

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023**

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 October 31, 2023, there were 7,841,616 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)

	September 30, 2023	December 31, 2022
ASSETS		
Cash and due from banks	\$ 256,973	\$ 344,925
Federal funds sold	1,122	10,754
Cash and cash equivalents	<u>258,095</u>	<u>355,679</u>
Investment securities		
Marketable equity securities, at fair value	1,975	1,988
Available for sale investment securities, at fair value	97,907	103,663
Held to maturity investment securities, at amortized cost (fair values of \$14,317 and \$15,435 at September 30, 2023 and December 31, 2022, respectively)	15,885	15,983
Total investment securities	<u>115,767</u>	<u>121,634</u>
Loans receivable (net of ACL-Loans of \$29,284 at September 30, 2023 and \$22,431 at December 31, 2022)	2,735,242	2,646,384
Accrued interest receivable	15,648	13,070
Federal Home Loan Bank stock, at cost	5,696	5,216
Premises and equipment, net	26,899	27,199
Bank-owned life insurance	51,119	50,243
Goodwill	2,589	2,589
Deferred income taxes, net	9,395	7,422
Other assets	29,326	23,013
Total assets	<u><u>\$ 3,249,776</u></u>	<u><u>\$ 3,252,449</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	\$ 345,433	\$ 404,559
Interest bearing deposits	2,423,193	2,396,259
Total deposits	<u>2,768,626</u>	<u>2,800,818</u>
Advances from the Federal Home Loan Bank	90,000	90,000
Subordinated debentures (face value of \$70,000 and \$70,000 at September 30, 2023 and December 31, 2022, respectively, less unamortized debt issuance costs of \$857 and \$1,041 at September 30, 2023 and December 31, 2022, respectively)	69,143	68,959
Accrued expenses and other liabilities	64,145	54,203
Total liabilities	<u>2,991,914</u>	<u>3,013,980</u>
Commitments and contingencies		
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,841,616 and 7,730,699 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	117,181	115,018
Retained earnings	142,205	123,640
Accumulated other comprehensive loss	(1,524)	(189)
Total shareholders' equity	<u>257,862</u>	<u>238,469</u>
Total liabilities and shareholders' equity	<u><u>\$ 3,249,776</u></u>	<u><u>\$ 3,252,449</u></u>

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest and dividend income				
Interest and fees on loans	\$ 43,854	\$ 28,128	\$ 126,059	\$ 74,697
Interest and dividends on securities	1,016	811	3,018	2,305
Interest on cash and cash equivalents	3,393	747	9,983	1,350
Total interest and dividend income	48,263	29,686	139,060	78,352
Interest expense				
Interest expense on deposits	23,789	4,092	61,599	8,281
Interest expense on borrowings	1,783	993	5,238	2,137
Total interest expense	25,572	5,085	66,837	10,418
Net interest income	22,691	24,601	72,223	67,934
(Credit) provision for credit losses	(1,579)	2,381	1,826	1,165
Net interest income after (credit) provision for credit losses	24,270	22,220	70,397	66,769
Noninterest income				
Bank-owned life insurance	303	271	876	796
Service charges and fees	294	240	941	729
Gains and fees from sales of loans	237	(15)	1,893	1,224
Other	(48)	(94)	3	(237)
Total noninterest income	786	402	3,713	2,512
Noninterest expense				
Salaries and employee benefits	6,036	5,876	18,507	16,249
Occupancy and equipment	2,146	2,035	6,434	6,378
Professional services	491	994	2,505	2,975
Data processing	741	626	2,141	1,969
Director fees	362	325	1,207	1,016
FDIC insurance	1,026	255	3,138	740
Marketing	184	102	512	254
Other	1,219	818	3,093	2,311
Total noninterest expense	12,205	11,031	37,537	31,892
Income before income tax expense	12,851	11,591	36,573	37,389
Income tax expense	3,074	2,417	8,434	7,981
Net income	\$ 9,777	\$ 9,174	\$ 28,139	\$ 29,408
Earnings Per Common Share:				
Basic	\$ 1.25	\$ 1.19	\$ 3.61	\$ 3.80
Diluted	\$ 1.25	\$ 1.18	\$ 3.58	\$ 3.75
Weighted Average Common Shares Outstanding:				
Basic	7,598,230	7,553,718	7,582,272	7,582,175
Diluted	7,633,934	7,612,421	7,646,837	7,664,123
Dividends per common share	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.60

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 9,777	\$ 9,174	\$ 28,139	\$ 29,408
Other comprehensive income:				
Unrealized (losses) gains on securities:				
Unrealized holding (losses) gains on available for sale securities	(752)	(4,439)	(1,941)	(11,130)
Reclassification adjustment for gains realized in net income	—	—	—	—
Net change in unrealized (losses) gains	(752)	(4,439)	(1,941)	(11,130)
Income tax benefit (expense)	173	992	501	2,486
Unrealized (losses) gains on securities, net of tax	(579)	(3,447)	(1,440)	(8,644)
Unrealized gains (losses) on interest rate swaps:				
Unrealized gains (losses) on interest rate swaps	1,001	3,737	205	21,897
Income tax (expense) benefit	(230)	(835)	(100)	(4,892)
Unrealized gains (losses) on interest rate swaps, net of tax	771	2,902	105	17,005
Total other comprehensive income (loss), net of tax	192	(545)	(1,335)	8,361
Comprehensive income	<u>\$ 9,969</u>	<u>\$ 8,629</u>	<u>\$ 26,804</u>	<u>\$ 37,769</u>

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) Income	Total
Balance at June 30, 2023	7,829,950	\$ 116,541	\$ 133,988	\$ (1,716)	\$ 248,813
Net income	—	—	9,777	—	9,777
Other comprehensive income, net of tax	—	—	—	192	192
Cash dividends declared (\$0.20 per share)	—	—	(1,560)	—	(1,560)
Stock-based compensation expense	—	640	—	—	640
Issuance of restricted stock	11,666	—	—	—	—
Stock options exercised	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—
Balance at September 30, 2023	<u>7,841,616</u>	<u>\$ 117,181</u>	<u>\$ 142,205</u>	<u>\$ (1,524)</u>	<u>\$ 257,862</u>

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at June 30, 2022	7,752,389	\$ 115,599	\$ 109,523	\$ 345	\$ 225,467
Net income	—	—	9,174	—	9,174
Other comprehensive (loss), net of tax	—	—	—	(545)	(545)
Cash dividends declared (\$0.20 per share)	—	—	(1,545)	—	(1,545)
Stock-based compensation expense	—	634	—	—	634
Warrants exercised	—	—	—	—	—
Issuance of restricted stock	12,000	—	—	—	—
Stock options exercised	1,000	18	—	—	18
Repurchase of common stock	(53,546)	(1,703)	—	—	(1,703)
Balance at September 30, 2022	<u>7,711,843</u>	<u>\$ 114,548</u>	<u>\$ 117,152</u>	<u>\$ (200)</u>	<u>\$ 231,500</u>

See accompanying notes to consolidated financial statements (unaudited)

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2022	7,730,699	\$ 115,018	\$ 123,640	\$ (189)	\$ 238,469
Cumulative effect of change in accounting principle (ASU No. 2016-13), net of tax	—	—	(4,893)	—	(4,893)
Balance as of January 1, 2023 as adjusted for changes in accounting principle	7,730,699	115,018	118,747	(189)	233,576
Net income	—	—	28,139	—	28,139
Other comprehensive (loss), net of tax	—	—	—	(1,335)	(1,335)
Cash dividends declared (\$0.60 per share)	—	—	(4,681)	—	(4,681)
Stock-based compensation expense	—	2,008	—	—	2,008
Forfeitures of restricted stock	(15,438)	—	—	—	—
Issuance of restricted stock	117,675	—	—	—	—
Stock options exercised	8,680	155	—	—	155
Repurchase of common stock	—	—	—	—	—
Balance at September 30, 2023	<u>7,841,616</u>	<u>\$ 117,181</u>	<u>\$ 142,205</u>	<u>\$ (1,524)</u>	<u>\$ 257,862</u>

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2021	7,803,166	\$ 118,148	\$ 92,400	\$ (8,561)	\$ 201,987
Net income	—	—	29,408	—	29,408
Other comprehensive income, net of tax	—	—	—	8,361	8,361
Cash dividends declared (\$0.60 per share)	—	—	(4,656)	—	(4,656)
Stock-based compensation expense	—	1,892	—	—	1,892
Forfeitures of restricted stock	(9,449)	—	—	—	—
Issuance of restricted stock	81,501	—	—	—	—
Stock options exercised	3,000	48	—	—	48
Repurchase of common stock	(166,375)	(5,540)	—	—	(5,540)
Balance at September 30, 2022	<u>7,711,843</u>	<u>\$ 114,548</u>	<u>\$ 117,152</u>	<u>\$ (200)</u>	<u>\$ 231,500</u>

See accompanying notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 28,139	\$ 29,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premiums and discounts on investment securities	51	252
Provision for credit losses	1,826	1,165
Credit for deferred income taxes	(114)	(441)
Change in fair value of marketable equity securities	49	217
Depreciation and amortization	2,683	2,476
Amortization of debt issuance costs	185	104
Increase in cash surrender value of bank-owned life insurance	(876)	(796)
Gains and fees from sales of loans	(1,893)	(1,224)
Stock-based compensation	2,009	1,892
Loss (gain) on sale of premises and equipment	13	(51)
Net change in:		
Deferred loan fees	(1,048)	2,382
Accrued interest receivable	(2,579)	(2,040)
Other assets	(3,206)	19,104
Accrued expenses and other liabilities	7,215	12,528
Net cash provided by operating activities	32,454	64,976
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	3,758	6,289
Proceeds from principal repayments on held to maturity securities	153	5,010
Purchases of marketable equity securities	(37)	(22)
Purchases of available for sale securities	—	(22,572)
Purchases of held to maturity securities	(50)	(4,990)
Net increase in loans	(118,992)	(436,869)
Proceeds from sales of loans not originated for sale	24,127	46,281
Purchases of premises and equipment, net	(1,799)	(4,347)
Purchases of Federal Home Loan Bank stock	(480)	(2,225)
Net cash used in investing activities	(93,320)	(413,445)

See accompanying notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from financing activities		
Net change in time certificates of deposit	\$ 112,899	\$ 313,739
Net change in other deposits	(145,091)	(151,034)
Net change in FHLB advances	—	40,000
Issuance of subordinated debt	—	34,352
Proceeds from exercise of options	155	48
Dividends paid on common stock	(4,681)	(4,656)
Repurchase of common stock	—	(5,540)
Net cash (used in) provided by financing activities	(36,718)	226,909
Net decrease in cash and cash equivalents	(97,584)	(121,560)
Cash and cash equivalents:		
Beginning of year	355,679	344,682
End of period	\$ 258,095	\$ 223,122
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	\$ 55,145	\$ 9,864
Income taxes	10,470	8,567
Noncash investing and financing activities:		
Net change in unrealized gains or losses on available for sale securities	(1,941)	(11,130)
Net change in unrealized gains or losses on interest rate swaps	205	21,897
Establishment of right-of-use asset and lease liability	597	—
Transfer of loans from held-for-investment to held-for-sale	22,234	45,058

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, "we", "our", "us", or 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 a wide range of services to clients in our market, an area encompassing approximately a 100 mile radius around our branch network. In addition, the Bank pursues certain types of commercial lending opportunities outside our market, particularly where we have strong business relationships. The Bank operates branches in New Canaan, Stamford, Fairfield, 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 credit 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, 2023. 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, 2022.

Significant concentrations of credit risk

Many of the Company's activities are with clients located in Connecticut and New York, with the majority of the Company's commercial real estate investor 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, with a growing percentage being owner-occupied, which present a lower risk profile.

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 2023 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. 2023-06, Disclosure Improvements: “Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative”: The amendments in this Update modify the disclosure or presentation requirements of a variety of Topics in the Codification. Certain of the amendments represent clarifications to or technical corrections of the current requirements. Because of the variety of Topics amended, a broad range of entities may be affected by one or more of those amendments. The summary of the amendments applicable to the Company include:

Statement of Cash Flows - Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

Accounting Changes and Error Corrections - Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements.

Earnings Per Share - Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods. Amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings-per-share computation.

Interim Reporting - Conforms to the amendments made to Topic 250 (Accounting Changes and Error Correction).

Commitments - Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized.

Debt - Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. Entities that are not public business entities are not required to provide information about the weighted-average interest rate.

Equity - Requires entities that issue preferred stock to disclose preference in involuntary liquidation if the liquidation preference is other than par or stated value.

Derivatives - Adds cross-reference to disclosure requirements related to where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows in Topic 230.

Transfers and Servicing—Secured Borrowing and Collateral - Requires:

- a. That accrued interest be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions.
- b. Separate presentation of the aggregate carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets.
- c. Disclosure of the weighted-average interest rates of repurchase liabilities for public business entities.
- d. Disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of shareholder’s equity.
- e. Disclosure for reverse repurchase agreements that exceed 10 percent of total assets on whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient. to protect against counterparty default and, if so, the nature of those provisions.

Financial Services - Requires that investment companies disclose the components of capital on the balance sheet.

For entities subject to the SEC’s existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC’s removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. For all other entities, the amendments will be effective two years later. The amendments in this Update should be applied prospectively. For all entities, if by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending

content of the related amendment will be removed from the Codification and will not become effective for any entity. The Company believes this ASU will not have a material impact on existing disclosures and will continue to monitor for SEC action, and plan accordingly for adoption.

ASU No. 2022-06, Reference Rate Reform (Topic 848): "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The objective of the guidance in Topic 848 is to provide temporary relief during the transition period. The Board included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. At the time that Update 2020-04 was issued, the UK Financial Conduct Authority (FCA) had established its intent that it would no longer be necessary to persuade, or compel, banks to submit to LIBOR after December 31, 2021. As a result, the sunset provision was set for December 31, 2022 (12 months after the expected cessation date of all currencies and tenors of LIBOR). In March 2021, the FCA announced that the intended cessation date of the overnight 1, 3, 6, and 12 month tenors of USD LIBOR would be June 30, 2023, which is beyond the current sunset date of Topic 848. As the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, the amendments in this Update defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.

Recently adopted accounting pronouncements

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 has adopted ASU No. 2017-04 as of March 31, 2023 and it had no impact to 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 November 15, 2019, the FASB issued ASU No. 2019-10, which officially delayed the adoption of this standard for smaller reporting companies (as defined by the SEC) until fiscal years beginning after December 15, 2022. In accordance with ASU No. 2019-10, on January 1, 2023, the Company adopted Topic 326. Upon adoption of CECL, the Company recorded a one-time cumulative effect, pre-tax adjustment of \$5.1 million to the allowance for credit loss - loans and a corresponding net of tax adjustment to beginning retained earnings. The Company also recorded a one-time cumulative effect, pre-tax adjustment of \$1.3 million to the allowance for credit losses - unfunded commitments (which is reflected in Accrued expenses and other liabilities on the Consolidated Balance Sheets) and a corresponding net of tax adjustment to beginning retained earnings. These impacts are reflected in the Company's first quarter 2023 financial statements. The future impact of CECL on the Company's allowance for credit losses and provision (credit) for credit losses subsequent to the initial adoption will depend on refinements to key assumptions including forecasting and qualitative factors, as well as changes in the loan portfolio and economic conditions. The Company measured its allowance under its incurred loan loss model as of December 31, 2022. In addition, the Company also evaluated its Held to maturity investment securities and Available for sale investment securities upon the adoption of the standard on January 1, 2023. The Held to maturity investment securities were related to housing authority bonds in the towns of New Canaan and Stamford, CT. The Company determined these housing authority bonds had remote risk of loss based on the historical performance of housing authority bonds and the strong credit ratings of both the towns of New Canaan and Stamford, CT. The Available for sale securities consisted of government backed U.S. Treasuries, Mortgage-Backed Securities, and Corporate Securities. The U.S. Treasuries and Mortgage-Backed Securities were guaranteed by the U.S. Government and had minimal risk of loss. The Corporate Securities had minimal default risk. As such, management concluded that no allowance for expected credit losses

was required for the Held to maturity investment securities or the Available for sale investment securities upon adoption of the standard on January 1, 2023.

