

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2022**

or

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

For the transition period from _____ to _____

Commission File Number: **001-36448**

Bankwell Financial Group, Inc.

(Exact Name of Registrant as specified in its Charter)

Connecticut

(State or other jurisdiction of
Incorporation or organization)

20-8251355

(I.R.S. Employer
Identification No.)

258 Elm Street

New Canaan, Connecticut 06840

(203) 652-0166

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, no par value per share	BWFG	NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of April 30, 2022, there were 7,761,113 shares of the registrant's common stock outstanding.

Bankwell Financial Group, Inc.
Form 10-Q

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Bankwell Financial Group, Inc.

Consolidated Balance Sheets - (unaudited)

(In thousands, except share data)

	March 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	\$ 280,471	\$ 291,598
Federal funds sold	19,022	53,084
Cash and cash equivalents	299,493	344,682
Investment securities		
Marketable equity securities, at fair value	2,090	2,168
Available for sale investment securities, at fair value	98,733	90,198
Held to maturity investment securities, at amortized cost (fair values of \$16,338 and \$18,445 at March 31, 2022 and December 31, 2021, respectively)	15,979	16,043
Total investment securities	116,802	108,409
Loans receivable (net of allowance for loan losses of \$17,141 at March 31, 2022 and \$16,902 at December 31, 2021)	1,964,567	1,875,167
Accrued interest receivable	7,733	7,512
Federal Home Loan Bank stock, at cost	2,870	2,814
Premises and equipment, net	25,661	25,588
Bank-owned life insurance	49,434	49,174
Goodwill	2,589	2,589
Deferred income taxes, net	6,879	7,621
Other assets	20,849	32,708
Total assets	\$ 2,496,877	\$ 2,456,264
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	\$ 412,985	\$ 398,956
Interest bearing deposits	1,753,219	1,725,042
Total deposits	2,166,204	2,123,998
Advances from the Federal Home Loan Bank	50,000	50,000
Subordinated debentures (face value of \$35,000 and \$35,000 at March 31, 2022 and December 31, 2021, respectively, less unamortized debt issuance costs of \$529 and \$559 at March 31, 2022 and December 31, 2021, respectively)	34,471	34,441
Accrued expenses and other liabilities	35,982	45,838
Total liabilities	2,286,657	2,254,277
Commitments and contingencies		
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,761,338 and 7,803,166 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	114,882	118,148
Retained earnings	99,047	92,400
Accumulated other comprehensive loss	(3,709)	(8,561)
Total shareholders' equity	210,220	201,987
Total liabilities and shareholders' equity	\$ 2,496,877	\$ 2,456,264

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.
Consolidated Statements of Income – (unaudited)
(In thousands, except share data)

	Three Months Ended March 31,	
	2022	2021
Interest and dividend income		
Interest and fees on loans	\$ 21,428	\$ 17,900
Interest and dividends on securities	720	769
Interest on cash and cash equivalents	154	108
Total interest and dividend income	22,302	18,777
Interest expense		
Interest expense on deposits	2,206	3,114
Interest expense on borrowings	586	1,008
Total interest expense	2,792	4,122
Net interest income	19,510	14,655
Provision (credit) for loan losses	229	(296)
Net interest income after provision (credit) for loan losses	19,281	14,951
Noninterest income		
Gains and fees from sales of loans	631	513
Bank-owned life insurance	260	231
Service charges and fees	240	199
Other	(173)	1,013
Total noninterest income	958	1,956
Noninterest expense		
Salaries and employee benefits	4,940	4,769
Occupancy and equipment	2,150	2,406
Professional services	981	587
Data processing	654	512
Director fees	352	317
FDIC insurance	223	403
Marketing	45	(9)
Other	580	653
Total noninterest expense	9,925	9,638
Income before income tax expense	10,314	7,269
Income tax expense	2,102	1,579
Net income	\$ 8,212	\$ 5,690
Earnings Per Common Share:		
Basic	\$ 1.05	\$ 0.72
Diluted	\$ 1.04	\$ 0.71
Weighted Average Common Shares Outstanding:		
Basic	7,637,077	7,758,540
Diluted	7,719,405	7,800,777
Dividends per common share	\$ 0.20	\$ 0.14

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2022	2021
Net income	\$ 8,212	\$ 5,690
Other comprehensive income:		
Unrealized losses on securities:		
Unrealized holding losses on available for sale securities	(4,767)	(1,025)
Reclassification adjustment for gain realized in net income	—	—
Net change in unrealized losses	(4,767)	(1,025)
Income tax benefit	1,064	227
Unrealized losses on securities, net of tax	(3,703)	(798)
Unrealized gains on interest rate swaps:		
Unrealized gains on interest rate swaps	11,016	10,934
Income tax expense	(2,461)	(2,434)
Unrealized gains on interest rate swaps, net of tax	8,555	8,500
Total other comprehensive income, net of tax	4,852	7,702
Comprehensive income	\$ 13,064	\$ 13,392

See accompanying notes to consolidated financial statements (unaudited)

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

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2021	7,803,166	\$ 118,148	\$ 92,400	\$ (8,561)	\$ 201,987
Net income	—	—	8,212	—	8,212
Other comprehensive income, net of tax	—	—	—	4,852	4,852
Cash dividends declared (\$0.20 per share)	—	—	(1,565)	—	(1,565)
Stock-based compensation expense	—	541	—	—	541
Issuance of restricted stock	69,001	—	—	—	—
Stock options exercised	2,000	30	—	—	30
Repurchase of common stock	(112,829)	(3,837)	—	—	(3,837)
Balance at March 31, 2022	7,761,338	\$ 114,882	\$ 99,047	\$ (3,709)	\$ 210,220

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2020	7,919,278	\$ 121,338	\$ 70,839	\$ (15,575)	\$ 176,602
Net income	—	—	5,690	—	5,690
Other comprehensive income, net of tax	—	—	—	7,702	7,702
Cash dividends declared (\$0.14 per share)	—	—	(1,111)	—	(1,111)
Stock-based compensation expense	—	431	—	—	431
Forfeitures of restricted stock	(150)	—	—	—	—
Issuance of restricted stock	51,628	—	—	—	—
Stock options exercised	3,500	53	—	—	53
Repurchase of common stock	(65,626)	(1,424)	—	—	(1,424)
Balance at March 31, 2021	7,908,630	\$ 120,398	\$ 75,418	\$ (7,873)	\$ 187,943

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities		
Net income	\$ 8,212	\$ 5,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	90	30
Provision (credit) for loan losses	229	(296)
(Credit) provision for deferred income taxes	(303)	185
Change in fair value of marketable equity securities	85	36
Depreciation and amortization	752	791
Amortization of debt issuance costs	30	13
Increase in cash surrender value of bank-owned life insurance	(260)	(231)
Gains and fees from sales of loans	(631)	(513)
Stock-based compensation	541	431
Amortization of intangibles	—	9
Loss on sale of premises and equipment	—	6
Net change in:		
Deferred loan fees	810	(403)
Accrued interest receivable	(221)	(727)
Other assets	13,516	11,854
Accrued expenses and other liabilities	(849)	(181)
Net cash provided by operating activities	22,001	16,694
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	2,847	4,329
Proceeds from principal repayments on held to maturity securities	66	4,592
Purchases of marketable equity securities	(7)	(7)
Purchases of available for sale securities	(16,241)	—
Purchases of held to maturity securities	—	(4,736)
Net increase in loans	(96,076)	(51,723)
Proceeds from sales of loans not originated for sale	6,268	4,480
Purchases of premises and equipment, net	(825)	(2,646)
(Purchase) reduction of Federal Home Loan Bank stock	(56)	1,414
Net cash used in investing activities	(104,024)	(44,297)

See accompanying notes to consolidated financial statements (unaudited)

Bankwell Financial Group, Inc.
Consolidated Statements of Cash Flows - (Continued)
(In thousands)

	Three Months Ended March 31,	
	2022	2021
Cash flows from financing activities		
Net change in time certificates of deposit	\$ (11,025)	\$ (83,269)
Net change in other deposits	53,231	115,761
Net change in FHLB advances	—	(50,000)
Proceeds from exercise of options	30	53
Dividends paid on common stock	(1,565)	(1,111)
Repurchase of common stock	(3,837)	(1,424)
Net cash provided by (used in) financing activities	36,834	(19,990)
Net decrease in cash and cash equivalents	(45,189)	(47,593)
Cash and cash equivalents:		
Beginning of year	344,682	409,598
End of period	<u>\$ 299,493</u>	<u>\$ 362,005</u>
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	\$ 2,673	\$ 4,694
Income taxes	150	109
Noncash investing and financing activities:		
Net change in unrealized gains or losses on available for sale securities	(4,767)	(1,025)
Net change in unrealized gains or losses on interest rate swaps	11,016	10,934
Establishment of right-of-use asset and lease liability	—	9,775
Transfer of loans from held-for-investment to held-for-sale	5,637	3,967

See accompanying notes to consolidated financial statements (unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Bankwell Financial Group, Inc. (the "Parent Corporation") is a bank holding company headquartered in New Canaan, Connecticut. The Parent Corporation offers a broad range of financial services through its banking subsidiary, Bankwell Bank (the "Bank" and, collectively with the Parent Corporation and the Parent Corporation's subsidiaries, the "Company").

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 commercial lending services through a variety of fixed and floating rate products in Connecticut and surrounding markets. Such services are also provided to certain industries across several regions of the United States, primarily with borrowers with whom the Company has existing relationships. The Bank operates branches in New Canaan, Stamford, Fairfield, Wilton, Westport, Darien, Norwalk, and Hamden, Connecticut.

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, 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, the valuation of derivative instruments, investment securities valuation, evaluation of investment securities for other than temporary impairment and deferred income taxes valuation.

Basis of consolidated financial statement presentation

The unaudited consolidated financial statements presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and note disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures considered necessary for the fair presentation of the accompanying unaudited interim consolidated financial statements have been included. Interim results are not necessarily reflective of the results that may be expected for the year ending December 31, 2022. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included on Form 10-K for the year ended December 31, 2021.

Significant concentrations of credit risk

Many of the Company's activities are with customers located in Connecticut and New York, with the majority of the Company's loans in Connecticut and some New York metro area counties. Declines in property values in these areas could significantly impact the Company. The Company has a significant concentration in commercial real estate loans.

