OWENS ILLINOIS INC /DE/
Form SC 13G/A
February 14, 2008

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

SCHEDULE 13G
Under the Securities Exchange Act of 1934

Amendment No.: 2*

Name of Issuer: Owens-Illinois, Inc.

Title of Class of Securities: Common Stock

CUSIP Number: 69076840-3

Date of Event Which Requires Filing of this Statement: 12/31/2007

Check the appropriate box to designate the rule pursuant to which this Schedule is filed.

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and
for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed
to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act
but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.: 69076840-3

1. NAME OF REPORTING PERSON
   S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
   Janus Capital Management LLC
   EIN #75-3019302

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
   a. ___
   b. _X_

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER
19,815,254**

6. SHARED VOTING POWER
3,475,737

7. SOLE DISPOSITIVE POWER
19,815,254**

8. SHARED DISPOSITIVE POWER
3,475,737

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
23,290,991**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES
N/A

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)
14.9%**

12. TYPE OF REPORTING PERSON
IA, HC
** See Item 4 of this filing

CUSIP No.: 69076840-3

1. NAME OF REPORTING PERSON
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
Janus Contrarian Fund
84-1521705

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
a. ___
b. _X_

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION
Massachusetts

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER
10,918,745**

6. SHARED VOTING POWER
-0-

7. SOLE DISPOSITIVE POWER
10,918,745**

8. SHARED DISPOSITIVE POWER
-0-

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
10,918,745**

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES
N/A

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)
7.0%**

12. TYPE OF REPORTING PERSON
IV

** See Item 4 of this filing

Item 1.

(a). Name of Issuer: Owens-Illinois, Inc. ("Owens")

(b). Address of Issuer's Principal Executive Offices:

One Michael Owens Way
Perrysburg, OH 43551

Item 2.

(a).-(c). Name, Principal Business Address, and Citizenship of Persons Filing:

(1) Janus Capital Management LLC ("Janus Capital")
151 Detroit Street
Denver, Colorado 80206
Citizenship: Delaware

(2) Janus Contrarian Fund
151 Detroit Street
Denver, Colorado 80206
Citizenship: Massachusetts

(d). Title of Class of Securities: Common Stock

(e). CUSIP Number: 69076840-3

Item 3.

This statement is filed pursuant to Rule 13d-1 (b) or 13d-2(b) and the person filing, Janus Capital, is an investment adviser in accordance with Section 240.13d-1(b)(ii)(E) as well as a parent holding company/control person in accordance with Section 240.13d-1(b)(ii)(G). See Item 4 for additional information.

Janus Contrarian Fund is an Investment Company registered under Section 8 of the Investment Company Act of 1940.

Item 4. Ownership

The information in items 1 and 5 through 11 on the cover page(s) on Schedule 13G is hereby incorporated by reference.

Janus Capital has an indirect 86.5% ownership stake in Enhanced Investment Technologies LLC ("INTECH") and an indirect 30% ownership stake in Perkins, Wolf, McDonnell and Company, LLC ("Perkins Wolf"). Due to the above ownership structure, holdings for Janus Capital, Perkins Wolf and INTECH are aggregated for purposes of this filing. Janus Capital, Perkins Wolf and INTECH are registered investment advisers, each furnishing investment advice to various investment companies registered under Section 8 of the Investment Company Act of 1940 and to individual and institutional clients (collectively referred to herein as "Managed Portfolios").

As a result of its role as investment adviser or sub-adviser to the Managed Portfolios, Janus Capital may be deemed to be the beneficial owner of 19,815,254 shares or 12.6% of the shares outstanding of Owens Common Stock held by such Managed Portfolios. However, Janus Capital does not have the right to receive any dividends from, or the proceeds from the sale of, the securities held in the Managed Portfolios and disclaims any ownership associated with such rights.

As a result of its role as investment adviser or sub-adviser to the Managed Portfolios, INTECH may be deemed to be the beneficial owner of 3,475,737 shares or 2.3% of the shares outstanding of Owens Common Stock held by such Managed Portfolios. However, INTECH does not have the right to receive any dividends from, or the proceeds from the sale of, the securities held in the Managed Portfolios and disclaims any ownership associated with such rights.

Janus Contrarian Fund is an investment company registered under the Investment Company Act of 1940 and is one of the Managed Portfolios to which Janus Capital provides investment advice.

Item 5. Ownership of Five Percent or Less of a Class

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person

The Managed Portfolios, set forth in Item 4 above, have the right to receive all dividends from, and the proceeds from the sale of, the securities held in their respective accounts.

The interest of one person, Janus Contrarian Fund, an investment company registered under the Investment Company Act of 1940, in Owens Common Stock amounted to 10,918,745 shares or 7.0% of the total outstanding Common Stock.

These shares were acquired in the ordinary course of business, and not with the purpose of changing or influencing control of the Issuer.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company

INTECH is an indirect subsidiary of Janus Capital (Janus Capital has a indirect 86.5% ownership stake) and is a registered investment adviser furnishing investment advice to various investment companies registered under Section 8 of the Investment Company Act of 1940 and to individual and institutional clients.

Item 8. Identification and Classification of Members of the Group

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

JANUS CAPITAL MANAGEMENT LLC

By /s/ David R. Kowalski 2/14/2008
David R. Kowalski, Date
Senior Vice President & CCO

JANUS CONTRARIAN FUND

By /s/ David R. Kowalski 2/14/2008
David R. Kowalski, Date
Senior Vice President & CCO

ENHANCED INVESTMENT TECHNOLOGIES LLC

By /s/ David R. Kowalski 2/14/2008
David R. Kowalski Date
Vice President

EXHIBIT A
JOINT FILING AGREEMENT

In accordance with Rule 13d-1(f) under the Securities Exchange Act of 1934, the persons named below agree to the joint filing on behalf of each of them of a Statement on Schedule 13G (including amendments thereto) with respect to the Common Stock of Owens-Illinois, Inc. and further agree that this Joint Filing Agreement be included as an Exhibit to such joint filings. In evidence thereof, the undersigned hereby execute this Agreement as of the 14th day of February, 2008.

JANUS CAPITAL MANAGEMENT LLC

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By  /s/  David R. Kowalski
   David R. Kowalski, Senior Vice President & CCO

JANUS CONTRARIAN FUND

By  /s/  David R. Kowalski
   David R. Kowalski, Senior Vice President & CCO
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Undisbursed construction loans					
	70,526	17,878	18,167	6,211	28,270
Unused home equity lines of credit					
	8,083	367	33	456	7,227
Total other commitments					
	$168,434	$50,663	$55,881	$10,268	$51,622

Recently Issued Accounting Pronouncements

See Note 1 to our Consolidated Financial Statements for details of recently issued accounting pronouncements and their expected impact on our financial statements.

Item 7a.

Quantitative and Qualitative Disclosures About Market Risk

Asset/Liability Management and Interest Rate Risk

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 model 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 both base line simulations assume that our balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that ALCO could implement in response to rate shifts. The simulation analyses are updated quarterly based on data obtained one month prior to quarter end. The Company believes the one month lag has no material impact to the sensitivities presented.

We use net interest income at risk simulation to measure the sensitivity of net interest income to changes in market rates. This simulation captures underlying product behaviors, such as asset and liability repricing dates, balloon dates, interest rate indices and spreads, rate caps and floors, as well as other behavioral attributes. The simulation of net interest income also requires a number of key assumptions such as: (i) prepayment projections for loans and securities that are projected under each interest rate scenario using internal and external mortgage analytics; (ii) new business loan rates that are based on recent new business origination experience; and (iii) deposit pricing assumptions for non-maturity deposits reflecting the Bank’s limited history, management judgment and core deposit studies. Combined, these assumptions can be inherently uncertain, and as a result, actual results may differ from simulation forecasts due to the timing, magnitude and frequency of interest rate changes, future business conditions, as well as unanticipated changes in management strategies.

We use two sets of standard scenarios to measure net interest income at risk. For the “core” 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. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. 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 interest 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.

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The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning December 31, 2017 and 2016:

Parallel Ramp

Rate Changes (basis points)	Estimated Percent Change in Net Interest Income At December 31, 2017	2016
-100	(2.00)%	(1.60)%
+200	(4.30)	(2.23)

Parallel Shock

Rate Changes (basis points)	Estimated Percent Change in Net Interest Income At December 31, 2017	2016
-100	(4.70)%	(3.36)%
+100	(3.40)	(1.86)
+200	(7.30)	(4.13)
+300	(11.50)	(6.78)

The net interest income at risk simulation results indicate that as of December 31, 2017, 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.

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 one of the income simulations. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, repricing 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. All key assumptions are subject to a periodic review.

Base case economic value of equity at risk is calculated by estimating the net present value of all future cash flows from existing assets and liabilities using current interest rates. The base case scenario assumes that future interest rates remain unchanged.

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

Parallel Shock

Rate Changes (basis points)	Estimated Percent Change in Economic Value of Equity At December 31, 2017	2016

-100	(1.60)%	0.00%
+100	(10.10)	(9.90)
+200	(22.90)	(21.70)
+300	(32.80)	(31.30)

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While ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of our balance sheet may change to a different degree than estimated. Due to the low current level of market interest rates, the banking industry has experienced relatively strong growth in low-cost FDIC insured core deposits over the past several years. ALCO recognizes that a portion of these increased levels of low-cost balances could shift into higher yielding alternatives in the future, particularly if interest rates rise and as confidence in financial markets strengthens, and has modeled increased amounts of deposit shifts out of these low-cost categories into higher-cost alternatives in the rising rate simulation scenarios presented above.

It should be noted that the static balance sheet assumption does not necessarily reflect our expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

Impact of Inflation

Our financial statements and related data contained in this annual report have been prepared in accordance with GAAP, which require the measure of financial position and operating results in terms of historic dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant effect on the performance of a financial institution than the effects of general levels of inflation. In addition, inflation affects a financial institution’s cost of goods and services purchased, the cost of salaries and benefits, occupancy expense and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings and shareholders’ equity.

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Item 8.

Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are presented in the order shown below:

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Bankwell Financial Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Bankwell Financial Group, Inc. and its subsidiaries (the Company) as of December 31, 2017, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year ended December 31, 2017, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

New Haven, Connecticut
March 30, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Bankwell Financial Group, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Bankwell Financial Group, Inc. and subsidiary (the “Company”) as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2016. The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bankwell Financial Group, Inc. and subsidiary as of December 31, 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Whittlesey PC

Hartford, Connecticut
March 9, 2017

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Bankwell Financial Group, Inc.
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	December 31,	
	2017	2016
ASSETS		
Cash and due from banks	$ 70,545	$ 96,026
Federal funds sold	186	329
Cash and cash equivalents	70,731	96,355
Available for sale investment securities, at fair value	92,188	87,751
Held to maturity investment securities, at amortized cost	21,579	16,859
Loans held for sale	—	254
Loans receivable (net of allowance for loan losses of $18,904 and $17,982 at December 31, 2017 and 2016, respectively)	1,520,879	1,343,895
Foreclosed real estate	—	272
Accrued interest receivable	5,910	4,958
Federal Home Loan Bank stock, at cost	9,183	7,943
Premises and equipment, net	18,196	17,835
Bank-owned life insurance	39,618	33,448
Goodwill	2,589	2,589
Other intangible assets	382	501
Deferred income taxes, net	4,904	9,085
Other assets	10,448	7,174
Total assets	$ 1,796,607	$ 1,628,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 172,638	$ 187,593
Interest bearing deposits	1,225,767	1,101,444
Total deposits	1,398,405	1,289,037
Advances from the Federal Home Loan Bank	199,000	160,000
Subordinated debentures	25,103	25,051
Accrued expenses and other liabilities	13,072	8,936
Total liabilities	1,635,580	1,483,024
Commitments and contingencies (Note 12)	—	—
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,751,424 and 7,620,663 shares issued and outstanding at December 31, 2017 and 2016, respectively	118,301	115,353
Retained earnings	41,032	29,652
Accumulated other comprehensive income	1,694	890

Total shareholders' equity	161,027	145,895
Total liabilities and shareholders' equity	$ 1,796,607	$ 1,628,919

See Notes to Consolidated Financial Statements
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Bankwell Financial Group, Inc.
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2017	2016	2015
Interest and dividend income			
Interest and fees on loans	$ 66,841	$ 58,077	$ 48,692
Interest and dividends on securities	3,570	2,740	1,964
Interest on cash and cash equivalents	790	173	98
Total interest and dividend income	71,201	60,990	50,754
Interest expense			
Interest expense on deposits	12,694	8,300	5,681
Interest on borrowings	4,143	3,598	2,285
Total interest expense	16,837	11,898	7,966
Net interest income	54,364	49,092	42,788
Provision for loan losses	1,341	3,914	3,230
Net interest income after provision for loan losses	53,023	45,178	39,558
Noninterest income			
Gains and fees from sales of loans	1,427	466	1,113
Bank owned life insurance	1,170	693	727
Service charges and fees	1,007	963	933
Gain (Loss) on sale of available for sale securities, net	165	(115)	—
(Loss) Gain on sale of foreclosed real estate	(78)	128	—
Other	938	541	711
Total noninterest income	4,629	2,676	3,484
Noninterest expense			
Salaries and employee benefits	16,284	15,655	15,736
Occupancy and equipment	6,165	5,811	5,341
Professional services	2,072	1,654	1,447
Data processing	1,866	1,603	1,523
Marketing	1,193	948	985
FDIC insurance	1,116	660	672
Director fees	912	859	951
Amortization of intangibles	118	151	196
Foreclosed real estate	70	157	168
Merger and acquisition related expenses	—	—	2
Other	2,727	2,046	2,150
Total noninterest expense	32,523	29,544	29,171
Income before income tax expense	25,129	18,310	13,871
Income tax expense	11,299	5,960	4,841
Net income	$ 13,830	$ 12,350	$ 9,030

Net income attributable to common shareholders	$ 13,830	$ 12,350	$ 8,905
Earnings Per Common Share:			
Basic	$ 1.80	$ 1.64	$ 1.23
Diluted	$ 1.78	$ 1.62	$ 1.21
Weighted Average Common Shares Outstanding:			
Basic	7,572,409	7,396,019	7,071,550
Diluted	7,670,413	7,491,052	7,140,558
Dividends per common share	$ 0.28	$ 0.22	$ 0.05

See Notes to Consolidated Financial Statements
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Bankwell Financial Group, Inc.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	$ 13,830	$ 12,350	$ 9,030
Other comprehensive income (loss):			
Unrealized (losses) gains on securities:			
Unrealized holding losses on available for sale securities	(357)	(109)	(431)
Reclassification adjustment for (gain) loss realized in net income	(165)	115	—
Net change in unrealized (loss) gain	(522)	6	(431)
Income tax effect – benefit (expense)	182	(2)	192
Unrealized (losses) gains on securities, net of tax	(340)	4	(239)
Unrealized gains (losses) on interest rate swaps:			
Unrealized gain (losses) on interest rate swaps designated as cash flow hedges	1,297	1,013	(89)
Tax effect – (expense) benefit	(454)	(354)	24
Unrealized gains (losses) on interest rate swaps, net of tax	843	659	(65)
Total other comprehensive income (loss), net of tax	503	663	(304)
Comprehensive income	$ 14,333	$ 13,013	$ 8,726

See Notes to Consolidated Financial Statements

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

	Number of Outstanding Shares	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2015	7,185,482	$ 10,980	$ 107,265	$ 10,434	$ 531	$ 129,210
Net income	—	—	—	9,030	—	9,030
Other comprehensive loss, net of tax	—	—	—	—	(304)	(304)
Cash dividends declared ($0.05 per share)	—	—	—	(376)	—	(376)
Preferred stock cash dividends	—	—	—	(125)	—	(125)
Redemption of SBLF preferred stock	—	(10,980)	—	—	—	(10,980)
Stock-based compensation expense	—	—	1,033	—	—	1,033
Warrants exercised	269,992	—	3,780	—	—	3,780
Issuance of restricted stock	51,800	—	—	—	—	—
Forfeitures of restricted stock	(25,573)	—	—	—	—	—
Stock options exercised	34,590	—	501	—	—	501
Balance at December 31, 2015	7,516,291	—	112,579	18,963	227	131,769
Net income	—	—	—	12,350	—	12,350
Other comprehensive income, net of tax	—	—	—	—	663	663
Cash dividends declared ($0.22 per share)	—	—	—	(1,661)	—	(1,661)
Stock-based compensation expense	—	—	1,188	—	—	1,188
Warrants exercised	11,200	—	200	—	—	200
Issuance of restricted stock	29,935	—	—	—	—	—
Forfeitures of restricted stock	(883)	—	—	—	—	—
Stock options exercised	64,120	—	1,106	—	—	1,106

Net tax benefit related to stock-based compensation	—	—	280	—	—	280
Balance at December 31, 2016	7,620,663	—	115,353	29,652	890	145,895
Net income	—		—	13,830	—	13,830
Other comprehensive income, net of tax	—	—	—	—	503	503
Cash dividends declared ($0.28 per share)	—	—	—	(2,149)	—	(2,149)
Stock-based compensation expense	—	—	917	—	—	917
Warrants exercised	35,000	—	663	—	—	663
Issuance of restricted stock	40,250	—	—	—	—	—
Forfeitures of restricted stock	(18,228)	—	—	—	—	—
Stock options exercised	73,738	—	1,368	—	—	1,368
Reclass adjustment resulting from tax law change	—	—	—	(301)	301	—
Balance at December 31, 2017	7,751,423	$ —	$ 118,301	$ 41,032	$ 1,694	$ 161,027

See Notes to Consolidated Financial Statements
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Bankwell Financial Group, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities			
Net income	$ 13,830	$ 12,350	$ 9,030
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (accretion) amortization of premiums and discounts on investment securities	(31)	1,737	99
Provision for loan losses	1,341	3,914	3,230
Deferred income taxes	3,908	(1,104)	(966)
Net (gain) loss on sales of available for sale securities	(165)	115	—
Depreciation and amortization	1,513	1,729	1,685
Amortization of debt issuance costs	52	51	—
Increase in cash surrender value of bank-owned life insurance	(1,170)	(693)	(727)
Loan principal sold from loans originated for sale	(3,485)	(3,313)	(6,929)
Proceeds from sales of loans originated for sale	4,626	3,381	7,546
Originations of loans held for sale	—	(254)	—
Net gain on sales of loans	(1,427)	(466)	(1,113)
Stock-based compensation	917	1,188	1,033
Net accretion of purchase accounting adjustments	(80)	(136)	(104)
Loss on sale and write-downs of foreclosed real estate	128	25	184
Net change in:			
Deferred loan fees	(829)	466	668
Accrued interest receivable	(952)	(887)	(748)
Other assets	(1,740)	(3,006)	(519)
Accrued expenses and other liabilities	4,136	2,275	779
Net cash provided by operating activities	20,572	17,372	13,148
Cash flows from investing activities			
Proceeds from principal repayments on available for sale securities	5,217	770	1,877
Proceeds from principal repayments on held to maturity securities	212	205	220
Net proceeds from sales and calls of available for sale securities	54,705	60,696	22,030
Net proceeds from sales and calls of held to maturity securities	5,690	—	1,000
Purchases of available for sale securities	(64,700)	(110,485)	—
Purchase of held to maturity securities	(10,609)	(6,835)	—
Purchase of bank-owned life insurance	(5,000)	(9,000)	—
Net increase in loans	(177,549)	(218,603)	(218,772)
Loan principal sold from loans not originated for sale	(14,264)	(4,069)	(23,380)

Proceeds from sales of loans not originated for sale	14,805	4,467	24,462
Purchases of premises and equipment	(1,874)	(8,401)	(938)
Purchase of Federal Home Loan Bank stock	(1,239)	(1,389)	(445)
Proceeds from sale of foreclosed real estate	144	951	400
Net cash used by investing activities	(194,462)	(291,693)	(193,546)
Cash flows from financing activities			
Net change in time certificates of deposit	29,417	165,224	128,379
Net change in other deposits	79,967	76,930	83,257
Net change in FHLB advances	39,000	40,000	(9,000)
Proceeds from exercise of warrants	663	200	3,780
Proceeds from exercise of options	1,368	1,106	501
Issuance of subordinated debt	—	—	25,000
Redemption of SBLF preferred stock	—	—	(10,980)
Dividends paid on common stock	(2,149)	(1,661)	(376)
Dividends paid on preferred stock	—	—	(125)
Net tax benefit related to stock-based compensation	—	280	—
Net cash provided by financing activities	148,266	282,079	220,436
Net (decrease) increase in cash and cash equivalents	(25,624)	7,758	40,038
Cash and cash equivalents:			
Beginning of year	96,355	88,597	48,559
End of period	$ 70,731	$ 96,355	$ 88,597
Supplemental disclosures of cash flows information:			
Cash paid for:			
Interest	$ 16,582	$ 11,793	$ 7,544
Income taxes	8,020	8,584	6,136
Noncash investing and financing activities			
Loans transferred to foreclosed real estate	—	—	883
Net change in unrealized gains on available-for-sale securities	(522)	6	(430)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 New York metropolitan area and throughout Connecticut, with the majority of our loans in Fairfield and New Haven Counties, Connecticut, with branch locations in New Canaan, Stamford, Fairfield, Wilton, Norwalk, Hamden and North Haven Connecticut.

