

Bankwell Financial Group, Inc.
Form 10-K
March 15, 2016
TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 Website, 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if 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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2015 based on the closing price of the common stock as reported on the NASDAQ Global Market: \$97,941,281

As of February 29, 2016, there were 7,529,191 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its Annual Meeting of Stockholders, expected to be filed pursuant to Regulation 14A within 120 days after the end of the 2015 fiscal year, are incorporated by reference into Part III of this report on Form 10-K

TABLE OF CONTENTS

Bankwell Financial Group, Inc.

Form 10-K

Table of Contents

PART I

Item 1.

Business

1

Item 1A.

Risk Factors

21

Item 1B.

Unresolved Staff Comments

33

Item 2.

Properties

33

Item 3.

Legal Proceedings

33

Item 4.

Mine Safety Disclosures

33

PART II

Item 5.

Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

34

Item 6.

Selected Financial Data

35

Item 7.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

39

Item 7A.

Quantitative and Qualitative Disclosures About Market Risk

70

Item 8.

Financial Statements and Supplementary Data

74

Item 9.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

127

Item 9A.

Controls and Procedures

127

Item 9B.

127

Other Information

PART III

Item 10.

Directors, Executive Officers and Corporate Governance 128

Item 11.

Executive Compensation 128

Item 12.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters 128

Item 13.

Certain Relationships and Related Transactions, and Director Independence 128

Item 14.

Principal Accounting Fees and Services 128

PART IV

Item 15.

Exhibits, Financial Statement Schedules 129

—
Signatures

130

TABLE OF CONTENTS

BANKWELL FINANCIAL GROUP, INC.

FORM 10-K

PART 1

Item 1.

Business

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or the Securities Act, and Section 21E of the Exchange Act. These statements are often, but not always, made with the words or phrases such as “may,” “should,” “believe,” “likely result in,” “expect,” “would,” “intend,” “could,” “predict,” “potentially,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “plan,” “projection,” and “outlook” or the negative version of those words or similar words of a forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these forward-looking statements. Important factors that may cause actual results to differ from those contemplated by these forward-looking statements include, but are not limited to, those disclosed under “Risk Factors” in Part I Item 1A as well as the following factors:

- local, regional and national business or economic conditions may differ from those expected;
- we are subject to credit risk and could incur losses in our loan portfolio;
- our allowance for loan losses may not be adequate to absorb loan losses;
- changes in real estate values could also increase our credit risk;
- we could experience changes in our key management personnel;
- we may not be able to successfully execute our management team’s strategic initiatives;
- our ability to successfully execute our growth initiatives such as branch openings and acquisitions;
- volatility and direction of market interest rates;
- increased competition within our market area may limit our growth and profitability;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
-

the effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies;

- changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Accounting Oversight Board or the Financial Accounting Standards Board;
- changes in law and regulatory requirements (including those concerning taxes, banking, securities and insurance); and
- further governmental intervention in the U.S. financial system.

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

1

TABLE OF CONTENTS

General

Bankwell Financial Group, Inc. (the Company, we, our, us) is a bank holding company, headquartered in New Canaan, Connecticut and offers a broad range of financial services through our banking subsidiary, Bankwell Bank (the Bank), a Connecticut state non-member bank founded in 2002. Our primary market is the greater Fairfield and New Haven County, Connecticut area, which we serve from our main banking office located in New Canaan, Connecticut and eight other branch offices located throughout the Fairfield and New Haven County area. As of December 31, 2015, on a consolidated basis, we had total assets of approximately \$1.3 billion, net loans of approximately \$1.1 billion, total deposits of approximately \$1.0 billion, and shareholders' equity of approximately \$131.8 million.

We are committed to being the premier "Hometown" bank in Fairfield and New Haven Counties and surrounding areas. We believe that our market exhibits highly attractive demographic attributes and presents favorable competitive dynamics, thereby offering long-term opportunities for growth. We have a history of building long-term customer relationships and attracting new customers through what we believe is our superior customer service and our ability to deliver a diverse product offering. In addition, we believe that our strong capital position and extensive local ownership, coupled with a highly respected and experienced executive management team and board of directors, give us credibility with our customers and potential customers in our market. Our focus is on building a franchise with meaningful market share and consistent revenue growth complemented by operational efficiencies that we believe will produce attractive risk-adjusted returns for our shareholders.

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.

Our History and Growth

Bankwell Bank was originally chartered as two separate banks, The Bank of New Canaan (including a separate division, Stamford First Bank) and The Bank of Fairfield, which were subsequently merged and rebranded as "Bankwell Bank." It was chartered with a commitment to building the premier community bank in the market we serve. We began operations in April 2002 with an initial capitalization of \$8.6 million. On November 5, 2013, we acquired The Wilton Bank, and it was merged into Bankwell Bank. On October 1, 2014, we acquired Quinnipiac Bank and Trust Company and it was merged into Bankwell Bank.