Common Share Repurchases

The Company is incorporated in the state of Connecticut. Connecticut law does not provide for treasury shares, rather shares repurchased by the Company constitute authorized, but unissued shares. GAAP states that accounting for treasury stock shall conform to state law. Therefore, the cost of shares repurchased by the Company has been allocated to common stock balances.

Reclassification

Certain prior period amounts may be reclassified to conform to the 2022 financial statement presentation. These reclassifications only change the reporting categories and do not affect the consolidated results of operations or consolidated financial position of the Company.

Recent accounting pronouncements

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

Recently issued accounting pronouncements not yet adopted

ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326): "Troubled Debt Restructurings and Vintage Disclosures." This ASU eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether a modification represents a new loan or a continuation of an existing loan. In addition, this ASU enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, this ASU requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross write-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. For entities that have adopted the amendments in update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in update 2016-13, the effective dates for the amendments in this update are the same as the effective dates in Update 2016-13. The Company has not yet adopted this accounting standard as ASU 2016-13 has not been adopted. Management continues to evaluate the impact of its future adoption of this guidance on the Company's financial statements.

ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments." This 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. On July 17, 2019, the FASB proposed deferring the effective date of ASC 326 for smaller reporting companies as defined by the SEC. The FASB proposed a three year deferral for smaller reporting companies, with an effective date of January 1, 2023. On October 16, 2019, the FASB voted in favor of finalizing its proposal to defer the effective date of this standard. The FASB issued ASU No. 2019-10, which officially delayed the adoption of this standard for smaller reporting companies until fiscal years beginning after December 15, 2022. The Company qualifies to defer the adoption of this standard and has not yet adopted this standard. Management continues to evaluate the impact of its future adoption of this guidance 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. On October 16, 2019, the FASB voted in favor of a proposal to defer the effective date of this standard in the same manner it is deferring the effective date of ASC 326. The FASB issued ASU No. 2019-10, which officially delayed the adoption of this standard for smaller reporting companies until fiscal years beginning after December 15, 2022. The Company qualifies to defer the adoption of this standard and has not yet adopted this standard. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

2. Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at March 31, 2022 were as follows:

	March 31, 2022			
	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	\$ 40,944	\$ —	\$ (1,887)	\$ 39,057
Due from five through ten years	33,689	—	(260)	33,429
Due after ten years	11,240	47	(411)	10,876
Total U.S. Government and agency obligations	85,873	47	(2,558)	83,362
Corporate bonds				
Due from five through ten years	14,000	90	(253)	13,837
Due after ten years	1,500	34	—	1,534
Total corporate bonds	15,500	124	(253)	15,371
Total available for sale securities	\$ 101,373	\$ 171	\$ (2,811)	\$ 98,733
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	\$ 15,937	\$ 1,018	\$ (663)	\$ 16,292
Government-sponsored mortgage backed securities				
No contractual maturity	42	4	—	46
Total held to maturity securities	\$ 15,979	\$ 1,022	\$ (663)	\$ 16,338

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at December 31, 2021 were as follows:

	December 31, 2021			
	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	\$ 25,747	\$ 3	\$ (181)	\$ 25,569
Due from five through ten years	16,540	866	—	17,406
Due after ten years	31,284	988	(58)	32,214
Total U.S. Government and agency obligations	73,571	1,857	(239)	75,189
Corporate bonds				
Due from five through ten years	13,000	429	(10)	13,419
Due after ten years	1,500	90	—	1,590
Total corporate bonds	14,500	519	(10)	15,009
Total available for sale securities	\$ 88,071	\$ 2,376	\$ (249)	\$ 90,198
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	\$ 15,998	\$ 2,601	\$ (206)	\$ 18,393
Government-sponsored mortgage backed securities				
No contractual maturity	45	7	—	52
Total held to maturity securities	\$ 16,043	\$ 2,608	\$ (206)	\$ 18,445

There were no sales of investment securities during the three months ended March 31, 2022 or 2021.

At March 31, 2022 and December 31, 2021, none of the Company's securities were pledged as collateral with the Federal Home Loan Bank ("FHLB") or any other institution.

As of March 31, 2022 and December 31, 2021, the actual durations of the Company's available for sale securities were significantly shorter than the stated maturities.

As of March 31, 2022, the Company held marketable equity securities with a fair value of \$2.1 million and an amortized cost of \$2.1 million. At December 31, 2021, the Company held marketable equity securities with a fair value of \$2.2 million and an amortized cost of \$2.1 million. These securities represent an investment in mutual funds that have an objective to make investments for CRA purposes.

The following table provides information regarding investment securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021:

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	
(Dollars in thousands)										
March 31, 2022										
U.S. Government and agency obligations	\$ 79,507	\$ (2,558)	3.12 %	\$ —	\$ —	— %	\$ 79,507	\$ (2,558)	3.12 %	
Corporate bonds	9,747	(253)	2.53	—	—	—	9,747	(253)	2.53	
State agency and municipal obligations	—	—	—	3,971	(663)	14.30	3,971	(663)	14.30	
Total investment securities	\$ 89,254	\$ (2,811)	3.05 %	\$ 3,971	\$ (663)	14.30 %	\$ 93,225	\$ (3,474)	3.59 %	

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					
(Dollars in thousands)															
December 31, 2021															
U.S. Government and agency obligations	\$	28,121	\$	(239)	0.84 %	\$	—	\$	—	— %	\$	28,121	\$	(239)	0.84 %
Corporate bonds		2,990		(10)	0.35		—		—			2,990		(10)	0.35
State agency and municipal obligations		4,443		(206)	4.44		—		—			4,443		(206)	4.44
Total investment securities	\$	35,554	\$	(455)	1.27 %	\$	—	\$	—	— %	\$	35,554	\$	(455)	1.27 %

There were twenty-two and seven investment securities as of March 31, 2022 and December 31, 2021, 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 unrealized losses in this portfolio are considered to be only temporarily impaired.

The Company continually monitors its corporate bond, state agency and municipal bond portfolios and at this time these portfolios have minimal default risk because state agency and municipal bonds are all rated investment grade or deemed to be of investment grade quality.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at March 31, 2022 until the decline in value has recovered or the security has matured.

3. Loans Receivable and Allowance for Loan Losses

The following table sets forth a summary of the loan portfolio at March 31, 2022 and December 31, 2021:

<i>(In thousands)</i>	March 31, 2022	December 31, 2021
Real estate loans:		
Residential	\$ 68,617	\$ 79,987
Commercial	1,425,758	1,356,709
Construction	115,514	98,341
	<u>1,609,889</u>	<u>1,535,037</u>
Commercial business ⁽¹⁾	370,166	350,975
Consumer	<u>5,275</u>	<u>8,869</u>
Total loans	<u>1,985,330</u>	<u>1,894,881</u>
Allowance for loan losses	(17,141)	(16,902)
Deferred loan origination fees, net	(3,622)	(2,812)
Loans receivable, net	<u><u>\$ 1,964,567</u></u>	<u><u>\$ 1,875,167</u></u>

(1) The March 31, 2022 and December 31, 2021 balances include \$0.1 million and \$0.2 million, respectively, of Paycheck Protection Program ("PPP") loans made under the CARES Act.

Lending activities consist of commercial real estate loans, commercial business loans and, to a lesser degree, a variety of consumer loans. Loans may also be granted for the construction of commercial properties. The majority of commercial mortgage loans are collateralized by first or second mortgages on real estate.

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 borrower's 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 cease the origination of residential mortgage loans. At the beginning of the third quarter 2019, the Company no longer offered home equity loans or lines of credit. The Company's policy for residential lending generally required that 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 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.

Credit quality of loans and the allowance for loan losses

Management segregates the loan portfolio into defined segments, which are used to develop and document a systematic method for determining the Company's allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

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

Residential Real Estate: This portfolio segment consists of first mortgage loans secured by one-to-four family owner occupied residential properties for personal use located in the Company's 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 were 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, multi-family dwellings, owner-occupied commercial real estate and investor-owned one-to-four family dwellings. Loans secured by commercial real estate generally have larger loan balances and more credit risk than owner occupied one-to-four family mortgage loans.

Construction: This portfolio segment includes commercial construction loans for commercial development projects, including apartment buildings and condominiums, as well as office buildings, retail and other income producing properties and land loans, which are loans made with land as collateral. 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 paying 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. This segment also includes Paycheck Protection Program ("PPP") loans made under the CARES Act to small businesses impacted by COVID-19, to cover payroll and other operating expenses. Loans extended under the PPP are fully guaranteed by the U.S. Small Business Administration ("SBA").

Consumer: This portfolio segment includes loans secured by savings or certificate accounts, automobiles, as well as unsecured personal loans and overdraft lines of credit. In addition, there are loans to finance insurance premiums, secured by the cash surrender value of life insurance and marketable securities.

Allowance for loan losses

The following tables set forth the activity in the Company's allowance for loan losses for the three months ended March 31, 2022 and 2021, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Three Months Ended March 31, 2022						
Beginning balance	\$ 504	\$ 12,751	\$ 4	\$ 3,590	\$ 53	\$ 16,902
Charge-offs	—	—	—	—	(4)	(4)
Recoveries	—	—	—	13	1	14
(Credits) provisions	(146)	690	52	(349)	(18)	229
Ending balance	\$ 358	\$ 13,441	\$ 56	\$ 3,254	\$ 32	\$ 17,141

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Three Months Ended March 31, 2021						
Beginning balance	\$ 610	\$ 16,425	\$ 221	\$ 3,753	\$ —	\$ 21,009
Charge-offs	—	(163)	—	—	(14)	(177)
Recoveries	—	—	—	—	9	9
(Credits) provisions	(109)	(3)	76	(301)	41	(296)
Ending balance	\$ 501	\$ 16,259	\$ 297	\$ 3,452	\$ 36	\$ 20,545

Loans evaluated for impairment and the related allowance for loan losses as of March 31, 2022 and December 31, 2021 were as follows:

	Portfolio	Allowance
<i>(In thousands)</i>		
March 31, 2022		
Loans individually evaluated for impairment:		
Residential real estate	\$ 3,918	\$ 211
Commercial real estate	29,609	2,497
Construction	9,382	—
Commercial business	3,022	74
Subtotal	45,931	2,782
Loans collectively evaluated for impairment:		
Residential real estate	64,699	147
Commercial real estate	1,396,149	10,944
Construction	106,132	56
Commercial business	367,144	3,180
Consumer	5,275	32
Subtotal	1,939,399	14,359
Total	\$ 1,985,330	\$ 17,141

	Portfolio	Allowance
	(In thousands)	
December 31, 2021		
Loans individually evaluated for impairment:		
Residential real estate	\$ 4,150	\$ 261
Commercial real estate	29,666	2,520
Construction	8,997	—
Commercial business	4,368	87
Subtotal	47,181	2,868
Loans collectively evaluated for impairment:		
Residential real estate	75,837	243
Commercial real estate	1,327,043	10,231
Construction	89,344	4
Commercial business	346,607	3,503
Consumer	8,869	53
Subtotal	1,847,700	14,034
Total	\$ 1,894,881	\$ 16,902

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 a 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 a potential credit loss, to identify relevant trends affecting the collectability of the loan portfolio, 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" (7) loans 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 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 borrower's 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.