Many of the Company's activities are with customers located in the New York Metropolitan area and throughout 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.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and the Bank, including its wholly owned passive investment company subsidiary. 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, derivative instrument valuation, investment securities valuation, evaluation of investment securities for other than temporary impairment and deferred income taxes valuation.

Segments

The Company has one reportable segment. All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing the interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Basis of consolidated financial statement presentation

The consolidated financial statements have been prepared in accordance with GAAP and general practices within the banking industry. Such policies have been followed on a consistent basis.

Bankwell Financial Group, Inc.
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Cash and Cash Equivalents and Statement of Cash Flows
Cash and due from banks and federal funds sold are recognized as cash equivalents in the consolidated statements of cash flows. Federal funds sold generally mature in one day. For purposes of reporting cash flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash flows from loans and deposits are reported net. The balances of cash and due from banks and federal funds sold, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations.
Investment Securities
Management determines the appropriate classifications of investment securities at the date individual investment securities are acquired, and the appropriateness of such classifications is reaffirmed at each balance sheet date. The Company’s investment securities are categorized as either available for sale or held to maturity. Held to maturity investments are carried at amortized cost; available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss) as a separate component of capital, net of estimated income taxes.
Investment securities in the available for sale and held-to-maturity portfolios are reviewed quarterly for other-than-temporary impairment (OTTI). If the fair value of a debt security is below amortized cost, other-than-temporary impairment is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the security. OTTI is required to be recognized regardless of the credit loss component if the Company intends to sell the security or if it is “more-likely-than-not” that the Company will be required to sell the security before recovery of its amortized cost basis. The credit loss component of an other-than-temporary impairment write-down is recorded in earnings, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss), provided the Company does not intend to sell the underlying debt security and it is more-likely-than-not that the Company will not be required to sell the debt security prior to recovery.
In determining whether a credit loss exists and the period over which the fair value of the debt security is expected to recover, management considers the following factors: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, any external credit ratings, the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities and the level of credit enhancement provided by the structure.
The sale of a held to maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.
Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sales of securities are recognized at trade date utilizing the specific identification method.
Transfers of debt securities into the held to maturity classification from the available for sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the held to maturity securities. Such amounts are amortized over the remaining contractual lives of the securities. When transfers of debt securities into the available for sale classification from the held to maturity classification occur, any unrealized holding gains or losses on the transfer date are recognized in other comprehensive income
Bank Owned Life Insurance
The investment in bank owned life insurance (“BOLI”) represents the cash surrender value of life insurance policies on the lives of certain Bank employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance

Bankwell Financial Group, Inc.
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proceeds received, are recorded in noninterest income, and are not subject to income taxes. The financial strength of the insurance carrier is reviewed prior to the purchase of BOLI and annually thereafter.

Federal Home Loan Bank Stock

Federal Home Loan Bank of Boston (“FHLB”) stock is a non-marketable equity security that is carried at cost. There are no quoted market prices for this security and the security is not liquid. The Company can sell these securities back to the FHLB at par.

Loans Held For Sale

Loans held for sale are those loans which management has the intent to sell in the foreseeable future, and are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized by a valuation allowance through a charge to noninterest income. Realized gains and losses on the sale of loans are recognized on the trade date and are determined by the difference between the sale proceeds and the carrying value of the loans.

Loans may be sold with servicing rights released or retained. At the time of the sale, management records a servicing asset for the value of any retained servicing rights, which represents the present value of the differential between the contractual servicing fee and adequate compensation, defined as the fee a sub-servicer would require to assume the role of servicer, after considering the estimated effects of prepayments.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

Loans Receivable

Loans receivable that management has the ability and intent to hold for the foreseeable future or until maturity or payoff are stated at their current unpaid principal balances, net of the allowance for loan losses, charge-offs, recoveries, net deferred loan origination fees and unamortized loan premiums.

Past due or delinquency status for all loans is based on the number of days past due in accordance with its contractual payment terms.

A loan is considered impaired when it is probable that all contractual principal or interest payments due will not be collected in accordance with the terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, at the loan’s observable market price or the fair value of the collateral, if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are recorded as adjustments to the allowance for loan losses.

Impaired loans also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Management reviews all nonaccrual loans, other loans past due 90 days or more, and restructured loans for impairment. In most cases, loan payments that are past due less than 90 days are considered minor collection delays and the related loans are not considered to be impaired. Consumer installment loans are considered to be pools of small balance homogeneous loans, which are collectively evaluated for impairment.

Modifications to a loan are considered to be a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession. Modified terms are dependent upon the financial position and needs of the individual borrower. Debt may be bifurcated with separate terms for each tranche of the restructured debt. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

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. TDR's are reported as such for at least one year from the date of restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring and the loan is not deemed to be impaired based on the modified terms.

Acquired Loans

Loans that the Company acquires in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of acquired loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

For loans which meet the criteria stipulated in Accounting Standards Codification ("ASC") 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality", the Company recognizes an accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan's contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. After the initial acquisition, the Company continues to evaluate whether the timing and the amount of cash to be collected are reasonably estimated. Subsequent significant increases in cash flows the Company expects to collect will first reduce previously recognized valuation allowance and then be reflected prospectively as an increase to the level yield. Subsequent decreases in expected cash flows may result in the loan being considered impaired. Interest income is not recognized to the extent that the net investment in the loan would increase to an amount greater than the estimated payoff amount.

For ASC 310-30 loans, the expected cash flows reflect anticipated prepayments, determined on a loan by loan basis, according to the anticipated collection plan of these loans. Prepayments result in the recognition of the nonaccretable balance as current period yield. Changes in prepayment assumptions may change the amount of interest income and principal expected to be collected. The expected prepayments used to determine the accretable yield are consistent between the cash flows expected to be collected and projections of contractual cash flows so as to not affect the nonaccretable difference.

For loans that do not meet the ASC 310-30 criteria, the Company records interest income on a level yield basis using the contractually required cash flows. The Company subjects loans that do not meet the ASC 310-30 criteria to ASC Topic 450, "Contingencies", by collectively evaluating these loans for an allowance for loan loss, using the same methodology as loans originated by the Company.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. The Company has determined that it can reasonably estimate future cash flows on the Company's current portfolio of acquired loans that are past due 90 days or more, and on which the Company is accruing interest and the Company expects to fully collect the carrying value of the loans.

Allowance For Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes the non-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for loan losses consists of specific and general components. The specific component relates to impaired loans that are classified as doubtful, substandard or special mention. For these loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non classified loans and is based on historical loss experience, including appropriate peer data, adjusted for qualitative factors.

Management believes the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies have the authority to require additions to the allowance or charge-offs based on the agencies' judgments about information available to them at the time of their examination.

Reserve for Unfunded Commitments

The reserve for unfunded commitments provides for probable losses inherent with funding the unused portion of legal commitments to lend. The unfunded reserve calculation includes factors that are consistent with the ALLL methodology for our loan portfolio as well as a draw down factor applied to the various commitments. The reserve for unfunded credit commitments is included within other liabilities in the accompanying Consolidated Balance Sheets, and changes in the reserve are reported as a component of other expense in the accompanying Consolidated Statements of Income. See Note 12: Commitments and Contingencies for further information.

Interest and Fees on Loans

Interest on loans is accrued and included in income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectability of the loan or loan interest becomes uncertain. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectability of the remaining interest and principal. 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.

Loan origination fees, net of direct loan origination costs, are deferred and amortized as an adjustment to the loan's yield generally over the contractual life of the loan, utilizing the interest method.

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Goodwill and Intangibles
Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Intangible assets are assets acquired in a business combination that lack physical substance but can be distinguished from goodwill because the intangible asset is capable of being sold or exchanged on its own or in combination with related contracts, assets or liabilities. Intangible assets are amortized on a straight-line or accelerated basis over estimated lives. Goodwill is not amortized. Goodwill and identifiable intangible assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows. This type of analysis contains uncertainties because it requires management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.
Foreclosed Real Estate
Assets acquired through deed in lieu or loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.
Premises and Equipment
Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Depreciation and amortization is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from three to thirty nine years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.
Impairment of Long-Lived Assets
Long-lived assets, including premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.
Servicing Rights
When loans are sold, on a servicing retained basis, servicing rights are initially recorded at fair value with the income statement effect recorded in service charges and fees income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the life of the underlying loans.
Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Any impairment is reported as a valuation allowance, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Changes in the valuation allowance are reported with service charges and fees income on the consolidated statements of income. The fair values of servicing rights are subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.
Loans serviced for others are not included in the accompanying consolidated balance sheets.

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Servicing fee income, which is included in service charges and fees on the income statement, is recorded for fees earned for servicing loans. Fees earned for servicing loans are based on a contractual percentage of the outstanding principal amount of the loan and are recorded as income when earned. The amortization of servicing rights is netted against income from service charges and fees.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that all or some portion of the deferred tax assets will not be realized.

In the ordinary course of business there is inherent uncertainty in quantifying the Company’s income tax positions. Income tax positions and recorded tax benefits assessed for all years are subject to examination based upon management’s evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have determined the amount of the tax benefit to be recognized by estimating the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company has $393 thousand and $95 thousand of liabilities for uncertain tax positions at December 31, 2017 and 2016. Where applicable, associated interest and penalties have also been recognized. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Stock Compensation

The Company measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. The fair value of time-based restricted stock is recorded based on the grant date fair value of the Company’s common stock. The fair value of market-based restricted stock is based on values derived using a Monte Carlo based pricing model. The fair value of stock options is determined using the Black-Scholes Option Pricing model. Stock-based compensation costs are recognized over the requisite service period for the awards. Compensation expense reflects the number of awards expected to vest and is adjusted based on awards that ultimately vest. The Company recognizes forfeitures as they occur.

Earnings Per Share

Unvested restricted stock awards that contain non-forfeitable rights to dividends, are participating securities, and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Company’s unvested restricted stock awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating unvested restricted stock awards.

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Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

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 years ended December 31, 2017, 2016 and 2015 is reported in the Consolidated Statements of Comprehensive Income.

Fair Values of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. 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 rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

Fair value measurements focus on exit prices in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

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 December 31, 2017 or December 31, 2016. 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.

Derivative Instruments

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 interest rate swap assets are presented in other assets and the interest rate swap liabilities are presented in accrued expenses and other liabilities in the consolidated balance sheets. The Bank's cash flow hedge positions are all forward starting interest rate swap transactions.

