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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021
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**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒No

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

Indicate by check mark whether the registrant has submitted electronically 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2021 based on the closing price of the common stock as reported on the NASDAQ Global Market: $160,203,817.

As of February 28, 2022, there were 7,867,590 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its Annual Meeting of Stockholders, expected to be filed pursuant to Regulation 14A within 120 days after the end of the 2021 fiscal year, are incorporated by reference into Part III of this report on form 10-K.

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BANKWELL FINANCIAL GROUP, INC.
FORM 10-K

PART 1

Item 1. Business

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. These statements are often, but not always, made with the words or phrases such as "may," "should," "believe," "likely result in," "expect," "would," "intend," "could," "predict," "potential," "continue," "will," "anticipate," "seek," "estimate," "plan," "projection," and "outlook" or the negative version of those words or other similar words of a forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these forward-looking statements. Important factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" in Part I Item 1A as well as the following factors:

- *The length, severity, magnitude, and duration of the COVID-19 pandemic (including the outbreak of COVID-19 variants) and the direct and indirect impact of such pandemic, including its impact on the Company's financial condition and business operations;*
- *Local, regional and national business or economic conditions may differ from those expected;*
- *Credit risk and resulting losses in our loan portfolio;*
- *Our allowance for loan losses may not be adequate to absorb loan losses;*
- *Changes in real estate values could also increase our credit risk;*
- *Changes in our key management personnel;*
- *Inability to successfully execute our management team's strategic initiatives;*
- *Our ability to successfully execute our growth initiatives such as branch openings and acquisitions;*
- *Volatility and direction of market interest rates;*
- *Increased competition within our market area which may limit our growth and profitability;*
- *Economic, market, operational, liquidity, credit and interest rate risks associated with our business;*
- *The effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies;*
- *Changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board;*
- *Changes in law and regulatory requirements (including those concerning taxes, banking, securities and insurance); and*
- *Further governmental intervention in the U.S. financial system.*

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

General

Bankwell Financial Group, Inc. (the "Parent Corporation") is a bank holding company, headquartered in New Canaan, Connecticut and 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"), a Connecticut state chartered non-member bank founded in 2002. The Bank provides a wide range of services to customers in our primary 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 primary market, particularly where we have strong relationships. The Bank operates branches in New Canaan, Stamford, Fairfield, Wilton, Westport, Darien, Norwalk, and Hamden, Connecticut. As of December 31, 2021, on a consolidated basis, we had total assets of approximately $2.5 billion, net loans of approximately $1.9 billion, total deposits of approximately $2.1 billion, and shareholders' equity of approximately $202.0 million.

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

Our History and Growth

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"). On November 5, 2013, we acquired The Wilton Bank, which was merged into Bankwell Bank. On October 1, 2014, we acquired Quinnipiac Bank and Trust Company, which was merged into Bankwell Bank.

With the efforts of our strong management team, we continued our growth and maintained a strong track record of performance. From December 31, 2017 through December 31, 2021, our total assets grew from $1.8 billion to approximately $2.5 billion; our gross loans outstanding grew from $1.5 billion to $1.9 billion and our deposits grew from $1.4 billion to approximately $2.1 billion. We believe this growth was driven by our ability to provide superior service to our customers and our financial stability.

Business Strategy

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

- *Responsive, Customer-Centric Products and Services and a Community Focus.* We offer a broad array of products and services which we customize to allow us to focus on building long-term relationships with our customers through high-quality, responsive and personal customer service. By focusing on the entire customer relationship, we build the trust of our customers, which leads to long-term relationships and generates our organic growth. In addition, we are committed to meeting the needs of the communities that we serve. Our employees are involved in many civic and community organizations, which we support through sponsorships. As a result, customers and potential customers within our market know about us and frequently interact with our employees which allows us to develop long-term customer relationships without extensive advertising.
- *Strategic Acquisitions.* To complement our organic growth, we focus on strategic acquisitions in or around our existing markets that further our objectives. We believe there are banking institutions that continue to face credit challenges, capital constraints and liquidity issues and that lack the scale and management expertise to manage the increasing regulatory burden and will likely need to partner with an institution like ours. As we evaluate potential acquisitions, we will continue to seek acquisitions that provide meaningful financial benefits, long-term organic growth opportunities and expense reductions, without compromising our risk profile.
- *Utilization of Efficient and Scalable Infrastructure.* We employ a systematic and calculated approach to increasing our profitability and improving our efficiencies. We continually upgrade our operating infrastructure, particularly in the areas of technology, data processing, compliance and personnel. We believe that our scalable infrastructure provides us with an efficient operating platform from which to grow in the near term, while continuing to deliver our high-quality, responsive customer service, which will enhance our ability to grow and increase our returns.
- *Disciplined Focus on Risk Management.* Effective risk management is a key component of our strong corporate culture. We use our strong risk management process to monitor our existing loan and investment securities portfolios, support operational decision-making and improve our ability to generate earning assets with strong credit quality. To

maintain our strong credit quality, we use a comprehensive underwriting process and we seek to maintain a diversified loan portfolio and a conservative investment securities portfolio. Board-approved policies contain approval authorities, as appropriate, and are reviewed at least annually. We have a Risk Management Steering Committee comprised of executive officers and other members of management. This committee reviews risks associated with new initiatives and programs as well as assesses risks and mitigants throughout areas of the Bank on an ongoing basis. Internal review procedures are performed regarding anti-money laundering and consumer compliance requirements.

Our Competitive Strengths

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

- *Our Market.* Our current market is defined as an area encompassing approximately a 100 mile radius around our branch network. This market area includes numerous affluent suburban communities of professionals who work and commute into New York City, approximately 50 miles from our headquarters, and many small to mid-sized businesses which support these communities. Fairfield County is the wealthiest county in Connecticut based on median household income according to estimates from the United States Census Bureau. We believe that this market has economic and competitive dynamics that are favorable to executing our growth strategy.

- *Experienced and Respected Management Team with a Proven and Successful Track Record.* Our executive management team is comprised of seasoned professionals with significant banking experience, a history of high performance at financial institutions and success in identifying, acquiring and integrating financial institutions. Our executive management team includes Christopher R. Gruseke, President and Chief Executive Officer (since 2015), Christine A. Chivily, Executive Vice President, Chief Risk and Credit Officer (since 2013), Penko Ivanov, Executive Vice President, Chief Financial Officer (since 2016), Laura Waitz, Executive Vice President, Chief Operating Officer (since 2017), and Matthew McNeill, Executive Vice President, Chief Banking Officer (since 2020).

- *Dedicated Board of Directors with Strong Community Involvement.* Our Board of Directors is comprised of a group of local business leaders who understand the need for strong community banks that focus on serving the financial needs of their customers. The interests of our executive management team and directors are aligned with those of our shareholders through common stock ownership. By capitalizing on the close community ties and business relationships of our executive management team and directors, we are positioned to take advantage of the market opportunity present in our primary market.

- *Strong Capital Position.* At December 31, 2021, we had a 8.13% tangible common equity ratio, and the Bank had a 9.94% tier 1 leverage ratio, an 11.18% tier 1 risk-based ratio, and a 12.00% total capital to risk-weighted assets ratio. We believe that our ability to attract and generate capital has facilitated our growth and is an integral component to the execution of our business plan.

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

Human Capital Resources

At December 31, 2021, we employed a total of 124 full-time equivalent employees in Connecticut. It is through our team, and their ties to the communities, that we are able to dutifully support the communities we serve. Working within, and giving back to, our local partners is the hallmark of a true community bank, and we believe that the strength and commitment of our workforce to our communities is what sets us apart from other banks. We have long been committed to comprehensive and competitive compensation and benefits programs as we recognize that we operate in intensely competitive environments for talent.

We invest in our employees' future by sponsoring and prioritizing continued education throughout the Company's employee ranks. All of our employees are able to participate in regular educational seminars run by outside parties, including but not limited to regulatory agencies and the American Bankers Association. The Bank also participates in the American Bankers Association, Stonier School of Banking.

In order to develop a workforce that aligns with our corporate values, we regularly sponsor local community events so that our employees can better integrate themselves in our communities. We believe that our employees' well-being and professional development is fostered by our outreach to the communities we serve. Our employees' desire for active community involvement enables us to sponsor numerous local community events and initiatives.

The Company is committed to the overall well-being of our team members. In the COVID-19 pandemic, we worked to implement state and local directives regarding public health. We provided for remote working where possible. We continue to monitor the COVID-19 pandemic including both federal and state guidance, making adjustments as necessary to support employees and our clients.

Company Website and Availability of Securities and Exchange Commission Filings

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

Competition

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

We focus our marketing efforts on small to medium-sized businesses and professionals. This focus includes retail, service, wholesale distribution and manufacturing businesses. We attract these customers based on relationships and contacts that our Management and our Board of Directors have within and beyond the market area. We do not expect to compete with large institutions for the primary banking relationships of large corporations. Many of our larger commercial bank competitors have greater name recognition and offer certain services that we do not; however, we believe that our presence in our primary market area and focus on providing superior service to professionals at small to medium-sized businesses and individual employees of such businesses are instrumental to our success.

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

Lending Activities

General. Our primary lending focus is to serve commercial and middle-market businesses and not-for-profit organizations with a variety of financial products and services, while maintaining strong and disciplined credit policies and procedures. We offer a wide array of commercial lending products to serve the needs of our customers. Commercial lending products include owner-occupied commercial real estate loans, commercial real estate investment loans, commercial loans (such as business term loans, equipment financing and lines of credit) to small and medium-sized businesses and real estate construction and development loans. We focus our lending activities on loans that we originate to borrowers located in our market or with whom the Bank's senior management has long-standing relationships. We have established an informal, internal lending limit to one relationship of up to 40% of unimpaired capital and allowance for loan losses, if secured by commercial real estate. A relationship in this instance is defined as loans made to different entities but with a shared borrower principal(s). For individual loans and loans dependent on the operation of a business, limits are set so as not to exceed the statutory maximum of 15% of unimpaired capital and allowance for loan losses.

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

Total loans before deferred loan fees and the allowance for loan losses were $1.9 billion at December 31, 2021. The following table summarizes the composition of our loan portfolio for the dates indicated.