The following tables present credit risk ratings by loan segment as of March 31, 2022 and December 31, 2021:

Commercial Credit Quality Indicators									
March 31, 2022					December 31, 2021				
Commercial Real Estate	Construction	Commercial Business	Total		Commercial Real Estate	Construction	Commercial Business	Total	
(In thousands)									
Pass	\$ 1,376,769	\$ 106,132	\$ 365,690	\$ 1,848,591	\$ 1,307,992	\$ 89,344	\$ 345,153	\$ 1,742,489	
Special Mention	19,380	—	1,454	20,834	19,051	—	1,454	20,505	
Substandard	29,204	9,382	2,391	40,977	29,255	8,997	2,847	41,099	
Doubtful	405	—	631	1,036	411	—	1,521	1,932	
Loss	—	—	—	—	—	—	—	—	
Total loans	\$ 1,425,758	\$ 115,514	\$ 370,166	\$ 1,911,438	\$ 1,356,709	\$ 98,341	\$ 350,975	\$ 1,806,025	

Residential and Consumer Credit Quality Indicators									
March 31, 2022					December 31, 2021				
Residential Real Estate	Consumer	Total			Residential Real Estate	Consumer	Total		
(In thousands)									
Pass	\$ 64,554	\$ 5,275	\$ 69,829	\$ 75,692	\$ 8,869	\$ 84,561			
Special Mention	145	—	145	145	—	145			
Substandard	3,918	—	3,918	3,975	—	3,975			
Doubtful	—	—	—	175	—	175			
Loss	—	—	—	—	—	—			
Total loans	\$ 68,617	\$ 5,275	\$ 73,892	\$ 79,987	\$ 8,869	\$ 88,856			

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company attempts to contact 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, after the 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 periodically. 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. Loans that are granted payment deferrals under the CARES Act are not required to be reported as past due or placed on non-accrual status if the criteria under section 4013 of the CARES Act is met. As of March 31, 2022, no loans remained on active deferral under the CARES Act.

The following tables set forth certain information with respect to the Company's loan portfolio delinquencies by portfolio segment as of March 31, 2022 and December 31, 2021:

March 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
<i>(In thousands)</i>						
Real estate loans:						
Residential real estate	\$ 1	\$ —	\$ 834	\$ 835	\$ 67,782	\$ 68,617
Commercial real estate	—	—	3,368	3,368	1,422,390	1,425,758
Construction	—	—	9,382	9,382	106,132	115,514
Commercial business	2,627	—	567	3,194	366,972	370,166
Consumer	3	—	—	3	5,272	5,275
Total loans	\$ 2,631	\$ —	\$ 14,151	\$ 16,782	\$ 1,968,548	\$ 1,985,330

December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
<i>(In thousands)</i>						
Real estate loans:						
Residential real estate	\$ 873	\$ —	\$ 878	\$ 1,751	\$ 78,236	\$ 79,987
Commercial real estate	2,186	10,500	4,244	16,930	1,339,779	1,356,709
Construction	—	—	8,997	8,997	89,344	98,341
Commercial business	1,995	1,483	1,469	4,947	346,028	350,975
Consumer	—	3	—	3	8,866	8,869
Total loans	\$ 5,054	\$ 11,986	\$ 15,588	\$ 32,628	\$ 1,862,253	\$ 1,894,881

There was one loan, totaling \$0.3 million, delinquent greater than 90 days and still accruing interest as of March 31, 2022. The delinquency for this particular loan was a result of a closing delay. There were two loans, totaling \$1.1 million, delinquent greater than 90 days and still accruing interest as of December 31, 2021. The delinquencies for these particular loans was a result of an administrative delay.

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
<i>(In thousands)</i>		
Residential real estate	\$ 2,181	\$ 2,380
Commercial real estate	3,365	3,482
Commercial business	817	1,728
Construction	9,382	8,997
Total	\$ 15,745	\$ 16,587

Interest income on loans that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms for the three months ended March 31, 2022 and 2021 was \$0.2 million and \$0.4 million, respectively. There was no interest income recognized on these loans for the three months ended March 31, 2022 and 2021.

At March 31, 2022 and December 31, 2021, there were no commitments to lend additional funds to any borrower on nonaccrual status. Nonaccrual loans with no specific reserve totaled \$13.4 million and \$14.2 million at March 31, 2022 and December 31, 2021, respectively, as these loans were deemed to be adequately collateralized.

Impaired loans

An impaired loan is generally one for which it is probable, based on current information, that the Company will not collect all the amounts due in accordance with the contractual terms of the loan. Impaired loans are individually evaluated for impairment. When the Company classifies a problem loan as impaired, it evaluates whether a specific valuation allowance is required for that portion of the asset that is estimated to be impaired.

The following table summarizes impaired loans by portfolio segment as of March 31, 2022 and December 31, 2021:

	Carrying Amount		Unpaid Principal Balance		Associated Allowance	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
<i>(In thousands)</i>						
Impaired loans without a valuation allowance:						
Residential real estate	\$ 1,640	\$ 1,851	\$ 1,814	\$ 2,038	\$ —	\$ —
Commercial real estate	8,254	8,338	8,625	8,698	—	—
Construction	9,382	8,997	9,382	8,997	—	—
Commercial business	1,021	1,938	1,376	2,582	—	—
Total impaired loans without a valuation allowance	20,297	21,124	21,197	22,315	—	—
Impaired loans with a valuation allowance:						
Residential real estate	\$ 2,278	\$ 2,299	\$ 2,288	\$ 2,304	\$ 211	\$ 261
Commercial real estate	21,355	21,328	21,394	21,367	2,497	2,520
Commercial business	2,001	2,430	2,001	2,429	74	87
Total impaired loans with a valuation allowance	25,634	26,057	25,683	26,100	2,782	2,868
Total impaired loans	\$ 45,931	\$ 47,181	\$ 46,880	\$ 48,415	\$ 2,782	\$ 2,868

The following tables summarize the average carrying amount of impaired loans and interest income recognized on impaired loans by portfolio segment for the three months ended March 31, 2022 and 2021:

	Average Carrying Amount		Interest Income Recognized	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2022	2021	2022	2021
<i>(In thousands)</i>				
Impaired loans without a valuation allowance:				
Residential real estate	\$ 1,647	\$ 4,317	\$ —	\$ 21
Commercial real estate	8,297	8,049	70	35
Commercial business	1,039	1,812	5	4
Construction	9,093	8,997	—	—
Total impaired loans without a valuation allowance	20,076	23,175	75	60
Impaired loans with a valuation allowance:				
Residential real estate	\$ 2,289	\$ —	\$ 12	\$ —
Commercial real estate	21,348	30,107	92	498
Commercial business	2,244	3,038	14	59
Total impaired loans with a valuation allowance	25,881	33,145	118	557
Total impaired loans	\$ 45,957	\$ 56,320	\$ 193	\$ 617

Troubled debt restructurings ("TDRs")

Modifications to a loan are considered to be a troubled debt restructuring when both of the following conditions are met: 1) the borrower is experiencing financial difficulties and 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.

Loans classified as TDRs totaled \$25.3 million at March 31, 2022 and \$25.8 million at December 31, 2021. The following tables provide information on loans that were modified as TDRs during the periods indicated. There were no loans modified as TDRs during the three months ended March 31, 2022.

<i>(Dollars in thousands)</i>	Number of Loans		Pre-Modification		Post-Modification	
	2022	2021	2022	2021	2022	2021
Three Months Ended March 31,						
Residential real estate	—	1	\$ —	\$ 631	\$ —	\$ 631
Total	—	1	\$ —	\$ 631	\$ —	\$ 631

At March 31, 2022 and December 31, 2021, there were five nonaccrual loans identified as TDRs totaling \$1.9 million and five nonaccrual loans identified as TDRs totaling \$2.0 million, respectively.

There were no loans modified in a troubled debt restructuring that re-defaulted during the three months ended March 31, 2022 and March 31, 2021.

The following table provides information on how loans were modified as TDRs during the three months ended March 31, 2022 and March 31, 2021.

	Three Months Ended March 31,	
	2022	2021
	<i>(In thousands)</i>	
Payment concession	\$ —	\$ 631
Total	\$ —	\$ 631

Section 4013 of the CARES Act provides relief from certain requirements under GAAP and permits a financial institution to elect to suspend troubled debt restructuring accounting, in certain circumstances, beginning March 1, 2020 and ending on the earlier of January 1, 2022, or sixty days after the national emergency concerning COVID-19 terminates. All short term loan modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any request for relief are not considered TDRs.

4. Shareholders' Equity

Common Stock

The Company has 10,000,000 shares authorized and 7,761,338 shares issued and outstanding at March 31, 2022 and 10,000,000 shares authorized and 7,803,166 shares issued and outstanding at December 31, 2021. The Company's stock is traded on the NASDAQ stock market under the ticker symbol BWFG.

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 Parent Corporation. 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.

Issuer Purchases of Equity Securities

On December 19, 2018, the Company's Board of Directors authorized a share repurchase program of up to 400,000 shares of the Company's Common Stock and, on October 27, 2021, the Company's Board of Directors authorized the repurchase of an additional 200,000 shares under its share repurchase program. The Company intends to accomplish the share repurchases through open market transactions, though the Company could accomplish repurchases through other means, such as privately negotiated transactions. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The share repurchase plan does not obligate the Company to acquire any particular amount of Common Stock, and it may be modified or suspended at any time at the Company's discretion. During the three months ended March 31, 2022, the Company purchased 112,829 shares of its Common Stock at a weighted average price of \$34.01 per share. During the year ended December 31, 2021, the Company purchased 190,770 shares of its Common Stock at a weighted average price of \$26.62 per share.

5. Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives. The Company's derivative instruments are utilized to manage economic risks, including interest rate risk. Changes in fair value of the Company's derivatives are primarily driven by changes in interest rates and recognized in other comprehensive income. The Company's current derivative positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The Company's total comprehensive income or loss for the three months ended March 31, 2022 and March 31, 2021 is reported in the Consolidated Statements of Comprehensive Income.

The following tables present the changes in accumulated other comprehensive income (loss) by component, net of tax for the three months ended March 31, 2022 and March 31, 2021:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
	<i>(In thousands)</i>		
Balance at December 31, 2021	\$ 1,651	\$ (10,212)	\$ (8,561)
Other comprehensive (loss) income before reclassifications, net of tax	(3,703)	7,901	4,198
Amounts reclassified from accumulated other comprehensive income, net of tax	—	654	654
Net other comprehensive (loss) income	(3,703)	8,555	4,852
Balance at March 31, 2022	\$ (2,052)	\$ (1,657)	\$ (3,709)

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
	<i>(In thousands)</i>		
Balance at December 31, 2020	\$ 2,744	\$ (18,319)	\$ (15,575)
Other comprehensive (loss) income before reclassifications, net of tax	(798)	7,783	6,985
Amounts reclassified from accumulated other comprehensive income, net of tax	—	717	717
Net other comprehensive (loss) income	(798)	8,500	7,702
Balance at March 31, 2021	\$ 1,946	\$ (9,819)	\$ (7,873)

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

Accumulated Other Comprehensive Income Components	Three Months Ended March 31,		Associated Line Item in the Consolidated Statements of Income
	2022	2021	
	<i>(In thousands)</i>		
Derivatives:			
Unrealized losses on derivatives	\$ (842)	\$ (922)	Interest expense on borrowings
Tax benefit	188	205	Income tax expense
Net of tax	\$ (654)	\$ (717)	

6. Earnings per share ("EPS")

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.

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

	Three Months Ended March 31,	
	2022	2021
	<i>(In thousands, except per share data)</i>	
Net income	\$ 8,212	\$ 5,690
Dividends to participating securities ⁽¹⁾	(35)	(22)
Undistributed earnings allocated to participating securities ⁽¹⁾	(146)	(94)
Net income for earnings per share calculation	\$ 8,031	\$ 5,574
Weighted average shares outstanding, basic	7,637	7,759
Effect of dilutive equity-based awards ⁽²⁾	82	42
Weighted average shares outstanding, diluted	7,719	7,801
Net earnings per common share:		
Basic earnings per common share	\$ 1.05	\$ 0.72
Diluted earnings per common share	\$ 1.04	\$ 0.71

(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 the vesting of restricted shares, as applicable, utilizing the treasury stock method.

7. Regulatory Matters

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

Under the current guidelines, banking organizations must have a minimum total risk-based capital ratio of 8.0%, a minimum Tier 1 risk-based capital ratio of 6.0%, a minimum Common Equity Tier 1 risk-based capital ratio of 4.5%, and a minimum leverage ratio of 4.0% in order to be "adequately capitalized." In addition to these requirements, banking organizations must maintain a capital conservation buffer consisting of common equity in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk-weighted assets, resulting in a requirement for the Company and the Bank to effectively maintain Common Equity Tier 1, Tier 1 and total capital ratios of 7.0%, 8.5% and 10.5%, respectively. The Company and the Bank must maintain the capital conservation buffer to avoid restrictions on the ability to pay dividends, pay discretionary bonuses, or to engage in share repurchases.

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

As of March 31, 2022, the Bank and Company met all capital adequacy requirements to which they are subject. There are no conditions or events since then that management believes have changed this conclusion.

The capital amounts and ratios for the Bank and the Company at March 31, 2022 and December 31, 2021 were as follows:

<i>(Dollars in thousands)</i>	Actual Capital		Minimum Regulatory Capital Required for Capital Adequacy plus Capital Conservation Buffer		Minimum Regulatory Capital to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
<u>March 31, 2022</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 241,346	11.20 %	\$ 150,824	7.00 %	\$ 140,050	6.50 %
Total Capital to Risk-Weighted Assets	258,522	12.00 %	226,235	10.50 %	215,462	10.00 %
Tier I Capital to Risk-Weighted Assets	241,346	11.20 %	183,143	8.50 %	172,370	8.00 %
Tier I Capital to Average Assets	241,346	9.80 %	98,486	4.00 %	123,180	5.00 %

Bankwell Financial Group, Inc.

<u>March 31, 2022</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 210,782	9.78 %	\$ 150,824	7.00 %	N/A	N/A
Total Capital to Risk-Weighted Assets	263,487	12.23 %	226,235	10.50 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	210,782	9.78 %	183,143	8.50 %	N/A	N/A
Tier I Capital to Average Assets	210,782	8.55 %	98,658	4.00 %	N/A	N/A

<i>(Dollars in thousands)</i>	Actual Capital		Minimum Regulatory Capital Required for Capital Adequacy plus Capital Conservation Buffer		Minimum Regulatory Capital to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Bank						
<u>December 31, 2021</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 232,106	11.18 %	\$ 145,353	7.00 %	\$ 134,971	6.50 %
Total Capital to Risk-Weighted Assets	249,178	12.00 %	218,030	10.50 %	207,648	10.00 %
Tier I Capital to Risk-Weighted Assets	232,106	11.18 %	176,500	8.50 %	166,118	8.00 %
Tier I Capital to Average Assets	232,106	9.94 %	93,392	4.00 %	116,740	5.00 %

Bankwell Financial Group, Inc.

<u>December 31, 2021</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 207,393	9.97 %	\$ 145,629	7.00 %	N/A	N/A
Total Capital to Risk-Weighted Assets	260,024	12.50 %	218,443	10.50 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	207,393	9.97 %	176,835	8.50 %	N/A	N/A
Tier I Capital to Average Assets	207,393	8.87 %	93,534	4.00 %	N/A	N/A

Regulatory Restrictions on Dividends

The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Parent Corporation. 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.

Reserve Requirements on Cash

The Bank was not required to maintain a minimum reserve balance in the Federal Reserve Bank (FRB) at March 31, 2022 or December 31, 2021 as the FRB has waived this requirement due to the COVID-19 pandemic.

8. Deposits

At March 31, 2022 and December 31, 2021, deposits consisted of the following:

	March 31, 2022	December 31, 2021
	<i>(In thousands)</i>	
Noninterest bearing demand deposit accounts	\$ 412,985	\$ 398,956
Interest bearing accounts:		
NOW	112,567	119,479
Money market	996,458	954,674
Savings	197,961	193,631
Time certificates of deposit	446,233	457,258
Total interest bearing accounts	1,753,219	1,725,042
Total deposits	\$ 2,166,204	\$ 2,123,998

Maturities of time certificates of deposit as of March 31, 2022 and December 31, 2021 are summarized below:

	March 31, 2022	December 31, 2021
	<i>(In thousands)</i>	
2022	\$ 125,754	\$ 167,147
2023	202,875	179,520
2024	111,428	110,449
2025	6,015	33
2026	109	109
2027	52	—
Total	\$ 446,233	\$ 457,258

The aggregate amount of individual certificate accounts, including brokered deposits with balances of \$250,000 or more, was approximately \$303.2 million at March 31, 2022 and \$305.7 million at December 31, 2021.

Brokered certificates of deposits totaled \$249.4 million at March 31, 2022 and \$249.4 million at December 31, 2021. There were no certificates of deposits from national listing services at March 31, 2022 or December 31, 2021. Brokered money market accounts totaled \$100.3 million at March 31, 2022 and \$104.0 million at December 31, 2021.

The following table summarizes interest expense on deposits by account type for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
	<i>(In thousands)</i>	
NOW	\$ 47	\$ 43
Money market	1,180	950
Savings	101	125
Time certificates of deposits	878	1,996
Total interest expense on deposits	\$ 2,206	\$ 3,114

9. Stock-Based Compensation

Equity award plans

The Company has stock options or unvested restricted stock outstanding under two 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,” as amended from time-to-time. 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 stock options or restricted stock. At March 31, 2022, there were 473,220 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 an expense over the vesting period of such awards on a straight line basis.

There were no options granted during the three months ended March 31, 2022.

A summary of the status of outstanding stock options for the three months ended March 31, 2022 is presented below:

	Three Months Ended March 31, 2022	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	11,680	\$ 17.37
Exercised	(2,000)	15.00
Options outstanding at end of period	9,680	17.86
Options exercisable at end of period	9,680	17.86

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 three months ended March 31, 2022 was \$39 thousand.

The exercise price for the 9,680 options exercisable at March 31, 2022 was \$17.86 per share. The weighted average remaining contractual life for these options was 1.1 years at March 31, 2022. At March 31, 2022, as all awarded options have vested, all of the outstanding options are exercisable, and the aggregate intrinsic value of these options was \$155 thousand.

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

The following table presents the activity for restricted stock for the three months ended March 31, 2022:

	Three Months Ended March 31, 2022	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	190,359 ⁽¹⁾	\$ 24.57
Granted	69,001 ⁽²⁾	34.22
Vested	(54,667) ⁽³⁾	24.17
Unvested at end of period	204,693	27.93

(1) Includes 29,462 shares of performance based restricted stock

(2) Includes 20,905 shares of performance based restricted stock

(3) Includes 13,798 shares of performance based restricted stock

The total fair value of restricted stock awards vested during the three months ended March 31, 2022 was \$1.8 million.

The Company's restricted stock expense for the three months ended March 31, 2022 and March 31, 2021 was \$0.5 million and \$0.4 million, respectively. At March 31, 2022, there was \$4.9 million of unrecognized stock compensation expense for restricted stock, expected to be recognized over a weighted average period of 1.8 years.

Performance Based Restricted Stock: The Company has 36,569 shares of performance based restricted stock outstanding as of March 31, 2022 pursuant to the Company's 2012 Stock Plan. The awards vest over a three year service period, provided certain performance metrics are met. The share quantity that ultimately vests can range between 0% and 200%, which is dependent on the degree to which the performance metrics are met. The Company records an expense over the vesting period based on (a) the probability that the performance metric will be met and (b) the fair market value of the Company's stock at the date of the grant.