	Change in Consolidated Statement of Conditions	Tax Effect	Change to Retained Earnings from Adoption of CECL
Total ACL- Loans	\$ 5,079	\$ 1,167	\$ 3,912
Total ACL-Unfunded Commitments	1,273	292	981
Total impact of CECL adoption	<u>\$ 6,352</u>	<u>\$ 1,459</u>	<u>\$ 4,893</u>

ASU No. 2020-04, Reference Rate Reform (Topic 848): "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. Optional expedients include that modifications of contracts should be accounted for by prospectively adjusting the effective interest rate and modifications of leases should be accounted for as a continuation of the existing contract with no reassessments of lease classification and discount rate or remeasurements of lease payments. This ASU also provides many practical expedients for derivative accounting. In addition, an entity may elect to sell and/or transfer held to maturity securities that reference a rate affected by the reference rate reform classified as held to maturity prior to January 1, 2020. In particular, the Company made the following elections as it relates to hedging relationships; (1) Option to not reassess a previous accounting determination (paragraph 848-20-35-2); (2) Option to not dedesignate a hedging relationship due to a change in critical term (paragraph 848-20-35-3); (3) Option to change the contractual terms of a hedging instrument, hedged item, or forecasted transaction and to not dedesignate a hedging relationship (paragraph 848-30-25-5); (4) Adopt expedient ASC 848-50-25-2 to assert probability of the hedged interest regardless of any expected modification in terms related to reference rate reform; and (5) To continue the method of assessing effectiveness as documented in the original hedge documentation and apply the expedient in ASC 848-50-35-17 so that the reference rate on the hypothetical derivative matches the reference rate on the hedging instrument. For new hedging relationships designated subsequent to December 31, 2020, the Company elects to apply the expedient in ASC 848-50-25-11 to assume that the reference rate will not be replaced for the remainder of the hedging relationship. The application of this guidance did not have a material impact on the Company's financial statements.

ASU No. 2022-02, Financial Instruments Credit Losses (Topic 326): "Troubled Debt Restructurings and Vintage Disclosures". ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") in ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors" for entities that have adopted the current expected credit loss ("CECL") model introduced by ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost". ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2022-02 on January 1, 2023 and it did not have a material effect on the Company's consolidated financial statements.

2. Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of available for sale and held to maturity securities at September 30, 2023 were as follows:

	September 30, 2023			
	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	\$ 55,263	\$ —	\$ (3,859)	\$ 51,404
Due from five through ten years	28,196	—	(2,782)	25,414
Due after ten years	8,078	—	(1,185)	6,893
Total U.S. Government and agency obligations	91,537	—	(7,826)	83,711
Corporate bonds				
Due from five through ten years	15,500	—	(2,443)	13,057
Due after ten years	1,500	—	(361)	1,139
Total corporate bonds	17,000	—	(2,804)	14,196
Total available for sale securities	\$ 108,537	\$ —	\$ (10,630)	\$ 97,907
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	\$ 15,852	\$ 10	\$ (1,578)	\$ 14,284
Government-sponsored mortgage backed securities				
No contractual maturity	33	—	—	33
Total held to maturity securities	\$ 15,885	\$ 10	\$ (1,578)	\$ 14,317

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

	December 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	\$ 55,262	\$ —	\$ (3,773)	\$ 51,489
Due from five through ten years	31,527	—	(2,165)	29,362
Due after ten years	8,563	—	(989)	7,574
Total U.S. Government and agency obligations	95,352	—	(6,927)	88,425
Corporate bonds				
Due from five through ten years	15,500	—	(1,506)	13,994
Due after ten years	1,500	—	(256)	1,244
Total corporate bonds	17,000	—	(1,762)	15,238
Total available for sale securities	\$ 112,352	\$ —	\$ (8,689)	\$ 103,663
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	\$ 15,947	\$ 315	\$ (864)	\$ 15,398
Government-sponsored mortgage backed securities				
No contractual maturity	36	1	—	37
Total held to maturity securities	\$ 15,983	\$ 316	\$ (864)	\$ 15,435

There were no sales of investment securities during the nine months ended September 30, 2023 or 2022.

At September 30, 2023 and December 31, 2022, none of the Company's securities were pledged as collateral with the Federal Home Loan Bank ("FHLB") or any other institution.

As of September 30, 2023 and December 31, 2022, the actual durations of the Company's available for sale securities were significantly shorter than the stated maturities.

As of September 30, 2023, the Company held marketable equity securities with a fair value of \$2.0 million and an amortized cost of \$2.2 million. At December 31, 2022, the Company held marketable equity securities with a fair value of \$2.0 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 Community Reinvestment Act ("CRA") purposes.

The following tables provide information regarding available for sale securities and held to maturity securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2023 and December 31, 2022:

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)

September 30, 2023

U.S. Government and agency obligations	\$ 9,667	\$ (121)	0.13 %	\$ 74,044	\$ (7,705)	8.42 %	\$ 83,711	\$ (7,826)	8.55 %
Corporate bonds	—	—	—	14,196	(2,804)	16.50	14,196	(2,804)	16.50
State agency and municipal obligations	10,348	(561)	3.59	3,708	(1,017)	6.51	14,056	(1,578)	10.10
Total investment securities	\$ 20,015	\$ (682)	0.55 %	\$ 91,948	\$ (11,526)	9.28 %	\$ 111,963	\$ (12,208)	9.83 %

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)

December 31, 2022

U.S. Government and agency obligations	\$ 55,443	\$ (3,027)	3.17 %	\$ 32,982	\$ (3,900)	4.09 %	\$ 88,425	\$ (6,927)	7.26 %
Corporate bonds	8,838	(1,162)	6.84	6,400	(600)	3.50	15,238	(1,762)	10.34
State agency and municipal obligations	6,388	(85)	0.77	3,807	(779)	7.05	10,195	(864)	7.82
Total investment securities	\$ 70,669	\$ (4,274)	3.46 %	\$ 43,189	\$ (5,279)	4.28 %	\$ 113,858	\$ (9,553)	7.74 %

There were thirty-seven and thirty-six available for sale securities or held to maturity securities as of September 30, 2023 and December 31, 2022, 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 corporate bonds are investments in subordinated debt of federally insured banks, the majority of which are callable after five years of origination. The Company monitors its corporate bond, state agency and municipal bond portfolios and considers them to have minimal default risk.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at September 30, 2023 until the decline in value has recovered or the security has matured.

3. Loans Receivable and ACL-Loans

The following table sets forth a summary of the loan portfolio at September 30, 2023 and December 31, 2022:

<i>(In thousands)</i>	September 30, 2023	December 31, 2022
Real estate loans:		
Residential	\$ 52,908	\$ 60,588
Commercial	1,955,992	1,921,252
Construction	199,972	155,198
	<u>2,208,872</u>	<u>2,137,038</u>
Commercial business ⁽¹⁾	508,626	520,447
Consumer	52,612	17,963
Total loans	<u>2,770,110</u>	<u>2,675,448</u>
ACL-Loans	(29,284)	(22,431)
Deferred loan origination fees, net	(5,584)	(6,633)
Loans receivable, net	<u>\$ 2,735,242</u>	<u>\$ 2,646,384</u>

(1) The September 30, 2023 and December 31, 2022 balances include \$23 thousand and \$33 thousand, respectively, of Paycheck Protection Program ("PPP") loans made under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act").

Lending activities primarily consist of commercial real estate loans, commercial business loans and, to a lesser degree, 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 client and extends credit of up to 80% of the market value of the collateral, (85% maximum for owner occupied commercial real estate), depending on the client's creditworthiness and the type of collateral. The client'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 client's ability to generate continuing cash flows. The Company does not provide first or second lien consumer mortgage loans secured by residential properties but has a small legacy portfolio which continues to amortize, pay off due to the sale of the collateral, or refinance away from the Company.

Credit quality of loans and the Allowance for Credit Losses - Loans (ACL-Loans)

Management segregates the loan portfolio into defined segments, which are used to develop and document a systematic method for determining the Company's ACL-Loans. 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 client 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 clients 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, and their repayment generally depends on the successful operation of the client's business.

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

ACL-Loans

The following tables set forth the activity in the Company's ACL-Loans for the three and nine months ended September 30, 2023 and 2022, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Three Months Ended September 30, 2023						
Beginning balance	\$ 190	\$ 19,948	\$ 1,798	\$ 6,788	\$ 1,970	\$ 30,694
Charge-offs	—	—	—	—	(32)	(32)
Recoveries	—	—	—	35	20	55
(Credit) provision for credit losses	(29)	788	(183)	(639)	(1,370)	(1,433)
Ending balance	<u>\$ 161</u>	<u>\$ 20,736</u>	<u>\$ 1,615</u>	<u>\$ 6,184</u>	<u>\$ 588</u>	<u>\$ 29,284</u>

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Three Months Ended September 30, 2022						
Beginning balance	\$ 331	\$ 11,480	\$ 95	\$ 3,802	\$ 65	\$ 15,773
Charge-offs	—	—	—	—	(8)	(8)
Recoveries	—	—	—	21	—	21
(Credit) provision for credit losses	(159)	1,446	38	985	71	2,381
Ending balance	<u>\$ 172</u>	<u>\$ 12,926</u>	<u>\$ 133</u>	<u>\$ 4,808</u>	<u>\$ 128</u>	<u>\$ 18,167</u>

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Nine Months Ended September 30, 2023						
Balance As of December 31, 2022	\$ 163	\$ 15,597	\$ 311	\$ 6,214	\$ 146	\$ 22,431
Day1 effect of CECL	80	4,987	611	(1,125)	526	5,079
Balance as of January 1, 2023 as adjusted for changes in accounting principle	243	20,584	922	5,089	672	27,510
Charge-offs	—	—	—	(439)	(69)	(508)
Recoveries	—	—	—	68	35	103
(Credit) provision for credit losses	(82)	152	693	1,466	(50)	2,179
Ending balance	<u>\$ 161</u>	<u>\$ 20,736</u>	<u>\$ 1,615</u>	<u>\$ 6,184</u>	<u>\$ 588</u>	<u>\$ 29,284</u>

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
<i>(In thousands)</i>						
Nine Months Ended September 30, 2022						
Beginning balance	\$ 504	\$ 12,751	\$ 4	\$ 3,590	\$ 53	\$ 16,902
Charge-offs	—	—	—	—	(12)	(12)
Recoveries	—	77	—	34	1	112
(Credit) provision for credit losses	(332)	98	129	1,184	86	1,165
Ending balance	<u>\$ 172</u>	<u>\$ 12,926</u>	<u>\$ 133</u>	<u>\$ 4,808</u>	<u>\$ 128</u>	<u>\$ 18,167</u>

We evaluate whether a modification, extension or renewal of a loan is a current period origination in accordance with GAAP. Generally, loans up for renewal are subject to a full credit evaluation before the renewal is granted and such loans are considered current period originations for purpose of the tables below. The following tables present loans by origination and risk designation as of September 30, 2023 and December 31, 2022 (dollars in thousands):

Term Loans									
Amortized Cost Balances by Origination Year as of September 30, 2023									
	2023	2022	2021	2020	2019	Prior	Total		
Residential Real Estate Loans									
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 49,234	\$ 49,234		
Special Mention	—	—	—	—	—	143	143		
Substandard	—	—	—	—	—	3,766	3,766		
Doubtful	—	—	—	—	—	—	—		
Total Residential Real Estate Loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 53,143	\$ 53,143		
Residential Real Estate charge-off									
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
Commercial Real Estate Loans									
Pass	\$ 103,894	\$ 809,224	\$ 328,289	\$ 100,033	\$ 136,785	\$ 446,424	\$ 1,924,649		
Special Mention	12,306	—	—	—	—	1,026	13,332		
Substandard	—	—	10,989	—	—	12,822	23,811		
Doubtful	—	—	—	—	—	46	46		
Total Commercial Real Estate Loans	\$ 116,200	\$ 809,224	\$ 339,278	\$ 100,033	\$ 136,785	\$ 460,318	\$ 1,961,838		
Commercial Real Estate charge-off									
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
Construction Loans									
Pass	\$ 33,174	\$ 78,258	\$ 37,277	\$ 42,492	\$ —	\$ —	\$ 191,201		
Special Mention	—	—	—	—	—	—	—		
Substandard	—	—	—	—	—	9,362	9,362		
Doubtful	—	—	—	—	—	—	—		
Total Construction Loans	\$ 33,174	\$ 78,258	\$ 37,277	\$ 42,492	\$ —	\$ 9,362	\$ 200,563		
Construction charge-off									
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
Commercial Business Loans									
Pass	\$ 72,803	\$ 277,805	\$ 90,698	\$ 9,564	\$ 6,775	\$ 35,378	\$ 493,023		
Special Mention	—	8,695	700	—	—	—	9,395		
Substandard	—	—	7,293	—	—	2,016	9,309		
Doubtful	—	—	—	—	—	118	118		
Total Commercial Business Loans	\$ 72,803	\$ 286,500	\$ 98,691	\$ 9,564	\$ 6,775	\$ 37,512	\$ 511,845		
Commercial Business charge-off									
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 371	\$ —	\$ 371		
Consumer Loans									
Pass	\$ 8,679	\$ 24,955	\$ 10,356	\$ —	\$ —	\$ 52	\$ 44,042		
Special Mention	—	—	—	—	—	—	—		
Substandard	7,909	—	—	—	—	—	7,909		
Doubtful	—	—	—	—	—	—	—		
Total Consumer Loans	\$ 16,588	\$ 24,955	\$ 10,356	\$ —	\$ —	\$ 52	\$ 51,951		
Consumer charge-off									
Current period net charge-offs	\$ 34	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 34		
Total Loans									
Pass	\$ 218,550	\$ 1,190,242	\$ 466,620	\$ 152,089	\$ 143,560	\$ 531,088	\$ 2,702,149		
Special Mention	12,306	8,695	700	—	—	1,169	22,870		
Substandard	7,909	—	18,282	—	—	27,966	54,157		
Doubtful	—	—	—	—	—	164	164		
Total Loans	\$ 238,765	\$ 1,198,937	\$ 485,602	\$ 152,089	\$ 143,560	\$ 560,387	\$ 2,779,340		
Total charge-off									
Current period net charge-offs	\$ 34	\$ —	\$ —	\$ —	\$ 371	\$ —	\$ 405		

Term Loans
Amortized Cost Balances by Origination Year as of December 31, 2022

	2022	2021	2020	2019	2018	Prior	Total
Residential Real Estate Loans							
Pass	\$ —	\$ —	\$ —	\$ —	\$ 145	\$ 56,670	\$ 56,815
Special Mention	—	—	—	—	—	147	147
Substandard	—	—	—	—	40	3,819	3,859
Doubtful	—	—	—	—	—	—	—
Total Residential Real Estate Loans	\$ —	\$ —	\$ —	\$ —	\$ 185	\$ 60,636	\$ 60,821
Residential Real Estate charge-off							
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial Real Estate Loans							
Pass	\$ 793,594	\$ 364,308	\$ 102,569	\$ 142,681	\$ 80,424	\$ 415,810	\$ 1,899,386
Special Mention	—	—	—	—	—	471	471
Substandard	—	10,977	—	—	—	14,252	25,229
Doubtful	—	—	—	—	—	67	67
Total Commercial Real Estate Loans	\$ 793,594	\$ 375,285	\$ 102,569	\$ 142,681	\$ 80,424	\$ 430,600	\$ 1,925,153
Commercial Real Estate charge-off							
Current period net charge-offs	\$ (76)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (76)
Construction Loans							
Pass	\$ 85,559	\$ 15,379	\$ 36,766	\$ 7,902	\$ —	\$ —	\$ 145,606
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	9,362	9,362
Doubtful	—	—	—	—	—	—	—
Total Construction Loans	\$ 85,559	\$ 15,379	\$ 36,766	\$ 7,902	\$ —	\$ 9,362	\$ 154,968
Construction charge-off							
Current period net charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial Business Loans							
Pass	\$ 326,881	\$ 122,914	\$ 13,048	\$ 12,752	\$ 7,066	\$ 36,009	\$ 518,670
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	1,768	8	2,339	4,115
Doubtful	—	—	—	—	—	215	215
Total Commercial Business Loans	\$ 326,881	\$ 122,914	\$ 13,048	\$ 14,520	\$ 7,074	\$ 38,563	\$ 523,000
Commercial Business charge-off							
Current period net charge-offs	\$ (24)	\$ —	\$ —	\$ —	\$ —	\$ (11)	\$ (35)
Consumer Loans							
Pass	\$ 16,490	\$ —	\$ —	\$ —	\$ —	\$ 45	\$ 16,535
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—
Total Consumer Loans	\$ 16,490	\$ —	\$ —	\$ —	\$ —	\$ 45	\$ 16,535
Consumer charge-off							
Current period net charge-offs	\$ 18	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 19
Total Loans							
Pass	\$ 1,222,524	\$ 502,601	\$ 152,383	\$ 163,335	\$ 87,635	\$ 508,534	\$ 2,637,012
Special Mention	—	—	—	—	—	618	618
Substandard	—	10,977	—	1,768	48	29,772	42,565
Doubtful	—	—	—	—	—	282	282
Total Loans	\$ 1,222,524	\$ 513,578	\$ 152,383	\$ 165,103	\$ 87,683	\$ 539,206	\$ 2,680,477
Total charge-off							
Current period net charge-offs	\$ (82)	\$ —	\$ —	\$ —	\$ —	\$ (10)	\$ (92)

Loans evaluated for impairment and the related ACL-Loans as of September 30, 2023 and December 31, 2022 were as follows:

	Portfolio	ACL-Loans
	(In thousands)	
September 30, 2023		
Loans individually evaluated for impairment:		
Residential real estate	\$ 3,749	\$ —
Commercial real estate	23,826	1,641
Construction	9,382	—
Commercial business	9,352	12
Consumer	35,894	—
Subtotal	82,203	1,653
Loans collectively evaluated for impairment:		
Residential real estate	49,159	161
Commercial real estate	1,932,166	19,095
Construction	190,590	1,615
Commercial business	499,274	6,171
Consumer	16,718	589
Subtotal	2,687,907	27,631
Total	\$ 2,770,110	\$ 29,284

	Portfolio	ACL-Loans
	(In thousands)	
December 31, 2022		
Loans individually evaluated for impairment:		
Residential real estate	\$ 3,846	\$ —
Commercial real estate	25,292	754
Construction	9,382	—
Commercial business	4,310	147
Subtotal	42,830	901
Loans collectively evaluated for impairment:		
Residential real estate	56,742	163
Commercial real estate	1,895,960	14,843
Construction	145,816	311
Commercial business	516,137	6,067
Consumer	17,963	146
Subtotal	2,632,618	21,530
Total	\$ 2,675,448	\$ 22,431

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 ACL-Loans. The Company's credit risk rating system has nine grades, with each grade corresponding to a progressively greater risk of default or non-payment. 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) loan 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 have a well-defined weakness or weaknesses that jeopardize the full repayment of the debt. A loan rated "doubtful" (8) has all the weaknesses inherent in a substandard loan 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, monthly delinquency monitoring, 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 September 30, 2023 and December 31, 2022:

	Commercial Credit Quality Indicators							
	September 30, 2023				December 31, 2022			
	Commercial Real Estate	Construction	Commercial Business	Total	Commercial Real Estate	Construction	Commercial Business	Total
	(In thousands)							
Pass	\$ 1,918,903	\$ 190,590	\$ 490,311	\$ 2,599,804	\$ 1,895,492	\$ 145,816	\$ 516,136	\$ 2,557,444
Special Mention	13,263	—	8,963	22,226	468	—	—	468
Substandard	23,779	9,382	9,233	42,394	25,224	9,382	4,095	38,701
Doubtful	47	—	119	166	68	—	216	284
Loss	—	—	—	—	—	—	—	—
Total loans	\$ 1,955,992	\$ 199,972	\$ 508,626	\$ 2,664,590	\$ 1,921,252	\$ 155,198	\$ 520,447	\$ 2,596,897

	Residential and Consumer Credit Quality Indicators						
	September 30, 2023			December 31, 2022			
	Residential Real Estate	Consumer	Total	Residential Real Estate	Consumer	Total	
	(In thousands)						
Pass	\$ 49,018	\$ 44,703	\$ 93,721	\$ 56,597	\$ 17,963	\$ 74,560	
Special Mention	141	—	141	145	—	145	
Substandard	3,749	7,909	11,658	3,846	—	3,846	
Doubtful	—	—	—	—	—	—	
Loss	—	—	—	—	—	—	
Total loans	\$ 52,908	\$ 52,612	\$ 105,520	\$ 60,588	\$ 17,963	\$ 78,551	

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.

The following tables set forth certain information with respect to the Company's loan portfolio delinquencies by portfolio segment as of September 30, 2023 and December 31, 2022:

	September 30, 2023					
	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	\$ 516	\$ 725	\$ 131	\$ 1,372	\$ 51,536	\$ 52,908
Commercial real estate	—	—	1,851	1,851	1,954,141	1,955,992
Construction	—	—	9,382	9,382	190,590	199,972
Commercial business	4,466	1,657	13,119	19,242	489,384	508,626
Consumer	9	—	7,909	7,918	44,694	52,612
Total loans	\$ 4,991	\$ 2,382	\$ 32,392	\$ 39,765	\$ 2,730,345	\$ 2,770,110

	December 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	\$ 1,969	\$ —	\$ 171	\$ 2,140	\$ 58,448	\$ 60,588
Commercial real estate	66	—	2,540	2,606	1,918,646	1,921,252
Construction	—	—	9,382	9,382	145,816	155,198
Commercial business	23	—	1,910	1,933	518,514	520,447
Consumer	—	—	—	—	17,963	17,963
Total loans	\$ 2,058	\$ —	\$ 14,003	\$ 16,061	\$ 2,659,387	\$ 2,675,448

There were no loans delinquent greater than 90 days and still accruing interest as of September 30, 2023 or December 31, 2022.

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	<i>(In thousands)</i>	
Residential real estate	\$ 1,408	\$ 2,152
Commercial real estate	1,898	2,781
Commercial business	7,352	2,126
Construction	9,382	9,382
Consumer	7,917	—
Total	\$ 27,957	\$ 16,441

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 nine months ended September 30, 2023 and 2022 was \$5.1 million and \$0.7 million, respectively. There was no interest income recognized on these loans for the nine months ended September 30, 2023 and 2022.

At September 30, 2023 and December 31, 2022, there were no commitments to lend additional funds to any borrower on nonaccrual status. Nonaccrual loans with no specific reserve totaled \$24.9 million and \$14.7 million at September 30, 2023 and December 31, 2022, respectively, as these loans were deemed to be adequately collateralized.

Individually evaluated loans

An individually evaluated 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. Individually evaluated 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.

Beginning in the third quarter of 2023, the Company individually evaluated all insurance premium loans within the Consumer portfolio segment, irrespective of credit risk ratings.

The following table summarizes individually evaluated loans by portfolio segment as of September 30, 2023 and December 31, 2022.

	Carrying Amount		Unpaid Principal Balance		Associated ACL-Loans	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
<i>(In thousands)</i>						
Individually evaluated loans without a valuation allowance:						
Residential real estate	\$ 3,749	\$ 3,846	\$ 4,047	\$ 4,104	\$ —	\$ —
Commercial real estate	1,898	2,782	2,074	3,108	—	—
Construction	9,382	9,382	9,382	9,382	—	—
Commercial business	6,261	2,551	6,718	2,793	—	—
Consumer	35,894	—	36,206	—	—	—
Total individually evaluated loans without a valuation allowance	57,184	18,561	58,427	19,387	—	—
Individually evaluated loans with a valuation allowance:						
Residential real estate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial real estate	21,928	22,511	21,928	22,511	1,641	754
Construction	—	—	—	—	—	—
Commercial business	3,091	1,758	3,091	1,758	12	147
Consumer	—	—	—	—	—	—
Total individually evaluated loans with a valuation allowance	25,019	24,269	25,019	24,269	1,653	901
Total individually evaluated loans	\$ 82,203	\$ 42,830	\$ 83,446	\$ 43,656	\$ 1,653	\$ 901

The following table summarizes the average carrying amount of individually evaluated impaired loans and interest income recognized on individually evaluated loans by portfolio segment for the three and nine months ended September 30, 2023 and 2022:

	Average Carrying Amount		Interest Income Recognized	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Individually evaluated impaired loans without a valuation allowance:				
Residential real estate	\$ 3,760	\$ 3,864	\$ 28	\$ 21
Commercial real estate	1,900	1,082	—	—
Commercial business	6,387	2,585	48	6
Construction	9,382	9,382	—	—
Consumer	8,981	—	—	—
Total individually evaluated impaired loans without a valuation allowance	30,410	16,913	76	27
Individually evaluated impaired loans with a valuation allowance:				
Residential real estate	\$ —	\$ —	\$ —	\$ —
Commercial real estate	21,934	24,419	87	148
Construction	—	—	—	—
Commercial business	3,092	2,000	—	20
Consumer	—	—	—	—
Total individually evaluated impaired loans with a valuation allowance	25,026	26,419	87	168
Total individually evaluated impaired loans	\$ 55,436	\$ 43,332	\$ 163	\$ 195

	Average Carrying Amount		Interest Income Recognized	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(In thousands)</i>				
Individually evaluated impaired loans without a valuation allowance:				
Residential real estate	\$ 3,798	\$ 3,901	\$ 68	\$ 45
Commercial real estate	1,908	1,171	—	—
Commercial business	5,068	2,619	132	16
Construction	9,382	9,266	—	—
Consumer	7,144	—	—	—
Total individually evaluated impaired loans without a valuation allowance	27,300	16,957	200	61
Individually evaluated impaired loans with a valuation allowance:				
Residential real estate	\$ —	\$ —	\$ —	\$ —
Commercial real estate	21,996	24,439	260	426
Commercial business	1,470	2,098	—	48
Construction	—	—	—	—
Consumer	—	—	—	—
Total individually evaluated impaired loans with a valuation allowance	23,466	26,537	260	474
Total individually evaluated impaired loans	\$ 50,766	\$ 43,494	\$ 460	\$ 535

Loan Modifications

A loan will be considered modified as defined by ASU 2022-02 when both of the following conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a direct change in contractual cash flows for a significant period of time. Modified terms are dependent upon the financial position and needs of the individual borrower.

There were no new loan modifications reportable under ASU 2022-02 at September 30, 2023. Information on loan modifications prior to the adoption of ASU 2022-02 is presented in accordance with the applicable accounting standards in effect at that time. As of December 31, 2022, loan modifications totaled \$22.2 million. The following table provides information on loans that were modified during the periods indicated.

<i>(Dollars in thousands)</i>	Number of Loans		Pre-Modification		Post-Modification	
	2023	2022	2023	2022	2023	2022
Three Months Ended September 30,						
Residential real estate	—	—	\$ —	\$ —	\$ —	\$ —
Commercial business	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Total	—	—	\$ —	\$ —	\$ —	\$ —

<i>(Dollars in thousands)</i>	Number of Loans		Pre-Modification		Post-Modification	
	2023	2022	2023	2022	2023	2022
Nine Months Ended September 30,						
Residential real estate	—	1	\$ —	\$ 703	\$ —	\$ 703
Commercial business	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Total	—	1	\$ —	\$ 703	\$ —	\$ 703

The following table provides information on how loans were modified during the three and nine months ended September 30, 2023 and September 30, 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(In thousands)</i>			
Payment concession	\$ —	\$ —	\$ —	\$ 703
Maturity, rate and payment concession	—	—	—	—
Rate concession	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ 703

Allowance for credit losses (ACL)-Unfunded Commitments

As part of adoption of CECL, the Company has recorded ACL-Unfunded Commitments in Accrued expenses and other liabilities. The provision is recorded within the Provision for credit losses on the Company's Consolidated Statements of Income. The following table presents a roll forward of the ACL-Unfunded Commitments for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(In thousands)</i>			
Balance at Beginning of period	\$ 1,066	\$ 60	\$ 80	\$ 170
Reversal of prior unfunded reserve	—	—	(80)	—
Day 1 effect of CECL	—	—	1,273	—
(Credit) for credit losses (unfunded commitments) ⁽¹⁾	(146)	—	(353)	(110)
Balance at end of period	\$ 920	\$ 60	\$ 920	\$ 60

(1) In 2022, unfunded commitments were recorded as "Other" in noninterest expense.

Components of Provision for Credit Losses

The following table summarizes the Provision for credit losses for the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(In thousands)</i>			
(Credit) provision for credit losses (loans)	\$ (1,433)	\$ 2,381	\$ 2,179	\$ 1,165
(Credit) for credit losses (unfunded commitments) ⁽¹⁾	(146)	—	(353)	—
(Credit) provision for credit losses	\$ (1,579)	\$ 2,381	\$ 1,826	\$ 1,165

(1) In 2022, unfunded commitments was recorded as "Other" in noninterest expense.

4. Shareholders' Equity

Common Stock

The Company has 10,000,000 shares authorized and 7,841,616 shares issued and outstanding at September 30, 2023 and 10,000,000 shares authorized and 7,730,699 shares issued and outstanding at December 31, 2022. The Company's stock is traded on the Nasdaq Global 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 nine months ended September 30, 2023, the Company purchased no shares of its Common Stock. During the year ended December 31, 2022, the Company purchased 166,375 shares of its Common Stock at a weighted average price of \$33.30 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 cash flow swap derivatives are primarily driven by changes in interest rates and recognized in other comprehensive income. The Company's total comprehensive income or loss for the three and nine months ended September 30, 2023 and September 30, 2022 is reported in the Consolidated Statements of Comprehensive Income.

The following tables present the changes in accumulated other comprehensive (loss) income by component, net of tax for the three and nine months ended September 30, 2023 and September 30, 2022:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
	<i>(In thousands)</i>		
Balance at June 30, 2023	\$ (7,611)	\$ 5,895	\$ (1,716)
Other comprehensive (loss) income before reclassifications, net of tax	(579)	1,718	1,139
Amounts reclassified from accumulated other comprehensive income, net of tax	—	(947)	(947)
Net other comprehensive (loss) income	(579)	771	192
Balance at September 30, 2023	\$ (8,190)	\$ 6,666	\$ (1,524)

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
	<i>(In thousands)</i>		
Balance at June 30, 2022	\$ (3,546)	\$ 3,891	\$ 345
Other comprehensive (loss) income before reclassifications, net of tax	(3,447)	3,095	(352)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	(193)	(193)
Net other comprehensive (loss) income	(3,447)	2,902	(545)
Balance at September 30, 2022	\$ (6,993)	\$ 6,793	\$ (200)

	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, 2022	\$ (6,750)	\$ 6,561	\$ (189)
Other comprehensive (loss) income before reclassifications, net of tax	(1,440)	1,696	256
Amounts reclassified from accumulated other comprehensive income, net of tax	—	(1,591)	(1,591)
Net other comprehensive (loss) income	(1,440)	105	(1,335)
Balance at September 30, 2023	\$ (8,190)	\$ 6,666	\$ (1,524)

	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	(8,644)	16,208	7,564
Amounts reclassified from accumulated other comprehensive income, net of tax	—	797	797
Net other comprehensive (loss) income	(8,644)	17,005	8,361
Balance at September 30, 2022	\$ (6,993)	\$ 6,793	\$ (200)

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

Accumulated Other Comprehensive Income Components	Three Months Ended September 30,		Nine Months Ended September 30,		Associated Line Item in the Consolidated Statements of Income
	2023	2022	2023	2022	
<i>(In thousands)</i>					
Derivatives:					
Unrealized gains (losses) on derivatives	\$ 1,229	\$ 249	\$ 3,323	\$ (1,026)	Interest expense on borrowings
Tax (expense) benefit	(282)	(56)	(1,732)	229	Income tax expense
Net of tax	\$ 947	\$ 193	\$ 1,591	\$ (797)	

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(In thousands, except per share data)</i>				
Net income	\$ 9,777	\$ 9,174	\$ 28,139	\$ 29,408
Dividends to participating securities ⁽¹⁾	(41)	(33)	(125)	(101)
Undistributed earnings allocated to participating securities ⁽¹⁾	(209)	(159)	(613)	(529)
Net income for earnings per share calculation	\$ 9,527	\$ 8,982	\$ 27,401	\$ 28,778
Weighted average shares outstanding, basic	7,598	7,554	7,582	7,582
Effect of dilutive equity-based awards ⁽²⁾	36	58	65	82
Weighted average shares outstanding, diluted	7,634	7,612	7,647	7,664
Net earnings per common share:				
Basic earnings per common share	\$ 1.25	\$ 1.19	\$ 3.61	\$ 3.80
Diluted earnings per common share	\$ 1.25	\$ 1.18	\$ 3.58	\$ 3.75

(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 Bank to effectively maintain Common Equity Tier 1, Tier 1 and total capital ratios of 7.0%, 8.5% and 10.5%, respectively. 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.

The Company is subject to the Federal Reserve Small Bank Holding Company Policy Statement. The Company will no longer be eligible for the Small Bank Holding Company Policy Statement as of March 2024, as the Company's consolidated assets were above \$3.0 billion as of June 30, 2023.

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 September 30, 2023, 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 September 30, 2023 and December 31, 2022 were as follows:

	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
<i>(Dollars in thousands)</i>						
Bankwell Bank						
<u>September 30, 2023</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 313,861	10.82 %	\$ 202,990	7.00 %	\$ 188,491	6.50 %
Total Capital to Risk-Weighted Assets	344,064	11.86 %	304,485	10.50 %	289,986	10.00 %
Tier I Capital to Risk-Weighted Assets	313,861	10.82 %	246,488	8.50 %	231,989	8.00 %
Tier I Capital to Average Assets	313,861	9.60 %	130,801	4.00 %	163,501	5.00 %

	Actual Capital		Minimum Regulatory Capital Required for Capital Adequacy		Minimum Regulatory Capital to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Financial Group, Inc.						
<u>September 30, 2023</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 256,124	8.85 %	\$ 130,301	4.50 %	N/A	N/A
Total Capital to Risk-Weighted Assets	355,470	12.28 %	231,647	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	256,124	8.85 %	173,735	6.00 %	N/A	N/A
Tier I Capital to Average Assets	256,124	7.83 %	130,922	4.00 %	N/A	N/A

	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
<i>(Dollars in thousands)</i>						
Bankwell Bank						
<u>December 31, 2022</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 294,926	10.28 %	\$ 200,785	7.00 %	\$ 186,443	6.50 %
Total Capital to Risk-Weighted Assets	317,437	11.07 %	301,177	10.50 %	286,836	10.00 %
Tier I Capital to Risk-Weighted Assets	294,926	10.28 %	243,810	8.50 %	229,469	8.00 %
Tier I Capital to Average Assets	294,926	9.88 %	119,361	4.00 %	149,202	5.00 %

	Actual Capital		Minimum Regulatory Capital Required for Capital Adequacy		Minimum Regulatory Capital to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bankwell Financial Group, Inc.						
<u>December 31, 2022</u>						
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 235,672	8.21 %	\$ 129,231	4.50 %	N/A	N/A
Total Capital to Risk-Weighted Assets	327,142	11.39 %	229,745	8.00 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	235,672	8.21 %	172,308	6.00 %	N/A	N/A
Tier I Capital to Average Assets	235,672	7.89 %	119,490	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 September 30, 2023 or December 31, 2022.

8. Deposits

At September 30, 2023 and December 31, 2022, deposits consisted of the following:

	September 30, 2023	December 31, 2022
	<i>(In thousands)</i>	
Noninterest bearing demand deposit accounts	\$ 345,433	\$ 404,559
Interest bearing accounts:		
NOW	101,719	104,057
Money market	879,978	913,868
Savings	102,207	151,944
Time certificates of deposit	1,339,289	1,226,390
Total interest bearing accounts	2,423,193	2,396,259
Total deposits	\$ 2,768,626	\$ 2,800,818

Maturities of time certificates of deposit as of September 30, 2023 and December 31, 2022 are summarized below:

	September 30, 2023	December 31, 2022
	<i>(In thousands)</i>	
2023	\$ 418,957	\$ 1,084,321
2024	585,437	135,965
2025	318,587	5,927
2026	26	109
2027	68	68
2028	6,220	—
After 2028	9,994	—
Total	\$ 1,339,289	\$ 1,226,390

The aggregate amount of individual certificate accounts, with balances of \$250,000 or more, was approximately \$140.8 million at September 30, 2023 and \$74.6 million at December 31, 2022.

The following table summarizes interest expense on deposits by account type for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(In thousands)</i>			
NOW	\$ 47	\$ 52	\$ 127	\$ 158
Money market	9,064	2,346	23,532	4,672
Savings	817	474	2,404	678
Time certificates of deposits	13,861	1,220	35,536	2,773
Total interest expense on deposits	\$ 23,789	\$ 4,092	\$ 61,599	\$ 8,281

9. Stock-Based Compensation

Equity award plans

The Company has stock options or unvested restricted stock outstanding under three equity award plans, which are collectively referred to as the “Stock Plans”. The current plan under which any future issuances of equity awards will be made is the 2022 Bankwell Financial Group, Inc. Stock Plan, or the “2022 Plan”. All equity awards made under the 2022 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 September 30, 2023, there were 349,076 shares reserved for future issuance under the 2022 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 nine months ended September 30, 2023.

A summary of the status of outstanding stock options for the nine months ended September 30, 2023 is presented below:

	Nine Months Ended September 30, 2023	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	8,680	\$ 17.86
Exercised	(8,680)	17.86
Options outstanding at end of period	—	—
Options exercisable at end of period	—	—

As of September 30, 2023, all awarded options have been exercised.

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

The following table presents the activity for restricted stock for the nine months ended September 30, 2023:

	Nine Months Ended September 30, 2023	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	214,000 ⁽¹⁾	\$ 27.96
Granted	117,675 ⁽²⁾	29.88
Vested	(75,993) ⁽³⁾	29.47
Forfeited	(15,438) ⁽⁴⁾	24.62
Unvested at end of period	240,244	

(1) Includes 34,369 shares of performance based restricted stock.

(2) Includes 33,106 shares of performance based restricted stock.

(3) Includes 25,574 shares of performance based restricted stock.

(4) Includes 5,586 shares of performance based restricted stock.

The total fair value of restricted stock awards vested during the nine months ended September 30, 2023 was \$2.4 million.

The Company's restricted stock expense for the nine months ended September 30, 2023 and September 30, 2022 was \$2.0 million and \$1.9 million, respectively. At September 30, 2023, there was \$4.7 million of unrecognized stock compensation expense for restricted stock, expected to be recognized over a weighted average period of 1.7 years.

Performance Based Restricted Stock: The Company has 36,315 shares of performance based restricted stock outstanding as of September 30, 2023 pursuant to the Company's Stock Plans. 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 September 30, 2023, the Company was a party to five cash flow 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 cash flow swaps to convert rolling 90-day Federal Home Loan Bank advances or brokered deposits. Cash flow swaps with a positive fair value are recorded as other assets and cash flow swaps with a negative fair value are recorded as other liabilities on the Consolidated Balance Sheets.

The Company terminated two cash flow swaps with a total notional amount of \$50 million during the year ended December 31, 2022. The underlying debt associated with the terminated swaps was kept in place. The fair value of the terminated swaps totaled \$144.5 thousand as of September 30, 2023. The fair value of the terminated swaps will be reclassified from other comprehensive income to interest expense on a straight-line basis over the original term of the hedging relationship.

The Company entered into one pay-fixed portfolio layer method fair value swap, designated as a hedging instrument, with a total notional amount of \$150 million in the first quarter of 2023. The Company designated the fair value swap under the portfolio layer method ("PLM"). Under this method, the hedged item is designated as a hedged layer of a closed portfolio of financial loans that is anticipated to remain outstanding for the designated hedged period. Adjustments will be made to record the swap at fair value on the Consolidated Balance Sheets, with changes in fair value recognized in interest income. The carrying value of the fair value swap on the Consolidated Balance Sheets will also be adjusted through interest income, based on changes in fair value attributable to changes in the hedged risk.

The following table represents the carrying value of the portfolio layer method hedged asset and the cumulative fair value hedging adjustment included in the carrying value of the hedged asset as of September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Carrying Value of Hedged Asset				Hedged Items			
	(In thousands)							
Fixed Rate Asset ⁽¹⁾	\$	148,304	\$	—	\$	(1,696)	\$	—

(1) These amounts include the amortized cost basis of closed portfolios of fixed rate loans used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. As of September 30, 2023, the amortized cost basis of the closed portfolio used in this hedging relationship was \$654.5 million, the cumulative basis adjustments associated with this hedging relationships was \$1.7 million, and the amount of the designated hedged item was \$150.0 million.

As of September 30, 2023, the Company has interest rate swaps not designated as hedging instruments, to minimize interest rate risk exposure with loans to clients.

The Company accounts for all non-client related interest rate swaps as either effective cash flow or fair value swaps. 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 clients. The Company executes interest rate swaps with commercial banking clients 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 client derivatives and the offsetting derivatives are recognized directly in earnings.

Information about derivative instruments at September 30, 2023 and December 31, 2022 is as follows:

As of September 30, 2023							
Derivative Assets				Derivative Liabilities			
Original Notional Amount	Balance Sheet Location	Fair Value	Original Notional Amount	Balance Sheet Location	Fair Value		
(In thousands)							
Derivatives designated as hedging instruments:							
Cash flow swaps	\$ 125,000	Other assets	\$ 8,506	\$ —	Accrued expenses and other liabilities	\$ —	
Fair value swap	\$ 150,000	Other assets	\$ 1,686	\$ —	Accrued expenses and other liabilities	\$ —	
Derivatives not designated as hedging instruments:							
Cash flow swaps ⁽¹⁾	\$ 38,500	Other assets	\$ 5,411	\$ 38,500	Accrued expenses and other liabilities	\$ 5,411	

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

Accrued interest receivables related to interest rate swaps as of September 30, 2023 totaled \$0.8 million and is excluded from the fair value presented in the table above. The fair value of interest rate swaps in a net asset position, including accrued interest, totaled \$9.3 million as of September 30, 2023.

As of December 31, 2022

Derivative Assets			Derivative Liabilities		
Original Notional Amount	Balance Sheet Location	Fair Value	Original Notional Amount	Balance Sheet Location	Fair Value

(In thousands)

Derivatives designated as hedging instruments:

Cash flow swaps	\$	125,000	Other assets	\$	8,292	\$	—	Accrued expenses and other liabilities	\$	—
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Derivatives not designated as hedging instruments:

Interest rate swaps ⁽¹⁾	\$	35,522	Other assets	\$	4,207	\$	35,522	Accrued expenses and other liabilities	\$	4,207
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(1) Represents interest rate swaps with commercial banking clients, which are offset by derivatives with a third party.

Accrued interest receivables related to interest rate swaps as of December 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 asset position, including accrued interest, totaled \$8.8 million as of December 31, 2022.

The effective portion of changes in the fair value of derivatives designated 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 \$4.7 million to reduce interest expense during the next 12 months.

The Company assesses the cash flow swaps hedge 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.

The Company assesses the effectiveness of the fair value swap hedge with a regression analysis that compares the changes in forward curves to determine the value. The effective portion of changes in the fair value of derivatives designated as fair value hedges is recorded through interest income. 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 and nine months ended September 30, 2023 and September 30, 2022:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest rate swaps designated as cash flow hedges:				
Unrealized loss recognized in accumulated other comprehensive income before reclassifications	\$ 2,230	\$ 3,986	\$ 3,528	\$ 20,871
Amounts reclassified from accumulated other comprehensive income	(1,229)	(249)	(3,323)	1,026
Income tax (expense) benefit on items recognized in accumulated other comprehensive income	(230)	(835)	(100)	(4,892)
Other comprehensive income	\$ 771	\$ 2,902	\$ 105	\$ 17,005

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 table summarizes the effect of the fair value hedging relationship recognized in the consolidated statements of income for the three and nine months ended September 30, 2023 and September 30, 2022:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gain (loss) on fair value hedging relationship:				
Hedged asset	\$ (1,015)	\$ —	\$ (1,696)	\$ —
Fair value derivative designated as hedging instrument	1,402	—	2,407	—
Total gain recognized in the consolidated statements of income within interest and fees on loans	\$ 387	\$ —	\$ 711	\$ —

The following tables summarize gross and net information about derivative instruments that are offset in the Consolidated Balance Sheets at September 30, 2023 and December 31, 2022:

September 30, 2023						
<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	\$ 16,359	\$ —	\$ 16,359	\$ —	\$ 16,487	\$ (128)

(1) Includes accrued interest receivable totaling \$756 thousand.

September 30, 2023						
<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	\$ 5,391	\$ —	\$ 5,391	\$ —	\$ —	\$ 5,391

(1) Includes net accrued interest payable totaling \$20 thousand.

December 31, 2022

(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	\$ 13,097	\$ —	\$ 13,097	\$ —	\$ 12,771	\$ 326

(1) Includes accrued interest receivable totaling \$599 thousand.

December 31, 2022

(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	\$ 4,258	\$ —	\$ 4,258	\$ —	\$ —	\$ 4,258

(1) Includes no accrued interest.

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 September 30, 2023 and December 31, 2022 were as follows:

September 30, 2023					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial Assets:					
Cash and due from banks	\$ 256,973	\$ 256,973	\$ 256,973	\$ —	\$ —
Federal funds sold	1,122	1,122	1,122	—	—
Marketable equity securities	1,975	1,795	1,795	—	—
Available for sale securities	97,907	97,907	51,404	46,503	—
Held to maturity securities	15,885	14,317	—	33	14,284
Loans receivable, net	2,735,242	2,682,610	—	—	2,682,610
Accrued interest receivable	15,648	15,648	—	15,648	—
FHLB stock	5,696	5,696	—	5,696	—
Servicing asset, net of valuation allowance	952	952	—	—	952
Derivative asset	15,603	15,603	—	15,603	—
Financial Liabilities:					
Noninterest bearing deposits	\$ 345,433	\$ 345,443	\$ —	\$ 345,443	\$ —
NOW and money market	981,697	981,697	—	981,697	—
Savings	102,207	102,207	—	102,207	—
Time deposits	1,339,289	1,331,827	—	—	1,331,827
Accrued interest payable	18,342	18,342	—	18,342	—
Advances from the FHLB	90,000	89,998	—	—	89,998
Subordinated debentures	69,143	60,033	—	—	60,033
Derivative liability	5,411	5,411	—	5,411	—

	December 31, 2022					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	
	(In thousands)					
Financial Assets:						
Cash and due from banks	\$ 344,925	\$ 344,925	\$ 344,925	\$ —	\$ —	
Federal funds sold	10,754	10,754	10,754	—	—	
Marketable equity securities	1,988	1,988	1,988	—	—	
Available for sale securities	103,663	103,663	51,489	52,174	—	
Held to maturity securities	15,983	15,435	—	37	15,398	
Loans receivable, net	2,646,384	2,594,819	—	—	2,594,819	
Accrued interest receivable	13,070	13,070	—	13,070	—	
FHLB stock	5,216	5,216	—	5,216	—	
Servicing asset, net of valuation allowance	746	746	—	—	746	
Derivative asset	12,499	12,499	—	12,499	—	
Financial Liabilities:						
Noninterest bearing deposits	\$ 404,559	\$ 404,559	\$ —	\$ 404,559	\$ —	
NOW and money market	1,017,925	1,017,925	—	1,017,925	—	
Savings	151,944	151,944	—	151,944	—	
Time deposits	1,226,390	1,214,073	—	—	1,214,073	
Accrued interest payable	6,650	6,650	—	6,650	—	
Advances from the FHLB	90,000	89,996	—	—	89,996	
Subordinated debentures	68,959	62,687	—	—	62,687	
Servicing liability	23	23	—	—	23	
Derivative liability	4,207	4,207	—	4,207	—	

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 September 30, 2023 and December 31, 2022, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value. The Company had no transfers into or out of Levels 1, 2 or 3 during the nine months ended September 30, 2023 and for the year ended December 31, 2022.

(In thousands)	Fair Value		
	Level 1	Level 2	Level 3
September 30, 2023:			
Marketable equity securities	\$ 1,975	\$ —	\$ —
Available for sale investment securities:			
U.S. Government and agency obligations	51,404	32,307	—
Corporate bonds	—	14,196	—
Derivative asset	—	15,603	—
Derivative liability	—	5,411	—
December 31, 2022:			
Marketable equity securities	\$ 1,988	\$ —	\$ —
Available for sale investment securities:			
U.S. Government and agency obligations	51,489	36,936	—
Corporate bonds	—	15,238	—
Derivative asset	—	12,499	—
Derivative liability	—	4,207	—

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 September 30, 2023 and December 31, 2022, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

<i>(In thousands)</i>		Fair Value		
		Level 1	Level 2	Level 3
September 30, 2023:				
Individually evaluated loans	\$	—	\$	80,550
Servicing asset, net		—	—	952
December 31, 2022:				
Individually evaluated loans	\$	—	\$	41,929
Servicing asset, net		—	—	723

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022:

	Fair Value	Valuation Methodology	Unobservable Input	Range
<i>(Dollars in thousands)</i>				
September 30, 2023:				
Individually evaluated loans	\$ 22,292	Appraisals	Discount to appraised value	8.00%
	35,894	Appraisals, cash surrender value life insurance, securities, cash held as collateral	Discounts to appraised value and securities value	—% - 8.00%
	24,017	Discounted cash flows	Discount rate	3.00 - 10.50%
	<u>\$ 82,203</u>			
Servicing asset, net	\$ 952	Discounted cash flows	Discount rate	10.00%
			Prepayment rate	3.00 - 17.00%
December 31, 2022:				
Individually evaluated loans	\$ 17,477	Appraisals	Discount to appraised value	6.00-8.00%
	24,452	Discounted cash flows	Discount rate	3.00 - 6.75%
	<u>\$ 41,929</u>			
Servicing asset, net	\$ 723	Discounted cash flows	Discount rate	10.00% ⁽¹⁾
			Prepayment rate	3.00 - 17.00%

(1) Servicing liabilities totaling \$23 thousand were valued using a discount rate of 4.0%.

Individually evaluated 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 ACL-Loans. 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.

13. Subordinated debentures

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 \$15.5 million principal balance of subordinated notes issued in 2015 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.

On August 19, 2022, the Company entered into a Subordinated Note Purchase Agreement with certain qualified institutional buyers, pursuant to which the Company issued and sold 6.0% fixed-to-floating rate subordinated notes due 2032 (the “2022 Notes”) in the aggregate principal amount of \$35.0 million. The Company used the net proceeds from the sale of the 2022 Notes for general corporate purposes.

The 2022 Notes bear interest at a fixed rate of 6.0% per year until August 31, 2027. Thereafter, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR plus 326 basis points. The 2022 Notes have a stated maturity of September 1, 2032 and are non-callable for five years. Beginning August 19, 2027, the Company may redeem the 2022 Notes, in whole or in part, at its option. The 2022 Notes are not subject to redemption at the option of the holder. The 2022 Notes have 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 September 30, 2023 and December 31, 2022, unamortized debt issuance costs were \$0.9 million and \$1.0 million, respectively. Debt issuance costs amortize over the expected life of the related debt. For the three months ended September 30, 2023 and 2022 the amortization expense for debt issuance costs were \$62 thousand and \$45 thousand, respectively, and were recognized as an increase to interest expense on borrowings within the Consolidated Statements of Income. For the nine months ended September 30, 2023 and 2022, the amortization expense for debt issuance costs were \$185 thousand and \$104 thousand, respectively.

The Company recognized \$0.8 million and \$0.5 million in interest expense related to its subordinated debt for the three-month periods ended September 30, 2023 and 2022, respectively. The Company recognized \$2.4 million and \$1.1 million in interest expense related to its subordinated debt for the nine-month periods ended September 30, 2023 and 2022, respectively.

14. Subsequent Events

On October 25, 2023, the Company’s Board of Directors declared a \$0.20 per share cash dividend, payable on November 20, 2023 to shareholders of record on November 10, 2023.

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, 2022 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 clients. We have a history of building long-term client relationships and attracting new clients through what we believe is our superior 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 ACL-Loans 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, client-centric products and services;
- 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 ACL-Loans, 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 September 30, 2023, net interest income was \$22.7 million, a decrease of \$1.9 million or 7.8% when compared to the same period in 2022. For the nine months ended September 30, 2023, net interest income was \$72.2 million, an increase of \$4.3 million or 6% when compared to the same period in 2022. The decrease in net interest income for the three months ended September 30, 2023 was primarily attributable to an increase in interest expense partially offset by an increase in interest on loans due to higher overall loan yields. The increase in net interest income for the nine months ended September 30, 2023 was primarily attributable to an increase in interest and fees on loans due to loan growth and higher overall loan yields partially offset by an increase in interest expense.

Net income available to common shareholders was \$9.8 million, or \$1.25 per diluted share, and \$9.2 million, or \$1.18 per diluted share, for the three months ended September 30, 2023 and 2022, respectively. Net income available to common shareholders was \$28.1 million, or \$3.58 per diluted share, and \$29.4 million, or \$3.75 per diluted share, for the nine months ended September 30, 2023 and 2022, respectively. The increase in net income for the quarter ended 2023 was primarily due to the credit for credit losses, partially offset by an increase in noninterest expense, and the aforementioned decrease in revenues. The decrease in net income for nine months ended 2023 was due to an increase in noninterest expense partially offset by the aforementioned increase in revenues.

Returns on average shareholders' equity and average assets for the three months ended September 30, 2023 were 15.19% and 1.19%, respectively, compared to 15.73% and 1.47%, respectively, for the three months ended September 30, 2022. Returns on average shareholders' equity and average assets for the nine months ended September 30, 2023 were 15.16% and 1.16%, respectively, compared to 17.94% and 1.59%, respectively, for the nine months ended September 30, 2022.

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 September 30, 2023 and 2022 was \$22.7 million and \$24.7 million, respectively. FTE net interest income for the nine months ended September 30, 2023 and 2022 was \$72.4 million and \$68.1 million, respectively.

FTE interest income for the three months ended September 30, 2023 increased by \$18.6 million, or 62.5%, to \$48.3 million, compared to FTE interest income for the three months ended September 30, 2022. FTE interest income for the nine months ended September 30, 2023 increased by \$60.7 million, or 77.3%, to \$139.2 million, compared to FTE interest income for the nine months ended September 30, 2022. This increase was due to an increase in interest and fees on loans due to loan growth and higher overall loan yields.

Interest expense for the three months ended September 30, 2023 increased by \$20.5 million compared to interest expense for the three months ended September 30, 2022. Interest expense for the nine months ended September 30, 2023 increased by \$56.4 million compared to interest expense for the nine months ended September 30, 2022. The increase in interest expense for the three and nine months ended September 30, 2023 was driven by an increase in interest expense on deposits, resulting from an increase in rates on interest bearing deposits.

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

The following table presents the average balances and yields earned on interest earning assets and average balances and weighted average rates paid on our funding liabilities for the three and nine months ended September 30, 2023 and 2022.

	For the Quarter Ended					
	September 30, 2023			September 30, 2022		
	Average Balance	Interest	Yield/Rate ⁽⁴⁾	Average Balance	Interest	Yield/Rate ⁽⁴⁾
Assets:						
Cash and Fed funds sold	\$ 265,115	\$ 3,393	5.08 %	\$ 130,440	\$ 747	2.27 %
Securities ⁽¹⁾	127,229	953	3.00	120,092	829	2.76
Loans:						
Commercial real estate	1,943,725	28,140	5.67	1,512,381	18,830	4.87
Residential real estate	53,966	671	4.97	62,915	586	3.72
Construction	209,154	3,908	7.31	116,256	1,512	5.09
Commercial business	539,185	10,394	7.54	431,917	7,058	6.39
Consumer	44,020	741	6.66	12,145	142	4.65
Total loans	2,790,050	43,854	6.15	2,135,614	28,128	5.15
Federal Home Loan Bank stock	5,696	115	8.13	5,021	31	2.51
Total earning assets	3,188,090	\$ 48,315	5.93 %	2,391,167	\$ 29,735	4.87 %
Other assets	78,089			89,173		
Total assets	\$ 3,266,179			\$ 2,480,340		
Liabilities and shareholders' equity:						
Interest bearing liabilities:						
NOW	\$ 102,149	\$ 47	0.18 %	\$ 119,593	\$ 52	0.17 %
Money market	922,036	9,064	3.90	828,541	2,346	1.12
Savings	105,366	817	3.08	189,279	474	0.99
Time	1,322,074	13,861	4.16	557,243	1,220	0.87
Total interest bearing deposits	2,451,625	23,789	3.85	1,694,656	4,092	0.96
Borrowed Money	159,103	1,783	4.39	135,221	993	2.87
Total interest bearing liabilities	2,610,728	\$ 25,572	3.89 %	1,829,877	\$ 5,085	1.10 %
Noninterest bearing deposits	345,988			383,048		
Other liabilities	54,136			36,037		
Total liabilities	3,010,852			2,248,962		
Shareholders' equity	255,327			231,378		
Total liabilities and shareholders' equity	\$ 3,266,179			\$ 2,480,340		
Net interest income ⁽²⁾		\$ 22,743			\$ 24,650	
Interest rate spread			2.04 %			3.77 %
Net interest margin ⁽³⁾			2.85 %			4.12 %

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

(2) The adjustment for securities and loans taxable equivalency amounted to \$52 thousand and \$49 thousand for the three months ended September 30, 2023 and 2022, 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.

	For the Nine Months Ended					
	September 30, 2023			September 30, 2022		
	Average Balance	Interest	Yield/ Rate ⁽⁴⁾	Average Balance	Interest	Yield/ Rate ⁽⁴⁾
Assets:						
Cash and Fed funds sold	\$ 281,033	\$ 9,983	4.75 %	\$ 240,252	\$ 1,350	0.75 %
Securities ⁽¹⁾	128,554	2,864	2.97	117,008	2,392	2.73
Loans:						
Commercial real estate	1,932,549	79,958	5.46	1,433,642	51,104	4.70
Residential real estate	56,798	1,957	4.59	67,705	1,810	3.56
Construction	194,396	10,582	7.18	108,249	4,482	5.46
Commercial business	546,329	32,073	7.74	402,876	17,011	5.57
Consumer	30,571	1,489	6.51	7,844	290	4.94
Total loans	2,760,643	126,059	6.02	2,020,316	74,697	4.88
Federal Home Loan Bank stock	5,527	308	7.46	3,715	61	2.19
Total earning assets	3,175,757	\$ 139,214	5.78 %	2,381,291	\$ 78,500	4.35 %
Other assets	66,342			89,747		
Total assets	\$ 3,242,099			\$ 2,471,038		
Liabilities and shareholders' equity:						
Interest bearing liabilities:						
NOW	\$ 97,741	\$ 127	0.17 %	\$ 122,792	\$ 158	0.17 %
Money market	910,840	23,532	3.45	909,106	4,672	0.69
Savings	117,984	2,404	2.72	194,013	678	0.47
Time	1,291,124	35,536	3.68	487,792	2,773	0.76
Total interest bearing deposits	2,417,689	61,599	3.41	1,713,703	8,281	0.65
Borrowed Money	161,166	5,238	4.29	101,685	2,137	2.77
Total interest bearing liabilities	2,578,855	\$ 66,837	3.47 %	1,815,388	\$ 10,418	0.77 %
Noninterest bearing deposits	374,943			398,728		
Other liabilities	40,192			37,784		
Total liabilities	2,993,990			2,251,900		
Shareholders' equity	248,109			219,138		
Total liabilities and shareholders' equity	\$ 3,242,099			\$ 2,471,038		
Net interest income ⁽²⁾		\$ 72,377			\$ 68,082	
Interest rate spread			2.31 %			3.58 %
Net interest margin ⁽³⁾			3.04 %			3.81 %

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

(2) The adjustment for securities and loans taxable equivalency amounted to \$154 thousand and \$148 thousand for the nine months ended September 30, 2023 and 2022, 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 September 30, 2023 vs 2022 Increase (Decrease)			Nine Months Ended September 30, 2023 vs 2022 Increase (Decrease)		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:						
Cash and Fed funds sold	\$ 1,205	\$ 1,440	\$ 2,645	\$ 267	\$ 8,366	\$ 8,633
Securities	51	73	124	247	225	472
Loans:						
Commercial real estate	5,927	3,383	9,310	19,739	9,115	28,854
Residential real estate	(92)	177	85	(322)	469	147
Construction	1,545	851	2,396	4,360	1,739	6,099
Commercial business	1,933	1,404	3,337	7,170	7,892	15,062
Consumer	513	85	598	1,081	119	1,200
Total loans	9,826	5,900	15,726	32,028	19,334	51,362
Federal Home Loan Bank stock	5	79	84	42	206	248
Total change in interest and dividend income	11,087	7,492	18,579	32,584	28,131	60,715
Interest expense:						
Deposits:						
NOW	(8)	2	(6)	(32)	2	(30)
Money market	293	6,425	6,718	9	18,851	18,860
Savings	(287)	630	343	(362)	2,087	1,725
Time	3,361	9,280	12,641	9,830	22,933	32,763
Total deposits	3,359	16,337	19,696	9,445	43,873	53,318
Borrowed money	198	592	790	1,598	1,503	3,101
Total change in interest expense	3,557	16,929	20,486	11,043	45,376	56,419
Change in net interest income	\$ 7,530	\$ (9,437)	\$ (1,907)	\$ 21,541	\$ (17,245)	\$ 4,296

(Credit) provision for Credit Losses

The (credit) provision for credit losses is based on management's periodic assessment of the adequacy of our ACL-Loans and ACL-Unfunded Commitments 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 (credit) provision for credit losses is charged against earnings in order to maintain our ACL-Loans and ACL-Unfunded Commitments and reflects management's best estimate of probable losses inherent in our loan portfolio as of the balance sheet date.

The credit for credit losses for the three months ended September 30, 2023 was \$1.6 million compared to a provision for credit losses of \$2.4 million for the three months ended September 30, 2022. The provision for credit losses for the nine months ended September 30, 2023 was \$1.8 million compared to a credit for credit losses of \$1.2 million for the nine months ended September 30, 2022. The reduction for three months ended September 30, 2023 was primarily due to a revision in the CECL methodology given further refinement of the Company's loan portfolio segmentation for insurance premium loans. The increase in provision for credit losses for the nine months ended September 30, 2023 was primarily driven by loan growth and forward looking CECL macroeconomic factors. On January 1, 2023, the Company adopted ASC 326 Financial Instruments - Credit

Losses ("CECL"). Upon adoption of CECL, the Company recorded a one-time cumulative effect, pre-tax adjustment \$5.1 million to the ACL-Loans and a corresponding net of tax adjustment to beginning retained earnings. The Company also recorded a one-time cumulative effect, pre-tax adjustment of \$1.3 million to the ACL-Unfunded commitments (which is reflected in Accrued expenses and other liabilities on the Consolidated Balance Sheets) and a corresponding net of tax adjustment to beginning retained earnings.

Noninterest Income

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

The following tables compare noninterest income for the three and nine months ended September 30, 2023 and 2022:

<i>(Dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Gains (losses) and fees from sales of loans	\$ 237	\$ (15)	\$ 252	Favorable
Bank-owned life insurance	303	271	32	11.8
Service charges and fees	294	240	54	22.5
Other	(48)	(94)	46	Favorable
Total noninterest income	\$ 786	\$ 402	\$ 384	95.5 %

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Gains and fees from sales of loans	\$ 1,893	\$ 1,224	\$ 669	54.7 %
Bank-owned life insurance	876	796	80	10.1
Service charges and fees	941	729	212	29.1
Other	3	(237)	240	Favorable
Total noninterest income	\$ 3,713	\$ 2,512	\$ 1,201	47.8 %

Noninterest income increased by \$0.4 million to \$0.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Noninterest income increased by \$1.2 million to \$3.7 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase in noninterest income was driven by an increase in SBA loan sales and increases in service charges and fees for the three and nine months ended 2023.

Noninterest Expense

The following table compares noninterest expense for the three and nine months ended September 30, 2023 and 2022:

<i>(Dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Salaries and employee benefits	\$ 6,036	\$ 5,876	\$ 160	2.7 %
Occupancy and equipment	2,146	2,035	111	5.5
Professional services	491	994	(503)	(50.6)
Data processing	741	626	115	18.4
Director fees	362	325	37	11.4
FDIC insurance	1,026	255	771	302.4
Marketing	184	102	82	80.4
Other	1,219	818	401	49.0
Total noninterest expense	\$ 12,205	\$ 11,031	\$ 1,174	10.6 %

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Salaries and employee benefits	\$ 18,507	\$ 16,249	\$ 2,258	13.9 %
Occupancy and equipment	6,434	6,378	56	0.9
Professional services	2,505	2,975	(470)	(15.8)
Data processing	2,141	1,969	172	8.7
Director fees	1,207	1,016	191	18.8
FDIC insurance	3,138	740	2,398	324.1
Marketing	512	254	258	101.6
Other	3,093	2,311	782	33.8
Total noninterest expense	\$ 37,537	\$ 31,892	\$ 5,645	17.7 %

Noninterest expense increased by \$1.2 million to \$12.2 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Noninterest expense increased by \$5.6 million to \$37.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase in noninterest expense was primarily driven by an increase in FDIC insurance expense and salaries and employee benefits.

FDIC insurance expense totaled \$1.0 million for the three months ended September 30, 2023, an increase of \$0.8 million when compared to the same period in 2022. FDIC insurance expense totaled \$3.1 million for the nine months ended September 30, 2023, an increase of \$2.4 million when compared to the same period in 2022. The increase in FDIC insurance expense is attributed to the balance sheet growth and composition as well as an increase in FDIC insurance rates.

Salaries and employee benefits expense totaled \$18.5 million for the nine months ended September 30, 2023, an increase of \$2.3 million when compared to the same period in 2022. The increase in salaries and employee benefits expense was driven by an increase in average full time equivalent employees from 139 at September 30, 2023 compared to 131 for the same period in 2022. In addition, salaries and employee benefits expense increased due to one-time severance costs.

Income Taxes

Income tax expense for the three months ended September 30, 2023 and 2022 totaled \$3.1 million and \$2.4 million, respectively. The effective tax rates for the three months ended September 30, 2023 and 2022 were 23.9% and 20.9%, respectively. Income tax expense for the nine months ended September 30, 2023 and 2022 totaled \$8.4 million and \$8.0 million, respectively. The effective tax rates for the nine months ended September 30, 2023 and 2022 were 23.1% and 21.3%, respectively.

Financial Condition

Summary

Assets totaled \$3.2 billion at September 30, 2023 a decrease of \$2.7 million or 0.1% compared to December 31, 2022. Gross loans totaled \$2.8 billion at September 30, 2023, an increase of \$94.7 million or 3.5% compared to December 31, 2022. Deposits totaled \$2.8 billion at September 30, 2023, a decrease of \$32.2 million, or 1.1% compared to December 31, 2022.

Shareholders' equity totaled \$257.9 million as of September 30, 2023, an increase of \$19.4 million compared to December 31, 2022, primarily a result of net income of \$28.1 million for the nine months ended September 30, 2023. The increase was partially offset by the Day 1 CECL adoption of \$4.9 million, dividends paid of \$4.7 million, and a \$1.3 million unfavorable impact to accumulated other comprehensive income. The unfavorable impact to accumulated other comprehensive income was driven by fair value marks on the Company's available for sale investment securities portfolio of \$1.4 million partially offset by fair value marks related to hedge positions involving interest rate swaps of \$0.1 million. The Company's interest rate swaps are used to hedge interest rate risk.

Loan Portfolio

We originate commercial real estate loans, construction loans, commercial business loans and consumer loans in our market. We also pursue certain types of commercial lending opportunities outside our market, particularly where we have strong business relationships. Our loan portfolio is the largest category of our earning assets.

Total loans before deferred loan fees and the ACL-Loans were \$2.8 billion at September 30, 2023 and \$2.7 billion at December 31, 2022. Total gross loans increased \$94.7 million as of September 30, 2023 compared to the year ended December 31, 2022.

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

<i>(In thousands)</i>	At September 30, 2023	At December 31, 2022	Change
Real estate loans:			
Residential	\$ 52,908	\$ 60,588	\$ (7,680)
Commercial	1,955,992	1,921,252	34,740
Construction	199,972	155,198	44,774
	2,208,872	2,137,038	71,834
Commercial business	508,626	520,447	(11,821)
Consumer	52,612	17,963	34,649
Total loans	\$ 2,770,110	\$ 2,675,448	\$ 94,662

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 or commercial real estate 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 client and extends credit of up to 80% of the market value of the collateral, (85% maximum for owner occupied commercial real estate), depending on the client's creditworthiness and the type of collateral. The client'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 client's ability to generate continuing cash flows. The Company does not provide first or second consumer mortgage loans secured by residential properties but has a small legacy portfolio which continues to amortize, pay off due to the sale of the collateral, or refinance away from the Company.

Credit risk management involves a partnership between our relationship managers and our credit approval, portfolio management, credit administration and collections departments. 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 September 30, 2023	At December 31, 2022
Nonaccrual loans:		
Real estate loans:		
Residential	\$ 1,408	\$ 2,152
Commercial	1,898	2,781
Commercial business	7,352	2,126
Construction	9,382	9,382
Consumer	7,917	—
Total nonaccrual loans	27,957	16,441
Other real estate owned	—	—
Total nonperforming assets	\$ 27,957	\$ 16,441
Nonperforming assets to total assets	0.86 %	0.51 %
Nonaccrual loans to total gross loans	1.01 %	0.61 %
ACL-loans as a % of total loans	1.06 %	0.84 %
ACL-loans as a % of nonperforming loans	104.75 %	136.43 %
Total past due loans to total gross loans	1.44 %	0.60 %

Nonperforming assets totaled \$28.0 million and represented 0.86% of total assets at September 30, 2023, compared to \$16.4 million and 0.51% of total assets at December 31, 2022. Nonaccrual loans totaled \$28.0 million at September 30, 2023 and \$16.4 million at December 31, 2022. Nonaccrual loans increased primarily due to three distinct loans:

- One Consumer (insurance premium) loan of \$7.9 million. As of October 4, 2023, the loan balance has been reduced to \$3.9 million. The Bank holds collateral for the remaining balance, worth approximately two times the outstanding amount.
- Two Commercial business loans totaling \$5.5 million, of which approximately 82% is guaranteed by the U.S. Government (SBA).

There was no Other Real Estate Owned ("OREO") at September 30, 2023 or December 31, 2022.

ACL-Loans

We evaluate the adequacy of the ACL-Loans based on "forward looking" expected losses. Management believes that the current ACL-Loans will be adequate to absorb credit losses on existing loans that may become uncollectible based on the evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the portfolio, overall portfolio quality and specific problem loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation also details historical losses by loan segment and the resulting credit loss rates which are projected for current loan total amounts. Loss estimates for specified problem loans are also detailed. All of the factors considered in the analysis of the adequacy of the ACL-Loans may be subject to change.

We estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of our ACL-Loans 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 individually evaluated 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 provisions (credit) for credit losses may be recorded on the remaining loan balance based on the same criteria.

The following table presents the activity in our ACL-Loans and related ratios for the dates indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(Dollars in thousands)</i>				
Balance at beginning of period	\$ 30,694	\$ 15,773	\$ 22,431	\$ 16,902
CECL Day 1 Adjustment	—	—	5,079	—
Balance at beginning of period-Adjusted	30,694	15,773	27,510	16,902
Charge-offs:				
Commercial real estate	—	—	—	—
Commercial business	—	—	(439)	—
Consumer	(32)	(8)	(69)	(12)
Total charge-offs	(32)	(8)	(508)	(12)
Recoveries:				
Commercial real estate	—	—	—	77
Commercial business	35	21	68	34
Consumer	20	—	35	1
Total recoveries	55	21	103	112
Net recoveries (charge-offs)	23	13	(405)	100
(Credit) provision for credit losses - loans	(1,433)	2,381	2,179	1,165
Balance at end of period	\$ 29,284	\$ 18,167	\$ 29,284	\$ 18,167
Net charge-offs to average loans	— %	— %	0.01 %	— %
ACL-Loans to total gross loans	1.06 %	0.79 %	1.06 %	0.79 %

At September 30, 2023, our ACL-Loans was \$29.3 million and represented 1.06% of total gross loans, compared to \$22.4 million, or 0.84% of total gross loans, at December 31, 2022.

The following table presents the allocation of the ACL-Loans balance and the related allocation percentage of these loans across the total loan portfolio:

<i>(Dollars in thousands)</i>	At September 30, 2023		At December 31, 2022	
	ACL-Loans	Loans as Percent of Total Loan Portfolio	ACL-Loans	Loans as Percent of Total Loan Portfolio
Residential real estate	\$ 161	0.55 %	\$ 163	2.27 %
Commercial real estate	20,736	70.90	15,597	71.81
Construction	1,615	5.52	311	5.80
Commercial business	6,148	21.02	6,214	19.45
Consumer	588	2.01	146	0.67
Total ACL-Loans	\$ 29,248	100.00 %	\$ 22,431	100.00 %

The allocation of the ACL-Loans at September 30, 2023 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the ACL-Loans at September 30, 2023 is appropriate to cover probable losses.

ACL- Unfunded Commitments

The ACL-Unfunded Commitments provision is based on "forward looking" losses inherent with funding the unused portion of legal commitments to lend. The reserve for unfunded credit commitments is included within other liabilities in the accompanying Consolidated Balance Sheets. Changes in the ACL-Unfunded Commitments are reported as a component of the Provision for credit losses in the accompanying Consolidated Statements of Income.

Investment Securities

At September 30, 2023, the carrying value of our investment securities portfolio totaled \$115.8 million and represented 3.6% of total assets, compared to \$121.6 million, or 3.7% of total assets, at December 31, 2022.

The net unrealized loss position on our investment portfolio at September 30, 2023 was \$12.2 million and included gross unrealized gains of \$10.0 thousand. The net unrealized loss position on our investment portfolio at December 31, 2022 was \$9.2 million and included gross unrealized gains of \$0.3 million.

Deposit Activities and Other Sources of Funds

<i>(Dollars in thousands)</i>	September 30, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Noninterest bearing demand	\$ 345,433	12.48 %	\$ 404,559	14.44 %
NOW	101,719	3.67	104,057	3.72
Money market	879,978	31.79	913,868	32.63
Savings	102,207	3.69	151,944	5.42
Time	1,339,289	48.37	1,226,390	43.79
Total deposits	\$ 2,768,626	100.00 %	\$ 2,800,818	100.00 %

Total deposits were \$2.8 billion at September 30, 2023, a decrease of \$32.2 million, from the balance at December 31, 2022.

Brokered certificates of deposits totaled \$911.1 million at September 30, 2023 and \$976.5 million at December 31, 2022. There were no certificates of deposits from national listing services at September 30, 2023 or December 31, 2022. Brokered money market accounts totaled \$40.2 million at September 30, 2023 and \$50.1 million at December 31, 2022.

As of September 30, 2023, our FDIC insured deposits were \$1,970.3 million, or 71% of total deposits. Additionally, \$118.8 million of deposits are insured by standby letters of credit with the Federal Home Loan Bank of Boston, or 4% of total deposits.

At September 30, 2023 and December 31, 2022, time deposits with a denomination of \$100 thousand or more, including CDARS and brokered deposits, totaled \$1,229.9 million and \$1,157.2 million, respectively, maturing during the periods indicated in the table below:

<i>(Dollars in thousands)</i>	September 30, 2023	December 31, 2022
Maturing:		
Within 3 months	\$ 391,376	\$ 251,036
After 3 but within 6 months	248,480	252,673
After 6 months but within 1 year	203,815	530,400
After 1 year	386,215	123,130
Total	\$ 1,229,886	\$ 1,157,239

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 \$90.0 million at September 30, 2023 and December 31, 2022, 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 September 30, 2023, the Bank had pledged \$956.0 million of eligible loans as collateral to support borrowing capacity at the FHLB of Boston. As of September 30, 2023, the Bank had immediate availability to borrow an additional \$362.1 million based on qualified collateral.

At September 30, 2023, the Bank had a secured borrowing line with the FRB, a letter of credit with the FHLB, and unsecured lines of credit with Zions Bank, Pacific Coast Bankers Bank ("PCBB"), and Atlantic Community Bankers Bank ("ACBB"). The total borrowing line, letter, or line of credit and the amount outstanding at September 30, 2023 is summarized below:

	September 30, 2023	
	Total Letter or Line of Credit	Total Outstanding
	<i>(Dollars in thousands)</i>	
FRB	\$ 851,760	\$ —
FHLB	591,042	228,899
Zions Bank	45,000	—
PCBB	38,000	—
ACBB	12,000	—
Total	\$ 1,537,802	\$ 228,899

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 Zions Bank, PCBB, and ACBB (formerly Bankers' Bank Northeast). The Bank also

maintains additional collateralized borrowing capacity with the FRB and 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 FRB, FHLB, lines of credit from Zions Bank, PCBB, and ACBB, the brokered deposit market and national CD listing services.

Capital Resources

Shareholders' equity totaled \$257.9 million as of September 30, 2023, an increase of \$19.4 million compared to December 31, 2022, primarily a result of net income of \$28.1 million for the nine months ended September 30, 2023. The increase was partially offset by the Day 1 CECL adoption of \$4.9 million, dividends paid of \$4.7 million, and a \$1.3 million unfavorable impact to accumulated other comprehensive income. The unfavorable impact to accumulated other comprehensive income was driven by fair value marks on the Company's available for sale investment securities portfolio of \$1.4 million partially offset by fair value marks related to hedge positions involving interest rate swaps of \$0.1 million. The Company's interest rate swaps are used to hedge interest rate risk.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At September 30, 2023, the Bank met all capital adequacy requirements to which it was subject and exceeded the regulatory minimum capital levels to be considered well-capitalized under the regulatory framework for prompt corrective action. At September 30, 2023, the Bank's ratio of Common Equity Tier 1 capital to risk-weighted assets was 10.82%, total capital to risk-weighted assets was 11.86%, Tier 1 capital to risk-weighted assets was 10.82% and Tier 1 capital to average assets was 9.60%.

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 Tier 1 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.

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 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 September 30, 2023, the Bank has met all minimum regulatory capital requirements to be considered "well capitalized".

The following tables set forth the estimated percentage change in our net interest income at risk over one-year simulation periods beginning September 30, 2023 and December 31, 2022:

Parallel Ramp

<u>Rate Changes (basis points)</u>	<u>Estimated Percent Change in Net Interest Income</u>	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
-100	1.20 %	2.20 %
+200	(3.30)	(4.80)

Parallel Shock

<u>Rate Changes (basis points)</u>	<u>Estimated Percent Change in Net Interest Income</u>	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
-100	3.10 %	2.20 %
+100	(3.20)	(2.70)
+200	(7.20)	(6.00)
+300	(10.20)	(8.90)

The net interest income at risk simulation results indicate that, as of September 30, 2023, 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>	<u>Estimated Percent Change in Economic Value of Equity ("EVE")</u>	
	<u>September 30, 2023</u>	<u>December 31, 2022</u>
-100	3.80 %	2.30 %
+100	(5.00)	(3.90)
+200	(11.60)	(9.30)
+300	(16.20)	(14.00)

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.

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 client 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 September 30, 2023 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 were no material changes in risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC other than as follows:

Recent and future bank failures may adversely affect the national, regional, and local business environment, results of operations, and capital.

Recent and future bank failures may have a profound impact on the national, regional, and local business environment in which the Bank operates. The impact to the Bank may lead to business disruptions which may result in clients withdrawing their deposits from the Bank. Management currently expects that one result of the events in connection with the bank failures of Silicon Valley Bank in California, Signature Bank in New York, and First Republic Bank in California is that FDIC assessments will more likely than not increase the cost of doing business to the Bank. These possible impacts may adversely affect the Bank's future operating results, including net income, and negatively impact capital. While the Bank currently does not expect the Government takeovers of Silicon Valley Bank, Signature Bank, and First Republic Bank to have a material negative effect, the Bank continues to monitor the ongoing events concerning these three banks and any future bank failures should they occur.

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 September 30, 2023 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⁾
July 1, 2023 - July 31, 2023	—	\$ —	—	150,188
August 1, 2023 - August 31, 2023	—	—	—	150,188
September 1, 2023 - September 30, 2023	—	—	—	150,188
Total	—	\$ —	—	—

(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:

- | | |
|------|--|
| 10.1 | <u>Bankwell Financial Group, Inc. and Affiliates Amended and Restated Deferred Compensation Plan for Directors and Related Investment Policy Statement</u> |
| 31.1 | <u>Certification of Christopher R. Gruseke pursuant to Rule 13a-14(a)</u> |
| 31.2 | <u>Certification of Courtney E. Sacchetti pursuant to Rule 13a-14(a)</u> |
| 32 | <u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101 | The following materials from Bankwell Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2023, 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: November 8, 2023

Bankwell Financial Group, Inc.
/s/ Christopher R. Gruseke
Christopher R. Gruseke
President and Chief Executive Officer

Date: November 8, 2023

/s/ Courtney E. Sacchetti
Courtney E. Sacchetti
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)

**BANKWELL FINANCIAL GROUP, INC. AND AFFILIATES
DEFERRED COMPENSATION PLAN FOR DIRECTORS
INVESTMENT POLICY STATEMENT**

**Adopted by the Board of Directors of Bankwell Financial Group, Inc.
July 30, 2014, amended on July 29, 2015, and amended and restated on September 27, 2023, effective as of January 1, 2024**

This investment policy statement should be reviewed at least annually. Any change to this policy should be communicated in writing on a timely basis to all interested parties.

EXECUTIVE SUMMARY

Type of Plan: Non-qualified deferred compensation plan

Plan Sponsor: Bankwell Financial Group, Inc. and Affiliates

PURPOSE

The purpose of this Investment Policy Statement (“**IPS**”) is to establish the investment policy and process for the assets of the Bankwell Financial Group, Inc. and Affiliates Deferred Compensation Plan for Directors (the “**Plan**”). The Board of Directors (the “**Board**”) of Bankwell Financial Group, Inc. (the “**Corporation**”) has the authority to oversee the investment of the Plan's assets.

INVESTMENT POLICY

Financing Method: Participant deferrals (and any earnings thereon) shall be invested in common stock of the Corporation (the “**Stock**”) and held in the Rabbi Trust (as defined below). Deferrals may be invested in cash or one or more short-term liquid investment funds (i) while awaiting the effectuation of purchases of Stock; and (ii) to satisfy the Rabbi Trust’s cash needs for benefit distribution and investment transfers. A non-Stock position of no more than the lesser of \$20,000 or approximately 5% of Rabbi Trust assets will be the target. Within the foregoing parameters, the Chairman of the Compensation Committee shall be authorized to provide instructions to the Trustee with respect to the level of liquid assets to be held in the Trust. In addition, the Chairman of the Compensation Committee shall be authorized to provide as instructions to the Trustee as deemed necessary or appropriate to assure that Stock purchases under the Plan comply with Rule 10b-18 (to the extent the Trustee is not deemed an “agent independent of the issuer” pursuant to such Rule) and Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”).

Rabbi Trust: The Corporation has established a trust under an agreement dated September 1, 2008 (as the same may be amended, modified or supplemented from time to time, the “**Trust Agreement**”) to hold assets of the Plan (the “**Rabbi Trust**”). Any amounts deferred by participants in the Plan and any earnings thereon shall be deposited and held in the Rabbi Trust. The Rabbi Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management.

Trustee: Dime Bank (successor to Guilford Savings Bank)

GUIDELINES FOR INVESTMENT IN THE CORPORATION’S STOCK

The Rabbi Trust is invested primarily in the Stock of the Corporation. The following guidelines will apply to the investment of Stock:

1. The Corporation will deposit with the Trustee, on a quarterly basis, in accordance with the directors' compensation payment schedule approved by the Board (the "**Fee Schedule**") the amount of any retainer or Board or committee meeting fees that each participant in the Plan (each, a "**Participant**") has elected to defer pursuant to the Plan (the "**Deferred Compensation**") with instructions as to the allocation of such funds to separate accounts in the name of and for the benefit of each Participant (each, a "**Participant Plan Account**"). Notwithstanding the foregoing, the Corporation shall not deposit a Participant's Deferred Compensation with the Trustee until the expiration of the applicable "cooling off" period for members of the Board under Rule 10b5-1 under the Exchange Act (*i.e.*, the later of (a) 90 days following the date the Participant files his or her most recent completed Director Compensation Election Form (the "**Election Form**") under the Plan (the "**Election Date**") or (b) two (2) business days following the filing of the Form 10-Q or Form 10-K (for the fourth fiscal quarter) filed by the Company with the Securities and Exchange Commission for the quarterly period in which the Election Form is filed (subject to a maximum cooling off period of 120 days after the Election Date); provided that, for purposes of determining the Election Date, any Election Form that does not change Participant's election (but merely renews the Participant's immediately prior election) shall be disregarded and the Election Date shall be the date the Participant first filed an Election Form that remains in effect (without any interim changes)).
 2. To the extent the Corporation declares and pays any dividends on the Stock, the Corporation will deposit with the Trustee, the amount of any dividends payable on Stock held by the Rabbi Trust, which dividends will be allocated to each Participant's Plan Account in proportion to the number of shares allocated to such Participant's Plan Account.
 3. Upon receipt of any funds from the Corporation, the Trustee, subject to the restrictions set forth in paragraph 4 below, will purchase the maximum number of shares of Stock that can be purchased with the available funds allocated to each Participant's Plan Account. Purchases may be made on any national securities exchange, in the over-the-counter market, on an automated trading system or otherwise, in the Trustee's sole discretion, provided that all Stock purchases in a single day shall be made using a single broker or dealer. The Trustee may aggregate purchases in a block and allocate each execution on a *pro rata* basis to each Participant. In the event of partial execution of block orders, the Trustee shall allocate all the Stock actually purchased on a particular day pursuant to the Plan *pro rata* based on the ratio of (x) the total cash a Participant has in such Participant's Plan Account to (y) the total cash in all Participants' Plan Accounts.
 4. Notwithstanding any other provision of the Plan, the Rabbi Trust or this IPS, the Trustee shall not purchase Stock for any Participant's Plan Account:
 - (1) Any time that the Trustee is aware of material nonpublic information with respect to the Corporation;
 - (2) Any time that the Trustee, in its sole discretion, has determined that it is prohibited from doing so by a legal, contractual or regulatory restriction applicable to it or its affiliates or to a Participant or the Corporation; or
 - (3) If the Trustee, in its sole discretion, has determined that a market disruption, banking moratorium, outbreak or escalation of hostilities or other crisis or calamity has occurred.
 5. All Participants will be provided with the information provided to shareholders of the Stock.
 6. The Trustee shall provide the Corporation the details of any purchases of Stock by the Rabbi Trust and the allocation of such purchases to Participants' Plan Accounts, within one (1) business day following such purchase to enable the Corporation to file any reports
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required to be filed on behalf of a Participant or by the Corporation under the securities laws.

7. Subject to the disclosure obligations of the Corporation and a Participant under the securities laws (including paragraph 6 above), information relating to purchase, holding and sale of Stock shall be maintained in accordance with procedures intended to maintain confidentiality.
8. Amounts payable under the Plan shall be paid in shares of Stock (rounded to the nearest whole share) held in the Participant's Plan Account, with the remaining cash balance paid in a lump sum.
9. The Trustee shall act in situations where the Board determines there to be a potential for conflict or undue influence with respect to the exercise of shareholder rights.

It is the intent of the Corporation that this IPS and the Plan comply with the requirements of Rule 10b5-1(c)(1)(i)(B) and Rule 10b-18 (to the extent the Trustee is not deemed an "agent independent of the issuer" pursuant to such Rule) under the Exchange Act, and this IPS shall be interpreted to comply with requirements thereof.

CHANGE IN PLAN INVESTMENTS

The Board shall have the right, at any time, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by the Corporation in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity.

IPS AMENDMENTS

The Board has the authority to amend this IPS at any time and from time to time. If there is a discrepancy between this IPS and the Plan, the terms of the Plan shall govern.

Approved: September 27, 2023
Effective: As of January 1, 2024

**BANKWELL FINANCIAL GROUP, INC. AND AFFILIATES
AMENDED AND RESTATED DEFERRED COMPENSATION PLAN FOR
DIRECTORS**

As amended and restated and adopted on September 27, 2023) and effective as of
January 1, 2024

**BANKWELL FINANCIAL GROUP, INC. AND AFFILIATES
AMENDED AND RESTATED DEFERRED COMPENSATION PLAN
FOR DIRECTORS**

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ARTICLE I

Definitions

a. “Affiliate” means any corporation or other entity which is under common control with the Corporation within the meaning of Section 414(b) or Section 414(c) of the Code. A “Participating Affiliate” is an Affiliate which has assumed the obligations of the Plan with the consent of the Board. A “Nonparticipating Affiliate” is an Affiliate which has not assumed the obligations of the Plan with the consent of the Board.

b. “Advisory Director” means a member of the advisory board of the Corporation or a Participating Affiliate who is not an employee of the Corporation or an Affiliate.

c. “Beneficiary” means the person designated by a Participant to receive benefits payable under the Plan in the event of the Participant's death. If a Participant has not designated a Beneficiary, or if the Beneficiary does not survive the Participant, the Participant's Beneficiary will be his or her surviving spouse or, if none, his or her estate.

d. “Board” means the board of directors of the Corporation.

e. “Cause” means: (a) a Participant's conviction of any crime involving fraud, embezzlement, theft or dishonesty, moral turpitude, or any issue that in the sole opinion of the Board would negatively impact the reputation of the Corporation or any Affiliate or the Participant's ability to perform his or her duties; (b) serious willful misconduct by the Participant, including personal dishonesty in connection with the business or customers of the Corporation or an Affiliate, or the breach of the Participant's fiduciary duty to the Corporation or an Affiliate; (c) the failure of the Participant, in the opinion of a majority of the Board, to effectively perform his or her duties, as determined in the sole discretion of the Board; (d) the Participant's arrest for any crime involving fraud, embezzlement, theft or dishonesty, or any issue that in the sole opinion of the Board would negatively impact the reputation of the Corporation or an Affiliate or the Participant's ability to perform his or her duties; (e) the commission by the Participant of an act constituting sexual harassment or other illegal discriminatory employment practice; or (f) the issuance of an order by the Corporation's regulatory authorities which removes the Participant from his or her positions at the Corporation or an Affiliate, or a communication by such regulatory authorities to the Board that the continuation of the Participant in his or her positions at the Corporation or an Affiliate would constitute an unsafe and unsound banking practice.

In the event: (a) the Participant incurs a Separation from Service for Cause based on an issue related to the commission by the Participant of an act constituting sexual harassment or other illegal discriminatory employment practice, personal dishonesty in connection with the business or customers of the Corporation or an Affiliate, or the Participant's arrest for any crime involving fraud, embezzlement, theft or dishonesty; and (b) after the case is fully adjudicated, the Participant is subsequently found innocent of these charges on the merits of the case by any court of competent jurisdiction or the appropriate administrative agency, then the Participant will be entitled to receive at that

time the Deferred Compensation payable due to a Separation from Service without Cause. The Participant shall receive such amounts when they would otherwise have been paid under the terms of the Plan (or, if later, by the end of the calendar year in which the Participant is fully adjudicated to be innocent of the charges).

f. “Change in Control” means a change in ownership of the Corporation, a change in effective control of the Corporation, or a change in the ownership of a substantial portion of the assets of the Corporation, all within the meaning of Code Section 409A.

i. A change in ownership of the Corporation occurs when any person (or two or more persons acting as a group) acquires ownership of stock of the Corporation which, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total voting power of the stock of the Corporation. However, if any person or group of persons is considered to own more than fifty percent (50%) of the total voting power of the stock of the Corporation, the acquisition of additional stock by the same person or group of persons is not considered to result in a change in ownership of the Corporation.

ii. A change in effective control of the Corporation occurs when a majority of the board of directors of the Corporation is replaced during a twelve-month period by persons who are not endorsed by a majority of the board of directors of the Corporation in office prior to such change.

iii. A change in ownership of a substantial portion of the assets of the Corporation occurs on the date that any one person (or two or more persons acting as a group) acquires (or has acquired during the preceding twelve-month period) assets from the Corporation that have a total gross fair market value equal to or greater than forty percent (40%) of the total gross fair market value of all of the assets of the Corporation immediately prior to such acquisition or acquisitions. Gross fair market value means the value of the assets of the Corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

g. “Code” means the Internal Revenue Code of 1986, as amended.

h. “Committee” means any committee authorized by the Board pursuant to Section 7.1 to administer the Plan.

i. “Corporation” means Bankwell Financial Group, Inc. and any successor corporation which hereafter assumes its obligations.

j. “Deferred Compensation” means the amount of compensation that a Participant elects to defer under Section 3.1.

k. “Deferred Compensation Account” means the bookkeeping account maintained for each Participant to which the Participant's Deferred Compensation (and the earnings and losses allocable thereto) are credited.

l. “Director” means a member of the board of directors of the Corporation or a Participating Affiliate who is not an employee of the Corporation or an Affiliate.

m. “Disability” means a condition: (a) which causes a Participant to be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which can be expected to last for a continuous period of not less than twelve months; or (b) which results in a Participant receiving, by reason of any medically determinable physical or mental impairment which can be expected to result in death or which can be expected to last for a continuous period of not less than twelve months, income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Corporation or an Affiliate. Disability shall be deemed to exist only when a written application has been filed with the Committee by or on behalf of the Participant and, with respect to a condition described in subsection (a), when such Disability is certified to the Committee by a licensed physician approved by the Committee. The existence of a Disability shall be determined in accordance with the requirements of Code Section 409A and the regulations issued thereunder.

n. “Election Form” means the written form pursuant to which a Participant elects to defer cash compensation as provided under Section 3.1.

o. “Exchange Act” means the Securities Exchange Act of 1934, as amended.

p. “Participant” means an individual who satisfied the eligibility requirements of Article II and who is entitled to receive Deferred Compensation under Article III.

q. “Plan” means the Bankwell Financial Group, Inc. and Affiliates Deferred Compensation Plan for Directors, as set forth herein, including any amendments, rules and regulations adopted pursuant hereto.

r. “Separation from Service” means an individual's termination of service with the Corporation and all Affiliates, as defined for purposes of Section 409A of the Code.

s. “Unforeseeable Emergency” means a severe financial hardship to the Participant resulting from: (a) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary, or a dependent of the Participant (as defined in Section 152 of the Code, without regard to Section 152(b)(1),(b)(2) and (d)(1)(B)); (b) loss of the Participant's property due to casualty (including the need to rebuild a home

following damage to the home not otherwise covered by insurance); or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The determination of an Unforeseeable Emergency shall be made by the Committee in its sole discretion, based on such information as the Committee shall deem to be necessary and in accordance with the requirements of Code Section 409A and the regulations thereunder.

ARTICLE II

Eligibility

a. Eligibility. Eligibility to participate in the Plan is limited to a select group of management composed only of non-employee Directors and Advisory Directors who are designated by the Board to participate in the Plan. The Board shall have absolute discretion as to the non-employee Directors and Advisory Directors that it chooses to designate as Participants.

If an individual ceases to be a non-employee Director or Advisory Director, the individual shall not be credited with any Deferred Compensation with respect to directors' fees earned after the date of such event.

In addition, if an individual ceases to be a non-employee Director or Advisory Director but does not incur a Separation from Service (for example, because the individual becomes an employee of the Corporation or an Affiliate), then the individual shall remain a Participant solely for the purpose of determining his or her eligibility to receive a distribution of his or her Deferred Compensation Account.

ARTICLE III

Deferred Compensation

3.a Deferral of Directors' Fees. A Participant who is a non-employee Director or Advisory Director may elect to defer all (and not less than all) of any retainer fee or any board or committee meeting fees (or such other compensation) that he or she might earn with respect to his or her services to the Corporation or a Participating Affiliate during a calendar year and that would otherwise be payable in cash; *provided, however*, that the Participant must irrevocably elect to defer such amounts before the first day of the calendar year (or such earlier date as the Corporation may establish for purposes of compliance with applicable laws and regulations), which election shall be made on an Election Form provided by the Corporation and shall incorporate the Participant representations and warranties set forth in Article V, to the extent applicable. For purposes of clarification, the Plan permits evergreen elections, such that a Participant's election to defer compensation shall remain in effect until otherwise modified by the Participant.

In the case of a non-employee Director or Advisory Director who first becomes eligible to participate in the Plan after the beginning of a calendar year, the deferral election under this Section 3.1 shall be made not later than thirty (30) days after becoming eligible to participate in the Plan. The election shall apply only to retainer fees or board or committee meeting fees (or such other compensation) that relate to services performed subsequent to the date of the election.

3.b Accounting for Deferred Compensation.

(1) A Participant's Deferred Compensation shall be credited by the Corporation or a Participating Affiliate (as applicable) to the Deferred Compensation Account maintained for the Participant. The Deferred Compensation shall be credited to the Participant's Deferred Compensation Account as of the day that Deferred Compensation would otherwise have been paid to the Participant absent such Participant's election to defer such compensation. A Participant's Deferred Compensation Account shall be deemed invested in shares of the common stock of the Corporation as of the time Deferred Compensation is credited to the Participant's Deferred Compensation Account.

Any distribution made to a Participant or Beneficiary shall be charged to the Deferred Compensation Account of the Participant as of the date of the distribution.

(2) Participants' Deferred Compensation Accounts shall not be credited with earnings and losses (other than dividend equivalents on common stock in which a Participant's Deferred Compensation Account is deemed invested), *except to the extent that* the Committee elects to have Participants' Deferred Compensation Accounts credited with earnings and losses based on changes in the value of the shares of common stock of the Corporation. If a portion of Participants' Deferred Compensation Accounts has not previously been credited with earnings and losses and the Committee elects to have such portion credited with earnings and losses based on changes in the value of the shares of

common stock of the Corporation, such election shall apply on a pro rata basis to the portion of each Participant's Deferred Compensation Account that has not previously been credited with earnings and losses.

3.c Vesting of Deferred Compensation. A Participant will always have a nonforfeitable right to receive the entire amount credited to his or her Deferred Compensation Account; *provided, however*, if a Participant incurs a Separation from Service for Cause, his or her entire Deferred Compensation Account will be forfeited.

3.d Time of Distribution of Deferred Compensation. A Participant's Deferred Compensation Account (adjusted as provided in Section 3.2) will be distributed on the earliest of the following:

- (1) If the Participant incurs a Separation from Service with the Corporation and all Affiliates prior to reaching age seventy (70), the first day of the month coinciding with or next following the fifth anniversary of the date of the Participant's Separation from Service.
- (2) If the Participant incurs a Separation from Service with the Corporation and all Affiliates on or after reaching age seventy (70), during the 90-day period beginning on the date of the Participant's Separation from Service.
- (3) If the Participant incurs a Disability, during the 90-day period beginning on the date of the Participant's Disability.
- (4) If the Participant dies, during the 90-day period beginning on the date of the Participant's death.
- (5) As soon as practicable following the Committee's approval of a distribution due to the occurrence of an Unforeseeable Emergency; *provided, however*, that the amount of Deferred Compensation that may be distributed pursuant to an Unforeseeable Emergency may not exceed the amount reasonably necessary to satisfy such Unforeseeable Emergency, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such Unforeseeable Emergency is or may be relieved through reimbursement or compensation by insurance or otherwise, or by the liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

3.e Form of Distribution of Deferred Compensation.

- (1) A Participant's Deferred Compensation Account will be distributed to the Participant (or, in the event of his or her death, to the Participant's Beneficiary) in a single lump sum at the time determined pursuant to Section 3.4.
 - (2) Amounts payable under this Section 3.5 shall be paid in shares of common stock of the Corporation (rounded to the nearest whole share) equal to the number of
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shares credited to a Participant's Deferred Compensation Account plus any uninvested cash, with interest earned on such cash accrued through the date of distribution.

3.f Change in Time and Form of Distribution. Anything herein to the contrary notwithstanding, a Participant may make an election not to receive a distribution of his or her Deferred Compensation Account at the time set forth in Section 3.4 or in the single lump sum set forth in Section 3.5(a), but to receive a distribution of his or her Deferred Compensation Account at another time or in a form other than lump sum. In addition, a Participant may change an election which he or she previously made pursuant to this Section 3.6. However, any such election or change in election shall be subject to the following requirements:

- i. Any such election or change in election cannot become effective until at least twelve months after the date on which the election or change in election is made.
- ii. If the election or change in election is related to a distribution *other than* a distribution due to death, Disability or an Unforeseeable Emergency, the election or change in election must delay the date of payment for at least five years from the date such payment would otherwise have been made.
- iii. If the election or change in election is related to a distribution that is payable at a specified time or pursuant to a fixed schedule, the election or change in election cannot be made less than twelve months prior to the date of the first scheduled payment.
- iv. In no event can an election or change in election made pursuant to this Section 3.6 accelerate the time or schedule of any payment of Deferred Compensation, except to the extent permitted by Code Section 409A and the regulations issued pursuant thereto.

3.g Cashout of Small Accounts. Notwithstanding the provisions of Section 3.4, Section 3.5 and Section 3.6, if the sum of a Participant's Deferred Compensation Account and accounts under any nonqualified deferred compensation arrangements of the same type (i.e., any account balance plans) maintained by the Corporation or any Affiliates does not exceed the limitation on elective deferrals set forth in Section 402(g)(1)(B) of the Code at the time of his or her Separation from Service with the Corporation and all Affiliates, then the Participant's entire Deferred Compensation Account shall be paid to the Participant in a single lump sum during the 90-day period beginning on the date of the Participant's Separation from Service.

3.h Investment of Account Following Termination. For purposes of clarification, in the event a Participant incurs a Separation from Service with the Corporation and all Affiliates, the Participant's Deferred Compensation Account shall continue to be deemed invested in accordance with the Investment Policy Statement.

ARTICLE IV

Funding

4.a Unfunded Plan. It is the intention of the Corporation, the Participating Affiliates, the Participants and their survivors and Beneficiaries, and each other party to the Plan that the arrangements hereunder be unfunded for tax purposes. The rights of Participants and their survivors and Beneficiaries shall be solely those of a general unsecured creditor of the Corporation or a Participating Affiliate (as applicable). The Plan constitutes a mere promise by the Corporation or a Participating Affiliate (as applicable) to make benefit payments in the future.

4.2 Contractual Obligation. Subject to the provisions of Section 4.3, this Plan does not create a trust for the benefit of any Participant. The obligation of the Corporation or a Participating Affiliate (as applicable) to pay benefits under the Plan shall be interpreted as a contractual obligation to pay only those amounts described in the Plan in the manner and under the conditions prescribed by the Plan. Any assets set aside to fund deferred compensation shall be subject to the claims of general creditors, and no person other than the Corporation or a Participating Affiliate (as applicable) shall, by virtue of the provisions of the Plan, have any interest in such funds.

4.3 Trust. If the Corporation or a Participating Affiliate determines that Deferred Compensation under the Plan should be indirectly funded, it may utilize, singly or in combination, any method of funding it may deem appropriate, including, but not limited to, terminal funding, annuity contracts, life insurance contracts, or a group or individual trust (including a trust the terms of which conform with the language of the model trust agreement set forth in Revenue Procedure 92-64 issued by the Internal Revenue Service (or any successor thereto) relating to trusts established in connection with unfunded deferred compensation arrangements (a "Rabbi Trust")). All of the assets of a Rabbi Trust shall be located, and shall remain located, within the United States. In addition, a Rabbi Trust shall not contain any provision which states that the assets of the Rabbi Trust will be restricted to the provision of benefits under the Plan in the event of a change in the financial health of the Corporation or an Affiliate (or any successor thereof),

ARTICLE V

Participant Representations and Warranties

5.a Participant Representations and Warranties. If at any time, the Corporation establishes a Rabbi Trust that invests its assets in common stock of the Corporation, then each Participant, in executing and submitting an Election Form, makes the following representations, warranties and certifications, which shall survive the termination of such Participant's election to participate in the Plan:

- i. The Participant is not aware of any material, nonpublic information with respect to the Corporation or the common stock of the Corporation and is electing to participate in the Plan in good faith and not as part of a plan or scheme to evade the prohibitions of Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder or other applicable securities laws.
 - ii. The Participant does not have, and so long as his or her compensation is being deferred under the Plan will not establish, another trading arrangement intended to qualify as a Rule 10b5-1 Plan (as defined under Rule 10b5-1 under the Exchange Act) and is complying with and will continue to comply with the provisions of Rule 10b5-1(c)(1)(ii)(D) under the Exchange Act, which prohibits multiple overlapping Rule 10b5-1 Plans.
 - iii. Purchases of the Corporation's common stock under the Plan have been duly authorized by the Participant and are not prohibited by any legal, regulatory or contractual restriction or undertaking binding on the Participant. The Participant will inform the Corporation as soon as possible of any subsequent legal or contractual restrictions affecting the execution of purchases of common stock by the Rabbi Trust for the account of the Participant.
 - iv. The Participant agrees not to enter into or alter any corresponding or hedging transaction with respect to the common stock of the Corporation while participating in the Plan.
 - v. The Participant agrees that he or she does not have authority, influence or control over any purchase of common stock of the Corporation effected by the Rabbi Trust pursuant to the Plan and will not attempt to exercise any such authority, influence or control. The Participant agrees that he or she will not communicate any information relating to the Corporation's common stock or the Corporation to any employee of the trustee of the Rabbi Trust or its affiliates who are responsible for purchasing common stock of the Corporation in accordance with the Plan and during the time the Participant is a participant in the Plan.
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Article VI

Amendment and Termination

6.1 Right to Amend. Subject to Section 6.3, at any time, and from time to time, the Board of the Corporation, by resolutions adopted by it, may amend the Plan or change the designation of Participants under the Plan.

6.2 Right to Terminate. Subject to Section 6.3, the Plan can be terminated by action of the Board of the Corporation, but only if: (a) the termination of the Plan does not occur proximate to a downturn in the financial health of the Corporation or an Affiliate; (b) all nonqualified deferred compensation arrangements of the same type (i.e., all account balance plans) maintained by the Corporation and all Affiliates are terminated with respect to all individuals; (c) no payments are made within twelve months after the termination of the Plan (other than payments that would have been payable under the terms of the Plan if the termination had not occurred); (d) all payments are made within twenty-four (24) months after the termination of the Plan; and (e) neither the Corporation nor any Affiliate adopts a nonqualified deferred compensation arrangement of the same type (i.e., an account balance plan) for a period of three years with respect to any individual following the date of the termination of the Plan. If the Plan is terminated, each Participant's Deferred Compensation Account will be paid to the Participant in a lump sum on the first day of the month coinciding with or next following the first anniversary of the termination of the Plan.

If the Board of the Corporation takes irrevocable action to terminate the Plan and all nonqualified deferred compensation arrangements of the same type (i.e., all account balance plans) sponsored by the Corporation and all Affiliates within thirty (30) days preceding or within twelve months following a Change in Control, then each Participant's Deferred Compensation Account will be distributed in a lump sum within twelve (12) months following the date of such irrevocable action.

If the Board of the Corporation terminates the Plan within twelve months following a corporate dissolution that is taxable under Code Section 331 or within twelve months following the bankruptcy court's approval of the termination of the Plan, then each Participant's Deferred Compensation Account will be distributed in the calendar year in which the Plan is terminated, the first calendar year in which the Deferred Compensation Account is no longer subject to a substantial risk of forfeiture, or the first year in which the distribution is administratively practicable (whichever is latest).

6.3 Limitations. Notwithstanding the preceding provisions of this Article VI: (a) no modification, amendment, discontinuance or termination of the Plan may permit any distribution of a Participant's Deferred Compensation Account other than in accordance with the provisions of Section 409A of the Code; (b) no modification, amendment, discontinuance or termination of the Plan shall adversely affect the rights of any former Director or Advisory Director (or the survivor of any former Director or Advisory Director) then receiving benefits; and (c) the vested benefits which any Participant had accrued immediately prior to the effective date of any modification,

amendment, discontinuance or termination of the Plan shall not be reduced. Notice of every such modification, amendment, discontinuance or termination shall be given in writing to each Participant.

ARTICLE VII

Miscellaneous

7.1 Plan Administration. In its discretion, the Board of the Corporation may appoint a Committee consisting of at least one (1) but not more than five (5) persons. If appointed, the Committee shall be deemed to be the plan administrator of the Plan. If the Board has not appointed a Committee to administer the Plan, the Board will act as the Committee.

The Committee shall interpret and construe the provisions of the Plan, shall decide any disputes which may arise relative to the rights of Participants (and their survivors and Beneficiaries) under the terms of the Plan, and shall, in general, direct the administration of the Plan embodied herein. The Committee may adopt such rules as it deems necessary for the proper administration of the Plan. The decision of the Committee in all matters involving the interpretation and application of the Plan shall be final, binding and conclusive (unless the Committee has acted in an arbitrary or capricious manner).

7.2 Nonassignability. Except to the extent required by law, the right of any Participant or his or her survivors or Beneficiaries to any benefit or payment under the Plan: (a) shall not be subject to voluntary or involuntary anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or his or her survivors or Beneficiaries; (b) shall not be considered an asset of the Participant or his or her survivors or Beneficiaries in the event of any divorce, insolvency or bankruptcy; and (c) shall not be subject to attachment, execution, garnishment, sequestration or other legal or equitable process. In the event that a Participant or any survivors or Beneficiaries who are receiving or are entitled to receive benefits under the Plan attempt to assign, transfer or dispose of such right, or if an attempt is made to subject said right to such process, such assignment, transfer, disposition or process shall, unless required by law, be null and void.

7.3 Code Section 409A. Any provision of the Plan that is susceptible to more than one interpretation shall be interpreted in a manner that is consistent with the Plan satisfying the requirements of Code Section 409A.

7.4 Governing Law. Except to the extent preempted by applicable federal laws, the provisions of the Plan shall be interpreted, construed and administered in accordance with the laws of the State of Connecticut, other than its choice of law principles.

7.5 No Contract. The adoption and maintenance of the Plan shall not be deemed to constitute a contract between the Corporation or an Affiliate and its service providers or to be consideration for, or an inducement or condition of, the service of any person. Nothing herein contained shall be deemed: (a) to give to any Participant the right to be retained in the service of the Corporation or an Affiliate; (b) to affect the right of the Corporation or an Affiliate to discipline or discharge any Participant at any time; (c) to

give the Corporation or an Affiliate the right to require any Participant to remain in its service; or (d) to affect any Participant's right to terminate his or her service at any time.

7.6 Withholding. The Corporation or an Affiliate shall have the right to deduct from any distribution any taxes required by law to be withheld from a Participant with respect to such award.

7.7 Rights of Survivors and Beneficiaries. Whenever the rights of a Participant are stated or limited in the Plan, his or her survivors and Beneficiaries shall be bound thereby.

7.8 Account Statements. Periodically (as determined by the Committee), each Participant shall receive a statement indicating the amounts credited to and distributed from the Participant's Deferred Compensation Account during such period.

7.9 Masculine, Feminine, Singular and Plural. The masculine shall be read in the feminine, the singular in the plural, and vice versa, whenever the context shall so require.

7.10 Titles. The titles to Articles and Sections in this Plan are placed herein for convenience of reference only, and the Plan is not to be construed by reference thereto.

7.11 Other Plans. Nothing in this Plan shall be construed to affect the rights of a Participant, his or her survivors or Beneficiaries, or his or her estate to receive any retirement or death benefit under any tax qualified pension plan, another nonqualified deferred compensation arrangement, insurance agreement, tax-deferred annuity, or other retirement plan of the Corporation or an Affiliate.

Dated this 27th day of September, 2023.

Witness: BANKWELL FINANCIAL GROUP, INC.

s/ Eric J. Dale

Its: Compensation Committee Chair

Exhibit 31.1

CERTIFICATIONS

I, Christopher R. Gruseke certify that:

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

Date: November 8, 2023

/s/ Christopher R. Gruseke

Christopher R. Gruseke
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Courtney E. Sacchetti certify that:

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

Date: November 8, 2023

/s/ Courtney E. Sacchetti

Courtney E. Sacchetti

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 Courtney E. Sacchetti hereby jointly certify as follows:

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

To the best of their knowledge, the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (the “Report”) complies in all material respects with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

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

/s/ Christopher R. Gruseke

Christopher R. Gruseke

President and Chief Executive Officer

Date: November 8, 2023

/s/ Courtney E. Sacchetti

Courtney E. Sacchetti

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 8, 2023

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.