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

Related Party Transactions

Directors and officers of the Company and their affiliates have been customers of and have had transactions with the Company, and it is expected that such persons will continue to have such transactions in the future. Management believes that all deposit accounts, loans, services and commitments comprising such transactions were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers who are not directors or officers. In the opinion of management, the transactions with related parties did not involve more than normal risks of collectability, nor favored treatment or terms, nor present other unfavorable features. Note 22 contains details regarding related party transactions.

Reclassification

Certain prior period amounts have been reclassified to conform to the 2017 financial statement presentation. These reclassifications only changed the reporting categories and did not affect the results of operations or consolidated financial position.

Recent accounting pronouncements

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

ASU No. 2014-09 — Revenue from Contracts with Customers (Topic 606): This ASU clarifies the principles for recognizing revenue. The guidance notes that an entity should apply the following steps when recognizing revenue: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In 2016, the FASB issued further implementation guidance regarding revenue recognition. This additional guidance included clarification on certain principal versus agent considerations within the implementation of the guidance as well as clarification related to identifying performance obligations and licensing. The guidance also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The guidance along with its updates is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted the guidance on January 1, 2018 using the modified retrospective method. In evaluating this standard, management has determined that the majority of revenue earned by the Company is from revenue streams not included in the scope of this standard and for in scope revenue streams management determined that a cumulative-effect adjustment to opening retained earnings as a result of adopting this standard is not needed.

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 adoption of this ASU did not have a material impact on the Company’s financial statements.

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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 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 all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. This ASU also simplifies several other aspects of accounting for share-based payments including; classification of excess tax benefits on the statement of cash flows; forfeitures; statutory tax withholding requirements; classification of awards and; classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The amendments in this update were effective for the Company on January 1, 2017 and interim periods within that annual period. The application of this guidance did not 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.
ASU No. 2016-18, Statement of Cash Flows (Topic 230): “Restricted Cash” This ASU provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for

public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment: This ASU simplifies the test for goodwill impairment by eliminating step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity was required to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, this ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments will be effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2017-08, Receivables — Nonrefundable Fees and Other Costs (subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities: The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments will be effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, early adoption is permitted. The adoption of this ASU did not have a material impact on the Company’s financial statements.

ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (Topic 815): The purpose of this updated guidance is to better align a company’s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company does not expect the application of this guidance to have a material impact on the Company’s financial statements.

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ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): This update requires a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate tax rate. The amount of the reclassification would be the difference between the historical 35% corporate income tax rate and the newly enacted 21% corporate tax rate. The amendments would be effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption of the amendments would be permitted including adoption in any interim period, for public business entities for reporting periods for which financial statements have not yet been issued and all other entities for reporting periods for which financial statements have not yet been made available for issuance. An entity would apply the amendments in the update retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 is recognized. The Company elected to adopt this update and recorded a $301 thousand reduction to retained earnings and increase to accumulated other comprehensive income as of December 31, 2017.

2.
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.

Warrants

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. A total of 46,200 warrants have been exercised as of December 31, 2017. 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. The Company did not repurchase any of its common stock during 2017 or 2016.

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3.
Reserve Requirements On Cash and Due From Banks

The Bank is required to maintain a minimum reserve balance of $11.1 million and $11.8 million in the Federal Reserve Bank at December 31, 2017 and 2016, respectively. The Bank is also required to maintain a minimum reserve balance of $7.5 million and $10.1 million at Atlantic Community Bankers Bank (formerly Bankers' Bank Northeast) at December 31, 2017 and 2016, respectively. These balances are maintained for clearing purposes in the ordinary course of business and do not represent restricted cash.

4.
Goodwill and other intangible assets

Information on goodwill for the year ended December 31, 2017 and 2016 is as follows:

	Year Ended December 31, 2017	Year Ended December 31, 2016
	(In thousands)	
Balance, beginning of the period	$ 2,589	$ 2,589
Impairment	—	—
Balance, end of the period	$ 2,589	$ 2,589

The Company tests for goodwill impairment annually as of June 30th. No impairment was required to be recorded on goodwill for 2017 or 2016.

The table below provides information regarding the carrying amounts and accumulated amortization of amortized intangible assets as of the dates set forth below. The remaining net intangible asset as of December 31, 2017 will be amortized over a period of approximately 5 years.

	Gross Intangible Asset	Accumulated Amortization	Net Intangible Asset
	(In thousands)		
December 31, 2017			
Core deposit intangible	$ 1,029	$ 647	$ 382
December 31, 2016			
Core deposit intangible	$ 1,029	$ 528	$ 501

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5.
Investment Securities

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities segregated by contractual maturity at December 31, 2017 were as follows:

	December 31, 2017			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	$ 13,000	$ —	$ (82)	$ 12,918
Due from five through ten years	100	—	(4)	96
Due after ten years	59,924	10	(174)	59,760
	73,024	10	(260)	72,774
State agency and municipal obligations				
Due from one through five years	2,873	84	—	2,957
Due from five through ten years	7,386	228	—	7,614
Due after ten years	1,700	33	(27)	1,706
	11,959	345	(27)	12,277
Corporate bonds				
Due from one through five years	7,096	41	—	7,137
	7,096	41	—	7,137
Total available for sale securities	$ 92,079	$ 396	$ (287)	$ 92,188
Held to maturity securities:				
State agency and municipal obligations				
Less Than 1 Year	$ 198	5	—	$ 203
Due from one through five years	3,880	20	—	3,900
Due after ten years	16,387	1,227	—	17,614
	20,465	1,252	—	21,717
Corporate bonds				
Due from one through five years	1,000	—	(5)	995
Government-sponsored mortgage backed securities				
No contractual maturity	114	10	—	124
Total held to maturity securities	$ 21,579	$ 1,262	$ (5)	$ 22,836

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The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities segregated by contractual maturity at December 31, 2016 were as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Due from one through five years	$ 62,357	$ 295	$ (49)	$ 62,603
Due after ten years	100	—	(5)	95
	62,457	295	(54)	62,698
State agency and municipal obligations				
Due from one through five years	827	24	(3)	848
Due from five through ten years	8,045	189	(1)	8,233
Due after ten years	5,623	178	(119)	5,682
	14,495	391	(123)	14,763
Corporate bonds				
Due in less than one year	2,022	56	—	2,078
Due from one through five years	8,145	67	—	8,212
	10,167	123	—	10,290
Total available for sale securities	$ 87,119	$ 809	$ (177)	$ 87,751
Held to maturity securities:				
State agency and municipal obligations				
Due from one through five years	$ 2,135	$ —	$ —	$ 2,135
Due after ten years	13,575	—	—	13,575
	15,710	—	—	15,710
Corporate bonds				
Due from one through five years	1,000	—	(23)	977
Government-sponsored mortgage backed securities				
No contractual maturity	149	15	—	164
Total held to maturity securities	$ 16,859	$ 15	$ (23)	$ 16,851

The gross realized gains on the sale of investment securities totaled $165 thousand for the year ended December 31, 2017. Total sales proceeds were $49.2 million for the year ended December 31, 2017. There were no gross realized losses on the sale of investment securities for the year ended December 31, 2017. The gross realized gains on the sale of investment securities totaled $129.4 thousand for the year ended December 31, 2016. The gross realized losses on the sale of investment securities totaled $244.6 thousand for the year ended December 31, 2016. Total sales proceeds were $54.7 million for the year ended December 31, 2016.

At December 31, 2017 there were no securities pledged as collateral with the FHLB. At December 31, 2016, securities with approximate fair values of $60.0 million were pledged as collateral with the FHLB.

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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 December 31, 2017 and 2016:

	Length of Time in Continuous Unrealized Loss Position								
	Less Than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost
	(In thousands)								
December 31, 2017									
U.S. Government and agency obligations	$ 70,419	(225)	0.32%	$ 2,064	(35)	1.67%	$ 72,483	$ (260)	0.36%
State agency and municipal obligations	92	—	0.16	656	(27)	3.95	748	(27)	3.50
Corporate bonds	—	—	—	995	(5)	0.50	995	(5)	0.50
Total investment securities	$ 70,511	$ (225)	0.32%	$ 3,715	$ (67)	1.77%	$ 74,226	$ (292)	0.39%
December 31, 2016									
U.S. Government and agency obligations	$ 3,045	$ (54)	1.74%	$ —	$ —	—	$ 3,045	$ (54)	1.74%
State agency and municipal obligations	2,756	(123)	4.29	—	—	—	2,756	(123)	4.29
Corporate bonds	978	(23)	2.25	—	—	—	978	(23)	2.25
Total investment securities	$ 6,779	$ (200)	2.86%	$ —	$ —	—	$ 6,779	$ (200)	2.86%

There were fifteen and eleven individual investment securities as of December 31, 2017 and December 31, 2016, 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 guaranteed by the U.S. Government, therefore the contractual cash flows are guaranteed and as a result the securities in this portfolio are not considered other than temporarily impaired.
The Company continually monitors its state agency, municipal and corporate bond portfolios and at this time these portfolios have minimal default risk because state agency, municipal and corporate bonds are all rated above investment grade and as a result the securities in these portfolios are not considered other than temporarily impaired.
The Company has the intent and ability to retain its investment securities in an unrealized loss position at December 31, 2017 until the decline in value has recovered.

6.
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, which was at fair value at the date of acquisition. 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.

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The following table sets forth a summary of the loan portfolio at December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Originated	Acquired	Total	Originated	Acquired	Total
	(In thousands)					
Real estate loans:						
Residential	$ 186,107	$ 7,417	$ 193,524	$ 187,098	$ 8,631	$ 195,729
Commercial	945,277	41,965	987,242	802,156	43,166	845,322
Construction	101,636	—	101,636	107,329	112	107,441
	1,233,020	49,382	1,282,402	1,096,583	51,909	1,148,492
Commercial business	249,719	10,276	259,995	198,456	17,458	215,914
Consumer	192	427	619	672	861	1,533
Total loans	1,482,931	60,085	1,543,016	1,295,711	70,228	1,365,939
Allowance for loan losses	(18,848)	(56)	(18,904)	(17,883)	(99)	(17,982)
Deferred loan origination fees, net	(3,242)	—	(3,242)	(4,071)	—	(4,071)
Unamortized loan premiums	8	—	8	9	—	9
Loans receivable, net	$ 1,460,849	$ 60,029	$ 1,520,878	$ 1,273,766	$ 70,129	$ 1,343,895

Lending activities are conducted principally in the New York metropolitan area, including 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 collateralized by first or second mortgages on real estate.
The following table summarizes activity in the accretable yields for the acquired loan portfolio for the years ended December 31, 2017 and 2016:

	2017	2016
	(In thousands)	
Balance at beginning of period	$ 666	$ 871
Accretion	(113)	(154)
Other(a)	—	(51)
Balance at end of period	$ 553	$ 666

(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 for commercial loans, to be based on the borrower's ability to generate continuing cash flows. In the fourth quarter of 2017 management made the strategic decision to no longer originate residential mortgage loans. The Company's policy for residential lending allowed 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 have exceeded 80% LTV either with private mortgage insurance being

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required for that portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community's low/moderate income housing program, or a religious or civic organization. Private mortgage insurance may have been 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. 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 for personal use located in our market area. This segment also 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 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. Loans secured by commercial real estate generally have larger loan balances.