	At December 31,				
	2021	2020	2019	2018	2017
	(In thousands)				
Real estate loans:					
Residential	$ 79,987	$ 113,557	$ 147,109	$ 178,079	$ 193,524
Commercial	1,356,709	1,148,383	1,128,614	1,094,066	987,242
Construction	98,341	87,007	98,583	73,191	101,636
	1,535,037	1,348,947	1,374,306	1,345,336	1,282,402
Commercial business	350,975	276,601	230,028	258,978	259,995
Consumer	8,869	79	150	412	619
Total loans	$ 1,894,881	$ 1,625,627	$ 1,604,484	$ 1,604,726	$ 1,543,016

	At December 31, Percent of Loan Portfolio				
	2021	2020	2019	2018	2017
Real estate loans:					
Residential	4.22 %	6.99 %	9.17 %	11.10 %	12.54 %
Commercial	71.60	70.64	70.34	68.18	63.98
Construction	5.19	5.35	6.14	4.56	6.59
	81.01	82.98	85.65	83.84	83.11
Commercial business	18.52	17.02	14.34	16.14	16.85
Consumer	0.47	—	0.01	0.02	0.04
Total loans	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

Residential real estate loans. In the fourth quarter of 2017, management made the strategic decision to no longer originate residential mortgage loans. As of the beginning of the third quarter of 2019, the Company no longer offered home equity loans or lines of credit. Prior to these decisions we offered first lien one-to-four family mortgage loans, as well as home equity lines of credit, in each case primarily on owner-occupied primary residences. We also originated for sale one-to-four family mortgage loans, which are classified as loans held for sale until sold to investors. Although our consumer real estate loan portfolio presents lower levels of risk than our commercial, commercial real estate and construction loan portfolios, we are exposed to risk based on fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrower's financial condition, which could be affected by numerous factors, including divorce, job loss, illness or other personal hardship.

Commercial real estate loans. We offer real estate loans for owner-occupied commercial properties as well as commercial property owned by real estate investors. Commercial loans that are secured by owner-occupied commercial real estate and primarily collateralized by operating cash flows are also included in this category of loan throughout this document. Commercial real estate loan terms generally are limited to ten years or less, although payments may be structured on a longer amortization basis of twenty to thirty years. The interest rates on our commercial real estate loans may be fixed or adjustable, although rates typically are not fixed for a period exceeding five to ten years. We generally charge an origination fee for these loans. We often require personal guarantees from the principal owner of the business or real estate supported by a review of the principal owner's personal financial statements. Risks associated with commercial real estate loans include fluctuations in the value of real estate, the overall strength of the economy, new job creation trends, tenant vacancy rates, property use trends, business sector changes, environmental contamination, and the quality of the borrower's management. We make efforts to limit our risk by analyzing the borrower's cash flow and collateral value as well as all of the sponsors' investment activities. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner-occupied offices/warehouses/production facilities, office buildings, industrial, mixed-use residential/commercial, retail centers and multifamily properties. Our commercial real estate loan portfolio presents a higher risk than our consumer real estate and consumer loan portfolios.

Construction loans. Our construction portfolio includes loans to small and medium-sized businesses to construct owner-used properties, loans to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in our market. Construction and development loans are generally made with a term of one to two years and interest is paid monthly. The ratio of the loan principal to the value of the collateral, as established by independent appraisal, typically will not exceed industry standards. Loan proceeds are disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector. Risks associated with construction loans include fluctuations in the value of real estate, project completion risk, leasing risk and change in market trends. We are also exposed to risk based on the ability of the construction loan borrower to refinance the debt or sell the property upon completion of the project, which may be affected by changes in market trends since the time that we funded the construction loan.

Commercial Business loans. We offer a wide range of commercial loans, including business term loans, equipment financing and lines of credit. Our target commercial loan market is small to medium-sized businesses, including retail and professional establishments. The terms of these loans vary by purpose and by type of underlying collateral. The commercial loans primarily are underwritten on the basis of the borrower's ability to service the loan from cash flow. We make loans secured by accounts receivable or inventory, principal typically is repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal is fully or partially amortized during the loan term with any balloon amount due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness. From time-to-time, we also make equipment loans with conservative margins, generally for a term of ten years or less, supported by the useful life of the equipment, at fixed or variable rates, with the loan fully amortizing over the term. Loans to support working capital typically have terms not exceeding two years and usually are secured by accounts receivable, inventory and/or personal guarantees of the principals of the business and at times by the commercial real estate of the borrower. This segment also includes Paycheck Protection Program ("PPP") loans made under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") to small businesses impacted by COVID-19, to cover payroll and other operating expenses. Loans extended under the PPP are fully guaranteed by the U.S. Small Business Administration ("SBA"). Risks associated with our commercial loan portfolio include those related to the strength of the borrower's business, which may be affected not only by local, regional and national market conditions, but also changes in the borrower's management and other factors beyond the borrower's control; those related to fluctuations in value of any collateral securing the loan; and those related to terms of the commercial loan, which may include balloon payments that must be refinanced or paid off at the end of the term of the loan. Our commercial loan portfolio presents a higher risk than our consumer real estate and consumer loan portfolios.

Consumer loans. As of December 31, 2021, our consumer loans represented less than 1% of our total loan portfolio. While consumer loans may not remain below 1% of our portfolio, we do not expect our consumer loans to become a material component of our loan portfolio in the near future. Although we do not engage in any material amount of consumer lending, our consumer loans, which are underwritten primarily based on the borrower's financial condition and, contain both secured and unsecured credits, subject us to risk based on changes in the borrower's financial condition, which could be affected by numerous factors, including those discussed above.

Credit Policy and Procedures

General. We adhere to what we believe are disciplined underwriting standards, but also remain cognizant of the need to serve the credit needs of customers in our primary market areas by offering flexible loan solutions in a responsive and timely manner. We also seek to maintain a diversified loan portfolio across customer, product and industry types. However, our lending policies do not provide for any loans that are highly speculative, subprime, or that have high loan-to-value ratios. These components, together with active credit management, are the foundation of our credit culture, which we believe is critical to enhancing the long-term value of our organization to our customers, employees, shareholders and communities.

We have a service-driven, relationship-based, business-focused credit culture, rather than a price-driven, transaction-based culture. Accordingly, substantially all of our loans are made to borrowers located or operating in our primary market with whom we have ongoing relationships across various product lines. The limited number of loans secured by properties located in out-of-market areas that we have made are generally to borrowers who are well-known to us. These borrowers typically have strong deposit relationships with the Bank.

Credit concentrations. In connection with the management of our credit portfolio, we actively manage the composition of our loan portfolio, including credit concentrations. We monitor borrower and loan product concentrations continuously and review with senior management and the Board on at least a quarterly basis. Loan product concentrations are reviewed annually in conjunction with the portfolio's credit quality and the business plan for the coming year. All concentrations are monitored by our Chief Risk and Credit Officer and our Directors' Loan Committee. We have also established an informal, internal lending limit to one relationship of up to 40% of unimpaired capital and allowance for loan losses, if secured by commercial real estate. A relationship in this instance is defined as loans made to different entities but with a shared borrower principal(s). For individual loans and loans dependent on the operation of a business, limits are set so as not to exceed the statutory maximum of

15% of unimpaired capital and allowance for loan losses. Our top 20 borrowing relationships range in exposure from $19.8 million to $93.3 million and are monitored on an on-going basis.

Loan approval process. We seek to achieve an appropriate balance between prudent and disciplined underwriting on the one hand and flexibility in our decision-making and responsiveness to our customers on the other hand. Our credit approval policies have a tiered approval process, with larger exposures referred to different levels of management and the Directors' Loan Committee, as appropriate, based on the size and type of the loan. Smaller exposures are approved under a three-signature system. Loans with policy exceptions require the next higher level of approval authority, the highest of which is the Directors' Loan Committee, depending on dollar amount. These authorities are periodically reviewed and updated by our Board of Directors. We believe that our credit approval process provides for thorough underwriting and efficient decision making.

Credit risk management. Credit risk management involves a partnership between our relationship managers and our credit approval, credit administration, portfolio management and collections personnel. Portfolio monitoring and early problem recognition are an important aspect of maintaining our high credit quality standards. Past due reports are reviewed on an ongoing basis and insurance and tax payment monitoring is in place. Our evaluation and compensation program for our relationship managers includes significant goals that we believe motivate the relationship managers to focus on high quality credit consistent with our strategic focus on asset quality.

It is our policy to review amortizing commercial loans in excess of $1 million on an annual basis, or more frequently through the receipt of interim and annual financial statements and borrowing base certificates depending on loan structure and covenants. Our policies require rapid notification of delinquency and prompt initiation of collection actions. Relationship managers, portfolio managers, credit administration personnel and senior management proactively support collection activities in order to maximize accountability and efficiency.

As part of these annual review procedures, we analyze recent financial statements of the collateral property, business and/or borrower to determine the current level of occupancy, revenues and expenses and to investigate any deterioration in the value of the real estate collateral or in the borrower's or company's financial condition. Upon completion, we confirm or change the risk rating assigned to each loan. Relationship managers and portfolio managers are encouraged to bring potential credit issues to the attention of our Chief Risk and Credit Officer immediately upon any sign of deterioration in the performance of the borrower. We maintain a list of loans that receive additional attention if we believe there may be a potential credit risk via our Watch List report.

Loans that are upgraded or downgraded are reviewed by our Chief Risk and Credit Officer, while Watch List loans undergo a detailed quarterly analysis prepared by the relationship manager or portfolio manager and reviewed by management. This review includes an evaluation of the market conditions, the property's or company's trends, the borrower and guarantor status, the level of reserves required and loan accrual status. Additionally, we have an independent, third-party loan review performed semi-annually, which includes the accuracy of our loan risk ratings and our credit administration functions. Finally, we perform an annual stress test of our commercial loan portfolio, in which we evaluate the impact on the portfolio of declining economic conditions, including lower values and decline in net operating income which may result from lower rental rates, lower occupancy rates and higher interest rates. Management reviews these reports and presents them to our loan committees. These asset review procedures provide management with additional information for assessing our asset quality.

Investment Activities

Our investment portfolio's primary purpose is to provide adequate liquidity necessary to meet any reasonable decline in deposits and any anticipated increase in the loan portfolio. The majority of these securities are classified as available for sale. The portfolio's secondary purpose is to generate adequate earnings to provide and contribute to stable income and to generate a profitable return while minimizing risk. Additionally, our investment portfolio may be used to provide adequate collateral for various regulatory or statutory requirements and to manage our interest rate risk. We invest in a variety of high-grade securities, including government agency securities, government guaranteed mortgage-backed securities, highly rated corporate bonds and municipal securities. We regularly evaluate the composition of our portfolio as changes occur with respect to the interest rate yield curve. Although we may sell investment securities from time to time to take advantage of changes in interest rate spreads, it is our policy not to sell investment securities unless we can reinvest the proceeds at a similar or higher spread, so as not to take gains to the detriment of future income.

The investment policy is reviewed annually by our Board of Directors. Overall investment goals are established by our Board of Directors, Chief Financial Officer and our asset/liability management committee, or ALCO. Our Board of Directors has delegated the responsibility of monitoring our investment activities to ALCO. Day-to-day activities pertaining to the investment portfolio are conducted within our accounting department under the supervision of our Chief Financial Officer.

Deposits

Deposits are our primary source of funds to support our income-earning assets. We offer traditional depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposits at the Bank are insured by the FDIC up to statutory limits. We have built a network of deposit-taking branch offices and attracted significant transaction account business through our relationship-based approach.

Borrowed Funds

The Bank is a member of the Federal Home Loan Bank of Boston (FHLB), which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLB, and borrowings are collateralized by qualifying assets not otherwise pledged. The maximum amount of credit that the FHLB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. We utilize advances from the FHLB as part of our overall funding strategy to meet short-term liquidity needs and, to a lesser degree, manage interest rate risk arising from the difference in asset and liability maturities.