10. 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 March 31, 2022, the Company was a party to eight interest rate swaps, designated as hedging instruments, to add stability to interest expense and to manage its exposure to the variability of the future cash flows attributable to the contractually specified interest rates. The notional amount for each swap is \$25 million and in each case, the Company has entered into pay-fixed interest rate swaps to convert rolling 90 days Federal Home Loan Bank advances or brokered deposits. As of March 31, 2022, the Company entered into four interest rate swaps not designated as hedging instruments, to minimize interest rate risk exposure with loans to customers.

The Company accounts for all non-borrower related interest rate swaps as effective cash flow hedges. 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.

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain loan customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting derivatives that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate derivatives associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer derivatives and the offsetting derivatives are recognized directly in earnings.

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 at March 31, 2022 and December 31, 2021 is as follows:

As of March 31, 2022					
Derivative Assets			Derivative Liabilities		
Original Notional Amount	Balance Sheet Location	Fair Value	Original Notional Amount	Balance Sheet Location	Fair Value
<i>(In thousands)</i>					
Derivatives designated as hedging instruments:					
Interest rate swaps	\$ 125,000	Other assets \$ 3,637	\$ 75,000	Accrued expenses and other liabilities	\$ (5,773)
Derivatives not designated as hedging instruments:					
Interest rate swaps ⁽¹⁾	\$ 38,500	Other assets \$ 2,000	\$ 38,500	Accrued expenses and other liabilities	\$ (2,000)

(1) Represents interest rate swaps with commercial banking customers, which are offset by derivatives with a third party.

Accrued interest payable related to interest rate swaps as of March 31, 2022 totaled \$0.5 million and is excluded from the fair value presented in the table above. The fair value of interest rate swaps in a net liability position, including accrued interest, totaled \$2.6 million as of March 31, 2022.

As of December 31, 2021					
Derivative Assets			Derivative Liabilities		
Original Notional Amount	Balance Sheet Location	Fair Value	Original Notional Amount	Balance Sheet Location	Fair Value
<i>(In thousands)</i>					
Derivatives designated as hedging instruments:					
Interest rate swaps	\$ 50,000	Other assets \$ 1,043	\$ 150,000	Accrued expenses and other liabilities	\$ (14,195)
Derivatives not designated as hedging instruments:					
Interest rate swaps ⁽¹⁾	\$ 38,500	Other assets \$ 2,585	\$ 38,500	Accrued expenses and other liabilities	\$ (2,585)

(1) Represents interest rate swaps with commercial banking customers, which are offset by derivatives with a third party.

Accrued interest payable related to interest rate swaps as of December 31, 2021 totaled \$0.6 million and is excluded from the fair value presented in the table above. The fair value of interest rate swaps in a net liability position, including accrued interest, totaled \$13.7 million as of December 31, 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company expects to reclassify \$0.2 million to interest expense during the next 12 months.

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 Company does not offset derivative assets and derivative liabilities for financial statement presentation purposes.

Changes in the consolidated statements of comprehensive income (loss) related to interest rate derivatives designated as hedges of cash flows were as follows for the three months ended March 31, 2022 and March 31, 2021:

<i>(In thousands)</i>	Three Months Ended March 31,	
	2022	2021
Interest rate swaps designated as cash flow hedges:		
Unrealized gain recognized in accumulated other comprehensive income before reclassifications	\$ 10,174	\$ 10,011
Amounts reclassified from accumulated other comprehensive income	842	923
Income tax expense on items recognized in accumulated other comprehensive income	(2,461)	(2,434)
Other comprehensive income	\$ 8,555	\$ 8,500

The above unrealized gains and losses are reflective of market interest rates as of the respective balance sheet dates. Generally, a lower interest rate environment will result in a negative impact to comprehensive income whereas a higher interest rate environment will result in a positive impact to comprehensive income.

The following tables summarize gross and net information about derivative instruments that are offset in the Consolidated Balance Sheets at March 31, 2022 and December 31, 2021:

March 31, 2022						
<i>(In thousands)</i>						
	Gross Amounts of Recognized Assets⁽¹⁾	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivative Assets	\$ 5,549	\$ —	\$ 5,549	\$ 1,793	\$ —	\$ 3,756

(1) Includes accrued interest payable totaling \$89 thousand.

March 31, 2022						
<i>(In thousands)</i>						
	Gross Amounts of Recognized Liabilities⁽¹⁾	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivative Liabilities	\$ 8,190	\$ —	\$ 8,190	\$ 1,793	\$ 1,548	\$ 4,849

(1) Includes accrued interest payable totaling \$417 thousand.

December 31, 2021

(In thousands)

	Gross Amounts of Recognized Assets ⁽¹⁾	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Derivative Assets	\$ 3,604	\$ —	\$ 3,604	\$ 217	\$ —	\$ 3,387

(1) Includes accrued interest payable totaling \$24 thousand.

December 31, 2021

(In thousands)

	Gross Amounts of Recognized Liabilities ⁽¹⁾	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Posted	Net Amount
Derivative Liabilities	\$ 17,338	\$ —	\$ 17,338	\$ 217	\$ 15,845	\$ 1,276

(1) Includes accrued interest payable totaling \$558 thousand.

11. Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the Consolidated Balance Sheets, 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.

The carrying values, fair values and placement in the fair value hierarchy of the Company's financial instruments at March 31, 2022 and December 31, 2021 were as follows:

March 31, 2022					
Carrying Value	Fair Value	Level 1	Level 2	Level 3	
(In thousands)					
Financial Assets:					
Cash and due from banks	\$ 280,471	\$ 280,471	\$ 280,471	\$ —	\$ —
Federal funds sold	19,022	19,022	19,022	—	—
Marketable equity securities	2,090	2,090	2,090	—	—
Available for sale securities	98,733	98,733	39,057	59,676	—
Held to maturity securities	15,979	16,338	—	46	16,292
Loans receivable, net	1,964,567	1,933,114	—	—	1,933,114
Accrued interest receivable	7,733	7,733	—	7,733	—
FHLB stock	2,870	2,870	—	2,870	—
Servicing asset, net of valuation allowance	792	792	—	—	792
Derivative asset	5,637	5,637	—	5,637	—
Assets held for sale	2,268	2,268	—	—	2,268
Financial Liabilities:					
Noninterest bearing deposits	\$ 412,985	\$ 412,985	\$ —	\$ 412,985	\$ —
NOW and money market	1,109,025	1,109,025	—	1,109,025	—
Savings	197,961	197,961	—	197,961	—
Time deposits	446,233	443,904	—	—	443,904
Accrued interest payable	1,353	1,353	—	1,353	—
Advances from the FHLB	50,000	50,021	—	—	50,021
Subordinated debentures	34,471	32,676	—	—	32,676
Servicing liability	12	12	—	—	12
Derivative liability	7,773	7,773	—	7,773	—

December 31, 2021

	December 31, 2021				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	\$ 291,598	\$ 291,598	\$ 291,598	\$ —	\$ —
Federal funds sold	53,084	53,084	53,084	—	—
Marketable equity securities	2,168	2,168	2,168	—	—
Available for sale securities	90,198	90,198	25,569	64,629	—
Held to maturity securities	16,043	18,445	—	52	18,393
Loans receivable, net	1,875,167	1,858,661	—	—	1,858,661
Accrued interest receivable	7,512	7,512	—	7,512	—
FHLB stock	2,814	2,814	—	2,814	—
Servicing asset, net of valuation allowance	818	818	—	—	818
Derivative asset	3,628	3,628	—	3,628	—
Assets held for sale	2,268	2,268	—	—	2,268
Financial Liabilities:					
Noninterest bearing deposits	\$ 398,956	\$ 398,956	\$ —	\$ 398,956	\$ —
NOW and money market	1,074,153	1,074,153	—	1,074,153	—
Savings	193,631	193,631	—	193,631	—
Time deposits	457,258	457,759	—	—	457,759
Accrued interest payable	1,234	1,234	—	1,234	—
Advances from the FHLB	50,000	49,996	—	—	49,996
Subordinated debentures	34,441	34,509	—	—	34,509
Servicing liability	14	14	—	—	14
Derivative liability	16,780	16,780	—	16,780	—

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

Marketable equity securities and available for sale securities: Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The majority of the available for sale securities are considered to be Level 2 as other observable inputs are utilized, such as quoted prices for similar securities. Level 1 investment securities include investments in U.S. treasury notes and in marketable equity securities for which a quoted price is readily available in the market.

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

Assets held for sale: Assets held for sale (excluding loans) consist of real estate properties that are expected to sell within a year. The assets are reported at the lower of the carrying amount or fair value less costs to sell. The fair value represents the price that would be received to sell the asset (the exit price).

Servicing asset (liability): Servicing assets and liabilities do not trade in an active, open market with readily observable prices. The Company estimates the fair value of servicing assets and liabilities using discounted cash flow models, incorporating numerous assumptions from the perspective of a market participant, including market discount rates.

12. Fair Value Measurements

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

- Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Financial instruments measured at fair value on a recurring basis

The following table details the financial instruments carried at fair value on a recurring basis at March 31, 2022 and December 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the three months ended March 31, 2022 and for the year ended December 31, 2021.

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
March 31, 2022:			
Marketable equity securities	\$ 2,090	\$ —	\$ —
Available for sale investment securities:			
U.S. Government and agency obligations	39,057	44,305	—
Corporate bonds	—	15,371	—
Derivative asset	—	5,637	—
Derivative liability	—	7,773	—
December 31, 2021:			
Marketable equity securities	\$ 2,168	\$ —	\$ —
Available for sale investment securities:			
U.S. Government and agency obligations	25,569	49,620	—
Corporate bonds	—	15,009	—
Derivative asset	—	3,628	—
Derivative liability	—	16,780	—

Marketable equity securities and available for sale investment securities: The fair value of the Company's investment securities is estimated by using pricing models or quoted prices of securities with similar characteristics (i.e., matrix pricing) and is classified within Level 1 or Level 2 of the valuation hierarchy. The pricing is primarily sourced from third-party pricing services overseen by management.