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 collateral. In addition, this portfolio includes residential construction loans to individuals to finance the construction of residential dwellings for personal use located in our market area. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied or leased 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 through sale or refinance. 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.

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 have increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

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

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Allowance for loan losses

As of December 31, 2017 the Company has changed its methodology to estimate its allowance for loan losses. The change in methodology resulted in an update to the underlying loan loss assumptions, incorporating the most recent industry, peer and product loss trends. This resulted in a non-recurring, pretax $1.3 million reduction in the reserve. The following tables set forth the activity in the Company's allowance for loan losses for the years ended December 31, 2017, 2016 and 2015, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
	(In thousands)					
December 31, 2017						
Originated						
Beginning balance	$ 1,802	$ 9,386	$ 2,105	$ 4,240	$ 350	$ 17,883
Charge-offs	—	—	—	(478)	(32)	(510)
Recoveries	146	—	—	4	3	153
Provisions	(227)	3,355	(1,198)	(288)	(320)	1,322
Ending balance	$ 1,721	$ 12,741	$ 907	$ 3,478	$ 1	$ 18,848
Acquired						
Beginning balance	$ —	$ 29	$ —	$ 43	$ 27	$ 99
Charge-offs	—	—	—	(43)	(19)	(62)
Recoveries	—	—	—	—	—	—
Provisions	—	7	—	20	(8)	19
Ending balance	$ —	$ 36	$ —	$ 20	$ —	$ 56
Total						
Beginning balance	$ 1,802	$ 9,415	$ 2,105	$ 4,283	$ 377	$ 17,982
Charge-offs	—	—	—	(521)	(51)	(572)
Recoveries	146	—	—	4	3	153
Provisions	(227)	3,362	(1,198)	(268)	(328)	1,341
Ending balance	$ 1,721	$ 12,777	$ 907	$ 3,498	$ 1	$ 18,904

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
	(In thousands)					
December 31, 2016						
Originated						
Beginning balance	$ 1,618	$ 7,693	$ 1,504	$ 3,310	$ 3	$ 14,128
Charge-offs	—	—	—	(59)	(10)	(69)
Recoveries	—	—	—	—	8	8
Provisions	184	1,693	601	989	349	3,816

Ending balance	$ 1,802	$ 9,386	$ 2,105	$ 4,240	$ 350	$ 17,883
Acquired						
Beginning balance	$ —	$ 12	$ —	$ 24	$ 5	$ 41
Charge-offs	—	—	(7)	(10)	(25)	(42)
Recoveries	—	—	—	—	2	2
Provisions	—	17	7	29	45	98
Ending balance	$ —	$ 29	$ —	$ 43	$ 27	$ 99
Total						
Beginning balance	$ 1,618	$ 7,705	$ 1,504	$ 3,334	$ 8	$ 14,169
Charge-offs	—	—	(7)	(69)	(35)	(111)
Recoveries	—	—	—	—	10	10
Provisions	184	1,710	608	1,018	394	3,914
Ending balance	$ 1,802	$ 9,415	$ 2,105	$ 4,283	$ 377	$ 17,982

Bankwell Financial Group, Inc.
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	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
	(In thousands)					
December 31, 2015						
Originated						
Beginning balance	$ 1,636	$ 5,480	$ 1,102	$ 2,638	$ 4	$ 10,860
Charge-offs	—	—	—	—	(6)	(6)
Recoveries	—	—	—	—	7	7
Provisions	(18)	2,213	402	672	(2)	3,267
Ending balance	$ 1,618	$ 7,693	$ 1,504	$ 3,310	$ 3	$ 14,128
Acquired						
Beginning balance	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	—	—	—	(15)	(9)	(24)
Recoveries	—	—	—	100	2	102
Provisions	—	12	—	(61)	12	(37)
Ending balance	$ —	$ 12	$ —	$ 24	$ 5	$ 41
Total						
Beginning balance	$ 1,636	$ 5,480	$ 1,102	$ 2,638	$ 4	$ 10,860
Charge-offs	—	—	—	(15)	(15)	(30)
Recoveries	—	—	—	100	9	109
Provisions	(18)	2,225	402	611	10	3,230
Ending balance	$ 1,618	$ 7,705	$ 1,504	$ 3,334	$ 8	$ 14,169

Loans evaluated for impairment and the related allowance for loan losses as of December 31, 2017 and 2016 were as follows:

	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
December 31, 2017						
Loans individually evaluated for impairment:						
Residential real estate	$ 4,168	$ 8	$ 439	$ —	$ 4,607	$ 8
Commercial real estate	6,416	842	1,170	34	7,586	876
Commercial business	2,126	51	534	20	2,660	71
Subtotal	12,710	901	2,143	54	14,853	955
Loans collectively evaluated for impairment:						
Residential real estate	181,939	1,713	6,978	—	188,917	1,713

Commercial real estate	938,861	11,899	40,795	2	979,656	11,901
Construction	101,636	907	—	—	101,636	907
Commercial business	247,593	3,427	9,742	—	257,335	3,427
Consumer	192	1	427	—	619	1
Subtotal	1,470,221	17,947	57,942	2	1,528,163	17,949
Total	$ 1,482,931	$ 18,848	$ 60,085	$ 56	$ 1,543,016	$ 18,904

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	Originated Loans		Acquired Loans		Total	
	Portfolio	Allowance	Portfolio	Allowance	Portfolio	Allowance
	(In thousands)					
December 31, 2016						
Loans individually evaluated for impairment:						
Residential real estate	$ 1,228	$ —	$ 453	$ —	$ 1,681	$ —
Commercial real estate	774	1	144	7	918	8
Commercial business	920	5	962	37	1,882	42
Consumer	341	341	27	27	368	368
Subtotal	3,263	347	1,586	71	4,849	418
Loans collectively evaluated for impairment:						
Residential real estate	185,870	1,802	8,178	—	194,048	1,802
Commercial real estate	801,382	9,385	43,022	22	844,404	9,407
Construction	107,329	2,105	112	—	107,441	2,105
Commercial business	197,536	4,235	16,496	6	214,032	4,241
Consumer	331	9	834	—	1,165	9
Subtotal	1,292,448	17,536	68,642	28	1,361,090	17,564
Total	$ 1,295,711	$ 17,883	$ 70,228	$ 99	$ 1,365,939	$ 17,982

Credit quality indicators

To measure credit risk for the loan portfolios, the Company employs a credit risk rating system. This risk rating represents an assessed level of the loan’s risk based on the character and creditworthiness of the borrower/guarantor, the capacity of the borrower to adequately service the debt, any credit enhancements or additional sources of repayment, and the quality, value and coverage of the collateral, if any.

The objectives of the Company’s risk rating system are to provide the Board of Directors and senior management with an objective assessment of the overall quality of the loan portfolio, to promptly and accurately identify loans with well-defined credit weaknesses so that timely action can be taken to minimize credit loss, to identify relevant trends affecting the collectability of the loan portfolio and to isolate potential problem areas and to provide essential information for determining the adequacy of the allowance for loan losses. The Company’s credit risk rating system has nine grades, with each grade corresponding to a progressively greater risk of default. Risk ratings of 1 through 5 are Pass categories and risk ratings of 6 through 9 are criticized asset categories as defined by the regulatory agencies. A “Special Mention” (6) credit has a potential weakness which, if uncorrected, may result in a deterioration of the repayment prospects or inadequately protect the Company’s credit position at some time in the future. “Substandard” loans (7) are credits that have a well-defined weakness or weaknesses that jeopardize the full repayment of the debt. An asset rated “Doubtful” (8) has all the weaknesses inherent in a substandard asset and which, in addition, make collection or liquidation in full highly questionable and improbable, when considering existing facts, conditions, and values. Loans classified as “Loss” (9) are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing-off this basically worthless asset even though partial recovery may be made in the future.

Risk ratings are assigned as necessary to differentiate risk within the portfolio. They are reviewed on an ongoing basis through the annual loan review process performed by Company personnel, normal renewal activity and the quarterly watchlist and watched asset report process. They are revised to reflect changes in the borrowers' financial condition and outlook, debt service coverage capability, repayment performance, collateral value and coverage as well as other considerations. In addition to internal review at multiple points, outsourced loan review opines on risk ratings with regard to the sample of loans their review covers.

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The following table presents credit risk ratings by loan segment as of December 31, 2017 and 2016:

Commercial Credit Quality Indicators

	At December 31, 2017				At December 31, 2016			
	Commercial Real Estate	Construction	Commercial Business	Total	Commercial Real Estate	Construction	Commercial Business	Total
	(In thousands)							
Originated loans:								
Pass	$ 920,216	$ 101,636	$ 242,828	$ 1,264,680	$ 797,249	$ 107,329	$ 196,436	$ 1,
Special mention	9,262	—	4,019	13,281	4,605	—	115	4,
Substandard	15,799	—	2,872	18,671	302	—	1,905	2,
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total originated loans	945,277	101,636	249,719	1,296,632	802,156	107,329	198,456	1,
Acquired loans:								
Pass	40,686	—	9,742	50,428	41,582	112	16,836	58
Special mention	109	—	—	109	1,584	—	86	1,
Substandard	1,170	—	425	1,595	—	—	536	53
Doubtful	—	—	109	109	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total acquired loans	41,965	—	10,276	52,241	43,166	112	17,458	60
Total loans:								
Pass	960,902	101,636	252,570	1,315,108	838,831	107,441	213,272	1,
Special mention	9,371	—	4,019	13,390	6,189	—	201	6,
Substandard	16,969	—	3,297	20,266	302	—	2,441	2,
Doubtful	—	—	109	109	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Total loans	$ 987,242	$ 101,636	$ 259,995	$ 1,348,873	$ 845,322	$ 107,441	$ 215,914	$ 1,