On August 19, 2015, the Company completed a private placement of $25.5 million in aggregate principal amount of fixed rate subordinated notes (the “2015 Notes”) to certain institutional investors. The 2015 Notes were non-callable for five years, had a stated maturity of August 15, 2025, and bore interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date. The 2015 Notes became callable, in part or in whole, beginning August 2020. On May 15, 2021, the Company retired $10.0 million of the 2015 Notes and redeemed the remaining $15.5 million of the 2015 Notes on November 15, 2021.

On October 14, 2021, the Company issued and sold to an institutional accredited investor a fixed-to-floating rate subordinated note (the “Note”) in the principal amount of $35.0 million. The note is structured to qualify for the Company as Tier 2 capital under regulatory guidelines. The Company used the net proceeds from the sale of the Note for general corporate purposes, including, but not limited to, the repayment of $15.5 million of the 2015 Notes.

The Note will bear interest at a fixed rate of 3.25% per year, from and including October 14, 2021 to, but excluding, October 15, 2026. From and including October 15, 2026 to, but excluding the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term SOFR (as defined in the Note) plus 233 basis points. The Note provides that the interest rate during the applicable floating rate period may be determined based on a rate other than the three-month term SOFR under certain circumstances.

The Note has a stated maturity of October 15, 2031. Prior to October 15, 2026, the Company may redeem the Note only under certain limited circumstances. On or after October 15, 2026, the Company may redeem the Note, in whole or in part, at its option, on any interest payment date. The Note is not subject to redemption at the option of the holder. The Note is not subject to any sinking fund and is not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries.

Enterprise Risk Management

We place significant emphasis on risk mitigation as an integral component of our organizational culture. We believe that our emphasis on risk management is manifested in our historically solid asset quality statistics. Risk management with respect to our lending philosophy focuses, among other things, on structuring credits to provide for multiple sources of repayment, coupled with strong underwriting by experienced relationship managers, lending and credit management. We perform quarterly reviews of criticized loans and criticized asset action plans for those borrowers who display deteriorating financial conditions in order to monitor those relationships and implement corrective measures on a timely basis to minimize losses. In addition, we perform an annual stress test of our commercial loan portfolio, in which we evaluate the impact on the portfolio of declining property values and lower net operating incomes as a result of economic conditions, including lower rental rates and lower occupancy rates. The stress test focuses only on the cash flow and valuation of the properties or businesses and ignores the liquidity, net worth and cash flow of any guarantors related to the credits.

We also focus on risk management in other areas throughout our organization. The Chief Risk and Credit Officer oversees the Risk Management function and chairs a Risk Management Steering Committee. We currently outsource our asset/liability calculations to a reputable third party, and on a quarterly basis, that third party runs the full interest rate risk model. Results of the model are reviewed and validated by our ALCO.

Supervision and Regulation

General

The Bank is subject to extensive regulation by the Connecticut Department of Banking, as its chartering agency, and by the FDIC, as its deposit insurer. The Bank’s deposits are insured up to applicable limits by the FDIC through the Deposit Insurance Fund. The Bank is required to file reports with, and is periodically examined by, the FDIC and the Connecticut

Department of Banking concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, such as mergers with, or acquisitions of, other financial institutions.

The primary goals of the bank regulatory system are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the Deposit Insurance Fund and bank depositors, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin "unsafe or unsound" practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil money penalties, remove officers and directors, and, with respect to banks, terminate deposit insurance or place the bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

The following discussion is a summary of the material laws, rules and regulations applicable to our operations, but does not purport to be a complete summary of all applicable laws, rules and regulations. These laws, rules and regulations may change from time to time and the regulatory agencies often have broad discretion in interpreting them. Any change in such laws, rules or regulations, whether by the Connecticut Department of Banking, the FDIC or the Federal Reserve Board could have a material adverse impact on the financial markets in general, and our operations and activities, financial condition, results of operations, growth plans and future prospects specifically.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, which was enacted in 2008, has significantly changed the current bank regulatory structure and continues to affect the lending and investment activities and general operations of depository institutions and their holding companies.

The Dodd-Frank Act created the Consumer Financial Protection Bureau with extensive powers to implement and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings associations including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings associations with more than $10 billion in assets. Banks and savings associations with $10 billion or less in assets will continue to be examined for compliance with federal consumer protection and fair lending laws by their applicable primary federal bank regulators. The Dodd-Frank Act also gives state attorneys general certain authority to enforce applicable federal consumer protection laws.

The Dodd-Frank Act made many other changes to banking regulations including authorizing depository institutions, for the first time, to pay interest on business checking accounts, requiring originators of securitized loans to retain a percentage of the risk for transferred loans, establishing regulatory rate-setting for certain debit card interchange fees, establishing a number of reforms for mortgage originations, requiring bank holding companies and banks to be "well capitalized" and "well managed" in order to acquire banks located outside of their home state, requiring any bank holding company electing to be treated as a financial holding company to be "well capitalized" and "well managed" and authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location.

Much of the rulemaking under the Dodd-Frank Act has been completed. Digesting and implementing that rulemaking has inevitably resulted in increases in our operating and compliance costs. The rulemaking that remains may also have a similar impact.

In addition, many aspects of the regulatory changes made by the Dodd Frank Act continue to generate debate in political circles as well as within the regulatory agencies that oversee the banking systems and financial markets. While the exact scope, nature and timing of any legislative and/or regulatory changes cannot necessarily be predicted, it is likely that changes will continue to occur. And it is possible that the changes could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business, financial condition and results of operations.

Economic Growth Act

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"), which was enacted in May 2018, repealed or modified several provisions of the Dodd-Frank Act. In addition, the Economic Growth Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule, mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Among other things, Section 201 of the Economic Growth Act required the federal banking agencies to develop regulations establishing a "community bank leverage ratio" for banks and holding companies with less than $10 billion in consolidated assets and a qualifying risk profile. The final rule, which became effective on January 1, 2020, provides certain qualifying institutions with an optional, simpler method to measure capital adequacy. Under the rule, banks and bank holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, off-balance sheet exposures of 25% or less of total consolidated assets and trading assets plus trading liabilities of 5% or less of total consolidated assets, are eligible to opt into the community bank leverage ratio ("CBLR") framework. Qualifying organizations that elect to use the CBLR framework, and that maintain a leverage ratio greater than 9 percent, will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies' capital rules. Qualifying organizations will also be deemed to have met the "well capitalized" ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. The final rules include a two-quarter grace period during which a qualifying community banking organization that temporarily fails to meet any of the qualifying criteria, including the greater-than-9% leverage capital ratio requirement, is generally still deemed "well capitalized" so long as the banking organization maintains a leverage capital ratio greater than 8%. A banking organization that fails to maintain a leverage capital ratio greater than 8% is not permitted to use the grace period and must comply with the generally applicable requirements under the Basel III rules and file the appropriate regulatory reports. We do not have any immediate plans to elect to use the CBLR framework but may make such an election in the future.

The Economic Growth Act provides insured depository institutions and their affiliates with less than $10 billion in total consolidated assets and limited trading activities with an exemption from the Dodd-Frank Act's "Volcker Rule" (which generally restricts certain banking entities such as the Company and the Bank from engaging in proprietary trading activities and entering into certain relationships with hedge funds and private-equity funds). The FDIC, along with several other banking agencies, adopted final rules to implement the exemption contemplated by the Economic Growth Act.

The Economic Growth Act increased the consolidated assets limit for bank holding companies covered by the Federal Reserve Board's "Small Bank Holding Company Policy Statement" (the Policy) from $1 billion to $3 billion. In addition to the consolidated assets limit, a covered bank holding company may not be engaged in significant non-banking and off-balance sheet activities and may not have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. The Policy also excludes covered bank holding companies from the minimum capital requirements of the Dodd-Frank Act. The Federal Reserve Board retains the authority to exclude any bank holding company from the Policy if such action is warranted for supervisory purposes. The Policy allows covered bank holding companies to operate with higher levels of debt than would normally be permitted. Under the Policy, a covered bank holding company is prohibited from paying dividends if its debt-to-equity ratio exceeds 1:1. In addition, the Federal Reserve Board expects that bank holding companies will retire all debt within 25 years of being incurred and reduce their debt to equity ratio to 30:1 or less within 12 years of incurring the debt. The Policy also directs that each depository institution subsidiary of a covered bank holding company remain well-capitalized. On August 28, 2018, the Federal Reserve Board issued an interim final rule regarding revisions to the Policy prompted by the Economic Growth Act.

The Economic Growth Act increased the consolidated assets threshold from $1 billion to $3 billion for insured depository institutions that qualify for an 18-month on-site exam cycle. Consistent with this statutory amendment, in August of 2018, the federal banking agencies issued an interim final rule to increase, from $1 billion to $3 billion, the total asset threshold under which an agency may apply an 18-month examination cycle for qualified institutions that have an "outstanding" or "good" composite rating.

The Economic Growth Act required the federal banking agencies to promulgate regulations permitting insured depository institutions that have less than $5 billion in total consolidated assets (and satisfy other conditions) to use short-form reports of condition (i.e. call reports) for the first and third quarters of each year. On June 17, 2019, the federal banking agencies issued final rules to implement those streamlined reporting requirements.

The CARES Act and Initiatives Related to COVID-19

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 to provide national emergency economic relief measures. The CARES Act had several provisions relevant to financial institutions, including:

- Allowing institutions not to characterize loan modifications relating to the COVID-19 pandemic as a troubled debt restructuring and also allowing them to suspend the corresponding impairment determination for accounting purposes;
- Temporarily reducing the community bank leverage ratio alternative available to institutions of less than $10 billion of assets to 8%;
- The establishment of the Paycheck Protection Program ("PPP"), a specialized low-interest forgivable loan program funded by the U.S. Treasury Department and administered through the SBA's 7(a) loan guaranty program to support businesses affected by the COVID-19 pandemic; and
- The ability of a borrower of a federally-backed mortgage loan (VA, FHA, USDA, Freddie Mac and Fannie Mae) experiencing financial hardship due, directly or indirectly, to the COVID-19 pandemic, to request forbearance from

paying their mortgage by submitting a request to the borrower's servicer affirming their financial hardship during the COVID-19 emergency.

As the ongoing COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. It is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Company continues to assess the impact of the CARES Act and other statutes, regulations and supervisory guidance related to the COVID-19 pandemic.

Connecticut Banking Laws and Supervision

Connecticut Department of Banking. The Connecticut Department of Banking regulates the internal organization as well as the deposit, lending and investment activities of state-chartered banks, including the Bank. The approval of the Connecticut Department of Banking is required for, among other things, the establishment of branch offices and business combination transactions. The Connecticut Department of Banking conducts periodic examinations of Connecticut chartered banks. The FDIC also regulates many of the areas regulated by the Connecticut Department of Banking, and federal law may limit some of the authority provided to Connecticut chartered banks by Connecticut law.