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

Financial instruments measured at fair value on a nonrecurring basis

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

The following table details the financial instruments measured at fair value on a nonrecurring basis at March 31, 2022 and December 31, 2021, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
March 31, 2022:			
Impaired loans	\$ —	\$ —	\$ 43,149
Servicing asset, net	—	—	780
December 31, 2021:			
Impaired loans	\$ —	\$ —	\$ 44,313
Servicing asset, net	—	—	804
Assets held for sale	—	—	2,268

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at March 31, 2022 and December 31, 2021:

	Fair Value	Valuation Methodology	Unobservable Input	Range
<i>(Dollars in thousands)</i>				
March 31, 2022:				
Impaired loans	\$ 18,898	Appraisals	Discount to appraised value	8.00%
	24,251	Discounted cash flows	Discount rate	3.00 - 6.50%
	<u>\$ 43,149</u>			
Servicing asset, net	\$ 780	Discounted cash flows	Discount rate	10.00% ⁽¹⁾
			Prepayment rate	3.00 - 17.00%
December 31, 2021:				
Impaired loans	\$ 18,548	Appraisals	Discount to appraised value	8.00%
	25,765	Discounted cash flows	Discount rate	3.00 - 6.75%
	<u>\$ 44,313</u>			
Servicing asset, net	\$ 804	Discounted cash flows	Discount rate	10.00% ⁽²⁾
			Prepayment rate	3.00 - 17.00%
Assets held for sale	\$ 2,268	Sale & income approach	Adjustment to valuation and cost to sell	N/A

(1) Servicing liabilities totaling \$12 thousand were valued using a discount rate of 1.6%.

(2) Servicing liabilities totaling \$14 thousand were valued using a discount rate of 0.8%.

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

Servicing assets and liabilities: When loans are sold, on a servicing retained basis, servicing rights are initially recorded at fair value. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized. The fair value of servicing assets and liabilities are not measured on an ongoing basis but are subject to fair value adjustments when and if the assets or liabilities are deemed to be impaired.

Assets held for sale: Assets held for sale (excluding loans) consist of real estate properties that are expected to sell within a year. The assets are reported at the lower of the carrying amount or fair value less costs to sell. The fair value represents the price that would be received to sell the asset (the exit price).

13. 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 “2015 Notes”) to certain institutional investors. The 2015 Notes were non-callable for five years, had a stated maturity of August 15, 2025, and bore interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date. The 2015 Notes became callable, in part or in whole, beginning August 2020. On May 15, 2021, the Company repaid \$10.0 million of the 2015 Notes and on November 15, 2021, the Company repaid the remaining \$15.5 million of the 2015 Notes.

On October 14, 2021, the Company completed a private placement of a \$35.0 million fixed-to-floating rate subordinated note (the “2021 Note”) to an institutional accredited investor. The Company used the net proceeds to repay the 2015 Notes and intends to use the remaining proceeds for general corporate purposes.

The 2021 Note bears interest at a fixed rate of 3.25% per year until October 14, 2026. Thereafter, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 233 basis points. The 2021 Note has a stated maturity of October 15, 2031 and is non-callable for five years. Beginning October 15, 2026, the Company may redeem the 2021 Note, in whole or in part, at its option. The 2021 Note is not redeemable at the option of the holder. The 2021 Note has been structured to qualify for the Company as Tier 2 capital under regulatory guidelines.

The Company incurred certain costs associated with the issuance of its subordinated debt. The Company capitalized these costs and they have been presented within subordinated debentures on the consolidated balance sheets. At March 31, 2022 and December 31, 2021, unamortized debt issuance costs were \$0.5 million and \$0.6 million, respectively. Debt issuance costs amortize over the expected life of the related debt. For the three months ended March 31, 2022 and 2021 the amortization expense for debt issuance costs were \$30 thousand and \$13 thousand, respectively, and were recognized as an increase to interest expense on borrowings within the consolidated statements of income.

The Company recognized \$0.3 million and \$0.4 million in interest expense related to its subordinated debt for the three month periods ended March 31, 2022 and 2021, respectively.

14. Subsequent Events

On April 27, 2022, the Company’s Board of Directors declared a \$0.20 per share cash dividend, payable on May 23, 2022 to shareholders of record on May 13, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements and related notes contained elsewhere in this report on Form 10-Q. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. Factors that could cause such differences are discussed in the Company's Form 10-K filed for the year ended December 31, 2021 in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors." We assume no obligation to update any of these forward-looking statements.

General

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

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

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

Executive Overview

We are focused on being the banking provider of choice and to serve as an alternative to our larger competitors. We aim to do this through:

- Responsive, customer-centric products and services and a community focus;
- Organic growth and strategic acquisitions when market opportunities present themselves;
- Utilization of efficient and scalable infrastructure; and
- Disciplined focus on risk management.

Critical Accounting Policies and Estimates

The discussion and analysis of our results of operations and financial condition are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from our current estimates, as a result of changing conditions and future events. We believe that accounting estimates related to the measurement of the allowance for loan losses, the valuation of derivative instruments, investment securities and deferred income taxes, and the evaluation of investment securities for other than temporary impairment are particularly critical and susceptible to significant near-term change.

Earnings and Performance Overview

For the three months ended March 31, 2022, net interest income was \$19.5 million, an increase of \$4.9 million or 33.1% when compared to the same period in 2021. The increase in net interest income for the three months ended March 31, 2022 was primarily due to an increase in interest and fees on loans due to loan growth and higher overall loan yields and from lower interest expense on deposits when compared to the same period in 2021.

Noninterest income decreased \$1.0 million to \$1.0 million for the three months ended March 31, 2022 compared to the same period in 2021. The decrease in noninterest income was primarily a result of a one-time federal payroll tax credit for COVID-19 of \$0.9 million recognized during the three months ended March 31, 2021.

Net income available to common shareholders was \$8.2 million, or \$1.04 per diluted share, and \$5.7 million, or \$0.71 per diluted share, for the three months ended March 31, 2022 and 2021, respectively. The increase in net income was primarily impacted by the aforementioned increase in net interest income, partially offset by a decrease in noninterest income and an increase in the provision for loan losses driven by loan growth and a slight increase in noninterest expense.

Returns on average shareholders' equity and average assets for the three months ended March 31, 2022 were 16.05% and 1.35%, respectively, compared to 12.67% and 1.02%, respectively, for the three months ended March 31, 2021.

Results of Operations

Net Interest Income

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

FTE net interest income for the three months ended March 31, 2022 and 2021 was \$19.6 million and \$14.7 million, respectively. FTE interest income for the three months ended March 31, 2022 increased by \$3.5 million, or 18.7%, to \$22.4 million, compared to FTE interest income for the three months ended March 31, 2021. This increase was due to commercial loan growth and higher yields on commercial business loans. Interest expense for the three months ended March 31, 2022 decreased by \$1.3 million, or 32.3%, compared to interest expense for the three months ended March 31, 2021. This decrease is due to lower interest rates on deposits.

The net interest margin increased by 56 basis points to 3.30% for the three months ended March 31, 2022, compared to the three months ended March 31, 2021. The increase in the net interest margin was due to lower interest expense from a decrease in rates on interest bearing deposits, a greater proportion of noninterest bearing deposits and, to a lesser extent, an increase in overall loan yields.

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential

The following tables present the average balances and yields earned on interest earning assets and average balances and weighted average rates paid on our funding liabilities for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,					
	2022			2021		
<i>(Dollars in thousands)</i>	Average Balance	Interest	Yield / Rate ⁽⁴⁾	Average Balance	Interest	Yield / Rate ⁽⁴⁾
Assets:						
Cash and Fed funds sold	\$ 346,183	\$ 154	0.18 %	\$ 401,900	\$ 108	0.11 %
Securities ⁽¹⁾	112,337	754	2.69	101,176	788	3.11
Loans:						
Commercial real estate	1,343,565	14,997	4.46	1,129,224	12,731	4.51
Residential real estate	73,835	671	3.64	112,053	964	3.44
Construction	102,179	1,033	4.04	94,075	885	3.76
Commercial business	383,115	4,625	4.83	294,756	3,271	4.44
Consumer	6,054	102	6.85	5,039	49	3.94
Total loans	1,908,748	21,428	4.49	1,635,147	17,900	4.38
Federal Home Loan Bank stock	2,835	15	2.10	6,508	31	1.96
Total earning assets	2,370,103	\$ 22,351	3.77 %	2,144,731	\$ 18,827	3.51 %
Other assets	100,469			113,561		
Total assets	\$ 2,470,572			\$ 2,258,292		
Liabilities and shareholders' equity:						
Interest bearing liabilities:						
NOW	\$ 112,199	\$ 47	0.17 %	\$ 101,057	\$ 43	0.17 %
Money market	969,527	1,180	0.49	736,659	950	0.52
Savings	194,463	101	0.21	160,347	125	0.32
Time	453,805	878	0.78	611,153	1,996	1.32
Total interest bearing deposits	1,729,994	2,206	0.52	1,609,216	3,114	0.78
Borrowed money	84,452	586	2.77	152,485	1,008	2.64
Total interest bearing liabilities	1,814,446	\$ 2,792	0.62 %	1,761,701	\$ 4,122	0.95 %
Noninterest bearing deposits	405,400			269,863		
Other liabilities	43,185			44,670		
Total Liabilities	2,263,031			2,076,234		
Shareholders' equity	207,541			182,058		
Total liabilities and shareholders' equity	\$ 2,470,572			\$ 2,258,292		
Net interest income ⁽²⁾		\$ 19,559			\$ 14,705	
Interest rate spread			3.15 %			2.56 %
Net interest margin ⁽³⁾			3.30 %			2.74 %

(1) Average balances and yields for securities are based on amortized cost.

(2) The adjustment for securities and loans taxable equivalency amounted to \$49 thousand and \$50 thousand for the three months ended March 31, 2022 and 2021, respectively.

(3) Annualized net interest income as a percentage of earning assets.

(4) Yields are calculated using the contractual day count convention for each respective product type.