With the efforts of our strong management team, we continued our growth and maintained a strong track record of performance. From December 31, 2010 through December 31, 2015, our total assets grew from \$395.7 million to approximately \$1.3 billion; our loans outstanding grew from \$282.6 million to approximately \$1.1 billion and our noninterest bearing deposits grew from \$50.2 million to approximately \$164.6 million. We believe this growth was driven by our ability to provide superior service to our customers and our financial stability. This loan growth was achieved while maintaining our focus on our strong underwriting standards, which has been reflected in our low net charge-off levels.

Business Strategy

We are focused on being the "Hometown" bank and banking provider of choice in our highly attractive market areas through:

- Responsive, Customer-Centric Products and Services and a Community Focus. We offer a broad array of products and services which we customize to allow us to focus on building long-term relationships with our customers through high-quality, responsive and personal customer service. By focusing on the entire customer relationship, we build the trust of our customers which leads to long-term relationships and generates our organic growth. In addition, we are committed to meeting the needs of the communities that we serve. Our employees are involved in many civic and community organizations which we support through sponsorships. As a result, customers and potential customers within our market know about us and frequently interact with our employees which allows us to develop long-term customer relationships without extensive advertising.

TABLE OF CONTENTS

- Strategic Acquisitions. To complement our organic growth, we focus on strategic acquisitions in or around our existing markets that further our objectives. We believe there are banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden and will likely need to partner with an institution like ours. As we evaluate potential acquisitions, we will continue to seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile.

- Utilization of Efficient and Scalable Infrastructure. We employ a systematic and calculated approach to increasing our profitability and improving our efficiencies. We continually upgrade our operating infrastructure particularly in the areas of technology, data processing, compliance and personnel. We believe that our scalable infrastructure provides us with an efficient operating platform from which to grow in the near term, and without incurring significant incremental noninterest expenses, while continuing to deliver our high-quality, responsive customer service, which will enhance our ability to grow and increase our returns.

- Disciplined Focus on Risk Management. Effective risk management is a key component of our strong corporate culture. We use our strong risk management process to monitor our existing loan and investment securities portfolios, support operational decision-making and improve our ability to generate earning assets with strong credit quality. To maintain our strong credit quality, we use a comprehensive underwriting process and we seek to maintain a diversified loan portfolio and a conservative investment securities portfolio. Board-approved policies contain approval authorities, as appropriate, and are reviewed at least annually. We have a Risk Management Steering Committee comprised of executive officers who oversee new business initiatives and other activities that warrant oversight of risk and related mitigants. Internal review procedures are performed regarding anti-money laundering and consumer compliance requirements. Our Chief Risk Officer reports directly to the Chair of our Audit Committee.

Our Competitive Strengths

We believe that we are especially well-positioned to create value for our shareholders as a result of the following competitive strengths:

- Our Market. Our current market is defined as the greater Fairfield and New Haven County area. The Stamford market area includes numerous affluent suburban communities of professionals who work and commute into New York City, approximately 50 miles from our headquarters, and many small to mid-sized businesses which support these communities. Fairfield County is the wealthiest county in Connecticut, with a 2010 – 2014 median household income of \$83,163 according to estimates from United States Census Bureau. We believe that this market has economic and competitive dynamics that are favorable to executing our growth strategy.

- Experienced and Respected Management Team with a Proven and Successful Track Record. Our executive management team, is comprised of seasoned professionals with significant banking experience, a history of high performance at local financial institutions and success in identifying, acquiring and integrating financial institutions. Our senior management team includes Christopher R. Gruseke, Chief Executive Officer (one year with us), Heidi S. DeWyngaert, Executive Vice President, Chief Lending Officer (eleven years with us), Ernest J. Verrico, Sr., Executive Vice President, Chief Financial Officer (six years with us), Christine A. Chivily, Executive Vice President, Chief Credit Officer (three years with us), and Michele Johnson, Senior Vice President, Chief Risk Officer (seven years with us).

Dedicated Board of Directors with Strong Community Involvement. Our board of directors is comprised of a group of local business leaders who understand the need for strong community banks that focus on serving the financial needs of their customers. One of our directors, Frederick R. Afragola, was instrumental in our organization and growth. Mr. Afragola was the Chief Executive Officer and President of Bankwell from its opening in 2002 until his retirement in 2008 and played an integral role in building our foundation and guiding our growth. The interests of our executive management team and directors are aligned with those of our shareholders

TABLE OF CONTENTS

through common stock ownership. By capitalizing on the close community ties and business relationships of our executive management team and directors, we are positioned to continue taking advantage of the market opportunity present in our primary market.

- **Strong Capital Position.** At December 31, 2015, we had a 9.68% tangible common equity ratio, and the Bank had a 10.84% tier 1 leverage ratio and a 12.18% tier 1 risk-based ratio. We believe that our ability to attract capital has facilitated our growth and is an integral component to the execution of our business plan.