Lending Activities. Connecticut banking laws grant banks broad lending authority. With certain limited exceptions, loans to any one obligor under this statutory authority may not exceed 15% and fully secured loans may not exceed an additional 10% of a bank's equity capital and allowance for loan losses.

Dividends. The Bank may pay cash dividends out of its net profits. For purposes of this restriction, "net profits" represents the remainder of all earnings from current operations. Further, the total amount of all dividends declared by a bank in any year may not exceed the sum of a bank's net profits for the year in question combined with its retained net profits from the preceding two years. Federal law also prevents an institution from paying dividends or making other capital distributions that, if by doing so, would cause it to become "undercapitalized". Beginning January 1, 2016, the Basel III Capital Rules limit the amount of dividends the Bank can pay if its capital ratios are below the threshold levels of the capital conservation buffer established by the rules. The full capital conservation buffer of 2.5% (as a percentage of risk-weighted assets) became effective as of January 1, 2019. The capital conservation buffer is in addition to the minimum risk-based capital requirement. The FDIC may further limit a bank's ability to pay dividends. Moreover, the federal agencies have issued policy statements that provide that insured banks should generally only pay dividends out of current operating earnings.

Powers. Connecticut banking law authorizes Connecticut chartered banks to transact a "general banking business" and "all such incidental powers as are necessary thereto". With the prior approval of the Connecticut Department of Banking, Connecticut banks are also authorized to engage in activities that are closely related to the business of banking, are convenient and useful to the business of banking, are reasonably related to the operation of a Connecticut bank, are financial in nature or that are permitted under the Bank Holding Company Act or the Home Owners' Loan Act, both federal statutes, or the regulations promulgated as a result of those federal statutes. Connecticut banks are also authorized to engage in any activity permitted for certain federally chartered institutions, as well as for certain out-of-state institutions, upon filing a notice with the Connecticut Department of Banking unless the Connecticut Department of Banking disapproves the activity.

Assessments. Connecticut banks are required to pay annual assessments to the Connecticut Department of Banking to fund the Connecticut Department of Banking's operations. The general assessments are paid pro-rata based upon a bank's asset size.

Enforcement. Under Connecticut law, the Connecticut Department of Banking has extensive enforcement authority over Connecticut banks and, under certain circumstances, affiliated parties, insiders, and agents. The Connecticut Department of Banking's enforcement authority includes cease and desist orders, fines, receivership, conservatorship, removal of officers and directors, emergency closures, dissolution and liquidation.

Federal Bank Holding Company Regulation

General. As a bank holding company, we are subject to comprehensive regulation and regular examinations by the Federal Reserve Board. The Federal Reserve Board also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a bank holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under Federal Reserve Board policy which has been codified by the Dodd-Frank Act, a bank holding company must serve as a source of strength for its subsidiary bank. Under this policy, the Federal Reserve Board may require, and has required in the past, a bank holding company to contribute additional capital to an undercapitalized subsidiary bank. A bank holding company must obtain Federal Reserve Board approval before: (1) acquiring, directly or indirectly, ownership or control of any voting securities of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such securities (unless it already owns or controls the majority of such securities); (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company. Under Connecticut banking law, no person may acquire beneficial ownership of more than 10% of any class of voting securities of a Connecticut chartered bank, or any bank holding company of such a bank, without prior notification of, and lack of disapproval by, the Connecticut Department of Banking.

The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by Federal Reserve Board regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the Federal Reserve Board includes, among other things: (1) operating a savings institution, mortgage company, finance company, credit card company or factoring company; (2) performing certain data processing operations; (3) providing certain investment and financial advice; (4) underwriting and acting as an insurance agent for certain types of credit-related insurance; (5) leasing property on a full-payout, non-operating basis; (6) selling money orders, travelers' checks and United States savings bonds; (7) real estate and personal property appraising; (8) providing tax planning and preparation services; (9) financing and investing in certain community development activities; and (10) subject to certain limitations, providing securities brokerage services for customers.

Dividends. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that the Bank Holding Company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the Bank Holding Company's capital needs, asset quality and overall financial condition. The Federal Reserve Board also indicated that it would be inappropriate for a bank holding company experiencing serious financial problems to borrow funds to pay dividends. As discussed above, the Federal Reserve Board's Small Bank Holding Company Policy Statement includes provisions regulating the payment of dividends by companies subject to that policy statement.

Substantially all of our income is derived from, and the principal source of our liquidity is, dividends from the Bank. The ability of the Bank to pay dividends to us is also restricted by federal and state laws, regulations and policies. The Bank may pay cash dividends out of its net profits. For purposes of this restriction, "net profits" represents the remainder of all earnings from current operations. Further, the total amount of all dividends declared by a bank in any year may not exceed the sum of a bank's net profits for the past two fiscal years, plus the portion of the year in which the dividend is paid.

Under federal law, the Bank may not pay any dividend to us if the Bank is undercapitalized or the payment of the dividend would cause it to become undercapitalized. The Basel III Capital Rules limit the amount of dividends the Bank can pay to us if its capital ratios are below the full capital conservation buffer of 2.5% (as a percentage of risk-weighted assets). The capital conservation buffer is in addition to the minimum risk-based capital requirement. The FDIC may further restrict the payment of dividends by requiring the Bank to maintain a higher level of capital than would otherwise be required for it to be adequately capitalized for regulatory purposes. Moreover, if, in the opinion of the FDIC, the Bank is engaged in an unsafe or unsound practice (which could include the payment of dividends), the FDIC may require, generally after notice and hearing, it to cease such practice. The FDIC has indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe banking practice. The FDIC has also issued policy statements providing that insured depository institutions generally should pay dividends only out of current operating earnings.

Redemption. Bank holding companies are required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the consolidated net worth of the Bank Holding Company. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve Board order or any condition imposed by, or written agreement with, the Federal Reserve Board. This notification requirement does not apply to any bank holding company that (i) meets the well capitalized standard for commercial banks, (ii) is "well managed" within the meaning of the Federal Reserve Board regulations and (iii) is not subject to any unresolved supervisory issues. As discussed above, the Federal Reserve Board's Small Bank Holding Company Policy Statement includes provisions regulating stock redemptions by companies subject to that policy statement, including when such notice requirements apply.

Federal Bank Regulation

Safety and Soundness. The federal banking agencies, including the FDIC, have implemented rules and guidelines concerning standards for safety and soundness required pursuant to Section 39 of the Federal Deposit Insurance Corporation Improvement Act, or FDICIA. In general, the standards relate to (1) operational and managerial matters; (2) asset quality and earnings; and (3) compensation. The operational and managerial standards cover (a) internal controls and information systems, (b) internal audit systems, (c) loan documentation, (d) credit underwriting, (e) interest rate exposure, (f) asset growth, and (g) compensation, fees and benefits. Under the asset quality and earnings standards, the Bank is required to establish and maintain systems to (i) identify problem assets and prevent deterioration in those assets, and (ii) evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital reserves. Finally, the compensation standard states that compensation will be considered excessive if it is unreasonable or disproportionate to the services actually performed by the individual being compensated. If an insured state-chartered bank fails to meet any of the standards promulgated by regulation, then such institution will be required to submit a plan within 30 days to the FDIC specifying the steps it will take to correct the deficiency. In the event that an insured state-chartered bank fails to submit or fails in any material respect to implement a compliance plan within the time allowed by the federal banking agency, Section 39 of the FDICIA provides that the FDIC must order the institution to correct the deficiency and may (1) restrict asset growth; (2) require the bank to increase its ratio of tangible equity to assets; (3) restrict the rates of interest that the bank may pay; or (4) take any other action that would better carry out the purpose of prompt corrective action. We believe that the Bank has been and will continue to be in compliance with each of the standards as they have been adopted by the FDICIA.

Capital Requirements. The Federal Reserve Board monitors our capital adequacy, on a consolidated basis, and the FDIC and Connecticut Department of Banking monitor the capital adequacy of the Bank.

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

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

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

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

The Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" of 2.5% in addition to the minimum risk based capital requirement.

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.

Liquidity. We are required to maintain a sufficient amount of liquid assets to ensure our safe and sound operation.

The final Basel III framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests. Although similar in some respects to liquidity measures historically applied by banks and banking agencies for management and supervisory purposes, the Basel III framework requires specific liquidity tests by rule.

Transactions with Affiliates. Under federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act, or FRA, and the Federal Reserve Board's Regulation W. In a holding company context, at a minimum, the parent holding company of a bank and any companies which are controlled by such parent holding company are considered an affiliate of the bank. Generally, Section 23A limits the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of such bank's capital stock and surplus, and places an aggregate limit on all such transactions with all affiliates at 20% of capital stock and surplus. The term “covered transaction” includes, among other things, the making of loans or other extensions of credit to an affiliate and the purchase of assets from an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to an affiliate, or the issuance of a guarantees, acceptance, or letter of credit on behalf of an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same, or no less favorable, to the bank or its subsidiary as similar transactions with non-affiliates. The Dodd-Frank Act has expanded the definition of covered transactions and increased the timing and other aspects of the collateral requirements associated with covered transactions, including an expansion of the covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements and an increase in the amount of time for which collateral requirements regarding covered transactions must be satisfied.

Loans to Insiders. Further, the FRA places restrictions on extensions of credit that can be made by a depository institution to its directors, executive officers, and principal shareholders (or insiders) and to the insiders of its affiliates. Many of those restrictions also apply to the "related interests" of those insiders. For example, a bank is generally not permitted to extend credit to any insider of the bank, or insider of an affiliate, if the extension, when aggregated with all other outstanding extensions of credit to those insiders and their related interests, exceeds the bank's total unimpaired capital and unimpaired surplus. Extensions of credit to those insiders, and their related interests, that exceed certain specified amounts must receive the prior approval of the board of directors. Further, extensions of credit to insiders and their related interests must be made on terms substantially the same as offered in comparable transactions to other non-insiders, subject to an exception of extensions of credit made under a benefit or compensation program that is widely available to the depository institution’s employees that does not give preference to the insider over the employees. The FRA places additional limitations on extensions of credit to executive officers. In addition to enhancing restrictions on insider transactions, the Dodd-Frank Act increased the types of transactions with insiders subject to restrictions, including certain asset sales with insiders.

Enforcement. The FDIC has extensive enforcement authority over insured banks, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

The FDIC has authority under federal law to appoint a conservator or receiver for an insured bank under limited circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was “critically undercapitalized” on average during the calendar quarter beginning 270 days after the date on which the institution became “critically undercapitalized.” The FDIC may also appoint itself as conservator or receiver for an insured state non-member institution under specific circumstances on the basis of the institution’s financial condition or upon the occurrence of other events, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; and (4) insufficient capital, or the incurring of losses that will deplete substantially all of the institution’s capital with no reasonable prospect of replenishment without federal assistance.

Insurance of Deposit Accounts. Deposit accounts at the Bank are insured by the Deposit Insurance Fund, generally up to a maximum of $250,000 per separately insured depositor. The FDIC assesses insured depository institutions to maintain the Deposit Insurance Fund. No institution may pay a dividend if in default of its deposit insurance assessment.

Under the FDIC’s risk-based assessment system, insured depository institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and other factors. A depository institution’s assessment rate depends upon the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments. Subject to certain adjustments, the range of assessment rates is now between 1.5 to 30 basis points of the assessment base.

The Dodd-Frank Act increased the minimum Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. Currently, the fund ratio stands at a point where it exceeds that minimum threshold. There is no maximum cap on the fund ratio and the FDIC has been given the discretion to establish, on an annual basis, a long-range target ratio for the fund, to better ensure that the fund is not significantly stressed by future economic downturns. For both 2020 and 2021, the FDIC has exercised that discretion by establishing a 2% fund reserve ratio as a long-range minimum target for setting assessment rates. Effective June 26, 2020, the FDIC adopted a rule to mitigate the effects on deposit insurance assessments resulting from a bank’s participation in the PPP and certain other relief programs administered by the Federal Reserve Board.

A material increase in FDIC insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what FDIC insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that a depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We are not aware of any current practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Deposit Operations. In addition to the regulations above, the Bank's deposit operations are subject to other federal laws applicable to depository accounts, such as the:

- Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Fund Transfer Act and Regulation E issued by the Consumer Financial Protection Bureau to implement that act, which govern electronic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Rules and regulations of the various federal banking agencies charged with the responsibility of implementing these federal laws.

Federal Reserve System. The Federal Reserve Board regulations require depository institutions to maintain noninterest earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The Federal Reserve Board regulations are adjusted annually and generally provide that reserves be maintained against aggregate transaction accounts. However, effective March 26, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent, in light of the shift to an ample reserves regime. This action eliminates the need for thousands of depository institutions to maintain balances in accounts at Reserve Banks to satisfy reserve requirements, thereby freeing up liquidity in the banking system to support lending to households and businesses. The Bank is in compliance with reserve requirements.

Federal Home Loan Bank of Boston (FHLB). The Bank is a member of the FHLB, which is one of the regional Federal Home Loan Banks composing the Federal Home Loan Bank System. Each Federal Home Loan Bank serves as a central credit facility primarily for its member institutions. The Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB.

Community Reinvestment Act (CRA). Under the CRA, as implemented by FDIC regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the bank's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such bank, including applications to acquire branches and other financial institutions. The CRA requires the FDIC to provide a written evaluation of a bank's CRA performance utilizing a four-tiered descriptive rating system. In particular, the system focuses on three tests:

- A lending test, to evaluate the bank's record of making loans in its assessment areas;
- An investment test, to evaluate the bank's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and
- A service test, to evaluate the bank's delivery of services through its branches, ATMs, and other offices.

Connecticut has its own statutory counterpart to the CRA which is applicable to the Bank. The Connecticut version of CRA is generally similar to the federal version, but utilizes a five-tiered descriptive rating system. Connecticut law requires the Connecticut Department of Banking to consider, but not be limited to, a bank's record of performance under the Connecticut CRA in considering any application by the Bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. In our most recent evaluation under Connecticut law the Bank received a CRA rating of "satisfactory".

Consumer Protection and Fair Lending Regulations. We are subject to a variety of federal and Connecticut statutes and regulations that are intended to protect consumers and prohibit discrimination in the granting of credit. These statutes and regulations provide for a range of sanctions for non-compliance with their terms, including imposition of administrative fines and remedial orders, and referral to the Attorney General for prosecution of a civil action for actual and punitive damages and injunctive relief. Certain of these statutes authorize private individual and class action lawsuits and the award of actual, statutory and punitive damages and attorneys' fees for certain types of violations.

At the federal level, these laws include, among others, the following:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers (Connecticut chartered banks are generally exempt from the Federal Truth-in-Lending Act, but are otherwise subject to a substantially similar state Truth-in-Lending Act administered and enforced by the Connecticut Department of Banking);
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, color, religion or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use of consumer credit reports and the provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies;
- Real Estate Settlement Procedures Act, governing closing costs and settlement procedures and disclosures to consumers related thereto;
- Service members Civil Relief Act of 2004, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Additional Considerations

Regulatory Enforcement Authority. Federal banking agencies have substantial enforcement authority over the financial institutions that they regulate including, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Except under certain circumstances, federal law requires public disclosure of final enforcement actions by the federal banking agencies.

Incentive Compensation Guidance. The federal banking agencies have released comprehensive guidance on incentive compensation policies focused on ensuring that financial institutions' incentive compensation policies do not undermine the safety and soundness of those institutions by encouraging excessive risk taking. The incentive compensation guidance sets expectations for financial institutions concerning their incentive compensation arrangements and related risk management, control and governance processes. All employees that have the ability to materially affect the risk profile of a financial institution, either individually or as part of a group, are covered by the guidance. The guidance is based upon three core concepts: (1) balanced risk-taking incentives; (2) effective controls and risk management compatibility; and (3) strong corporate governance. Deficiencies in compensation practices that are identified may be incorporated into the institution's supervisory ratings, which can affect the organization's ability to take certain actions, including the ability to make acquisitions or take other actions. Enforcement actions by the institution's primary federal banking agency may be initiated if the institution's incentive compensation programs pose a risk to the safety and soundness of the organization.

Federal Securities Laws. As a public company, we also file reports with the SEC and are subject to its regulatory authority, as well as the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, with respect to our securities, financial reporting and certain governance matters. Because our securities are listed on the Nasdaq Global Market ("Nasdaq"), we are subject to Nasdaq's rules for listed companies, including rules relating to corporate governance.

Financial Modernization. The Gramm-Leach-Bliley Act, or the GLBA, permits greater affiliation among banks, securities firms, insurance companies, and other companies under a type of financial services company known as a "financial holding company". A financial holding company essentially is a bank holding company with significantly expanded powers. Financial holding companies are authorized by statute to engage in a number of financial activities previously impermissible for bank holding companies, including securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking activities. The GLBA also permits the Federal Reserve Board and the Treasury Department to authorize additional activities for financial holding companies if they are "financial in nature" or "incidental" to financial activities. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed, and has at least a "satisfactory" CRA rating. A financial holding company must provide notice to the Federal Reserve Board within 30 days after commencing activities previously determined by statute or by the Federal Reserve Board and Department of the Treasury to be permissible. We have not submitted notice to the Federal Reserve Board of intent to be deemed a financial holding company. However, we are not precluded from submitting a notice in the future should we wish to engage in activities only permitted to financial holding companies.

Privacy Requirements. Under the GLBA, all financial institutions are required to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties and to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act of 1970, or FCRA, includes many provisions concerning national credit reporting standards and permits consumers, including customers of the Bank, to opt out of information-sharing for marketing purposes among affiliated companies. The Fair and Accurate Credit Transactions Act of 2004 amended certain provisions of the FCRA and requires banks and other financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The Bank currently has a privacy protection policy in place and believes such policy is in compliance with the regulations.

The Bank Secrecy Act and Related Anti-Money Laundering and Anti-Terrorist Financing Legislation. The Bank Secrecy Act, or the BSA, provides, in part, for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (1) requiring standards for verifying customer identification information at account opening; (2) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (3) reports filed with the Treasury Department's Financial Crimes Enforcement Network of transactions exceeding $10,000 in currency; (4) filing suspicious activities reports by financial institutions regarding suspected customer money laundering, terrorism financing, or other violations of U.S. laws and regulations; and (5) requiring enhanced due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons.

Title III of the USA PATRIOT Act of 2001 amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Among other things, the USA PATRIOT Act requires all financial institutions, including us, to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provisions of the GLBA, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign "shell" banks, establishes due diligence and enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA PATRIOT Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution.

The Office of Foreign Assets Control, or OFAC, which is a division of the Treasury Department, is responsible for helping to ensure that U.S. entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC maintains lists of names of persons and organizations suspected of aiding, harboring or engaging in money laundering, terrorist acts, and other crimes. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify OFAC. We have established policies and procedures to ensure compliance with the federal anti-laundering and combating terrorism provisions.

Proposed Legislation and Regulatory Action. New statutes, regulations and guidance are regularly proposed that contain wide-ranging potential changes to the statutes, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies. Our earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of U.S. government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

Taxation

Federal Taxation

General: We are subject to federal income taxation in the same general manner as other corporations, with limited exceptions. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to us.

Method of Accounting: For Federal income tax purposes, we report income and expenses on the accrual method of accounting and use tax year ending December 31 for filing federal income tax returns.

Alternative Minimum Tax: The Internal Revenue Code of 1986, as amended (the "Code"), imposes an alternative minimum tax ("AMT") at a rate of 20.0% on a base of regular taxable income plus certain tax preferences which we refer to as "alternative minimum taxable income." The AMT is payable to the extent such alternative minimum taxable income is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90.0% of alternative minimum taxable income. Certain AMT payments may be used as credits against regular tax liabilities in future years. We have not been subject to the AMT and have no such amounts available as credits for carryover.

Net Operating Loss Carryovers: For the years ended 2017 and prior a corporation may carry back net operating losses generated in such years to the preceding two taxable years and forward to the succeeding 20 taxable years. Under the Tax Cuts and Jobs Act enacted in December 2017, a corporation may not carryback net operating losses arising in tax years after 2017, but may carryforward such losses indefinitely; however, the net operating loss deduction in a given year is limited to 80% of taxable income. The CARES Act temporarily - and retroactively - modified the net operating loss rules to permit carryback of net operating losses generated in 2018, 2019 and 2020 for five years. A corporation may elect to waive the carryback period and only carry these net operating losses forward to future years. The five-year carryback provision of the CARES Act is not available for losses generated in 2021 and subsequent years. At December 31, 2021, we had $1.9 million of net operating loss carryforwards for federal income tax purposes. The carryovers were transferred to the Company upon the merger with The Wilton Bank in 2014.

Corporate Dividends-Received Deduction: The Company may exclude from its income 100.0% of dividends received from the Bank as a member of the same affiliated group of corporations. The corporate dividends received deduction is 80.0% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, and corporations which own less than 20.0% of the stock of a corporation distributing a dividend may deduct only 70.0% of dividends received or accrued on their behalf.

The Company and the Bank are not currently under audit with respect to their federal tax returns.

State Taxation

We are subject to the Connecticut corporation business tax. The Connecticut corporation business tax is based on the federal taxable income before net operating loss and special deductions and makes certain modifications to federal taxable income to arrive at Connecticut taxable income. Connecticut taxable income is multiplied by the state tax rate (7.5% for the fiscal years ending December 31, 2021 and 2020) to arrive at Connecticut income tax. We are also subject to state income tax in other states as a result of loan originations made in other states.

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

The Company and the Bank are not currently under audit with respect to their state tax returns.

Item 1A. Risk Factors

Risks Relating to Our Business

As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

Our businesses and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States and to a lesser degree secondary effects of global geopolitical events. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium-term and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries, including uncertainty over the stability of the euro currency, could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.

The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. Finally, many of our loans are made to middle-market businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our allowance for loan losses may not be adequate to absorb losses inherent in our loan portfolio, which could have a material adverse effect on our financial condition and results of operations.

We maintain an allowance for loan losses to provide for losses inherent in our loan portfolio. Maintaining an adequate allowance for loan losses is critical to our financial results and condition. The level of our allowance for loan losses reflects management's continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the allowance for loan losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. The COVID-19 pandemic has further impacted the assumptions and methodologies typically used in making allowances for loan losses, and the availability of materials and other market information, including appraisals, have been impacted by the COVID-19 pandemic, making assumptions more subjective. In addition, our regulators, as an integral part of their examination process, review our loans and the adequacy of our allowance for loan losses and may direct us to make additions to our allowance for loan losses based on their judgments about information available to them at the time of their examination. If actual charge-offs in future periods exceed the amounts allocated to our allowance for loan losses, we may need additional provision for loan losses to restore the adequacy of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Our concentration of large loans to certain borrowers may increase our credit risk.

A good number of our loans have been made to a small number of borrowers, resulting in a high concentration of large loans to certain borrowers. As of December 31, 2021, our five largest relationships ranged in exposure from approximately \$57.0 million to \$93.3 million. In addition to other typical risks related to any loan, such as deterioration of the collateral securing the loans, this high concentration of borrowers presents a risk to our lending operations. If any one of these borrowers becomes unable to repay a loan obligation(s) for any reason, our nonperforming loans and our allowance for loan losses could increase significantly, which could adversely and materially affect our business, financial condition and results of operations.

Our commercial real estate loan, commercial loan and construction loan portfolios expose us to risks that may be greater than the risks related to our other mortgage loans.

Our loan portfolio includes non-owner-occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful leasing of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. Non-owner-occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on non-owner occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

Commercial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business.

Risk of loss on a construction loan depends largely upon whether our initial estimate of the property's value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent takeout financing, the completion of the project and/or the builder's ability to ultimately lease or sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by sale of collateral.

Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans. Unexpected deterioration in the credit quality of our commercial real estate loan, commercial loan or construction loan portfolios would require us to increase our provision for loan losses, which would reduce our profitability and could have a material adverse effect on our business, financial condition, results of operations and future prospects.

Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future.

As a result of our growth over the past recent years, a large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge-offs and the ratio of nonperforming assets in the future. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. If defaults increase, we could experience an increase in delinquencies and charge-offs and we may be required to increase our allowance for loan losses, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

A prolonged downturn in the real estate market could result in losses and adversely affect our profitability.

As of December 31, 2021, the majority of our loan portfolio was composed of commercial real estate loans. The sale of real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values could impair the value of our collateral and our ability to sell the collateral upon any foreclosure, which would likely require us to increase our provision for loan losses. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re-value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our allowance for loan losses, our profitability could be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to interest rate risk that could negatively impact our profitability.

Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest bearing liabilities, such as deposits and borrowings.

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the U.S. Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore net income, could be adversely affected. Further, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition, results of operations and future prospects.

In addition, an increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also necessitate further increases to our allowance for loan losses, each of which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

Our business is concentrated in Fairfield and New Haven Counties, Connecticut and the surrounding areas, and we are more sensitive than our more geographically diversified competitors to adverse changes in the local economy.

We conduct a majority of our operations in the New York metropolitan area, including Fairfield and New Haven Counties, Connecticut. A majority of the real estate loans in our loan portfolio are secured by properties located in the New York metropolitan area, including Fairfield and New Haven Counties. In addition, as of December 31, 2021, the majority of the loans in our loan portfolio (measured by dollar amount) were made to borrowers who live or conduct business in the New York metropolitan area. We compete against a number of financial institutions who maintain significant operations located outside of the New York metropolitan area and outside the State of Connecticut. Accordingly, any regional or local economic downturn, or natural or man-made disaster, that affects Connecticut or the New York metropolitan area or existing or prospective property or borrowers in Connecticut or the New York metropolitan area may affect us and our profitability more significantly and more adversely than our more geographically diversified competitors, which could cause a material adverse effect on our business, financial condition, results of operations and prospects.

Strong competition within our market area could reduce our profits and slow growth.

Competition in the financial services industry in our market and the surrounding area is strong. Numerous commercial banks, savings banks and savings associations maintain offices or are headquartered in or near our primary market area. Commercial banks, savings banks, savings associations, money market funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders compete with us for various segments of our business. These competitors often have far greater resources than we do and are able to conduct more intensive and broader based promotional efforts to reach both commercial and individual customers.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- Our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- The scope, relevance and pricing of products and services that we offer;
- Customer satisfaction with our products and personalized services;
- Industry and general economic trends; and
- Our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could reduce our profitability. We derive a majority of our business from our primary market area, the New York metropolitan area, including Fairfield and New Haven Counties, Connecticut. Our failure to compete effectively in our primary market could cause us to lose market share and could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are a community bank and our ability to maintain our reputation is critical to the success of our business.

We are a community bank, and our reputation is one of the most valuable components of our business. We strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected.

We may not be able to execute our management team's growth strategy.

As part of our management team's growth strategy, we pursue a business plan focused on the development and growth of our franchise in our existing market and surrounding areas. In addition to pursuing organic growth, another element of our management team's strategy will be to acquire other branches, whole financial institutions or related lines of business. We intend to actively seek potential acquisition opportunities. There are numerous risks that may make it difficult for us to execute this growth strategy and we cannot assure you that we will be successful in executing any part of our management team's strategy. Challenges we will face include obtaining regulatory approvals with respect to acquisitions, assuring that we will not become subject to regulatory actions in the future that could restrict our growth, identifying appropriate targets for acquisitions, negotiating acquisitions on terms that are acceptable to us, and encountering competition for acquisitions from financial institutions and other entities with similar business strategies that have greater financial resources, relevant experience and more personnel than us. Accordingly, there can be no assurance that we will be successful in completing future acquisitions at all or on terms that are acceptable to us. Our ability to grow will be limited if we are unable to successfully make acquisitions in the future.

We face various technological risks that could adversely affect our business.

We rely on communication and information systems to conduct business. Potential failures, interruptions or breaches in system security could result in disruptions or failures in our key systems, such as general ledger, deposit or loan systems. The risk of electronic fraudulent activity within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting bank accounts and other customer information is on the rise. We have developed policies and procedures aimed at preventing and limiting the effect of failure, interruption or security breaches, including cyber-attacks of information systems; however, there can be no assurance that these incidences will not occur, or if they do occur, that they will be appropriately addressed. The occurrence of any failures, interruptions or security breaches, including cyber-attacks of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or subject us to civil litigation and possible financial liability, any of which could have an adverse effect on our results of operation and financial condition.

Unauthorized access, cyber-crime and other threats to data security may require significant resources, harm our reputation, and adversely affect our business.

We necessarily collect, use and hold personal and financial information concerning individuals and businesses with which we have a banking relationship. Threats to data security, including unauthorized access and cyber-attacks, rapidly emerge and change, exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with customer expectations, statutory and regulatory privacy and other requirements. It is difficult or impossible to defend against every risk being posed by changing technologies, as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber-criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and our other employees and vendors could prove inadequate. We could also experience a breach due to intentional or negligent conduct on the part of employees or other internal sources, software bugs or other technical malfunctions, or other causes. As a result of any of these threats, our customer accounts may become vulnerable to account takeover schemes or cyber-fraud. Our systems and those of our third-party vendors may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware.

A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs, and reputational damage, any of which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

Some institutions we may acquire may have distressed assets and there can be no assurance that we would be able to realize the value we predict from these assets or that we would make sufficient provision for future losses in the value of, or accurately estimate the future write downs taken in respect of, these assets.

Declines in home prices and/or weak general economic conditions may result in increases in delinquencies and losses in the loan portfolios and other assets of financial institutions that we may acquire in amounts that exceed our initial forecasts developed during the due diligence investigation prior to acquiring those institutions. In addition, asset values may be impaired, in the future due to factors we cannot predict, including significant deterioration in economic conditions and further declines in collateral values and credit quality indicators. Any of these events could adversely affect the financial condition, liquidity, capital position and value of any institutions that we acquire and of the Bank as a whole.

We may not be able to overcome the integration and other risks associated with acquisitions, which could adversely affect our growth and profitability.

We may from time to time consider acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability. Acquisition activities could be material to our business and involve a number of risks, including the following:

- Incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;

- Using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- Intense competition from other banking organizations and other inquirers for acquisitions;
- Potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- The time and expense required to integrate the operations and personnel of the combined businesses;
- Experiencing higher operating expenses relative to operating income from the new operations;
- Creating an adverse short-term effect on our results of operations;
- Losing key employees and customers as a result of an acquisition that is poorly received;
- Significant problems relating to the conversion of the financial and customer data of the entity;
- Inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition; or
- Risks of impairment to goodwill or other than temporary impairment.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions, and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our profitability, return on equity and return on assets, our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects. Further, if we experience difficulties with the integration process, the anticipated benefits of the investment or acquisition transaction may not be realized fully or at all or may take longer to realize than expected.

As a result of an investment or acquisition transaction, we may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on our financial condition and results of operations, which could cause you to lose some or all of your investment.

We must conduct due diligence investigations of target institutions we intend to acquire. Intensive due diligence is time consuming and expensive due to the operations, accounting, finance and legal professionals who must be involved in the due diligence process. Even if we conduct extensive due diligence on a target institution with which we combine, this diligence may not reveal all material issues that may affect a particular target institution, and factors outside the control of the target institution and outside of our control may later arise. If, during our diligence process, we fail to identify issues specific to a target institution or the environment in which the target institution operates, we may be forced to later write down or write off assets, restructure our operations, or incur impairment or other charges that could result in our reporting losses. These charges may also occur if we are not successful in integrating and managing the operations of the target institution with which we combine. In addition, charges of this nature may cause us to violate net worth or other covenants to which we may be subject as a result of assuming preexisting debt held by a target institution or by virtue of our obtaining debt financing.

Our lending limit may restrict our growth and prevent us from effectively implementing our business strategy.

We are limited in the amount we can loan to a single borrower by the amount of our capital. Based upon our current capital levels and our informal, internal limit on loans, the amount we may lend both in the aggregate and to any one borrower is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We accommodate larger loans by selling participations in those loans to other financial institutions, but this strategy may not always be available. If we are unable to compete effectively for loans from our target customers, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We are dependent on our executive management team and other key employees and we could be adversely affected by the unexpected loss of their services.

We are led by an experienced core management team with substantial experience in the market that we serve, and our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. The COVID-19 pandemic, along with general economic conditions, has made it more difficult to retain employees and to attract new employees. We believe that retaining the services and skills of our management team is important to our success. The unexpected loss of services of any of our key personnel could have an adverse impact on us because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could cause a material adverse effect on our business, financial condition, results of operations and prospects.

The fair value of our investment securities can fluctuate due to factors outside of our control.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions with respect to individual securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security.

We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances, which could harm liquidity, results of operations and financial condition.

When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers, including government-sponsored entities, about the mortgage loans and the manner in which they were originated. Whole loan sale agreements require us to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan. If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations and financial condition may be adversely affected.

We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, our borrowers, other vendors and our employees.

When we originate loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, the borrower, another third party or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from them. We have controls and processes designed to help us identify misrepresented information in our loan origination operations. We cannot assure you, however, that we have detected or will detect all misrepresented information in our loan originations.

We are subject to environmental liability risk associated with our lending activities.

In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and future prospects.

Uncertainty relating to the LIBOR determination process and LIBOR discontinuance may adversely affect our results of operations.

LIBOR is used extensively in the United States as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks. The United Kingdom Financial Conduct Authority ("FCA"), which regulates the process for establishing LIBOR, announced in July 2017 that the sustainability of LIBOR cannot be guaranteed. The administrator for LIBOR announced on March 5, 2021 that it would permanently cease to publish most LIBOR settings beginning on January 1, 2022 and will cease to publish the overnight, one-month, three-month, six-month and 12-month USD LIBOR settings on July 1,

2023. Accordingly, the FCA has stated that it does not intend to persuade or compel banks to submit to LIBOR after such respective dates. Until such time, however, FCA panel banks have agreed to continue to support LIBOR.

In October 2021, the federal bank regulatory agencies issued a Joint Statement on Managing the LIBOR Transition. In that guidance, the agencies offered their regulatory expectations and outlined potential supervisory and enforcement consequences for banks that fail to adequately plan for and implement the transition away from LIBOR. The failure to properly transition away from LIBOR may result in increased supervisory scrutiny.

We have not yet determined which alternative rate is most applicable, and there can be no assurances on which benchmark rate(s) may replace LIBOR or how LIBOR will be determined for purposes of financial instruments that are currently referencing LIBOR when it ceases to exist. The discontinuance of LIBOR may result in uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instruments and may also increase operational and other risks to the Company and the industry. Other rates or benchmarks may perform differently than LIBOR. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding when LIBOR ceases to exist. The discontinuance of LIBOR may also increase operational and other risks to the Company and the industry.

We have derivative contracts and limited loan exposure tied to LIBOR. Although we are not yet able to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

The Coronavirus (COVID-19) pandemic may continue to adversely impact our customers and our business, financial position, results of operations, and prospects.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 ("COVID-19") as a global pandemic. The COVID-19 pandemic has negatively impacted the global and U.S. economies. Many businesses in the U.S., including those in the markets we serve, were required to close, causing a significant increase in unemployment and loss of revenue for those businesses. These developments have impacted the macroeconomic environment, leading to lower interest rates, depressed equity market valuations, heightened financial market volatility, and significant disruption in banking and other financial activities.

The U.S. government responded to the crisis by enacting a number of policies to provide fiscal stimulus to the economy and relief to those affected by the pandemic. Throughout March and April of 2020, Congress passed three main relief packages (including the $2.3 trillion CARES Act) and one supplemental package. A fifth major stimulus package, the $1.9 trillion American Rescue Plan Act (“ARPA”), was signed into law on March 11, 2021. The stimulus legislation included, among other things, direct payments to individuals and families, loan programs for small businesses, expansion of unemployment benefits and monetary support to state and local governments. Federal regulatory agencies also took a series of substantial monetary stimulus measures to complement the fiscal stimulus to further add liquidity to the markets. Most of the relief programs have expired, although state and local governments are still in the process of allocating and deploying ARPA funds.

The COVID-19 pandemic has resulted in, and is likely to continue to result in, significant economic disruption affecting our business and the clients we serve. However, we are unable to estimate the full impact of COVID-19 on our business and operations at this time, including the ability of our employees and our third-party vendors to work effectively during the course of the pandemic. If the pandemic continues to spread or otherwise result in a continuation or worsening of the current economic and commercial environments, we could experience an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for credit losses, adverse asset values of the collateral securing loans and an overall material adverse effect on the quality of the loan portfolio of the Company, impairment of our goodwill, reduced demand for our products and services, or other negative impacts on our financial position, results of operations, and prospects. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the ultimate impact of the COVID-19 pandemic on our business. The extent of such impact will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic, third party providers’ ability to support our operations and what further actions may be taken by governmental authorities and other third parties in response to the pandemic.

The length of the pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. To the extent COVID-19 continues to adversely impact the economy, it may also increase the likelihood and/or magnitude of other risk factors described herein.

Risks Applicable to the Regulation of our Industry

We operate in a highly regulated environment, which could have a material and adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects.

Banking is highly regulated under federal and state law. We are subject to extensive regulation and supervision that governs almost all aspects of our operations. As a registered bank holding company, we are subject to supervision, regulation and examination by the Federal Reserve. As a commercial bank chartered under the laws of Connecticut, the Bank is subject to supervision, regulation and examination by the State of Connecticut Department of Banking and the FDIC.

The primary goals of the bank regulatory system are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the FDIC's Deposit Insurance Fund and bank depositors, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin "unsafe or unsound" practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, and, with respect to banks, terminate our charter, terminate our deposit insurance or place the Bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices.

Compliance with the myriad of laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, could make compliance more difficult or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Connecticut Department of Banking periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a regulatory agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and future prospects.

The Bank's FDIC deposit insurance premiums and assessments may increase.

The deposits of the Bank are insured by the FDIC up to legal limits and, consequently, subject it to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could materially and adversely affect our business, financial condition, results of operations and prospects.

The Bank is subject to further reporting requirements under FDIC regulations.

We are subject to reporting requirements under the rules of the FDIC, including a requirement for management to prepare a report that contains an assessment by management of the Bank's effectiveness of internal control structure and procedures for financial reporting as of the end of such fiscal year. In addition, we are required to obtain an independent public accountant's attestation report concerning our internal control structure over financial reporting. The rules for management to assess the Bank's internal controls over financial reporting are complex, and require significant documentation, testing and possible remediation. The effort to comply with regulatory requirements relating to internal controls cause us to incur increased expenses and a diversion of management's time and other internal resources. If the Bank cannot favorably assess the effectiveness of its internal controls over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank's internal controls, the price of our common stock as well as investor confidence could be adversely affected and we may be subject to additional regulatory scrutiny.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act, or CRA, and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

Various laws impose nondiscriminatory lending requirements on financial institutions, including the CRA, the Equal Credit Opportunity Act and the Fair Housing Act. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Financial institutions are required to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate under The Bank Secrecy Act, The USA PATRIOT ACT of 2001 and certain other laws and regulations. Significant civil penalties can be assessed by a variety of regulators and governmental agencies for violations of these laws and regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects.

General Risk Factors

Resources could be expended in considering or evaluating potential acquisitions that are not consummated, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another business.

We anticipate that the process of identifying and investigating institutions for potential acquisitions and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific acquisition transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific target institution, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event will result in a loss to us of the related costs incurred, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another institution.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including broker-dealers, commercial banks, investment banks, and other financial intermediaries. Further, our private banking channel relies on relationships with a number of other financial institutions for referrals. As a result, declines in the financial condition of, or even rumors or questions about, one or more financial institutions, financial service companies or the financial services industry generally, may lead to market-wide liquidity, asset quality or other problems and could lead to losses or defaults by us or by other institutions. These problems, losses or defaults could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We rely on third parties to provide key components of our business infrastructure, and failure of these parties to perform for any reason could disrupt our operations.

Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may incur impairment to goodwill.

We test our goodwill for impairment at least annually. Significant negative industry or economic trends, reduced estimates of future cash flows or disruptions to our business, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. Projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in impairment to our goodwill, we would be required to record a noncash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Bank's headquarters building is located at 258 Elm Street in New Canaan, Connecticut. The property is leased by us until 2031. In December 2021, the Bank sold the property located at 220 Elm Street in New Canaan, Connecticut, which was previously used for our executive management offices.

We also lease office space for each of our branch offices in New Canaan, Stamford, Norwalk, Fairfield, Darien, and Westport, Connecticut. The leases for our facilities have terms expiring at dates ranging from 2022 to 2031, although certain of the leases contain options to extend beyond these dates. We own the Wilton and Hamden branch offices. We believe that our current facilities are adequate for our current level of operations. Each lease is at market rate based on similar properties in the applicable market area. Management continually evaluates its branch and other office locations for opportunities to maximize cost savings while meeting our growth needs and the needs of our customers.

Our branch office locations are as follows:

Branch	Address	Owned or Leased
Cherry Street	156 Cherry Street New Canaan, CT 06840	Lease (expires 2031)
Bedford	612 Bedford Street Stamford, CT 06901	Lease (expires 2022)
High Ridge	1095 High Ridge Road Stamford, CT 06905	Lease (expires 2028)
Black Rock	2220 Black Rock Turnpike Fairfield, CT 06825	Lease (expires 2024)
Sasco Hill	One Sasco Hill Road Fairfield, CT 06824	Lease (expires 2031)
Wilton	47 Old Ridgefield Road Wilton, CT 06897	Own
Norwalk	370 Westport Avenue Norwalk, CT 06851	Lease (expires 2030)
Hamden	2704 Dixwell Avenue Hamden, CT 06518	Own
Westport	100 Post Road East Westport, CT 06880	Lease (expires 2028)
Darien	1065 Post Road Darien, CT 06820	Lease (expires 2028)

Item 3. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, future prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock has traded on the NASDAQ Global Market under the Symbol "BWFG" since the completion of its initial public offering on May 15, 2014.

There were approximately 258 shareholders of record of BWFG Common Stock as of December 31, 2021. This number does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms or other nominees.

The Company's shareholders are entitled to dividends when and if declared by the Board of Directors, out of funds legally available. The ability of the Company to pay dividends depends, in part, on the ability of the Bank to pay dividends to the Company. In accordance with Connecticut statutes, regulatory approval is required for the Bank 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

The following table includes information with respect to repurchases of the Company's Common Stock during the three-month period ended December 31, 2021 under the Company's share repurchase program.

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
October 1, 2021 - October 31, 2021	—	$ —	—	375,901
November 1, 2021 - November 30, 2021	9,758	30.54	9,758	366,143
December 1, 2021 - December 31, 2021	49,580	31.44	49,580	316,563
Total	59,338	$ 31.29	59,338	316,563

(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 6. Selected Financial Data

The following table sets forth selected consolidated financial data as of the dates and for the periods presented. The selected consolidated balance sheet data as of December 31, 2021 and 2020 and the selected consolidated statement of income data for the years ended December 31, 2021 and 2020 have been derived mainly from our audited consolidated financial statements and related notes that we have included elsewhere in this Annual Report. The selected consolidated balance sheet data as of December 31, 2019, 2018 and 2017 and the selected consolidated statement of income data for the years ended December 31, 2019, 2018 and 2017 has been derived mainly from audited consolidated financial statements that are not presented in this Annual Report.

The selected historical consolidated financial data as of any date and for any period are not necessarily indicative of the results that may be achieved as of any future date or for any future period. You should read the following selected statistical and financial data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes that we have presented elsewhere in this Annual Report.

Performance ratios for the year ended December 31, 2020 were negatively impacted by incremental COVID-19 pandemic related loan loss reserves and a $3.9 million one-time charge related to office consolidation, vendor contract termination and employee severance costs recognized in the fourth quarter of 2020.