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

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

<i>(In thousands)</i>	Three Months Ended March 31, 2022 vs 2021 Increase (Decrease)		
	Volume	Rate	Total
Interest and dividend income:			
Cash and Fed funds sold	\$ (17)	\$ 63	\$ 46
Securities	81	(115)	(34)
Loans:			
Commercial real estate	2,394	(128)	2,266
Residential real estate	(345)	52	(293)
Construction	79	69	148
Commercial business	1,046	308	1,354
Consumer	11	42	53
Total loans	3,185	343	3,528
Federal Home Loan Bank stock	(19)	3	(16)
Total change in interest and dividend income	3,230	294	3,524
Interest expense:			
Deposits:			
NOW	5	(1)	4
Money market	286	(56)	230
Savings	23	(47)	(24)
Time	(433)	(685)	(1,118)
Total deposits	(119)	(789)	(908)
Borrowed money	(469)	47	(422)
Total change in interest expense	(588)	(742)	(1,330)
Change in net interest income	\$ 3,818	\$ 1,036	\$ 4,854

Provision for Loan Losses

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

The provision for loan losses for the three months ended March 31, 2022 was \$0.2 million compared to a credit for loan losses of \$0.3 million for the three months ended March 31, 2021. The increase in the provision for loan losses for the three months ended March 31, 2022 was driven by loan growth.

Noninterest Income

Noninterest income is a component of our revenue and is comprised primarily of fees generated from deposit relationships with our customers, fees generated from sales and referrals of loans, income earned on bank-owned life insurance and gains on sales of investment securities.

The following table compares noninterest income for the three months ended March 31, 2022 and 2021:

<i>(Dollars in thousands)</i>	Three Months Ended March 31,		Change	
	2022	2021	\$	%
Gains and fees from sales of loans	\$ 631	\$ 513	\$ 118	23.0 %
Bank-owned life insurance	260	231	29	12.6
Service charges and fees	240	199	41	20.6
Other	(173)	1,013	(1,186)	(117.1)
Total noninterest income	\$ 958	\$ 1,956	\$ (998)	(51.0)%

Noninterest income decreased by \$1.0 million to \$1.0 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The decrease in noninterest income was driven by a one-time federal payroll tax credit for COVID-19 of \$0.9 million recognized during the three months ended March 31, 2021.

Noninterest Expense

The following table compares noninterest expense for the three months ended March 31, 2022 and 2021:

<i>(Dollars in thousands)</i>	Three Months Ended March 31,		Change	
	2022	2021	\$	%
Salaries and employee benefits	\$ 4,940	\$ 4,769	\$ 171	3.6 %
Occupancy and equipment	2,150	2,406	(256)	(10.6)
Professional services	981	587	394	67.1
Data processing	654	512	142	27.7
Director fees	352	317	35	11.0
FDIC insurance	223	403	(180)	(44.7)
Marketing	45	(9)	54	N/M ⁽¹⁾
Other	580	653	(73)	(11.2)
Total noninterest expense	\$ 9,925	\$ 9,638	\$ 287	3.0 %

(1) Metric not meaningful

Noninterest expense increased by \$0.3 million to \$9.9 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. The increase in noninterest expense was primarily driven by an increase in professional services expense and data processing expense.

Professional services expense totaled \$1.0 million for the three months ended March 31, 2022, an increase of \$0.4 million when compared to the same period in 2021. The increase in professional services expense was primarily driven by consulting fees associated with various projects, including our core system conversion.

Data processing expense totaled \$0.7 million for the three months ended March 31, 2022, an increase of \$0.1 million when compared to the same period in 2021. The increase in data processing expense was primarily driven by costs associated with our new online banking system.

Income Taxes

Income tax expense for the three months ended March 31, 2022 and 2021 totaled \$2.1 million and \$1.6 million, respectively. The effective tax rates for the three months ended March 31, 2022 and 2021 were 20.4% and 21.7%, respectively. The decrease in the effective tax rate was primarily attributable to an increase in the valuation of state deferred tax assets as a result of expanding taxable business activity in various states.

Financial Condition

Summary

At March 31, 2022 total assets were \$2.5 billion, a \$40.6 million increase, or 1.7%, compared to December 31, 2021. The increase in assets was primarily due to loan growth, partially offset by a decrease in excess liquidity. Gross loans totaled \$2.0 billion at March 31, 2022, an increase of \$90.4 million compared to December 31, 2021. Deposits totaled \$2.2 billion at March 31, 2022, compared to \$2.1 billion at December 31, 2021.

Total shareholders' equity at March 31, 2022 and December 31, 2021 was \$210.2 million and \$202.0 million, respectively. The increase in shareholders' equity was primarily driven by (i) net income of \$8.2 million for the three months ended March 31, 2022 and (ii) a \$4.9 million favorable impact to accumulated other comprehensive income driven by fair value marks related to hedge positions involving interest rate swaps. The Company's interest rate swaps are used to hedge interest rate risk. The Company's current interest rate swap positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The increase in shareholders' equity was partially offset by dividends paid of \$1.6 million and common stock repurchases of \$3.8 million.

Loan Portfolio

We originate commercial real estate loans, including construction loans, commercial business loans and other consumer loans. Our loan portfolio is the largest category of our earning assets.

Total loans before deferred loan fees and the allowance for loan losses were \$1.99 billion at March 31, 2022 and \$1.89 billion at December 31, 2021. Total gross loans increased \$90.4 million as of March 31, 2022 compared to the year ended December 31, 2021.

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

<i>(In thousands)</i>	At March 31, 2022	At December 31, 2021	Change
Real estate loans:			
Residential	\$ 68,617	\$ 79,987	\$ (11,370)
Commercial	1,425,758	1,356,709	69,049
Construction	115,514	98,341	17,173
	1,609,889	1,535,037	74,852
Commercial business	370,166	350,975	19,191
Consumer	5,275	8,869	(3,594)
Total loans	\$ 1,985,330	\$ 1,894,881	\$ 90,449

Asset Quality

We actively manage asset quality through our underwriting practices and collection operations. Our Board of Directors monitors credit risk management. The Directors Loan Committee ("DLC") has primary oversight responsibility for the credit-granting function including approval authority for credit-granting policies, review of management's credit-granting activities and approval of large exposure credit requests, as well as loan review and problem loan management and resolution. The committee reports the results of its respective oversight functions to our Board of Directors. In addition, our Board of Directors receives information concerning asset quality measurements and trends on a monthly basis. While we continue to adhere to prudent underwriting standards, our loan portfolio is not immune to potential negative consequences as a result of general economic weakness, such as a prolonged downturn in the housing market on a national scale. Decreases in real estate values could adversely affect the value of property used as collateral for loans. In addition, adverse changes in the economy could have a negative effect on the ability of borrowers to make scheduled loan payments, which would likely have an adverse impact on earnings.

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 borrower's 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. As of the beginning of the third quarter of 2019, the Company no longer offered home equity loans or lines of credit. The Company's policy for residential lending generally required that 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 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.

Credit risk management involves a partnership between our relationship managers and our credit approval, portfolio management, credit administration and collections personnel. Disciplined underwriting, portfolio monitoring and early problem recognition are important aspects of maintaining our high credit quality standards and low levels of nonperforming assets since our inception in 2002.

Nonperforming assets. Nonperforming assets include nonaccrual loans and property acquired through foreclosures or repossession. The following table presents nonperforming assets and additional asset quality data for the dates indicated:

<i>(In thousands)</i>	At March 31, 2022	At December 31, 2021
Nonaccrual loans:		
Real estate loans:		
Residential	\$ 2,181	\$ 2,380
Commercial	3,365	3,482
Commercial business	817	1,728
Construction	9,382	8,997
Total nonaccrual loans	15,745	16,587
Other real estate owned	—	—
Total nonperforming assets	\$ 15,745	\$ 16,587
Nonperforming assets to total assets	0.63 %	0.68 %
Nonaccrual loans to total gross loans	0.79 %	0.88 %
Total past due loans to total gross loans	0.85 %	1.72 %

Nonperforming assets totaled \$15.7 million and represented 0.63% of total assets at March 31, 2022, compared to \$16.6 million and 0.68% of total assets at December 31, 2021. Nonaccrual loans totaled \$15.7 million at March 31, 2022 and \$16.6 million at December 31, 2021. There was no other real estate owned at March 31, 2022 or December 31, 2021.

Allowance for Loan Losses

We evaluate the adequacy of the allowance for loan losses at least quarterly, and in determining our allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of our allowance for loan losses is based on internally assigned risk classifications of loans, the Bank's and peer banks' historical loss experience, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

Our general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that it is probable that the loan will not be repaid according to its original contractual terms, including principal and interest. Full or partial charge-offs on collateral dependent impaired loans are recognized when the collateral is deemed to be insufficient to support the carrying value of the loan. We do not recognize a recovery when an updated appraisal indicates a subsequent increase in value of the collateral.

Our charge-off policies, which comply with standards established by our banking regulators, are consistently applied from period to period. Charge-offs are recorded on a monthly basis, as incurred. Partially charged-off loans continue to be evaluated on a monthly basis and additional charge-offs or loan loss provisions may be recorded on the remaining loan balance based on the same criteria.

The following table presents the activity in our allowance for loan losses and related ratios for the dates indicated:

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2022	2021
Balance at beginning of period	\$ 16,902	\$ 21,009
Charge-offs:		
Commercial real estate	—	(163)
Consumer	(4)	(14)
Total charge-offs	(4)	(177)
Recoveries:		
Commercial business	13	—
Consumer	1	9
Total recoveries	14	9
Net recoveries (charge-offs)	10	(168)
Provision (credit) charged to earnings	229	(296)
Balance at end of period	\$ 17,141	\$ 20,545
Net charge-offs to average loans	— %	0.01 %
Allowance for loan losses to total gross loans	0.86 %	1.23 %

At March 31, 2022, our allowance for loan losses was \$17.1 million and represented 0.86% of total gross loans, compared to \$16.9 million, or 0.89% of total gross loans, at December 31, 2021.

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

<i>(Dollars in thousands)</i>	At March 31, 2022		At December 31, 2021	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
Residential real estate	\$ 358	3.46 %	\$ 504	4.22 %
Commercial real estate	13,441	71.81	12,751	71.60
Construction	56	5.82	4	5.19
Commercial business	3,254	18.64	3,590	18.52
Consumer	32	0.27	53	0.47
Total allowance for loan losses	\$ 17,141	100.00 %	\$ 16,902	100.00 %

The allocation of the allowance for loan losses at March 31, 2022 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at March 31, 2022 is appropriate to cover probable losses.

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 is primarily based on our allowance for loan loss methodology for funded loans, adjusted for utilization expectations. The reserve for unfunded credit commitments is included within other liabilities in the accompanying Consolidated Balance Sheets. Changes in the reserve are reported as a component of other noninterest expense in the accompanying Consolidated Statements of Income.

Investment Securities

At March 31, 2022, the carrying value of our investment securities portfolio totaled \$116.8 million and represented 4.7% of total assets, compared to \$108.4 million, or 4.4% of total assets, at December 31, 2021.

The net unrealized loss position on our investment portfolio at March 31, 2022 was \$2.3 million and included gross unrealized losses of \$3.5 million. The net unrealized gain position on our investment portfolio at December 31, 2021 was \$4.5 million and included gross unrealized losses of \$0.5 million.

Deposit Activities and Other Sources of Funds

<i>(Dollars in thousands)</i>	March 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
Noninterest bearing demand	\$ 412,985	19.06 %	\$ 398,956	18.78 %
NOW	112,567	5.20	119,479	5.62
Money market	996,458	46.00	954,674	44.95
Savings	197,961	9.14	193,631	9.12
Time	446,233	20.60	457,258	21.53
Total deposits	\$ 2,166,204	100.00 %	\$ 2,123,998	100.00 %

Total deposits were \$2.2 billion at March 31, 2022, an increase of \$42.2 million, from the balance at December 31, 2021.

Brokered certificates of deposits totaled \$249.4 million at March 31, 2022 and \$249.4 million at December 31, 2021. There were no certificates of deposits from national listing services at March 31, 2022 or December 31, 2021. Brokered money market accounts totaled \$100.3 million at March 31, 2022 and \$104.0 million at December 31, 2021. Brokered deposits represent brokered certificates of deposit, brokered money market accounts, one way buy Certificate of Deposit Account Registry Service (CDARS), and one way buy Insured Cash Sweep (ICS).

At March 31, 2022 and December 31, 2021, time deposits with a denomination of \$100 thousand or more, including CDARS and brokered deposits, totaled \$383.6 million and \$391.2 million, respectively, maturing during the periods indicated in the table below:

<i>(Dollars in thousands)</i>	March 31, 2022		December 31, 2021	
Maturing:				
Within 3 months	\$	73,414	\$	80,417
After 3 but within 6 months		13,249		21,935
After 6 months but within 1 year		22,988		25,625
After 1 year		273,975		263,216
Total	\$	383,626	\$	391,193

We utilize advances from the Federal Home Loan Bank of Boston, or FHLB, as part of our overall funding strategy and to meet short-term liquidity needs, and to a lesser degree, manage interest rate risk arising from the difference in asset and liability maturities. Total FHLB advances were \$50.0 million and \$50.0 million at March 31, 2022 and December 31, 2021, 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 March 31, 2022, the Bank had pledged \$691.6 million of eligible loans as collateral to support borrowing capacity at the FHLB of Boston. As of March 31, 2022, the Bank had immediate availability to borrow an additional \$314.5 million based on qualified collateral.

Liquidity and Capital Resources

Liquidity Management

Liquidity is defined as the ability to generate sufficient cash flows to meet all present and future funding requirements at reasonable costs. Our primary source of liquidity is deposits. While our generally preferred funding strategy is to attract and retain low cost deposits, our ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and other borrowings), cash flows from our investment securities portfolios, loan sales, loan repayments and earnings. Investment securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs.

The Bank's liquidity positions are monitored daily by management. The Asset Liability Committee ("ALCO") establishes guidelines to ensure maintenance of prudent levels of liquidity. ALCO reports to the Company's Board of Directors.

The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. We employ a stress testing methodology to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. The Bank has established unsecured borrowing capacity with the Atlantic Community Bankers Bank ("ACBB"), Zion's Bank and Texas Capital Bank and also maintains additional collateralized borrowing capacity with the FHLB in excess of levels used in the ordinary course of business. Our sources of liquidity include cash, unpledged investment securities, borrowings from the FHLB, lines of credit from ACBB, Zion's Bank and Texas Capital Bank, the brokered deposit market and national CD listing services.

The Company anticipates that it will have sufficient funds available to meet its current loan and other commitments. As of March 31, 2022, the Company had cash and cash equivalents of \$299.5 million and available-for-sale securities of \$98.7 million. At March 31, 2022, outstanding commitments to originate loans totaled \$148.3 million and undisbursed funds from approved lines of credit, home equity lines of credit and secured commercial lines of credit totaled \$301.7 million.

Capital Resources

Shareholders' equity totaled \$210.2 million as of March 31, 2022, an increase of \$8.2 million compared to December 31, 2021, primarily a result of (i) net income of \$8.2 million for the three months ended March 31, 2022 and (ii) a \$4.9 million favorable impact to accumulated other comprehensive income driven by fair value marks related to hedge positions involving interest rate

swaps. The Company's interest rate swaps are used to hedge interest rate risk. The Company's current interest rate swap positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The increase in shareholders' equity was partially offset by dividends paid of \$1.6 million and common stock repurchases of \$3.8 million. As of March 31, 2022, the tangible common equity ratio and fully diluted tangible book value per share were 8.32% and \$26.75, respectively.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At March 31, 2022, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At March 31, 2022, the Bank's ratio of Common Equity Tier 1 capital to risk-weighted assets was 11.20%, total capital to risk-weighted assets was 12.00%, Tier 1 capital to risk-weighted assets was 11.20% and Tier 1 capital to average assets was 9.80%.

In July 2013, the Federal Reserve published Basel III rules establishing a new comprehensive capital framework of U.S. banking organizations. Under the rules, effective January 1, 2015 for the Company and Bank, the minimum capital ratios became a) 4.5% Common Equity Tier 1 to risk-weighted assets, b) 6.0% Tier 1 capital to risk-weighted assets and c) 8.0% total capital to risk-weighted assets. In addition, the new regulations imposed certain limitations on dividends, share buy-backs, discretionary payments on Tier 1 instruments and discretionary bonuses to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity to risk-weighted assets, in addition to the amounts necessary to meet the minimum risk-based capital requirements described above.

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 baseline 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.

We use a 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 Parallel Ramp Scenarios, 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. Per Company policy, the Bank should not be outside these limits for twelve consecutive months unless the Bank's forecasted capital ratios are considered to be "well capitalized". As of March 31, 2022, the Bank has met all minimum regulatory capital requirements to be considered "well capitalized" (reference footnote 7 to the consolidated financial statements for more detail).

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning March 31, 2022 and December 31, 2021:

Parallel Ramp

<u>Rate Changes (basis points)</u>	Estimated Percent Change in Net Interest Income	
	March 31, 2022	December 31, 2021
-100	(1.70)%	(0.80)%
+200	(3.00)	(2.20)

Parallel Shock

<u>Rate Changes (basis points)</u>	Estimated Percent Change in Net Interest Income	
	March 31, 2022	December 31, 2021
-100	(3.70)%	(1.70)%
+100	(1.50)	(1.00)
+200	(3.20)	(1.90)
+300	(4.50)	(2.40)

The net interest income at risk simulation results indicate that, as of March 31, 2022, 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 an 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 repricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. The 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:

<u>Rate Changes (basis points)</u>	Estimated Percent Change in Economic Value of Equity ("EVE")	
	March 31, 2022	December 31, 2021
-100	(12.30)%	(21.40)%
+100	0.10	3.10
+200	(1.60)	3.60
+300	(3.00)	4.50

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. ALCO recognizes that deposit balances could shift into higher yielding alternatives as market rates change. ALCO has modeled increased costs of deposits in the rising rate simulation scenarios presented above. In the minus 100 scenario above, the change in EVE of (12.3)% is outside of policy parameters, however, the Bank continues to be well-capitalized. The result of this simulation was discussed with the ALCO and

the Company has decided to not take any further action at this time as this scenario is deemed unlikely in the current interest rate environment.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk Management

Interest rate risk management is our primary market risk. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Asset/Liability Management and Interest Rate Risk” herein for a discussion of our management of our interest rate risk.

Impact of Inflation

Our financial statements and related data contained in this quarterly report have been prepared in accordance with GAAP, which requires 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 the assets and liabilities of 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.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures:

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

(b) Change in internal controls:

There has been no change in the Company’s internal control over financial reporting during the quarter ended March 31, 2022 that has materially affected, or is reasonably likely to affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities***

The following table includes information with respect to repurchases of the Company's Common Stock during the three-month period ended March 31, 2022 under the Company's share repurchase program.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs⁽¹⁾
January 1, 2022 - January 31, 2022	1,591	\$ 32.25	1,591	314,972
February 1, 2022 - February 28, 2022	4,986	33.91	4,986	309,986
March 1, 2022 - March 31, 2022	106,252	34.04	106,252	203,734
Total	112,829	\$ 34.01	112,829	203,734

(1) On December 19, 2018, the Company's Board of Directors authorized a share repurchase program of up to 400,000 shares of the Company's Common Stock. The Company may repurchase shares in open market transactions or by other means, such as privately negotiated transactions. The timing, price and volume of repurchases will be based on market conditions, relevant securities laws and other factors. The share repurchase plan does not obligate the Company to acquire any particular amount of Common Stock, and it may be modified or suspended at any time at the Company's discretion. On October 27, 2021, the Company's Board of Directors authorized the repurchase of an additional 200,000 shares under its existing share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith:

- 31.1 [Certification of Christopher R. Gruseke pursuant to Rule 13a-14\(a\)](#)
- 31.2 [Certification of Penko Ivanov pursuant to Rule 13a-14\(a\)](#)
- 32 [Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following materials from Bankwell Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2022, formatted in Inline eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (formatting in Inline XBRL and contained in Exhibit 101)

Signatures

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

Date: May 6, 2022

Bankwell Financial Group, Inc.

/s/ Christopher R. Gruseke

Christopher R. Gruseke

President and Chief Executive Officer

Date: May 6, 2022

/s/ Penko Ivanov

Penko Ivanov

Executive Vice President and Chief

Financial Officer

(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Christopher R. Gruseke certify that:

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

Date: May 6, 2022

/s/ Christopher R. Gruseke

Christopher R. Gruseke
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Penko Ivanov certify that:

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

Date: May 6, 2022

/s/ Penko Ivanov

Penko Ivanov

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

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

The undersigned, Christopher R. Gruseke and Penko Ivanov hereby jointly certify as follows:

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

To the best of their knowledge, the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 (the “Report”) complies in all material respects with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

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

/s/ Christopher R. Gruseke

Christopher R. Gruseke

President and Chief Executive Officer

Date: May 6, 2022

/s/ Penko Ivanov

Penko Ivanov

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: May 6, 2022

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

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