Residential and Consumer Credit Quality Indicators

	At December 31, 2017			At December 31, 2016		
		Consumer	Total		Consumer	Total

	Residential Real Estate (In thousands)			Residential Real Estate		
Originated loans:						
Pass	$ 181,939	$ 192	$ 182,131	$ 185,252	$ 331	$ 185,583
Special mention	—	—	—	216	—	216
Substandard	4,168	—	4,168	1,630	—	1,630
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	341	341
Total originated loans	186,107	192	186,299	187,098	672	187,770
Acquired loans:						
Pass	6,978	427	7,405	7,646	835	8,481
Special mention	—	—	—	49	—	49
Substandard	439	—	439	936	2	938
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	24	24
Total acquired loans	7,417	427	7,844	8,631	861	9,492
Total loans:						
Pass	188,917	619	189,536	192,898	1,166	194,064
Special mention	—	—	—	265	—	265
Substandard	4,607	—	4,607	2,566	2	2,568
Doubtful	—	—	—	—	—	—
Loss	—	—	—	—	365	365
Total loans	$ 193,524	$ 619	$ 194,143	$ 195,729	$ 1,533	$ 197,262

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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 90th day of delinquency, the Company 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 December 31, 2017 and December 31, 2016:

	As of December 31, 2017					
	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	$ 1,092	$ 2,244	$ 969	$ 4,305	$ 181,802	$ 186,107
Commercial real estate	9,529	4,116	1,444	15,089	930,188	945,277
Construction	—	—	—	—	101,636	101,636
Commercial business	4,223	—	142	4,365	245,354	249,719
Consumer	—	—	—	—	192	192
Total originated loans	14,844	6,360	2,555	23,759	1,459,172	1,482,931
Acquired Loans						
Real estate loans:						
Residential real estate	156	—	192	348	7,069	7,417
Commercial real estate	499	—	630	1,129	40,836	41,965
Commercial business	95	162	339	596	9,680	10,276
Consumer	3	—	2	5	422	427
Total acquired loans	753	162	1,163	2,078	58,007	60,085
Total loans	$ 15,597	$ 6,522	$ 3,718	$ 25,837	$ 1,517,179	$ 1,543,016

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	As of December 31, 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	$ —	$ 173	$ 969	$ 1,142	$ 185,956	$ 187,098
Commercial real estate	147	1,848	302	2,297	799,859	802,156
Construction	—	—	—	—	107,329	107,329
Commercial business	—	—	378	378	198,078	198,456
Consumer	—	—	—	—	672	672
Total originated loans	147	2,021	1,649	3,817	1,291,894	1,295,711
Acquired Loans						
Real estate loans:						
Residential real estate	—	—	453	453	8,178	8,631
Commercial real estate	866	722	143	1,731	41,435	43,166
Construction	—	—	—	—	112	112
Commercial business	99	249	—	348	17,110	17,458
Consumer	6	—	—	6	855	861
Total acquired loans	971	971	596	2,538	67,690	70,228
Total loans	$ 1,118	$ 2,992	$ 2,245	$ 6,355	$ 1,359,584	$ 1,365,939

There were no loans delinquent greater than 90 days and still accruing as of December 31, 2017 and there were no loans delinquent greater than 90 days and still accruing as of December 31, 2016.

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(In thousands)	
Residential real estate	$ 1,590	$ 1,612
Commercial real estate	3,371	446
Commercial business	520	538
Consumer	—	341
Total	$ 5,481	$ 2,937

Lost interest income on originated loans that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the years ended December 31, 2017, 2016 and 2015 was $174 thousand, $17 thousand and $25 thousand, respectively. The amount of actual interest income recognized on these loans was $68 thousand, $74 thousand and $43 thousand for the years ended December 31, 2017, 2016 and

2015, respectively.
At December 31, 2017 and 2016, there were no commitments to lend additional funds to borrowers on nonaccrual status, respectively.

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 in accordance with 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 estimated to be impaired.

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The following table summarizes impaired loans by portfolio segment and the average carrying amount and interest income recognized on impaired loans by portfolio segment as of December 31, 2017, 2016 and 2015:

	As of and for the Year Ended December 31, 2017				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
	(In thousands)				
Originated					
Impaired loans without a valuation allowance:					
Residential real estate	$ 3,076	$ 3,094	$ —	$ 3,080	$ —
Commercial real estate	859	875	—	881	11
Construction	—	—	—	—	—
Commercial business	1,548	1,548	—	1,621	70
Total impaired loans without a valuation allowance	$ 5,483	$ 5,517	$ —	$ 5,582	$ 81
Impaired loans with a valuation allowance:					
Residential real estate	$ 1,092	$ 1,092	$ 8	$ 1,100	$ —
Commercial real estate	5,557	5,557	842	5,603	261
Commercial business	578	578	51	588	47
Total impaired loans with a valuation allowance	7,227	7,227	901	7,291	308
Total originated impaired loans	$ 12,710	$ 12,744	$ 901	$ 12,873	$ 389
Acquired					
Impaired loans without a valuation allowance:					
Residential real estate	$ 439	$ 462	$ —	$ 450	$ —
Commercial real estate	982	1,040	—	1,035	10
Commercial Business	402	476	—	488	19
Consumer	—	—	—	—	—
Total impaired loans without a valuation allowance	$ 1,823	$ 1,978	$ —	$ 1,973	$ 29
Impaired loans with a valuation allowance:					
Commercial real estate	$ 188	$ 188	$ 34	$ 251	$ —
Commercial business	132	134	20	285	—
Total impaired loans with a valuation allowance	320	322	54	536	—
Total acquired impaired loans	$ 2,143	$ 2,300	$ 54	$ 2,509	$ 29

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	As of and for the Year Ended December 31, 2016				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
	(In thousands)				
Originated					
Impaired loans without a valuation allowance:					
Residential real estate	$ 1,228	$ 1,238	$ —	$ 1,236	$ 10
Commercial real estate	651	651	—	668	29
Commercial business	551	584	—	987	76
Total impaired loans without a valuation allowance	$ 2,430	$ 2,473	$ —	$ 2,891	$ 115
Impaired loans with a valuation allowance:					
Commercial real estate	$ 123	$ 123	$ 1	$ 128	$ 6
Commercial business	369	369	5	417	22
Consumer	341	341	341	341	—
Total impaired loans with a valuation allowance	833	833	347	886	28
Total originated impaired loans	$ 3,263	$ 3,306	$ 347	$ 3,777	$ 143
Acquired					
Impaired loans without a valuation allowance:					
Residential real estate	$ 453	$ 462	$ —	$ 456	$ 9
Commercial Business	572	593	—	629	36
Total impaired loans without a valuation allowance	$ 1,025	$ 1,055	$ —	$ 1,085	$ 45
Impaired loans with a valuation allowance:					
Commercial real estate	$ 144	$ 144	$ 7	$ 144	$ —
Commercial business	390	390	37	406	19
Consumer	27	27	27	27	—
Total impaired loans with a valuation allowance	561	561	71	577	19
Total acquired impaired loans	$ 1,586	$ 1,616	$ 71	$ 1,662	$ 64

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	As of and for the Year Ended December 31, 2015				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
	(In thousands)				
Originated					
Impaired loans without a valuation allowance:					
Residential real estate	$ 1,391	$ 1,393	$ —	$ 1,402	$ 37
Commercial real estate	4,291	4,291	—	4,308	124
Commercial business	1,351	1,372	—	1,374	49
Total impaired loans without a valuation allowance	$ 7,033	$ 7,056	$ —	$ 7,084	$ 210
Impaired loans with a valuation allowance:					
Residential real estate	$ 864	$ 864	$ 2	$ 864	$ 28
Commercial business	626	690	71	673	34
Total impaired loans with a valuation allowance	1,490	1,554	73	1,537	62
Total originated impaired loans	$ 8,523	$ 8,610	$ 73	$ 8,621	$ 272
Acquired					
Impaired loans without a valuation allowance:					
Residential real estate	$ 197	$ 200	$ —	$ 198	$ 2
Commercial real estate	611	678	—	602	6
Commercial Business	963	963	—	999	54
Total impaired loans without a valuation allowance	$ 1,771	$ 1,841	$ —	$ 1,799	$ 62
Impaired loans with a valuation allowance:					
Commercial real estate	$ 151	$ 151	$ 12	$ 151	$ 3
Commercial business	470	480	21	506	14
Consumer	7	7	5	7	1
Total impaired loans with a valuation allowance	628	638	38	664	18
Total acquired impaired loans	$ 2,399	$ 2,479	$ 38	$ 2,463	$ 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. Troubled debt restructured loans are reported as such for at least one year from the date of restructuring. In years after the restructuring, troubled debt restructured loans are removed from this classification if the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring and the loan is not deemed to be impaired based on the modified terms.

The recorded investment in TDRs was $4.9 million at December 31, 2017 and $1.4 million at December 31, 2016.

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

	Number of Loans			Outstanding Recorded Investment Pre-Modification			Post-Modification		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(Dollars in thousands)								
Years ended December 31,									
Commercial real estate	—	1	3	$ —	$ 62	$ 4,044	$ —	$ 62	$ 4,044
Residential real estate	2	—	—	2,957	—	—	2,957	—	—
Commercial business	4	2	1	741	237	39	741	237	39
Total	6	3	4	$ 3,698	$ 299	$ 4,083	$ 3,698	$ 299	$ 4,083

All TDRs at December 31, 2017 and December 31, 2016 were performing in compliance with their modified terms, except for four non-accrual loans totaling $553 thousand at December 31, 2017 and one non-accrual loan totaling $66 thousand at December 31, 2016.
The following table provides information on how loans were modified as a TDR for the years ended December 31, 2017 and 2016.

	December 31,		
	2017	2016	2015
	(In thousands)		
Maturity Concession	$ 638	$ 299	$ —
Maturity/amortization concession	—	—	825
Maturity and payment concession	1,925	—	3,258
Maturity and rate concession	1,032	—	—
Payment concession	103	—	—
Total	$ 3,698	$ 299	$ 4,083

There were 3 loans modified in a troubled debt restructuring, for which there was a payment default during the year ended December 31, 2017. The total recorded investment in these loans was $1.2 million at December 31, 2017. There were no loans modified in a troubled debt restructuring, for which there was a payment default during the years ended December 31, 2016 and 2015, respectively.

7.
Premises and equipment

At December 31, 2017 and 2016, premises and equipment consisted of the following:

	December 31,	
	2017	2016
	(In thousands)	
Land	$ 2,300	$ 2,300
Building	14,030	14,061

Leasehold improvements	4,558	4,532
Furniture and fixtures	3,096	2,118
Equipment	4,478	4,249
Automobiles	67	67
	28,529	27,327
Accumulated depreciation and amortization	(10,333)	(9,492)
Premises and equipment, net	$ 18,196	$ 17,835

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For the years ended December 31, 2017, 2016 and 2015, depreciation and amortization expense related to premises and equipment totaled $1.5 million, $1.7 million and $1.7 million, respectively.

8.
Other Assets

The components of other assets as of December 31, 2017 and 2016 are summarized below:

	December 31,	
	2017	2016
	(In thousands)	
Deferred Compensation	$ 4,097	$ 3,582
Servicing Asset	1,113	—
Derivative Assets	2,035	966
Other	3,203	2,626
Total Other Assets	$ 10,448	$ 7,174

Loan Servicing

The Bank sells loans in the secondary market and retains the ability to service many of these loans. The Bank earns fees for the servicing provided. Loans serviced for others are not included in the accompanying consolidated balance sheets. The balance of loans serviced for others was $122.8 million and $121.8 at December 31, 2017 and 2016, respectively. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. The significant assumptions used in the valuation at year-end 2017 included a discount rate ranging from 7% to 12% and pre-payment speed assumptions ranging from 7% to 9%.

The carrying value of loan servicing rights was $1.1 million and $0 as of December 31, 2017 and 2016, respectively. At December 31, 2017 the carrying value of loan servicing rights approximated the fair value.

The following table presents the changes in carrying value for loan servicing assets:

	December 31, 2017
	(In thousands)
Loan Servicing Rights:	
Balance at beginning of year	$ —
Servicing rights capitalized	115
Servicing rights amortized	(58)
Servicing rights not previously capitalized	1,056
Balance at end of year	$ 1,113

Included in accrued expenses and other liabilities, as of December 31, 2017, is $83 thousand for loan servicing liabilities related to loans serviced for others for which the Company does not receive a servicing fee.

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9.
Deposits

At December 31, 2017 and 2016, deposits consisted of the following:

	December 31,	
	2017	2016
	(In thousands)	
Noninterest bearing demand deposit accounts	$ 172,638	$ 187,593
Interest bearing accounts:		
NOW and money market	510,746	403,081
Savings	83,758	96,502
Time certificates of deposit	631,263	601,861
Total interest bearing accounts	1,225,767	1,101,444
Total deposits	$ 1,398,405	$ 1,289,037

Maturities of time certificates of deposit as of December 31, 2017 and 2016 are summarized below:

	December 31,	
	2017	2016
	(In thousands)	
2017	$ —	$ 323,742
2018	391,509	247,517
2019	214,383	29,778
2020	24,466	433
2021	373	391
2022	532	—
	$ 631,263	$ 601,861

The aggregate amount of individual certificate accounts, excluding brokered deposits with balances of $250,000 or more were approximately $153.8 million and $148.5 million at December 31, 2017 and 2016, respectively. Brokered deposits totaled $44.3 million and $58.2 million at December 31, 2017 and 2016, respectively. Brokered deposits with balances of $250,000 or more were approximately $43.5 million and $57.0 million at December 31, 2017 and 2016, respectively. Brokered deposits also include customer money reciprocal deposits for customers that desire FDIC protection and one way CDARS. Brokered deposits are utilized as an additional source of funding.
The following table summarizes interest expense by account type for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
NOW and money market	$ 3,520	$ 1,945	$ 1,473
Savings	763	315	693

Time certificates of deposit	8,411	6,040	3,515
Total interest expense on deposits	$ 12,694	$ 8,300	$ 5,681

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10.
Federal Home Loan Bank Advances and Other Borrowings

The following is a summary of FHLB advances with maturity dates and weighted average rates at December 31, 2017 and 2016:

	December 31,			
	2017		2016	
	Amount Due	Weighted Average Rate	Amount Due	Weighted Average Rate
	(Dollars in thousands)			
Year of Maturity:				
2017	$ —	—%	$ 135,000	0.73%
2018	174,000	1.44	—	—
2020	25,000	1.99	25,000	1.99
Total advances	$ 199,000	1.51%	$ 160,000	0.92%

$150.0 million of the above mentioned FHLB advances as of December 31, 2017 are subject to interest rate swap transactions, see note 18.
Interest expense on FHLB advances totaled $2.0 million, $1.3 million and $903 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.
The Bank has additional borrowing capacity at the FHLB up to a certain percentage of the value of qualified collateral. In accordance with agreements with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. At December 31, 2017, the Company had pledged $742 million of eligible loans as collateral to support borrowing capacity at the FHLB of Boston. As of December 31, 2017 the Company has immediate availability to borrow an additional $257.6 million based on qualified collateral.
Additionally, the Bank has access to a pre-approved secured line of credit of $450 thousand with the FHLB, none of which was outstanding at December 31, 2017 and 2016.
The Bank has an unsecured line of credit with Atlantic Community Bankers Bank of $7.5 million at December 31, 2017 and 2016, none of which was outstanding at December 31, 2017 and 2016. In addition, the Bank has an unsecured line of credit with Zion’s Bank of $25.0 million at December 31, 2017, none of which was outstanding at December 31, 2017. The Bank did not have a line of credit with Zion’s Bank at December 31, 2016.
Federal Home Loan Bank Stock
As a member of the FHLB, the Bank is required to maintain investments in their capital stock. The Bank owned 91,827 and 79,430 shares at December 31, 2017 and 2016, respectively. There is no ready market or quoted market values for the stock and as such is classified as restricted stock. The shares have a par value of $100 and are carried on the consolidated balance sheets at cost, and evaluated for impairment, as the stock is only redeemable at par subject to the redemption practices of the FHLB.
The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank; and (d) the liquidity position of the Federal Home Loan Bank.

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Management evaluated the stock and concluded that the stock was not impaired as of December 31, 2017 and 2016.

11. 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. 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 and our working capital needs. The Notes were assigned an investment grade rating of BBB by Kroll Bond Rating Agency, which was reaffirmed in the third quarter of 2017.

12. Commitments and Contingencies

Leases

The Company leases all but three locations, plus certain equipment under operating lease agreements, which expire at various dates through 2029. In addition to rental payments, the leases require payment of property taxes and certain common area maintenance fees.

Total future lease obligations totaled $21.7 million and $19.2 million at December 31, 2017 and 2016, respectively. The lease obligations at December 31, 2017 include a land lease with a municipality related to a building purchased in December, 2016. The land lease has a 98 year and 11 month term which commenced on September 1, 2001. The current lease payment is approximately $144 thousand per year and may be adjusted to fair market value in subsequent years. Future minimum rental commitments under the terms of these leases for the year ended December 31, 2017 was as follows:

	2017 (In thousands)
Period Ending December 31,	
2018	$ 1,808
2019	1,774
2020	1,666
2021	1,561
2022	937
Thereafter	13,977
	$ 21,723

Total rental expense approximated $1.8 million, $2.0 million and $1.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Legal matters

The Company is involved in various legal proceedings which have arisen in the normal course of business. Management believes that resolution of these matters will not have a material effect on the Company's financial condition or results of operations.

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Off-balance sheet instruments
In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.
The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customers default, and the value of any existing collateral becomes worthless. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that they control the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.
Financial instruments whose contract amounts represented credit risk at December 31, 2017 and 2016 were as follows:

	December 31,	
	2017	2016
	(In thousands)	
Commitments to extend credit:		
Loan commitments	$ 112,649	$ 89,825
Undisbursed construction loans	80,064	70,526
Unused home equity lines of credit	7,573	8,083
	$ 200,286	$ 168,434

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.
These commitments subject the Company to potential exposure in excess of amounts recorded in the financial statements, and therefore, management maintains a specific reserve for unfunded credit commitments. This reserve is reported as a component of accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets. The reserve for unfunded commitments totaled $250 thousand at December 31, 2017.
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13.
Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2017, 2016 and 2015 consisted of:

	2017	2016	2015
	(In thousands)		
Current provision:			
Federal	$ 7,468	$ 6,838	$ 5,113
State	431	226	694
Total current	7,899	7,064	5,807
Deferred provision (benefit):			
Federal	3,400	(1,104)	(1,749)
State	—	—	783
Total deferred	3,400	(1,104)	(966)
Total income tax expense	$ 11,299	$ 5,960	$ 4,841

In October, 2015, the Company created Bankwell Loan Servicing Group, Inc., a Passive Investment Company ("PIC") organized for state income tax purposes. The PIC is a wholly-owned subsidiary of the Bank operating in accordance with Connecticut statutes. The PIC's activities are limited in scope to holding and managing loans that are collateralized by real estate. Income earned by a PIC is determined in accordance with the statutory requirements for a passive investment company and the dividends paid by the PIC to the Bank are not taxable income for Connecticut income tax purposes. As a result of the formation of the PIC, the Bank no longer expects to be subject to Connecticut income taxes. State taxes are being recognized for income taxes on income earned in other states.

On December 22, 2017 the Tax Cuts and Jobs Act of 2017 was signed into law. As a result, the corporate tax rate was reduced from 35% to 21%. Companies are required to recognize the effect of tax law changes in the period of enactment in accordance with GAAP. As result of the tax law changes the Company recognized a write-down of its deferred tax asset in the amount of $3.3 million.

A reconciliation of the anticipated income tax expense, computed by applying the statutory federal income tax rate of 35% to the income before income taxes, to the amount reported in the consolidated statements of income for the years ended December 31, 2017, 2016 and 2015 was as follows:

	December 31,		
	2017	2016	2015
	(In thousands)		
Income tax expense at statutory federal rate	$ 8,795	$ 6,409	$ 4,855
State tax expense, net of federal tax effect	280	147	566
Statutory rate reductions	3,270	—	811
Income exempt from tax	(822)	(687)	(627)
Benefits related to stock compensation	(490)	—	—
Other items, net	266	91	42
Income tax expense before change in valuation allowance	11,299	5,960	5,647
Change in valuation allowance	—	—	(806)

Income tax expense	$ 11,299	$ 5,960	$ 4,841

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At December 31, 2017 and 2016, the components of deferred tax assets and liabilities were as follows:

	December 31,	
	2017	2016
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 4,022	$ 6,378
Net operating loss carryforwards	555	996
Purchase accounting adjustments	14	20
Deferred fees	1,162	1,437
Deferred expenses	—	716
Start-up costs	144	275
Depreciation	67	—
Other	88	192
Gross deferred tax assets	6,052	10,014
Deferred tax liabilities:		
Deferred Expenses	482	—
Servicing Rights	216	—
Tax bad debt reserve	—	195
Depreciation	—	255
Unrealized gain on derivatives	427	258
Unrealized gain on available for sale securities	23	221
Gross deferred tax liabilities	1,148	929
Net deferred tax asset	$ 4,904	$ 9,085

A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Management evaluated its remaining deferred tax assets and believes no valuation allowances are needed at December 31, 2017.
At December 31, 2017, the Company had federal net operating loss carryovers of $2.6 million. The carryovers were transferred to the Company upon the merger with The Wilton Bank. The losses will expire after 2032 and are subject to certain annual limitations which amount to $176 thousand per annum.
Management regularly analyzes their tax positions and at December 31, 2017 management has established a reserve for uncertain tax positions in conjunction with our out of state lending activity and for a potential tax liability as a result of the Company’s deferred compensation plan established for the board of directors. The total reserve for uncertain tax positions totaled $393 thousand as of December 31, 2017. The tax years 2014 and subsequent, are subject to examination by federal and state taxing authorities. The statute of limitations has expired on the years before 2014. No examinations are currently in process.

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The following table reflects a reconciliation of the beginning and ending balances of the Company's uncertain tax positions:

	December 31,		
	2017	2016	2015
	(In thousands)		
Balance, beginning of year	$ 95	$ —	$ —
Additions relating to potential liability with taxing authorities	298	95	—
Balance, end of year	$ 393	$ 95	$ —

14.
401(K) Profit Sharing Plan

The Company's employees are eligible to participate in The Bankwell Financial Group, Inc. and its Subsidiaries and Affiliates 401(k) Plan (the "401k Plan"). The 401k Plan covers substantially all employees who are 21 years of age. Under the terms of the 401k Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Company matches eligible contributions and may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in the Company's contributions after completing five years of service. The Company expensed $257 thousand, $227 thousand and $173 thousand related to the 401k Plan during the years ended December 31, 2017, 2016 and 2015, respectively.

15.
Earnings Per Share

Unvested restricted stock awards that contain non-forfeitable rights to dividends, are participating securities, and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The Company's unvested restricted stock awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating unvested restricted stock awards.

Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

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

	For the Years Ended December 31,		
	2017	2016	2015
	(In thousands, except per share data)		
Net income	$ 13,830	$ 12,350	$ 9,030
Preferred stock dividends	—	—	(125)
Dividends to participating securities(1)	(28)	(27)	(5)
Undistributed earnings allocated to participating securities(1)	(151)	(211)	(226)
Net income for earnings per share calculation	$ 13,651	$ 12,112	$ 8,674
Weighted average shares outstanding, basic	7,572	7,396	7,072
Effect of dilutive equity-based awards(2)	98	95	69
Weighted average shares outstanding, diluted	7,670	7,491	7,141
Net earnings per common share:			
Basic earnings per common share	$ 1.80	$ 1.64	$ 1.23
Diluted earnings per common share	1.78	1.62	1.21

(1)
Represents dividends paid and undistributed earnings allocated to unvested stock-based awards that contain non-forfeitable rights to dividends.

(2)
Represents the effect of the assumed exercise of stock options and warrants and the vesting of restricted shares, as applicable, utilizing the treasury stock method.

16.
Stock Based Compensation Plans

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 December 31, 2017, there were 465,262 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 expense over the vesting period of such awards on a straight line basis. Options vest over periods up to 5 years. For the years ended December 31, 2017, 2016, and 2015, the Company recorded expense related to options granted under the various plans of approximately $0 thousand, $9 thousand, and $14 thousand, respectively.
There were no options granted during the years ended December 31, 2017, 2016 and 2015.
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A summary of the status of outstanding stock options at December 31, 2017 and changes during the periods then ended, were as follows:

	December 31, 2017	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	120,988	$ 18.58
Exercised	(73,738)	19.06
Forfeited	(200)	15.00
Options outstanding at end of period	47,050	17.83
Options exercisable at end of period	47,050	17.83

Total 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 years ended December 31, 2017, 2016 and 2015 was $1.08 million, $597 thousand and $170, respectively.
The range of exercise prices for the 47,050 options exercisable at December 31, 2017 was $11.00 to $20.81 per share. The weighted average remaining contractual life for these options was 2.8 years at December 31, 2017. At December 31, 2017, as all awarded options have vested, all of the outstanding options are exercisable, and the aggregate intrinsic value of these options was $0.8 million.
The following table summarizes information for options, all of which are both outstanding and exercisable, at December 31, 2017:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price
$17.86 – 20.81	34,700	2.8	$ 19.28
$11.00 – 15.00	12,350	3.0	13.77
	47,050	2.8	$ 17.83

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 year ended December 31, 2017:

	December 31, 2017	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	96,594	$ 19.80
Granted	40,250	34.03

Vested	(43,430)	21.35
Forfeited	(18,228)	20.52
Unvested at end of period	75,186	26.39

The total fair value of restricted stock awards vested during the year ended December 31, 2017 was $1.5 million.
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The Company's restricted stock expense for the years ended December 31, 2017, 2016 and 2015 was $917 thousand, $1.2 million and $1.0 million, respectively. At December 31, 2017 there was $1.8 million of unrecognized stock compensation expense for restricted stock, expected to be recognized over a weighted average period of 1.8 years.

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 having vested 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 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 expensed 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 shares granted for the $25.00 and $27.00 price targets fully vested in the fourth quarter of 2016 based on meeting the vesting terms of the grant. The Company recognized $0, $304 thousand and $134 thousand in stock compensation expense for the years ended December 31, 2017, 2016 and 2015 for these restricted stock awards, respectively.

As of December 31, 2017 the Company had no outstanding market conditions restricted stock.

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17.
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 years ended December 31, 2017, 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 years ended December 31, 2017, 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 December 31, 2016	$ 409	$ 481	$ 890
Other comprehensive (loss) income before reclassifications, net of tax	(232)	843	611
Amounts reclassified from accumulated other comprehensive income, net of tax	(108)	—	(108)
Net other comprehensive income	(340)	843	503
Amount reclassified for tax rate changes	16	285	301
Balance at December 31, 2017	$ 85	$ 1,609	$ 1,694

	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 (loss) income before reclassifications, net of tax	(71)	659	588
Amounts reclassified from accumulated other comprehensive income, net of tax	75	—	75
Net other comprehensive income	4	659	663
Balance at December 31, 2016	$ 409	$ 481	$ 890

	Net Unrealized	Net Unrealized Gain (Loss) on Interest	Total

	Gain (Loss) on Available for Sale Securities	Rate Swap	
	(In thousands)		
Balance at December 31, 2014	$ 644	$(113)	$531
Other comprehensive (loss) income before reclassifications, net of tax	(239)	(65)	(304)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(239)	(65)	(304)
Balance at December 31, 2015	$ 405	$(178)	$227

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The following table provides information for the items reclassified from accumulated other comprehensive income or loss:

Accumulated Other Comprehensive Income (Loss) Components	For the Years Ended December 31,			Associated Line Item in the Consolidated Statements Of Income
	2017	2016	2015	
	(In thousands)			
Available-for-sale securities:				
Unrealized gains (losses) on investments	$ 165	$ (115)	$ —	Gain (loss) on sale of available for sale securities, net
Tax (expense) benefit	(57)	40	—	Income tax expense
Net of tax	$ 108	$ (75)	$ —	

18.
Derivative Instruments

The Company manages economic risks, including interest rate, liquidity, and credit risk by managing the amount, sources, and duration of its funding along with the use of interest rate derivative financial instruments, namely interest rate swaps. The Company does not use derivatives for speculative purposes. As of December 31, 2017, the Bank was a party to six interest rate swaps to add stability to interest expense and to manage its exposure to interest rate movements. The notional amount for each swap is $25 million and in each case, the Bank has entered into pay-fixed Libor interest rate swaps to convert rolling 90 day Federal Home Loan Bank advances to fixed rates.
The Company accounts for its interest rate swaps as effective cash flow hedges (see Note 1). None of the interest rate swap agreements contain any credit risk related contingent features. A hedging instrument is expected at inception to be highly effective at offsetting changes in the hedged transactions attributable to the changes in the hedged risk. The Company expects that the hedging relationship will be highly effective; however, it does not assume there is no ineffectiveness. As of December 31, 2017 and 2016 there was an immaterial amount of ineffectiveness as a result of these hedging relationships.
Interest Rate Swaps with a positive fair value are recorded as other assets and interest rate swaps with a negative fair value are recorded as other liabilities on the consolidated balance sheets.
Information about derivative instruments for the years ended December 31, 2017 and 2016 were as follows:
December 31, 2017:

	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
	(Dollars in thousands)				
Cash flow hedge:					
Interest rate swap on FHLB advance	$ 25,000	4.7 years	3-month USD LIBOR	1.62%	$ 62
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.83%	105
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.48%	398
Interest rate swap on FHLB advance	25,000	5.0 years	3-month USD LIBOR	1.22%	793
Interest rate swap on FHLB advance	25,000	7.0 years	3-month USD LIBOR	2.04%	342
Interest rate swap on FHLB advance	25,000	7.0 years	3-month USD LIBOR	2.04%	334
	$ 150,000				$ 2,034

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December 31, 2016:

	Notional Amount	Original Maturity	Received	Paid	Fair Value Asset (Liability)
	(Dollars in thousands)				
Cash flow hedge:					
Interest rate swap on FHLB advance	$ 25,000	4.7 years	3-month LIBOR	1.62%	$ (91)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month LIBOR	1.83%	(138)
Interest rate swap on FHLB advance	25,000	5.0 years	3-month LIBOR	1.48%	249
Interest rate swap on FHLB advance	25,000	5.0 years	3-month LIBOR	1.22%	717
	$ 100,000				$ 737

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 Company 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 interest rate swap assets are presented in other assets and the interest rate swap liabilities are presented in accrued expenses and other liabilities in the consolidated balance sheets.

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

	Notional Amount	Effective Date of Hedged Borrowing	Duration of Borrowing	Counterparty
	(Dollars in thousands)			
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
FHLB 90-day advance	25,000	August 25, 2017	7.0 years	Bank of Montreal
FHLB 90-day advance	25,000	August 25, 2017	7.0 years	FTN Financial Capital Markets
	$ 150,000			

This hedge strategy converts the floating rate of interest on short term FHLB advances to fixed interest rates, thereby protecting the Company 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 years ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
	(In thousands)	
Interest rate swap on FHLB advance:		

Unrealized gain recognized in accumulated other comprehensive income	$ 1,297	$ 1,013
Income tax expense on items recognized in accumulated other comprehensive income	(454)	(354)
Other comprehensive income	$ 843	$ 659
Amount recognized in interest expense on hedged FHLB advance	$ 1,909	$ 1,386

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19. Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statements 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 limitations 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. 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 Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk.

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The carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments at December 31, 2017 and 2016 were as follows:

	December 31, 2017				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	$ 70,545	$ 70,545	$ 70,545	$ —	$ —
Federal funds sold	186	186	186	—	—
Available for sale securities	92,188	92,188	—	92,188	—
Held to maturity securities	21,579	22,836	—	1,119	21,717
Loans receivable, net	1,520,879	1,494,599	—	—	1,494,599
Accrued interest receivable	5,910	5,910	—	5,910	—
FHLB stock	9,183	9,183	—	9,183	—
Servicing asset	1,113	1,113			