- **Scalable Operating Platform.** We provide banking technology, including remote deposit capture, internet banking and mobile banking, to provide our customers with maximum flexibility and create a scalable platform to accommodate our future growth aspirations. We believe that our advanced technology combined with responsive and personal service provides our customers with a superior banking experience.

Employees

At December 31, 2015, we had a total of 123 full-time employees, 2 part-time employees and no temporary employees. None of our employees is subject to a collective bargaining agreement.

Company Website and Availability of Securities and Exchange Commission Filings

Information regarding the Company is available through the Investor Relations tab at www.mybankwell.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge at www.sec.gov and at www.mybankwell.com under the Investor Relations tab. Information on the website is not incorporated by reference and is not a part of this annual report on Form 10-K.

Competition

The financial services industry in our market and the surrounding area is highly competitive. We compete with commercial banks, savings banks, savings associations, money market funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders in various segments of our business. Many of these competitors have more assets, capital and higher lending limits, and more resources than we do and may be able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual customers. Competition for deposit products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

We focus our marketing efforts on small to medium-sized businesses, professionals and individuals and their employees. This focus includes retail, service, wholesale distribution, manufacturing and international businesses. We attract these customers based on relationships and contacts that our management and our board of directors have within and beyond the market area. We do not expect to compete with large institutions for the primary banking relationships of large corporations. Rather, we compete for niches in this business segment and for the consumer business of employees of such entities. Many of our larger commercial bank competitors have greater name recognition and offer certain services that we do not. However, we believe that our presence in our primary market area and focus on providing superior service to professionals at small to medium sized businesses and individual employees of such businesses are instrumental to our success.

We emphasize personalized banking services and the advantage of local decision-making in our banking businesses, and this emphasis has been well received by the public in our market area. We derive a majority of our business from our local market area which includes its primary market area of Fairfield and New Haven Counties.

Lending Activities

General. Our primary lending focus is to serve commercial and middle-market businesses and their executives, high net worth individuals, not-for-profit organizations and consumers with a variety of

TABLE OF CONTENTS

financial products and services, while maintaining strong and disciplined credit policies and procedures. We offer a full array of commercial and retail lending products to serve the needs of our customers. Commercial lending products include owner-occupied commercial real estate loans, commercial real estate investment loans, commercial loans (such as business term loans, equipment financing and lines of credit) to small and mid-sized businesses and real estate construction and development loans. Retail lending products include residential mortgage loans, home equity lines of credit and consumer installment loans. Our retail lending products are offered to the community in general and as an accommodation to our commercial customers, and their executives and employees. We focus our lending activities on loans that we originate from borrowers located in our market. We have established an informal, internal lending limit to one borrower/relationship subject to the statutory maximum of 15% of our unimpaired capital and reserves for loan loss and up to 40% for commercial real estate secured loans.

We market our lending products and services to qualified borrowers through conveniently located banking offices, relationship networks and high touch personal service. We target our business development and marketing strategy primarily on small to medium businesses with between \$5 million and \$50 million in annual revenue. Our relationship managers actively solicit the business of companies entering our market areas as well as long-standing businesses operating in the communities we serve. We seek to attract new lending customers through professional service, relationship networks, competitive pricing and innovative structure, including the utilization of federal and state tax incentives. We pride ourselves on smart, efficient underwriting and timely decision making for new loan requests due to our leaner approval structure and local decision-making. We believe this gives us a competitive advantage over larger institutions that are not as nimble.

Total loans before deferred loan fees and the allowance for loan losses were \$1.1 billion at December 31, 2015. Since December 31, 2011, total loans have increased \$778.2 million from \$369.3 million, reflecting expansion of our branch network, including \$87.4 million of acquired loans from The Wilton Bank and Quinncipiac Bank and Trust Company. The following table summarizes the composition of our loan portfolio for the dates indicated.

	At December 31,					
	2015		2014		2013	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
	(In thousands)					
Real estate loans:						
Residential	\$ 177,184	15.44%	\$ 175,031	18.83%	\$ 155,874	24.66%
Commercial	697,542	60.79	521,181	56.06	316,533	50.08
Construction	82,273	7.17	63,229	6.80	51,545	8.16
Home equity	15,926	1.39	18,166	1.95	13,892	2.20
	972,925	84.79	777,607	83.64	537,844	85.10
Commercial business	172,853	15.06	149,259	16.05	93,566	14.80
Consumer	1,735	0.15	2,896	0.31	602	0.10
Total loans	\$ 1,147,513	100.00%	\$ 929,762	100.00%	\$ 632,012	100.00%

TABLE OF CONTENTS

At December 31, 2012	Percent of Amount Loan Portfolio	2011	Percent of Amount Loan Portfolio
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(In thousands)

Real estate loans: