00 and $27.00 price targets have been modified. These shares may vest over a period from the date of the modification to December 1, 2019 based on meeting the price targets. The price targets will be met when the 30 day average stock price meets or exceeds the price targets. The Company determined the fair market value of the modified awards for the $25.00 and $27.00 price targets in accordance with *ASC 718 Stock Compensation* using the Monte Carlo simulation model deemed appropriate for this type of modification. The Company will expense an incremental cost associated with this modification of $2.19 for the awards that vest at the $25 stock price, $2.03 for the awards that vest at the $27 stock price and $13.66 for the awards that were modified to a time based grant. The remaining and incremental expense will be recognized on a straight line basis over the requisite service period. The Company recognized $161 thousand and $128 thousand in stock compensation expense for the nine months ended September 30, 2016 and 2015 for these restricted stock awards, respectively.

9. DERIVATIVE INSTRUMENTS

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

September 30, 2016:

(Dollars in thousands)	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	$ 25,000	4.7 years	3-month LIBOR	1.62%	$ (347)
Interest rate swap on FHLB advance	$ 25,000	5.0 years	3-month LIBOR	1.83%	(618)
Interest rate swap on FHLB advance	$ 25,000	5.0 years	3-month LIBOR	1.48%	(367)
Interest rate swap on FHLB advance	$ 25,000	5.0 years	3-month LIBOR	1.22%	(92)
					$ (1,424)

December 31, 2015:

(Dollars in thousands)	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
Cash flow hedge:					
Interest rate swap on FHLB advance	$ 25,000	4.7 years	3-month LIBOR	1.62%	$ (181)
Interest rate swap on FHLB advance	$ 25,000	5.0 years	3-month LIBOR	1.83%	(276)
Interest rate swap on FHLB advance	$ 25,000	5.0 years	3-month LIBOR	1.48%	181
					$ (276)

The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The Bank assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The ineffective portion of changes in the fair value of the derivatives is recognized directly in earnings.

The Bank's cash flow hedge positions are all forward starting interest rate swap transactions. The Bank entered into the following forward starting interest rate swap transactions:

(Dollars in thousands)	Notional Amount	Effective Date of Hedged Borrowing	Duration of Borrowing	Counterparty
Type of borrowing:				
FHLB 90-day advance	$ 25,000	April 1, 2014	4.7 years	Bank of Montreal
FHLB 90-day advance	$ 25,000	January 2, 2015	5.0 years	Bank of Montreal
FHLB 90-day advance	$ 25,000	August 26, 2015	5.0 years	Bank of Montreal
FHLB 90-day advance	$ 25,000	July 1, 2016	5.0 years	Bank of Montreal

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

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

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

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either September 30, 2016 or December 31, 2015. The estimated fair value amounts have been measured as of the respective period-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments at September 30, 2016 and December 31, 2015 were as follows:

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

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

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

Cash and due from banks, federal funds sold and accrued interest receivable: The carrying amount is a reasonable estimate of fair value.

Investment securities: Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

FHLB stock: The carrying value of FHLB stock approximates fair value based on the most recent redemption provisions of the FHLB.

Loans held for sale: The fair value is based upon prevailing market prices for similar loans.

Loans receivable : For variable rate loans which reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of fixed rate loans are estimated by discounting the future cash flows using the rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Derivative asset (liability): The valuation of the Company ' s interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities to a schedule of aggregated expected maturities on such deposits.

Borrowings and Subordinated Debentures: The fair value of the Company ’ s borrowings and subordinated debentures is estimated using a discounted cash flow calculation that applies discount rates currently offered based on similar maturities.

11. FAIR VALUE MEASUREMENTS

The Company is required to account for certain assets and liabilities at fair value on a recurring or non-recurring basis. As discussed in Note 1, the Company determines fair value in accordance with GAAP, which defines fair value and establishes a framework for measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2— Significant other observable inputs other than Level 1 prices such as quoted prices for similar as **s** ets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.

Financial instruments measured at fair value on a recurring basis

The following tables detail the financial instruments carried at fair value on a recurring basis at September 30, 2016 and December 31, 2015, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the nine months ended September 30, 2016 and the year ended December 31, 2015.

	Fair Value		
(In thousands)	Level 1	Level 2	Level 3
September 30, 2016:			
Available for sale investment securities:			
U.S. Government and agency obligations	$ -	$ 54,678	$ -
State agency, U.S. territories and municipal obligations	-	16,560	-
Corporate bonds	-	11,514	-
Derivative liability	-	(1,424)	-
December 31, 2015:			
Available for sale investment securities:			
U.S. Government and agency obligations	$ -	$ 7,143	$ -
State agency, U.S. territories and municipal obligations	-	17,504	-
Corporate bonds	-	11,437	-
Mortgage backed securities	-	4,497	-
Derivative liability	-	(276)	-

Available for sale investment securities : The fair value of the Company's investment securities are estimated by using pricing models or quoted prices of securities with similar characteristics (i.e. matrix pricing) and are classified within Level 2 of the valuation hierarchy.

Derivative liabilities: The Company ’ s derivative liabilities consist of transactions as part of management ’ s strategy to manage interest rate risk. The valuation of the Company ’ s interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company has determined that the majority of the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy.

Financial instruments measured at fair value on a nonrecurring basis

Certain assets are measured at fair value on a non-recurring basis in accordance with GAAP. These include assets that are measured at the-lower-of-cost-or-market that were recognized at fair value below cost at the end of the period as well as assets that are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The following table details the financial instruments carried at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Fair Value		
(In thousands)	Level 1	Level 2	Level 3
September 30, 2016:			
Impaired loans	$ -	$ -	$ 8,066
Foreclosed real estate	-	-	272
December 31, 2015:			
Impaired loans	$ -	$ -	$ 10,922
Foreclosed real estate	-	-	1,248

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015:

(Dollars in thousands)	Fair Value	Valuation Methodology	Unobservable Input	Range
September 30, 2016:				
Impaired loans	$ 8,066	Appraisals	Discount to appraised value	8.00% to 18.00%
		Discounted cash flows	Discount rate	4.25% to 6.25%
Foreclosed real estate	$ 272	Appraisals	Discount to appraised value	20.00%
December 31, 2015:				
Impaired loans	$ 10,922	Appraisals	Discount to appraised value	8.00% to 10.00%
		Discounted cash flows	Discount rate	3.25% to 7.00%
Foreclosed real estate	$ 1,248	Appraisals	Discount to appraised value	10.0% to 25.0%

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

Foreclosed real estate: The Company classifies property acquired through foreclosure or acceptance of deed-in-lieu of foreclosure as foreclosed real estate and repossessed assets in its financial statements. Upon foreclosure, the property securing the loan is written down to fair value less selling costs. The write-down is based upon differences between the appraised value and the book value. Appraisals are based on observable market data such as comparable sales, however assumptions made in determining comparability are unobservable and therefore these assets are classified as Level 3 within the valuation hierarchy.

12. SUBORDINATED DEBENTURES

On August 19, 2015 the Company completed a private placement of $25.5 million in aggregate principal amount of fixed rate subordinated notes (the " Notes ") to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date or the early redemption date.

The Notes have been structured to qualify for the Company as Tier 2 capital under regulatory guidelines. The Company will use the net proceeds from the sales of the Notes for general corporate purposes as well as providing equity capital to the Bank. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency, which was reaffirmed in the third quarter of 2016.

ITEM 2. MANAGEMENT ' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section presents management ' s perspective on our financial condition and results of operations. The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained elsewhere in this report on Form 10-Q. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management ' s expectations. Factors that could cause such differences are discussed in the Company ' s Form 10-K filed for the year ended December 31, 2015 in the sections titled " Cautionary Note Regarding Forward-Looking Statements " and " Risk Factors " We assume no obligation to update any of these forward-looking statements.

General

Bankwell Financial Group, Inc. is a bank holding company headquartered in New Canaan, Connecticut. Through our wholly owned subsidiary, Bankwell Bank, or the Bank, we serve small and medium-sized businesses and retail customers in greater Fairfield and New Haven Counties, Connecticut. We have a history of building long-term customer relationships and attracting new customers through what we believe is our strong customer service and our ability to deliver a diverse product offering.

The following discussion and analysis presents our results of operations and financial condition on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the Bank.

As a bank holding company, we generate most of our revenue from interest on loans and investments and fee-based revenues. Our primary source of funding for our loans is deposits. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance primarily through our net interest margin, efficiency ratio, ratio of allowance for loan losses to total loans, return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Critical Accounting Policies and Estimates

The discussion and analysis of our results of operations and financial condition are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from our current estimates, as a result of changing conditions and future events. The current economic environment has increased the degree of uncertainty inherent in these significant estimates.

We believe that accounting estimates for the allowance for loan losses, stock-based compensation and derivative instrument valuation are particularly critical and susceptible to significant near-term change. These accounting estimates are discussed further in the Company ' s Form 10-K filed for the year ended December 31, 2015 in the section " Critical Accounting Policies and Estimates " under Management ' s Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

We are focused on being the “ Hometown ” bank and the banking provider of choice in our highly attractive market area, and to serve as a locally based alternative to our larger competitors. We aim to do this through:

- responsive, customer-centric products and services and a community focus;
- strategic acquisitions;
- utilization of efficient and scalable infrastructure;
- disciplined focus on risk management; and
- organic growth.

On November 5, 2013 we completed the merger of Wilton Bank into Bankwell Bank. The Wilton Bank had one branch located in Wilton, Connecticut.

On May 15, 2014, Bankwell Financial Group, Inc. priced 2,702,703 common shares in its IPO at $18.00 per share, and on May 15, 2014, Bankwell common shares began trading on the Nasdaq Stock Market. The net proceeds from the IPO were approximately $44.7 million, after deducting the underwriting discount of approximately $2.5 million and approximately $1.3 million of expenses. We used the net proceeds for general corporate purposes, which included maintaining liquidity at the holding company, providing equity capital to the Bank to fund balance sheet growth, our working capital needs, and funding acquisitions of branches and whole financial institutions in or around our existing market that furthered our objectives.

On October 1, 2014 Quinnipiac merged with and into Bankwell Bank. Quinnipiac had one branch located in Hamden, Connecticut and a second branch located in the neighboring town of North Haven, Connecticut.

On August 19, 2015 the Company completed a private placement of $25.5 million in aggregate principal amount of fixed rated subordinated notes (the “ Notes ”) to certain institutional investors. The Notes are non-callable for five years, have a stated maturity of August 15, 2025, and bear interest at a quarterly pay fixed rate of 5.75% per year to the maturity date or the early redemption date.

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

On January 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable February 22, 2016 to shareholders of record on February 12, 2016. On April 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company ’ s Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company's Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

Earnings Overview

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

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

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

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

Results of Operations
Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and is the primary source of our operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are certain loan fees, such as deferred origination fees, late charges and the effect of deferred loan fees and costs accounted for as yield adjustments. Premium amortization and discount accretion are included in the respective interest income and interest expense amounts. The following tables and discussion present net interest income on a fully taxable equivalent, or FTE basis, by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. We convert tax-exempt income to a FTE basis using the statutory federal income tax rate adjusted for applicable state income taxes net of the related federal tax benefit. The average balances are principally daily averages.

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

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

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

Interest expense for the three months ended September 30, 2016, increased by $0.9 million, or 39.6%, compared to interest expense for the three months ended September 30, 2015 due to a $185.5 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts and borrowed money, and increased rates on deposits, primarily due to promotional rates on certificates of deposits to remain competitive in the market place and borrowed money as a result of the issuance of the subordinated debt in August of 2015.

Interest expense for the nine months ended September 30, 2016, increased by $3.3 million, or 61.4%, compared to interest expense for the nine months ended September 30, 2015 due to a $235.0 million increase in the average balances of interest-bearing liabilities due to higher average balances in money market accounts, time accounts and borrowed money, and increased rates on deposits, primarily due to promotional rates on certificates of deposits to remain competitive in the market place and borrowed money as a result of the issuance of the subordinated debt in August of 2015.

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

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

	Three Months Ended September 30,					
	2016			2015		
(Dollars in thousands)	**Average Balance**	**Interest**	**Yield / Rate**	**Average Balance**	**Interest**	**Yield / Rate**
Assets:						
Cash and Fed funds sold	$ 28,305	$ 29	0.41%	$ 62,597	$ 33	0.21%
Securities (1)	98,480	762	3.09	57,234	551	3.85
Loans:						
Commercial real estate	788,429	9,305	4.62	645,488	7,871	4.77
Residential real estate	178,106	1,600	3.59	175,908	1,569	3.57
Construction (2)	107,197	1,230	4.49	79,722	912	4.48
Commercial business	195,881	2,584	5.16	157,867	2,075	5.14
Home equity	14,706	156	4.23	16,422	155	3.75
Consumer	1,467	20	5.51	2,184	27	4.87
Acquired loans (net of mark)	482	19	15.60	2,558	51	7.91
Total loans	1,286,268	14,914	4.54	1,080,149	12,660	4.59
Federal Home Loan Bank stock	7,400	65	3.51	6,918	47	2.71
Total earning assets	1,420,453	15,770	4.34%	1,206,898	13,291	4.31%
Other assets	56,762			89,978		
Total assets	$ 1,477,215			$ 1,296,876		
Liabilities and shareholders' equity:						
Interest -bearing liabilities:						
NOW	$ 53,515	16	0.12%	$ 56,104	15	0.11%
Money market	330,263	484	0.58	293,150	408	0.55
Savings	62,689	64	0.40	103,555	214	0.82
Time	540,823	1,597	1.17	401,968	1,005	0.99
Total interest-bearing deposits	987,290	2,161	0.87	854,777	1,642	0.76
Borrowed money	171,385	946	2.20	118,391	583	1.95
Total interest bearing liabilities	1,158,675	3,107	1.07%	973,168	2,225	0.91%
Noninterest-bearing deposits	170,500			161,354		
Other liabilities	8,591			33,257		
Total Liabilities	1,337,766			1,167,779		
Shareholders' equity	139,449			129,097		
Total liabilities and shareholders' equity	$ 1,477,215			$ 1,296,876		
Net interest income (3)		$ 12,663			$ 11,066	
Interest rate spread			3.27%			3.40%
Net interest margin (4)			3.57%			3.67%

(1) Average balances and yields for securities are based on amortized cost.
(2) Includes commercial and residential real estate construction.
(3) The adjustment for securities and loans taxable equivalency amounted to $136 thousand and $149 thousand, respectively, for the three months ended September 30, 2016 and 2015.
(4) Annualized net interest income as a percentage of earning assets.

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

(1) Average balances and yields for securities are based on amortized cost.
(2) Includes commercial and residential real estate construction.
(3) The adjustment for securities and loans taxable equivalency amounted to $417 thousand and $341 thousand, respectively, for the nine months ended September 30, 2016 and 2015.
(4) Annualized net interest income as a percentage of earning assets.

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

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

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

Provision for Loan Losses

The provision for loan losses is based on management ' s periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain our allowance for loan losses and reflects management ' s best estimate of probable losses inherent in our loan portfolio at the balance sheet date.

Under accounting standards for business combinations, acquired loans are recorded at fair value with no loan loss allowance on the date of acquisition. A provision for loan losses will be recorded for the emergence of new probable and estimable losses on acquired loans which were not impaired as of the acquisition date.

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

Noninterest Income

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

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

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

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2016**	**2015**	**$**	**%**
Service charges and fees	$ 721	$ 675	$ 46	7%
Bank owned life insurance	522	549	(27)	(5)
Gains and fees from sales of loans	387	885	(498)	(56)
Gain on sale of foreclosed real estate, net	128	-	128	100
Net gain on sale of available for sale securities	92	-	92	100
Other	425	535	(110)	(21)
Total noninterest income	$ 2,275	$ 2,644	$ (369)	(14)%

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

Noninterest Expense

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

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

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

	Nine Months Ended September 30,		Change	
(Dollars in thousands)	**2016**	**2015**	**$**	**%**
Salaries and employee benefits	$ 11,537	$ 11,817	$ (280)	(2)%
Occupancy and equipment	4,235	4,029	206	5
Professional services	1,257	1,033	224	22
Data processing	1,201	1,157	44	4
Marketing	644	707	(63)	(9)
FDIC insurance	514	487	27	6
Director fees	423	424	(1)	(0)
Foreclosed real estate	149	73	76	104
Amortization of intangibles	119	153	(34)	(22)
Other	1,697	1,610	87	5
Total noninterest expense	$ 21,776	$ 21,490	$ 286	1%

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

Income Tax Expense

Income tax expense for the three months ended September 30, 2016 and 2015 totaled $1.4 million and $1.2 million, respectively. The effective tax rates for the three months ended September 30, 2016 and 2015 were 31.4%, and 35.3%, respectively. Income tax expense for the nine months ended September 30, 2016 and 2015 totaled $4.1 million and $3.4 million, respectively. The effective tax rates for the nine months ended September 30, 2016 and 2015 were 31.3%, and 34.8%, respectively. The decrease in the effective tax rate is driven by the formation of the passive investment company (PIC) in the fourth quarter of 2015 which reduced state income taxes, the decrease in the effective tax rate is partially offset by an increase in the federal tax rate from 34% to 35% due to the Company ' s growth.

Financial Condition
Summary

At September 30, 2016, total assets were $1.6 billion, a $235.2 million, or 17.7%, increase over December 31, 2015. Total loans and deposits were $1.3 billion and $1.2 billion, respectively at September 30, 2016. Our credit quality remained strong, with nonperforming assets to total assets of 0.25% and the allowance for loan losses to total loans was 1.30%. Total shareholders ' equity at September 30, 2016 and December 31, 2015 was $140.6 million and $131.8 million, respectively. Tangible book value was $18.57 per share at September 30, 2016 compared to $17.43 per share at December 31, 2015.

Loan Portfolio

We originate commercial and residential real estate loans, including construction loans, commercial business loans, home equity and other consumer loans. Lending activities are primarily conducted within our market of Fairfield and New Haven Counties and the surrounding Connecticut region. Our loan portfolio is the largest category of our earning assets. Loans acquired in connection with the Wilton acquisition in November 2013 and the Quinnipiac acquisition in October 2014 are referred to as " acquired " loans as a result of the manner in which they are accounted for. All other loans are referred to as " originated " loans. Accordingly, selected disclosures that follow are presented separately for the originated loan portfolio and the acquired loan portfolio.

Total loans before deferred loan fees and the allowance for loan losses were $1.3 billion at September 30, 2016, up by $178.7 million, or 15.6%, from December 31, 2015. Commercial real estate loans have experienced the most significant growth, up by $119.5 million.

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

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

Asset Quality

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

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

	At September 30, 2016			At December 31, 2015		
(In thousands)	**Originated**	**Acquired**	**Total**	**Originated**	**Acquired**	**Total**
Nonaccrual loans:						
Real estate loans:						
Residential	$ 969	$ -	$ 969	$ 970	$ -	$ 970
Commercial	960	144	1,104	970	294	1,264
Home equity	191	454	645	198	197	395
Consumer	341	-	341	-	2	2
Commercial business	420	165	585	562	598	1,160
Total non accrual loans	2,881	763	3,644	2,700	1,091	3,791
Property acquired through foreclosure or repossession, net	-	272	272	-	1,248	1,248
Total nonperforming assets	$ 2,881	$ 1,035	$ 3,916	$ 2,700	$ 2,339	$ 5,039
Nonperforming assets to total assets	0.18%	0.07%	0.25%	0.20%	0.18%	0.38%
Nonaccrual loans to total loans	0.23%	0.99%	0.27%	0.25%	1.25%	0.33%
Total past due loans to total loans	0.21%	1.80%	0.31%	0.28%	3.20%	0.51%
Accruing loans 90 days or more past due	$ -	$ -	$ -	$ -	$ 1,105	$ 1,105

Allowance for Loan Losses

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

At September 30, 2016, our allowance for loan losses was $17.3 million and represented 1.30% of total loans, compared to $14.2 million, or 1.23% of total loans, at December 31, 2015. The net increase in the allowance primarily reflects a provision of $3.2 million.

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

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

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

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

The allocation of the allowance for loan losses at September 30, 2016 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at September 30, 2016 is appropriate to cover probable losses.

Investment Securities

At September 30, 2016, the carrying value of our investment securities portfolio totaled $99.7 million and represented 6.4% of total assets, compared to $50.8 million and represented 3.8% of total assets at December 31, 2015. The increase of $48.9 million, or 96.2%, primarily reflects purchases of U.S. Government agency obligations totaling $51.2 million and purchases of municipal bonds totaling $6.8 million. We purchase investment grade securities with a focus on earnings, duration exposure and for use as collateral for public funds.

The net unrealized gain position on our investment portfolio at September 30, 2016 and December 31, 2015 was $1.5 million and $628 thousand, respectively and included gross unrealized losses of $285 thousand and $461 thousand, respectively. The gross unrealized losses were concentrated in State agency, U.S. territories and municipal obligations, reflecting the unrealized loss on the Commonwealth of Puerto Rico COFINA bond (“ COFINA Bond ”). The Company continually monitors its state agency, U.S. Territories, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, U.S. Territories, municipal and corporate bonds are all rated above investment grade except for one U.S. Territory bond (a Commonwealth of Puerto Rico senior lien sales tax financing corporate bond or "COFINA" bond) with a cost of $995.0 thousand and a market value of $747.5 thousand as of September 30, 2016 that is rated two levels below investment grade. The Company has determined that the unrealized loss on this U.S. Territory bond is, as of September 30, 2016, not other than temporarily impaired because payments are backed by a senior lien position on dedicated cash receipts from sales tax revenue with strong debt service coverage. Subsequent to September 30, 2016, on November 2, 2016, the Company sold the COFINA bond resulting in a $251.6 thousand realized loss.

Sources of Funds

Total deposits were $1.2 billion at September 30, 2016, an increase of $170.0 million, from the balance at December 31, 2015 primarily reflecting increases in certificates of deposits and money market accounts. Certificates of deposit increased $157.9 million from $436.7 million at December 31, 2015 to $594.6 million at September 30, 2016. Money markets increased $30.0 million from $296.8 million at December 31, 2015 to $326.8 million at September 30, 2016. Brokered deposits totaled $103.8 million at September 30, 2016 and represent customer money reciprocal deposits for customers that desire FDIC protection and one way CDARS. Brokered deposits are utilized as an additional source of funding.

We utilize advances from the Federal Home Loan Bank of Boston, or FHLBB, as part of our overall funding strategy and to meet short-term liquidity needs. Total FHLBB advances were $175.0 million at September 30, 2016 compared to $120.0 million at December 31, 2015. The increase of $55.0 million, or 45.8%, reflects normal operating fluctuation in our borrowings.

Liquidity

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

The Company anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of September 30, 2016, the Company had cash and cash equivalents of $96.1 million and available-for-sale securities of $82.8 million. At September 30, 2016, outstanding commitments to originate loans totaled $46.6 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled $128.6 million. Time deposits scheduled to mature in one year or less at September 30, 2016 totaled $369.3 million. Historically, the Company ' s deposit flow history has been that a significant portion of such deposits remain with the Company.

Capital Resources

Total shareholders ' equity was $140.6 million at September 30, 2016 compared to $131.8 million at December 31, 2015. The increase of $8.8 million primarily reflected net income of $9.0 million for the nine months ended September 30, 2016. The ratio of total equity to total assets was 8.98% at September 30, 2016, which compares to 9.90% at December 31, 2015.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company ' s financial statements. At September 30, 2016, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At September 30, 2016, the Bank ' s ratio of total common equity tier 1 capital to risk-weighted assets was 11.64%, total capital to risk-weighted assets was 12.89%, Tier 1 capital to risk-weighted assets was 11.64% and Tier 1 capital to average assets was 10.45%.

In July 2013, the Federal Reserve published Basel III rules establishing a new comprehensive capital framework of U.S. banking organizations. Under the rules, effective January 1, 2015 for the Company and Bank, the minimum capital ratios became a) 4.5% " Common Equity Tier 1 " to risk-weighted assets, b) 6.0% Tier 1 capital to risk weighted assets and c) 8.0% total capital to risk-weighted assets. In addition, the new regulations imposed certain limitations on dividends, share buy-backs, discretionary payments on Tier 1 instruments and discretionary bonuses to executive officers if the organization does not maintain a capital conservation buffer for regulatory risk based capital ratios in an amount greater than 2.5% of its risk-weighted assets, in addition to the amount needed to meet its minimum risk-based capital requirements, phased in over a 5 year period until January 1, 2019. The conservation buffer will be phased in incrementally, starting at 0.625% on January 1, 2016 and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019. Accordingly, while these rules started to be phased in on January 1, 2015 (and the capital conservation buffer on January 1, 2016), the Company believes it is well positioned to meet the requirements as they become effective.

On January 27, 2016 the Company ' s Board of Directors declared a $0.05 per share cash dividend, payable February 22, 2016 to shareholders of record on February 12, 2016. On April 27, 2016 the Company ' s Board of Directors declared a $0.05 per share cash dividend, payable May 26, 2016 to shareholders of record on May 16, 2016. On July 27, 2016 the Company ' s Board of Directors declared a $0.05 per share cash dividend, payable August 26, 2016 to shareholders of record on August 16, 2016. Subsequent to September 30, 2016, the Company's Board of Directors declared a $0.07 per share cash dividend, payable November 28, 2016 to shareholders of record on November 18, 2016, representing a 40% increase when compared to the last quarter.

Interest Rate Sensitivity Analysis

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

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

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

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

Parallel Shock	**Estimated Percent Change in Net Interest Income**	
Rate Changes (basis points)	**September 30, 2016**	**December 31, 2015**
-100	(3.65)%	(3.47)%
+100	(1.79)	(2.36)
+200	(3.90)	(4.94)
+300	(7.03)	(8.65)

We conduct economic value of equity at risk simulation in tandem with net interest income simulations, to ascertain a longer term view of our interest rate risk position by capturing longer-term re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used in income simulation. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, re-pricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. We conduct non-maturity deposit behavior studies on a periodic basis to support deposit assumptions used in the valuation process. All key assumptions are subject to a periodic review.

Economic value of equity at risk is calculated by estimating the net present value of all future cash flows across various parallel shock scenarios based on existing assets and liabilities compared to current interest rates. The base case scenario assumes that current interest rates remain unchanged in the future.

The following table sets forth the estimated percentage change in our economic value of equity at risk, assuming various shifts in interest rates:

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

The net interest income at risk simulation results indicate that as of September 30, 2016, we remain liability sensitive. The liability sensitivity is due to the fact that there are more liabilities than assets subject to repricing as market rates change. The Bank remains within all internally established policies for interest rate risk and the economic value of equity calculation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk Management

Interest rate risk management is our primary market risk. See " Management ' s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate Sensitivity Analysis " herein for a discussion of our management of our interest rate risk.

Inflation Risk Management

Inflation has an important impact on the growth of total assets in the banking industry and causes a need to increase equity capital higher than normal levels in order to maintain an appropriate equity-to-assets ratio. We cope with the effects of inflation by managing our interest rate sensitivity position through our asset/liability management program, and by periodically adjusting our pricing of services and banking products to take into consideration current costs.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures:

The Company carried out an evaluation, under the supervision and with the participation of the Company ' s management, including the Company ' s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company ' s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period reported on in this report, the Company ' s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company ' s periodic SEC filings.

(b) Change in internal controls:

There has been no change in the Company ' s internal controls over financial reporting during the quarter that has materially affected, or is reasonably likely to affect, the Company ' s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company and the Bank are periodically involved in various legal proceedings as normal incident to their businesses. In the opinion of management, no material loss is expected from any such pending lawsuit.

Item 1A. Risk Factors

There have been no material changes in risk factors previously disclosed in the Company ' s Form 10-K dated March 15, 2016, filed with the SEC.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith:

10.15	Employment Agreement of Penko Ivanov dated September 26, 2016
31.1	Certification of Christopher R. Gruseke pursuant to Rule 13a-14(a)
31.2	Certification of Ernest J. Verrico, Sr. pursuant to Rule 13a-14(a)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Bankwell Financial Group, Inc. ' s Quarterly Report on Form 10-Q for the period ended September 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders ' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Bankwell Financial Group, Inc.
Date: November 9, 2016	/s/ Christopher R. Gruseke
	Christopher R. Gruseke President and Chief Executive Officer
Date: November 9, 2016	/s/ Ernest J. Verrico, Sr.
	Ernest J. Verrico, Sr. Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.15

Penko Ivanov Employment Agreement

This Employment Agreement (the " **Agreement** ") is made and entered into as of September 26, 2016 effective September 26, 2016 by and among Penko Ivanov (the " **Executive** ") on the one side, and Bankwell Financial Group, Inc., a Connecticut bank holding company (the " **Company** ") and its wholly-owned bank subsidiary, Bankwell Bank (the " **Bank** ") on the other. Unless a distinction is appropriate, the term "Company" in this Agreement shall include the Bank.

WHEREAS, the Executive currently is not employed by the Company;

WHEREAS Company desires to employ the Executive on the terms and conditions set forth herein; and

WHEREAS, the Executive desires to be employed by the Company on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual covenants, promises and obligations set forth herein, the parties agree as follows:

1. Term . The Executive's employment hereunder shall be effective as of September 26, 2016 (the " **Effective Date** ") and shall continue until September 26, 2017, unless terminated earlier pursuant to Section 5 of this Agreement. The period during which the Executive is employed by the Company hereunder including any renewal term is hereinafter referred to as the " **Employment Term** ." The Company shall notify the Executive no later than June 1, 2017 if it wishes to extend the Employment Term for an additional two years. If the Company provides such notice, the Employment Term shall not expire until September 26, 2019. If so extended, the Company may further extend the Employment Term for additional one year terms on an annual basis thereafter by providing such notice no later than June 1in the year in which the Term is to expire. If the Company does not provide such notice by June 1 in the applicable year, the Employment Term shall expire on the September 26 termination date. If the Employment Term is extended as provided herein, all of the provisions of this Agreement shall remain in effect during the period of such extension unless otherwise agreed in writing. If the Employment Term is not extended by the Company for two years following the initial term expiration date of September 26, 2017, Company shall pay to Executive a one-time lump sum cash severance payment of $137,500; this shall be in addition to any payments due to Executive under Section 5.1(a) below.

2. Position and Duties .

2.1 Position . The Executive will serve as Executive Vice President, Chief Accounting Officer of the Bank until the Bank has filed its quarterly report on Form 10-Q for the third quarter 2016 with the Securities Exchange Commission, at which time he shall automatically assume the position of Chief Financial Officer, having such power, authority and responsibility and performing such duties as are prescribed by or under the Bylaws of the Company and as are customarily associated with such positions as reasonably determined by the Company's Chief Executive Officer. The Executive shall, if requested, also serve as a member of the Board of Directors of Bank affiliates or as an officer or director of any affiliate of the Company for no additional compensation.

2.2 Reporting/Flexibility. Executive shall report directly to the Chief Executive Officer of the Company. The Company's Chief Executive Officer may, during the Employment Term, alter Executive's job, position and/or reporting responsibilities as he deems appropriate to the effective management of the Company, provided that Executive shall at all times be on the senior executive team and shall at all times be a direct report to the Company's Chief Executive Officer.

2.3 Effort and Exclusivity. The Executive shall devote substantially all of his business time and attention (other than during weekends, holidays, vacation periods, and periods of illness or leaves of absence) to the performance of the Executive's duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which could conflict or interfere with the performance of such services either directly or indirectly without the prior written consent of the Chairman of the Compensation Committee. Notwithstanding the foregoing, the Executive will be permitted to:

(a) (i) with the prior written consent of the Company's Chairman of the Compensation Committee act or serve as a director, trustee, committee member or principal of any type of business, civic or charitable organization, (ii) deliver lectures or fulfill speaking engagements, and (iii) manage personal investments; and

(b) with the prior written consent of the Company's Chairman of the Compensation Committee purchase or own less than two percent (2%) of the securities or ownership interests of any corporation, partnership or limited liability company; provided that, such ownership represents a passive investment and that the Executive is not a controlling person of, or a member of a group that controls, such corporation, partnership or limited liability company; provided further that, the activities described in clauses (a) and (b) do not materially interfere with the performance of the Executive's duties and responsibilities to the Company as provided hereunder.

Attached as Schedule A to the Agreement is a list of pre-approved outside engagements of the Executive.

3. Place of Performance. The principal place of the Executive's employment shall be the Company's executive office currently located in New Canaan, Connecticut; provided that, the Executive will be required to travel on Company business during the Employment Term as his responsibilities require.

4. Compensation.

4.1 Base Salary. The Company shall pay the Executive an annual rate of base salary of $275,000.00 in periodic installments in accordance with the Company's customary payroll practices, but no less frequently than monthly. The Executive's annual base salary may be increased from time to time by the Compensation Committee, but may not be decreased without the Executive's written consent. The Executive's annual base salary, as in effect from time to time, is hereinafter referred to as "**Base Salary**".

4.2 Annual Incentive Plan or Program. The Executive shall be entitled to participate in the annual incentive compensation plan or program ("Annual Incentive") available to other similarly situated executives of the Company, with customized targets and incentives as determined by the Company. The target cash incentive for calendar year 2016 is 30% of Base Salary.

4.3 Long Term Plan. The Executive shall be entitled to participate in any long term incentive compensation plan or program available to other similarly situated executives of the Company, with customized targets and incentives as determined by the Company. The long term plan may be incorporated into or overlap with the Equity Awards program.

4.4 Equity Awards . During the Employment Term, the Executive shall be eligible to participate in equity awards under the 2012 Bankwell Financial Group, Inc. Stock Plan or any successor plan (" **Equity Awards** ") as available to other similarly situated executives of the Company, with customized targets and incentives as determined by the Company. In addition, an initial equity award will be made of 7,500 shares of restricted stock vesting ratably over the first 4 anniversary dates of your hire (1,875 shares per year). This restricted stock and any future grants will be granted pursuant to a separate Restricted Stock Agreement.

4.5 Fringe Benefits and Perquisites . During the Employment Term, the Executive shall be entitled to participate in programs or policies that provide fringe benefits and perquisites consistent with the practices of the Company and as available to other similarly situated executives of the Company, with customized targets and benefits as determined by the Company.

4.6 Employee Benefits . During the Employment Term, the Executive shall be entitled to participate in all general employee benefit plans, practices and programs maintained by the Company, as in effect from time to time (collectively, " **Employee Benefit Plans** "), on a basis which is no less favorable than is provided to other similarly situated executives of the Company, to the extent consistent with applicable law and the terms of the applicable Employee Benefit Plans. The Company reserves the right to amend or cancel any Employee Benefit Plan at any time in its sole discretion, subject to the terms of such Employee Benefit Plan and applicable law.

4.7 Business Expenses . Upon submission of appropriate invoices or vouchers, the Company shall pay or reimburse the Executive for all reasonable expenses incurred by him in the performance of his duties under this Agreement in furthering the business, and in keeping with the policies, of the Company; provided, however, that the Executive will receive a monthly allowance of five hundred dollars ($500) in lieu of receiving reimbursements for business mileage and business phone usage.

4.8 Vacation . The Executive is entitled to paid time-off (" **PTO** ") as outlined in the Company's personnel policy.

4.9 Insurance Policies .

(i) *Key Man/BOLI Insurance.* The Executive shall permit the Company to insure his life under a policy or policies of life insurance issued by an insurance company or companies selected by the Company, and to name the Company as sole or primary beneficiary thereunder. The Executive agrees to submit to any physical examinations which may be reasonably required in connection with such policies.

(ii) *Life Insurance .* The Company shall provide the Executive with life insurance coverage in such form and amount as is consistent with that provided to other Company employees.

(iii) *Disability Insurance .* The Company shall provide the Executive with short term and long term disability insurance coverage in such form and amount as is consistent with that provided to other Company employees.

In accordance with HIPAA, all information obtained in connection with the above-referenced insurance will be regarded as confidential and subject to applicable privacy laws.

4.10 Clawback Provisions. Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to the Executive pursuant to this Agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

4.11 Required Regulatory Provisions. Notwithstanding anything herein contained to the contrary, any payments to the Executive by the Company, whether pursuant to this Agreement or otherwise, are subject to and conditioned upon their compliance with Section 18(k) of the Federal Deposit Insurance Act, 12 U.S.C. Section 1828(k), and the regulations promulgated thereunder in 12 C.F.R. Part 359.

4.12 Standard Deductions. All payments made under this Agreement shall be subject to any and all applicable taxes and withholdings and to the Company's standard payroll practices.

5. Termination of Employment. The Employment Term and the Executive's employment hereunder may be terminated by the Company at any time and for any reason. The Executive may resign his employment at any time subject to the terms hereof. Upon termination of the Executive's employment during the Employment Term, the Executive shall be entitled to the compensation and benefits described in this **Section 5** and shall have no further rights to any compensation or any other benefits from the Company, the Bank or any of their affiliates.

5.1 Expiration of the Term, for Cause or Without Good Reason.

(a) The Executive's employment hereunder may be terminated upon the expiration of the Employment Term without renewal by the Company in accordance with **Section 1** , or during the Employment Term by the Company for Cause or by the Executive without Good Reason. If the Executive's employment is so terminated, the Executive shall be entitled to receive:

(i) any accrued but unpaid Base Salary and accrued but unused vacation pay which shall be paid on the pay date immediately following the Termination Date (as defined in **Section 5.6** below) in accordance with the Company's customary payroll procedures;

(ii) any earned but unpaid Annual Incentive with respect to any completed calendar year immediately preceding the Termination Date, which shall be paid on the otherwise applicable payment date, except to the extent payment is otherwise deferred pursuant to any applicable deferred compensation arrangement;

(iii) reimbursement for unreimbursed business expenses properly incurred by the Executive, which shall be subject to and paid in accordance with the Company's expense reimbursement policy; and

(iv) such employee benefits (including equity compensation), if any, as to which the Executive may be entitled under the Company's employee benefit plans or Equity Awards as of the Termination Date; provided that, in no event shall the Executive be entitled to any payments in the nature of severance or termination payments except as specifically provided herein.

Items 5.1(a)(i) through 5.1(a)(iv) are referred to herein collectively as the " **Accrued Amounts** ".

(b) For purposes of this Agreement, " **Cause** " shall mean:

(i) the Executive's conviction of any crime involving fraud, embezzlement, theft or dishonesty, moral turpitude or any similar issue that in the reasonable opinion of the Board of Directors of the Company would materially and negatively impact the reputation of the Company, the Bank or any of their affiliates or the Executive's ability to perform his duties hereunder;

(ii) serious willful misconduct by the Executive, including a material violation of the Company's Code of Conduct or the Executive's material personal dishonesty in connection with the business or customers of the Company or the material breach of fiduciary duty to the Company, the Bank or their customers for personal profit;

(iii) any material breach by the Executive of this Agreement;

(iv) any willful failure by the Executive to follow a reasonable and lawful directive of the Company as described in Sections 2.1 and 2.2 above, other than any failure resulting from the Executive's incapacity due to physical or mental injury or illness;

(v) any willful failure to keep Confidential Information of the Company, Bank or their affiliates confidential in violation of the terms of this Agreement;

(vi) the Executive's arrest for any crime involving fraud, embezzlement, theft or dishonesty that in the reasonable opinion of a majority of the full membership of the Board of Directors of the Company excluding the Executive which, as direct result of such arrest, has caused a material negative impact on the reputation of the Company or the Bank or prevents the Executive from substantially performing his duties hereunder; or

(vii) if the regulatory authorities of the Company or the Bank issue an order removing the Executive from his positions at the Company or the Bank, or if such regulatory authorities inform the Board of Directors that the continuation of the Executive in his officer positions at the Company or the Bank would constitute an unsafe and unsound banking practice.

For purposes of this Agreement, no act or failure to act on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company and the Bank. Any act or failure to act based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Company or either of the Bank or based upon the written advice of counsel for the Company or the Bank shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company and the Bank. The Executive's termination of employment shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of the majority of the Board of Directors of the Company called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board of Directors) finding that, in the good faith opinion of the Board of Directors, the Executive is guilty of any of the conduct described above, and specifying the particulars thereof in detail. To the extent that the Board of Directors wishes to terminate the Executive for Cause and the action or actions giving rise to Cause may be cured by the Executive, the Board of Directors will provide the Executive a thirty (30) day period within which he may cure such action or actions.

In the event that the Executive is terminated for Cause based on **Section 5.1(b)(i) or (vii)** above and, after the case is fully adjudicated (including all appeals), the Executive is subsequently found innocent of these charges on the merits of the case by any court of competent jurisdiction or the appropriate administrative agency, then the Executive will be entitled to receive at that time the amounts payable due to a termination without Cause. Such amounts will be paid no later than the end of the calendar year in which the Executive is fully adjudicated to be innocent of the charges.

(c) For purposes of this Agreement, " **Good Reason** " shall mean the occurrence of any of the following, in each case during the Employment Term without the Executive's written consent:

(i) a reduction in the Executive's Base Salary;

(ii) a material reduction in the Executive's target annual incentive opportunity under any annual incentive compensation or incentive plan or program;

(iii) any breach by the Company of any material provision of this Agreement;

(iv) the Company's failure to obtain an agreement from any successor to the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no succession had taken place, except where such assumption occurs by operation of law;

(v) a material, adverse change in the Executive's title, authority, duties or responsibilities (other than with consent as provided for in Section 2.2 above and/or temporarily while the Executive is physically or mentally incapacitated or as required by applicable law); or

(vi) relocation of Executive's principal place of business more than 50 miles from the Company's executive office currently located in New Canaan, Connecticut, without Executive's agreement.

The Executive cannot terminate his employment for Good Reason unless he has provided written notice to the Company of the existence of the circumstances providing grounds for termination for Good Reason within thirty (30) days of Executive's knowledge of the initial existence of such grounds and the Company has had thirty (30) days from the date on which such notice is provided to cure such circumstances. If the Company remedies the condition within such thirty (30) day cure period, then no Good Reason shall be deemed to exist with respect to such condition. If the Company does not remedy the condition within such thirty (30) day cure period, then the Executive may deliver a notice of termination for Good Reason at any time within sixty (60) days following the expiration of such cure period. If the Executive does not terminate his employment for Good Reason within sixty (60) days following the expiration of the cure period, then the Executive will be deemed to have waived his right to terminate for Good Reason with respect to such grounds.

5.2 Without Cause or for Good Reason . The Employment Term and the Executive's employment hereunder may be terminated by the Executive for Good Reason or by the Company without Cause. In the event of such termination (unless Section **5.4 below** is applicable), the Executive shall be entitled to receive the Accrued Amounts and, subject to the Executive's compliance with **Section 6, Section 7** and **Section 8** of this Agreement and his execution of a release of claims in favor of the Company, the Bank and their affiliates and their respective officers and directors in a commercially reasonable form provided by the Company (a " **Release** " attached hereto as Exhibit A) and such Release becoming effective as provided therein (" **Release Execution Period** "), the Executive shall be entitled to receive the following:

(a) A lump sum payment equal to the greater of (i) the amount of Base Salary that would otherwise be due through the end of the Term of Employment; and (ii) a minimum payment of 0.5 times Base Salary. The lump sum payment shall be paid within thirty (30) business days following the expiration of the Release Execution Period;

(b) A payment equal to the product of (i) the target annual Incentive that the Executive could have earned under any incentive compensation or incentive plan or program (the " **Target Incentive** ") for the full calendar year in which the Date of Termination occurs and (ii) a fraction, the numerator of which is the number of days the Executive was employed by the Company during the year of termination and the denominator of which is the number of days in such year. This amount shall be paid no later than March 15th of the year following the year in which the Termination Date occurs;

(c) If the Executive timely and properly elects continuation coverage under the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"), the Company shall reimburse the Executive for the difference between the monthly COBRA premium paid by the Executive for himself and his dependents and the monthly premium amount paid by similarly situated active executives. Such reimbursement shall be paid to the Executive on or before the fifteenth (15th) day of the month immediately following the month in which the Executive timely remits the premium payment. The Executive shall be eligible to receive such reimbursement until the earliest of: (i) the expiration of the twelve (12) month period beginning on the Termination Date (the " **Severance Period** "); (ii) the date the Executive is no longer eligible to receive COBRA continuation coverage; and (iii) the date on which the Executive receives/becomes eligible to receive substantially similar coverage from another employer; and

(d) The treatment of any outstanding equity awards shall be determined in accordance with the terms of the relevant plan and the applicable award agreements, provided however with respect to the initial equity award set forth in Section 4.4, the Restricted Shares that would have vested on the vesting date immediately following termination for any reason other than Cause or Executive's voluntary resignation shall automatically become vested upon such termination.

5.3 Death or Disability .

(a) The Executive's employment hereunder shall terminate automatically upon the Executive's death during the Employment Term, and the Company may terminate the Executive's employment on account of the Executive's Disability.

(b) If the Executive's employment is terminated during the Employment Term on account of the Executive's death or Disability, the Executive (or the Executive's estate and/or beneficiaries, as the case may be) shall be entitled to receive the following:

(i) the Accrued Amounts; and

(ii) the treatment of any outstanding equity awards shall be determined in accordance with the terms of applicable plan and the applicable award agreements.

(c) For purposes of this Agreement, Disability shall mean that the Executive is entitled to receive long-term disability benefits under the Company's long-term disability plan, or if there is no such plan, the Executive's inability, due to physical or mental incapacity, to substantially perform his duties and responsibilities under this Agreement for ninety (90) days out of any three hundred sixty-five (365) day period; provided however, in the event the Company temporarily replaces the Executive, or transfers the Executive's duties or responsibilities to another individual on account of the Executive's inability to perform such duties due to a mental or physical incapacity which is, or is reasonably expected to become, a Disability, then the Executive shall not be able to resign with Good Reason as a result thereof.

Any question as to the existence of the Executive's Disability as to which the Executive and the Company cannot agree shall be determined in writing by a qualified independent physician mutually acceptable to the Executive and the Company. If the Executive and the Company cannot agree as to a qualified independent physician, each shall appoint such a physician and those two physicians shall select a third who shall make such determination in writing. The determination of Disability made in writing to the Company and the Executive shall be final and conclusive for all purposes of this Agreement.

5.4 Change in Control Termination .

(a) Notwithstanding any other provision contained herein, if the Executive's employment hereunder is terminated by the Executive for Good Reason or by the Company without Cause (other than on account of the Executive's death or Disability), in each case either concurrently with or within twenty-four (24) months following a Change in Control, the Executive shall be entitled to receive the Accrued Amounts and, subject to the Executive's compliance with **Section 6, Section 7 and Section 8** of this Agreement and his execution of a Release which becomes effective as provided therein, for which the Company assigns significant value in agreeing to this Section 5.4, the Executive shall be entitled to receive the following:

(i) a lump sum payment equal to two (2) times the sum of the Executive's Base Salary and Target Incentive for the year in which the Termination Date occurs, which shall be paid within thirty (30) business days following the expiration of the Release Execution Period;

(ii) a payment equal to the product of (i) the Target Bonus for the full calendar year in which the Date of Termination occurs and (ii) a fraction, the numerator of which is the number of days the Executive was employed by the Company during the year of termination and the denominator of which is the number of days in such year. This amount shall be paid no later than March 15th of the year following the year in which the Termination Date occurs;

(iii) If the Executive timely and properly elects continuation coverage under COBRA, the Company shall reimburse the Executive for the difference between the monthly COBRA premium paid by the Executive for himself and his dependents and the monthly premium amount paid by similarly situated active executives. Such reimbursement shall be paid to the Executive on the fifteenth (15th) day of the month immediately following the month in which the Executive timely remits the premium payment. The Executive shall be eligible to receive such reimbursement until the earliest of: (A) the two year anniversary of the termination date; (B) the date the Executive is no longer eligible to receive COBRA continuation coverage; and (C) the date on which the Executive receives or becomes eligible to receive substantially similar coverage from another employers; and

(iv) The terms of any equity incentive plan or award agreements will determine to what extent, if any, such awards are accelerated for vesting and/or exercise periods , provided however with respect to the initial equity award set forth in Section 4.4, the Restricted Shares that would have vested on the vesting date immediately following such termination shall automatically become vested upon such termination.

(b) For purposes of this Agreement, " **Change in Control** " shall mean the occurrence of any of the following:

(i) one person (or more than one person acting as a group) acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of the Company; provided that, a Change in Control shall not occur if any person (or more than one person acting as a group) owns more than fifty percent (50%) of the total fair market value or total voting power of the Company's stock and acquires additional stock; and

(ii) a majority of the members of the Board of Directors of the surviving Company following the Change in Control were not Directors of the Company before the Change in Control.

For purposes of this Agreement, the terms "person" and "acting as a group" shall have the meanings specified in the Internal Revenue Code and the regulations thereunder. In no event, however, shall a Change in Control be deemed to have occurred as a result of any acquisition of securities or assets of the Company, the Bank, or a subsidiary of either of them, by the Company, the Bank, or any subsidiary of either of them, or by any employee benefit plan maintained by any of them. The defined circumstances herein are intended to be read to be consistent with the provisions of Section 409A of the Code and the regulations thereunder.

In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and except as provided with respect to COBRA reimbursements, any amounts payable pursuant to this Agreement shall not be reduced by compensation the Executive earns on account of employment with another employer.

5.5 Notice of Termination . Any termination of the Executive's employment hereunder by the Company or by the Executive during the Employment Term (other than termination pursuant to Section 5.3(a) on account of the Executive's death) shall be communicated by a written notice of termination (" **Notice of Termination** ") to the other party hereto in accordance with **Section 24** . The Notice of Termination shall specify:

(a) The termination provision of this Agreement relied upon;

(b) To the extent applicable, the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and

(c) The applicable Termination Date.

5.6 Termination Date . The Executive's Termination Date shall be:

(a) If the Executive's employment hereunder terminates on account of the Executive's death, the date of the Executive's death;

(b) If the Executive's employment hereunder is terminated on account of the Executive's Disability, the date that it is determined that the Executive has a Disability;

(c) If the Company terminates the Executive's employment hereunder for Cause, the date the Notice of Termination is delivered to the Executive;

(d) If the Company terminates the Executive's employment hereunder without Cause, the date specified in the Notice of Termination, which shall be no less than thirty (30) days following the date on which the Notice of Termination is delivered; provided that, the Company shall have the option to provide the Executive with a lump sum payment equal to thirty (30) days' Base Salary in lieu of such notice, which shall be paid in a lump sum on the Executive's Termination Date and for all purposes of this Agreement, the Executive's Termination Date shall be the date on which such Notice of Termination is delivered;

(e) If the Executive terminates his employment hereunder with or without Good Reason, the date specified in the Executive's Notice of Termination, which shall be no less than thirty (30) days following the date on which the Notice of Termination is delivered; provided that, the Company may waive all or any part of the thirty (30) day notice period for no consideration by giving written notice to the Executive and for all purposes of this Agreement, the Executive's Termination Date shall be the date determined by the Company; and

(f) If the Executive's employment hereunder terminates because the Company provides notice of non-renewal pursuant to Section 1, the end of the Employment Term.

Notwithstanding anything contained herein, the Termination Date shall not occur until the date on which the Executive incurs a "separation from service" within the meaning of Section 409A.

5.7 Mitigation . In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and except as provided with respect to COBRA reimbursements, any amounts payable pursuant to this **Section 5** shall not be reduced by compensation the Executive earns on account of employment with another employer.

5.8 Resignation of All Other Positions . Upon termination of the Executive's employment hereunder for any reason, the Executive agrees to resign, effective on the Termination Date and shall be deemed to have resigned from all positions that the Executive holds as an officer or member of the Board of Directors (or a committee thereof) of the Company, the Bank or any of their affiliates.

5.9 Section 280G .

(a) If any of the payments or benefits received or to be received by the Executive (including, without limitation, any payment or benefits received in connection with a Change in Control or the Executive's termination of employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement, or otherwise) (all such payments collectively referred to herein as the " **280G Payments** ") constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the " **Code** ") and will be subject to the excise tax imposed under Section 4999 of the Code (the " **Excise Tax** "), the Executive shall receive the greatest of the following, whichever gives the Executive the highest net after-tax amount (after taking into account federal, state, local and social security taxes):

(1) the 280G Payments, or

(2) one dollar less than the amount of the Payments that would subject the Executive to the Excise Tax (the " **Safe Harbor Amount** ").

If a reduction in the 280G Payments is necessary so that the 280G Payments equal the Safe Harbor Amount and none of the 280G Payments constitute a deferral of compensation within the meaning of and subject to Section 409A (" **Nonqualified Deferred Compensation** "), then the reduction shall occur in the manner the Executive elects in writing prior to the date of payment. If any 280G Payments constitute Nonqualified Deferred Compensation or if the Executive fails to elect an order, then the 280G Payments to be reduced will be determined in a manner which has the least economic cost to the Executive and, to the extent the economic cost is equivalent, will be reduced in the inverse order of when payment would have been made to you, until the reduction is achieved.

(b) All calculations and determinations under this **Section 5.9** shall be made by an independent accounting firm or independent tax counsel appointed by the Company (the " **Tax Counsel** ") whose determinations shall be conclusive and binding on the Company and the Executive for all purposes. For purposes of making the calculations and determinations required by this Section 5.9, the Tax Counsel may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and the Executive shall furnish the Tax Counsel with such information and documents as the Tax Counsel may reasonably request in order to make its determinations under this

Section 5.9. The Company shall bear all costs the Tax Counsel may reasonably incur in connection with its services.

(c) The Executive hereby agrees with the Company and any successor thereto to in good faith consider and take steps commonly used to minimize or eliminate any "parachute payments" within the meaning of Section 280G of the Code if requested to do so by the Company or any successor thereto; provided, however, that the foregoing language shall neither require the Executive to take or not take any specific action in furtherance thereof nor contravene, limit or remove any right or privilege provided to the Executive under this Agreement.

6. Cooperation. The parties agree that certain matters in which the Executive will be involved during the Employment Term may necessitate the Executive's reasonable cooperation post termination of employment. Accordingly, following the termination of the Executive's employment for any reason, to the extent reasonably requested by the Board and subject to the Executive's reasonable availability due to his commitment to a new employer or business, the Executive shall cooperate with the Company in connection with matters arising out of the Executive's service to the Company; provided that, the Company shall make reasonable efforts to minimize disruption of the Executive's other activities. The Company shall reimburse the Executive for reasonable expenses incurred in connection with such cooperation and, to the extent that the Executive is required to spend substantial time on such matters, the Company shall compensate the Executive at an hourly rate based on the Executive's Base Salary on the Termination Date.

7. Confidential Information. The Executive understands and acknowledges that during the Employment Term, he will have access to and learn about Confidential Information, as defined below.

7.1 Confidential Information Defined.

(a) Definition.

For purposes of this Agreement, " **Confidential Information** " includes, but is not limited to, all information not generally known to the public, in spoken, printed, electronic or any other form or medium, relating directly or indirectly to the Company, the Bank or their affiliates, or of any other person or entity that has entrusted information to the Company in confidence.

The Executive understands and agrees that Confidential Information includes information developed by him in the course of his employment by the Company as if the Company furnished the same Confidential Information to the Executive in the first instance. Confidential Information shall not include information that is generally available to and known by the public at the time of disclosure to the Executive or later; provided that, such disclosure is through no direct or indirect fault of the Executive or person(s) acting on the Executive's behalf.

(b) Disclosure and Use Restrictions.

The Executive agrees and covenants: (i) to treat all Confidential Information as strictly confidential; (ii) not to directly or indirectly disclose, publish, communicate or make available Confidential Information, or allow it to be disclosed, published, communicated or made available, in whole or part, to any entity or person whatsoever except as required in the performance of the Executive's authorized employment duties to the Company; and (iii) not to access or use any Confidential Information, and not to copy any documents, records, files, media or other resources containing any Confidential Information, or remove any such documents, records, files, media or other resources from the premises or control of the Company, except as required in the performance of the Executive's authorized employment duties to the Company and the Bank. Nothing herein shall be construed to prevent disclosure of Confidential Information as may be required by applicable law or regulation, or pursuant to the valid order of a court of competent jurisdiction or an authorized government agency, provided that the disclosure does not exceed the extent of disclosure required by such law, regulation or order.

The Executive understands and acknowledges that his obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon the Executive first having access to such Confidential Information (whether before or after he begins employment by the Company) and shall continue during and after his employment by the Company until such time as such Confidential Information has become public knowledge other than as a result of the Executive's breach of this Agreement or breach by those acting in concert with the Executive or on the Executive's behalf. Nothing herein shall prevent the Executive from disclosing Contract Information to his personal attorneys, accountants and other advisors, as necessary for the performance of their duties and on a confidential basis. Additionally nothing herein shall prohibit the Executive from retaining, at any time, his personal correspondence and documents related to his own personal benefits, entitlements and obligations.

8. Restrictive Covenants .

8.1 Acknowledgment . The Executive understands that the nature of the Executive's position may give him access to and knowledge of Confidential Information and places him in a position of trust and confidence with the Company. The Executive understands and acknowledges that the intellectual services he provides to the Company are unique, special or extraordinary.

The Executive further understands and acknowledges that the Company’s ability to reserve these services for the exclusive knowledge and use of the Company is of great competitive importance and commercial value to the Company, and that improper use or disclosure by the Executive is likely to result in unfair or unlawful competitive activity.

8.2 Non-competition . Because of the Company's legitimate business interest as described herein and the good and valuable consideration offered to the Executive, during the Employment Term and for the term of six (6) months, beginning on the last day of the Executive's employment with the Company, for any reason or no reason and whether employment is terminated at the option of the Executive or the Company (provided that these restrictions shall NOT apply if Executive’s termination simply occurs because the Company does not renew this Agreement) , the Executive agrees and covenants not to engage in Prohibited Activity within Fairfield or New Haven Counties or any other county in which the Company, the Bank or any of their affiliates maintains as of the Termination Date a branch, loan production office, or mortgage production office and from which the Company does a significant portion of its business. For the purposes of this Agreement, “significant portion of its business” shall mean ten percent (10%) or more of the Company’s total interest income for the most recent full twelve month period preceding termination is attributable to the office(s) in such county (the “ **Restricted Area** ”). Without otherwise limiting the foregoing, the Restricted Area shall not include New York County (Manhattan), New York.

For purposes of this Section 8.2:

(a) “ **Prohibited Activity** ” is activity in which the Executive, directly or indirectly, solely or jointly with any person or persons, as an employee, consultant, or advisor (whether or not engaged in business for profit), or as an individual proprietor, partner, shareholder, director, officer, joint venturer, investor or lender, or in any other capacity: (i) becomes affiliated with any bank or commercial lender headquartered or with branches in the counties in which the Company has branches at the time of employment termination; or (ii) becomes affiliated with a different Community Banking Institution in the Restricted Area;

(b) " **become affiliated** " shall mean, without limitation, engaging, participating, or being involved in any respect in the business of banking (other than as a depositor, borrower or other customer), or furnishing any aid, assistance or service of any kind to any person in connection with the business of the Company, the Bank and any of their affiliates, and shall include without limitation being employed by any Community Banking Institution which has a branch or other place of business in the Restricted Area; and

(c) " **Community Banking Institution** " shall mean a bank with assets equal to or less than five billion dollars.

Nothing herein shall prohibit the Executive from purchasing or owning less than five percent (5%) of the securities or ownership interests of any corporation, partnership or limited liability company, provided that such ownership represents a passive investment and that the Executive is not a controlling person of, or a member of a group that controls, such corporation, partnership or limited liability company.

Notwithstanding the foregoing, the provisions of this **Section 8.2** shall not apply in the event the Executive is employed by the Company for the entire Employment Term and the Company determines not to renew or extend this Agreement on substantially similar terms.

This **Section 8** does not, in any way, restrict or impede the Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation or order. The Executive shall promptly provide written notice of any such order to the Board of Directors.

8.3 Non-solicitation of Employees . The Executive agrees and covenants not to directly or indirectly solicit, hire, recruit, attempt to hire or recruit, or induce the termination of employment of any employee of the Company, the Bank or any of their Affiliates for the term of one (1) year, beginning on the last day of the Executive's employment with the Company provided that a general, broad-based solicitation or advertisement not intentionally directed at such employees shall not be deemed to be a violation of this provision.

8.4 Non-solicitation of Clients . The Executive understands and acknowledges that because of the Executive's experience with and relationship to the Company, he will have access to and learn about much or all of the clients, prospective clients and referral sources of the Company, the Bank and their affiliates. The Executive understands and acknowledges that loss of these client and referral relationships and/or goodwill will cause significant and irreparable harm. The Executive agrees and covenants, for a period of one (1) year, beginning on the last day of the Executive's employment with the Company, not to directly or indirectly (a) solicit (for services that are competitive with the Company, the Bank or its Affiliates) any actual or prospective client or client-referral source who Executive had a direct or indirect business relationship with the Company, the Bank or any of their Affiliates during the period of time in which the Executive was employed by the Company, it being expressly agreed that soliciting a referral from a prospective client or client-referral source is included within this prohibition; or (b) encourage any such client or client-referral source to turn down, terminate or materially reduce a business relationship with the Company, the Bank or any of their affiliates.

8.5 Non-disparagement . The Executive agrees and covenants that he will not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Company, the Bank, any of their affiliates or their respective businesses, or any of their employees, officers, and existing and prospective clients, and the Company and the Bank will not, and shall cause their Board of Directors and their senior executives not to, at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Executive, provided, however, nothing herein shall prevent a party from (i) responding publicly to incorrect, disparaging or derogatory public statements to the extent reasonably necessary to correct or refute such public statement or (ii) making any truthful statements in response to legal or bank regulatory examination process, required governmental testimony or filings, or administrative or arbitral proceedings

8.6 Non-Interference Covenant. For a period of one (1) year, beginning on the last day of the Executive's employment with the Company, the Executive covenants and agrees that he will not, directly or indirectly and for whatever reason, whether for his own account or for the account of any other person, firm, corporation or other organization:

(a) solicit, engage, employ or with respect to independent contractors, interfere with any of the contracts or relationships of the Company, the Bank or any of their affiliates with any employee, officer, director or any such independent contractor who is employed by or associated with the Company, the Bank or any of their affiliates as of the Termination Date; or

(b) actively solicit or cause to be solicited, or otherwise actively interfere with, any of the contracts or relationships of the Company, the Bank or any of their affiliates with any customer or client of the Company, the Bank or any of their affiliates.

8.7 Business Materials and Property Disclosure . All written materials, records, and documents made by the Executive or coming into his possession concerning the business or affairs of the Company, the Bank or any of their affiliates shall be the sole property of the Company. Upon termination of his employment with the Company, the Executive shall deliver the same to the Company and shall retain no copies, including but not limited to copies in paper, electronic, digital or any other format. The Executive shall also return to the Company all other property in his possession owned by the Company upon the termination of his employment. The Executive may retain the Executive’s rolodex and similar address books provided that such items only include contact information.

If a court or arbitration panel concludes that the time period of the restriction set forth in this **Section 8** is not enforceable or that a specific geographical scope must be stated herein, then the parties agree that such court or arbitration panel may rewrite the time period of this restriction and/or prescribe a geographical restriction to the maximum enforceable time period and geographical area permitted by law.

9. Acknowledgement . The Executive acknowledges and agrees that the services to be rendered by him to the Company are of a special and unique character; that the Executive will obtain knowledge and skill relevant to the Company’s industry, methods of doing business and marketing strategies by virtue of the Executive’s employment; and that the restrictive covenants and other terms and conditions of this Agreement are reasonable and reasonably necessary to protect the legitimate business interest of the Company.

The Executive further acknowledges that the amount of his compensation reflects, in part, his obligations and the Company's rights under Section 7 and Section 8 of this Agreement; that he has no expectation of any additional compensation, royalties or other payment of any kind not otherwise referenced herein in connection herewith; and that he will not be subject to undue hardship by reason of his full compliance with the terms and conditions of Section 7 and Section 8 of this Agreement or the Company's enforcement thereof.

10. Remedies. In the event of a breach or threatened breach by the Executive of **Section 7** or **Section 8** of this Agreement, the Executive hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

11. Arbitration. Any dispute whatsoever relating to the Executive's employment by the Company, or any other dispute arising out of this Agreement which cannot be resolved by any party upon thirty (30) days' written notice to the other party, shall be settled by binding arbitration at a mutually agreed location in Fairfield County, Connecticut in accordance with the then prevailing Employment Dispute Resolution Rules of the American Arbitration Association. The judgment upon the award rendered by the arbitrators may be entered in any court of competent jurisdiction. It is the purpose of this Agreement, and the intent of the parties hereto, to make the submission to arbitration of any dispute or controversy arising out of this Agreement, as set forth hereinabove, binding upon all parties hereto. This Section 11 shall not in any way restrict the right of the Company to obtain injunctive relief from a court of competent jurisdiction.

All arbitration costs and all other costs, including but not limited to reasonable attorneys' fees, incurred by the Executive in an arbitration proceeding shall be paid by the Company in the event the Executive materially or substantively prevails in such arbitration proceeding. All arbitration costs and all other costs, including but not limited to reasonable attorneys' fees, incurred by the Company in an arbitration proceeding shall be paid by the Executive in the event the Company materially or substantively prevails in such arbitration proceeding. As part of the judgment rendered by the arbitrators in an arbitration proceeding, the arbitrators shall determine which party (if any) has materially or substantively prevailed in such arbitration proceeding.

12. Governing Law: Jurisdiction and Venue. This Agreement, for all purposes, shall be construed in accordance with the laws of Connecticut without regard to conflicts of law principles. Any action or proceeding by either of the parties to enforce this Agreement that is not covered by the Arbitration provision of Section 11 above shall be brought only in a state or federal court located in the state of Connecticut, county of Fairfield. The parties hereby irrevocably submit to the non-exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue.

13. Legal Fees. The Company shall pay or reimburse the Executive for all reasonable and documented legal fees incurred by him in connection with the negotiation of this Agreement and any other agreements related to Executive's employment arrangement with the Company, up to $6,000.

14. Source of Payments: No Duplication of Payments. All payments provided in this Agreement shall be timely paid in cash or check from the general funds of the Company or the Bank. Payments pursuant to this Agreement shall be allocated between the Company and the Bank in proportion to the approximate level of activity and the time expended on such activities by the Executive as determined by the Company and the Bank on a quarterly basis, unless the applicable provision of this Agreement specifies that the payment shall be made by either the Company or the Bank. In no event shall the Executive receive duplicate payments or benefits from the Company and the Bank.

15. Entire Agreement . Unless specifically provided herein, this Agreement contains all of the understandings and representations between the Executive and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter. The parties mutually agree that the Agreement can be specifically enforced in court and can be cited as evidence in legal proceedings alleging breach of the Agreement.

16. Modification and Waiver . No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by the Executive and by Chairman of the Board of Directors of the Company. No waiver by either of the parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

17. Severability . Should any provision of this Agreement be held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement.

The parties further agree that any such court is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement or by making such other modifications as it deems warranted to carry out the intent and agreement of the parties as embodied herein to the maximum extent permitted by law.

The parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been set forth herein.

18. Captions . Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

19. Counterparts . This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

20. Tolling. Should the Executive violate any of the terms of the restrictive covenant obligations articulated herein, the obligation at issue will run from the first date on which the Executive ceases to be in violation of such obligation.

21. Section 409A. This Agreement is intended to comply with Section 409A or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short- term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Notwithstanding any other provision of this Agreement, in the event any payment is to be made during a specified time period following the expiration of the Release Execution Period and the time period for such payment begins in one calendar year and ends in a second calendar year, then such amount shall be payable in the second calendar year. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.

Notwithstanding any other provision of this Agreement, if any payment or benefit provided to the Executive in connection with his termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and the Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Termination Date (the " **Specified Employee Payment Date** "), unless the payment otherwise satisfies the short-term deferral exemption or another exemption under Section 409A of the Code. The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Executive in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

22. Successors and Assigns. This Agreement is personal to the Executive and shall not be assigned by the Executive. Any purported assignment by the Executive shall be null and void from the initial date of the purported assignment. The Company may assign this Agreement to any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company. This Agreement shall inure to the benefit of the Company and permitted successors and assigns.

23. Indemnification.

(a) In the event that the Executive is made a party or threatened to be made a party to any action, suit, or proceeding, whether civil, criminal, administrative or investigative (a " **Proceeding** "), other than any Proceeding initiated by the Executive or the Company related to any contest or dispute between the Executive and the Company or any of its affiliates with respect to this Agreement or the Executive's employment hereunder, by reason of the fact that the Executive is or was a director or officer of the Company, or any affiliate of the Company, or is or was serving at the request of the Company as a director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, the Executive shall be indemnified and held harmless by the Company to the fullest extent permitted by applicable law from and against any liabilities, costs, claims and expenses, including all costs and expenses incurred in defense of any Proceeding (including attorneys' fees).

(b) During the Employment Term and for a period of six (6) years thereafter, the Company or any successor to the Company shall purchase and maintain, at its own expense, directors' and officers' liability insurance providing coverage to the Executive on terms that are no less favorable than the coverage provided to other directors and senior officers of the Company.

24. Notice . Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, or by overnight carrier to the parties at the addresses set forth below (or such other addresses as specified by the parties by like notice):

If to the Company:

Chairman
Compensation Committee
Bankwell Financial Group, Inc.
208 Elm Street
New Canaan, CT 06840

If to the Executive:

Penko Ivanov
10 Highview Drive
Wilton, Connecticut 06897

25. Representations of the Executive . The Executive represents and warrants to the Company that:

25.1 The Executive's acceptance of employment with the Company and the performance of his duties hereunder will not conflict with or result in a violation of, a breach of, or a default under any contract, agreement or understanding to which he is a party or is otherwise bound.

25.2 The Executive's acceptance of employment with the Company and the performance of his duties hereunder will not violate any non-solicitation, non-competition or other similar covenant or agreement of a prior employer.

26. Withholding . The Company shall have the right to withhold from any amount payable hereunder any Federal, state and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

27. Survival . Upon the expiration or other termination of this Agreement, the respective rights and obligations of the parties hereto shall survive such expiration or other termination to the extent necessary to carry out the intentions of the parties under this Agreement.

28. Acknowledgment of Full Understanding . THE EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THER AGREEMENT. THE EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF HIS CHOICE BEFORE SIGNING THER AGREEMENT.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

BANKWELL FINANCIAL GROUP, INC.

By /s/ James A. Fieber
Name: James A. Fieber
Title: Chairman of the Compensation Committee

BANKWELL BANK

By /s/ James A. Fieber
Name: James A. Fieber
Title: Chairman of the Compensation Committee

EXECUTIVE

Signature: /s/ Penko Ivanov

Print Name: Penko Ivanov

SCHEDULE A

The Executive's involvement in the following outside activities is approved:

Boards

Memberships

EXHIBIT A

Exhibit 31.1

CERTIFICATIONS

I, Christopher R. Gruseke certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bankwell Financial Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant ' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant ' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the Registrant ' s internal control over financial reporting that occurred during the Registrant ' s most recent fiscal quarter (the Registrant ' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant ' s internal control over financial reporting.
5. The Registrant ' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant ' s auditors and the audit committee of the Registrant ' s board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant ' s ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant ' s internal control over financial reporting.

Date: November 9, 2016

/s/ Christopher R. Gruseke

Christopher R. Gruseke
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Ernest J. Verrico, Sr. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bankwell Financial Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant ' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Registrant ' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the Registrant ' s internal control over financial reporting that occurred during the Registrant ' s most recent fiscal quarter (the Registrant ' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant ' s internal control over financial reporting.
5. The Registrant ' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant ' s auditors and the audit committee of the Registrant ' s board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant ' s ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant ' s internal control over financial reporting.

Date: November 9, 2016

/s/ Ernest J. Verrico, Sr.
Ernest J. Verrico, Sr.
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Christopher R. Gruseke and Ernest J. Verrico, Sr. hereby jointly certify as follows:

They are the Chief Executive Officer and the Chief Financial Officer, respectively, of Bankwell Financial Group, Inc. (the " Company ");

To the best of their knowledge, the Company ' s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the " Report ") complies in all material respects with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

To the best of their knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher R. Gruseke
CHRISTOPHER R. GRUSEKE
President and Chief Executive Officer
Date: November 9, 2016

/s/ Ernest J. Verrico, Sr.
ERNEST J. VERRICO, SR.
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: November 9, 2016

The foregoing certification is being furnished solely pursuant to 12 U.S.C Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.