Selected Financial Data

	At or For the Years Ended December 31,				
	2021	2020	2019	2018	2017
	(Dollars in thousands, except per share data)				
Statements of Income:					
Interest income	$ 81,376	$ 77,487	$ 82,948	$ 80,064	$ 71,201
Interest expense	13,490	22,652	29,187	23,738	16,837
Net interest income	67,886	54,835	53,761	56,326	54,364
(Credit) provision for loan losses	(57)	7,605	437	3,440	1,341
Net interest income after provision for loan losses	67,943	47,230	53,324	52,886	53,023
Noninterest income	5,657	2,884	5,244	3,900	4,629
Noninterest expense	39,739	42,813	35,626	35,633	32,523
Income before income tax	33,861	7,301	22,942	21,153	25,129
Income tax expense	7,275	1,397	4,726	3,720	11,299
Net income	26,586	5,904	18,216	17,433	13,830
Per Share Data:					
Basic earnings per share	$ 3.38	$ 0.75	$ 2.32	$ 2.23	$ 1.80
Diluted earnings per share	$ 3.36	$ 0.75	$ 2.31	$ 2.21	$ 1.78
Book value per share (end of period)[a]	26.53	22.77	23.51	22.43	20.98
Tangible book value per share (end of period)[a][b]	26.19	22.43	23.15	22.06	20.59
Dividend payout ratio[f]	19.05 %	74.67 %	22.51 %	21.72 %	15.73 %
Shares outstanding (end of period)[a]	7,612,807	7,755,909	7,757,828	7,764,647	7,676,238
Weighted average shares outstanding–basic	7,706,407	7,728,328	7,757,355	7,722,175	7,572,409
Weighted average shares outstanding–diluted	7,761,811	7,748,453	7,784,631	7,775,480	7,670,413
Performance Ratios:					
Return on average assets[c]	1.17 %	0.28 %	0.97 %	0.94 %	0.80 %
Return on average common shareholders' equity[b]	13.86 %	3.35 %	10.20 %	10.19 %	8.93 %
Average shareholders' equity to average assets	8.46 %	8.36 %	9.53 %	9.24 %	8.97 %
Net interest margin	3.17 %	2.77 %	3.03 %	3.18 %	3.30 %
Efficiency ratio[b]	53.9 %	73.9 %	60.2 %	59.2 %	54.9 %
Asset Quality Ratios:					
Total past due loans to total loans[d]	1.72 %	0.93 %	0.77 %	0.78 %	1.67 %
Nonperforming loans to total loans[d]	0.88 %	2.06 %	0.66 %	0.88 %	0.36 %
Nonperforming assets to total assets[e]	0.68 %	1.48 %	0.56 %	0.75 %	0.31 %
Allowance for loan losses to nonperforming loans	101.90 %	62.87 %	127.59 %	109.80 %	344.90 %
Allowance for loan losses to total loans[d]	0.89 %	1.29 %	0.84 %	0.96 %	1.23 %
Net charge-offs (recoveries) to average loans[d]	0.23 %	0.01 %	0.15 %	0.44 %	0.03 %
Statements of Financial Condition:					
Total assets	$ 2,456,264	$ 2,253,747	$ 1,882,182	$ 1,873,665	$ 1,796,607
Gross portfolio loans[d]	1,894,881	1,625,627	1,604,484	1,604,726	1,543,016
Investment securities	108,409	106,890	100,865	116,584	113,767
Deposits	2,123,998	1,827,316	1,491,903	1,502,244	1,398,405
FHLB borrowings	50,000	175,000	150,000	160,000	199,000
Subordinated debt	34,441	25,258	25,207	25,155	25,103
Total equity	201,987	176,602	182,397	174,196	161,027
Capital Ratios:					
Tier 1 capital to average assets					
Bankwell Bank	9.94 %	8.44 %	10.99 %	10.14 %	9.61 %
Tier 1 capital to risk-weighted assets					
Bankwell Bank	11.18 %	11.06 %	12.53 %	11.56 %	10.99 %
Total capital to risk-weighted assets					
Bankwell Bank	12.00 %	12.28 %	13.35 %	12.50 %	12.19 %
Total shareholders' equity to total assets	8.22 %	7.84 %	9.69 %	9.30 %	8.96 %
Tangible common equity ratio[b]	8.13 %	7.73 %	9.56 %	9.16 %	8.81 %

(a) Excludes preferred stock and unvested restricted stock awards.

(b) This measure is not a measure recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See “Non-GAAP Financial Measures” for a description of this measure and a reconciliation of this measure to its most directly comparable GAAP measure.

(c) Calculated based on net income before preferred stock dividend.

(d) Calculated using the principal amounts outstanding on loans.

(e) Nonperforming assets consist of nonperforming loans and other real estate owned.

(f) The dividend payout ratio is the dividends per share divided by diluted earnings per share.

NON-GAAP FINANCIAL MEASURES

We identify “efficiency ratio”, “tangible common equity ratio”, “tangible book value per share”, “total revenue” and “return on average common shareholders’ equity” as “non-GAAP financial measures.” In accordance with the SEC’s rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our statements of income, balance sheet or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this annual report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this annual report may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this annual report when comparing such non-GAAP financial measures.

Efficiency ratio is defined as non-interest expenses, less merger and acquisition related expenses, other real estate owned expenses and amortization of intangible assets, divided by our operating revenue, which is equal to net interest income plus non-interest income excluding gains and losses on sales of securities and gains and losses on other real estate owned. In our judgment, the adjustments made to operating revenue allow investors and analysts to better assess our operating expenses in relation to our core operating revenue by removing the volatility that is associated with certain one-time items and other discrete items that are unrelated to our core business.

Tangible common equity is defined as total shareholders’ equity, excluding preferred stock, less goodwill and other intangible assets. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in common shareholders’ equity exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing both common equity and assets while not increasing our tangible common equity or tangible assets.

Tangible common equity ratio is defined as the ratio of tangible common equity divided by total assets less goodwill and other intangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. We believe that the most directly comparable GAAP financial measure is total shareholders’ equity to total assets.

Tangible book value per share is defined as book value, excluding the impact of goodwill and other intangible assets, if any, divided by shares of our common stock outstanding.

Total revenue is defined as the sum of net interest income before provision of loan losses and noninterest income.

Return on average common shareholders’ equity is defined as net income attributable to common shareholders divided by total average shareholders’ equity less average preferred stock, if any.

The information provided below presents a reconciliation of each of our non-GAAP financial measures to the most directly comparable GAAP financial measure.

	Years Ended December 31,				
	2021	2020	2019	2018	2017
	(Dollars in thousands, except per share data)				
Efficiency Ratio					
Noninterest expense	$ 39,739	$ 42,813	$ 35,626	$ 35,633	$ 32,523
Less: other real estate owned expenses	—	6	37	—	70
Less: Amortization of intangibles	76	138	75	92	118
Adjusted noninterest expense (numerator)	$ 39,663	$ 42,669	$ 35,514	$ 35,541	$ 32,335
Net interest income	$ 67,886	$ 54,835	$ 53,761	$ 56,326	$ 54,364
Noninterest income	5,657	2,884	5,244	3,900	4,629
Adjustments for: gains/(losses) on sales of securities	—	—	76	222	165
Adjustments for: gains (losses) on sale of other real estate owned	—	19	(102)	—	(78)
Adjusted operating revenue (denominator)	$ 73,543	$ 57,700	$ 59,031	$ 60,004	$ 58,906
Efficiency ratio	53.9 %	73.9 %	60.2 %	59.2 %	54.9 %
Tangible Common Equity and Tangible Common Equity/Tangible Assets					
Total shareholders' equity	$ 201,987	$ 176,602	$ 182,397	$ 174,196	$ 161,027
Less: preferred stock	—	—	—	—	—
Common shareholders' equity	201,987	176,602	182,397	174,196	161,027
Less: Intangible assets	2,589	2,665	2,803	2,879	2,971
Tangible Common shareholders' equity	$ 199,398	$ 173,937	$ 179,594	$ 171,317	$ 158,056
Total assets	$ 2,456,264	$ 2,253,747	$ 1,882,182	$ 1,873,665	$ 1,796,607
Less: Intangible assets	2,589	2,665	2,803	2,879	2,971
Tangible assets	$ 2,453,675	$ 2,251,082	$ 1,879,379	$ 1,870,786	$ 1,793,636
Tangible common shareholders' equity to tangible assets	8.13 %	7.73 %	9.56 %	9.16 %	8.81 %
Tangible Book Value per Share					
Total shareholders' equity	$ 201,987	$ 176,602	$ 182,397	$ 174,196	$ 161,027
Less: preferred stock	—	—	—	—	—
Common shareholders' equity	201,987	176,602	182,397	174,196	161,027
Less: Intangible assets	2,589	2,665	2,803	2,879	2,971
Tangible common shareholders' equity	$ 199,398	$ 173,937	$ 179,594	$ 171,317	$ 158,056
Common shares issued	7,803,166	7,919,278	7,868,803	7,842,271	7,751,424
Less: shares of unvested restricted stock	190,359	163,369	110,975	77,624	75,186
Common shares outstanding	7,612,807	7,755,909	7,757,828	7,764,647	7,676,238
Book value per share	$ 26.53	$ 22.77	$ 23.51	$ 22.43	$ 20.98
Less: effects of intangible assets	0.34	0.34	0.36	0.37	0.39
Tangible Book Value per Common Share	$ 26.19	$ 22.43	$ 23.15	$ 22.06	$ 20.59
Total Revenue					
Net interest income	$ 67,886	$ 54,835	$ 53,761	$ 56,326	$ 54,364
Add: noninterest income	5,657	2,884	5,244	3,900	4,629
Total Revenue	$ 73,543	$ 57,719	$ 59,005	$ 60,226	$ 58,993
Noninterest income as a percentage of total revenue	7.69 %	5.00 %	8.89 %	6.48 %	7.85 %
Return on Average Common Shareholders' Equity					
Net Income Attributable to Common Shareholders	$ 26,586	$ 5,904	$ 18,216	$ 17,433	$ 13,830
Total average shareholders' equity	$ 191,808	$ 176,489	$ 178,510	$ 171,024	$ 154,929
Less: average preferred stock	—	—	—	—	—
Average Common Shareholders' Equity	191,808	176,489	178,510	171,024	154,929
Return on Average Common Shareholders' Equity	13.86 %	3.35 %	10.20 %	10.19 %	8.93 %

Item 7. 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 consolidated financial statements and related notes contained elsewhere in this annual report. 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 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. (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 customers in our primary 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 primary market, particularly where we have strong relationships. The Bank operates branches in New Canaan, Stamford, Fairfield, Wilton, Westport, Darien, Norwalk, and Hamden, Connecticut.

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 these deposits and salaries and related employee benefits. We measure our performance primarily through our net interest margin, efficiency ratio, ratio of allowance for loan losses to total loans, return on average assets and return on average equity, among other metrics, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Executive Overview

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

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

Impact of COVID-19

The COVID-19 pandemic has resulted in significant economic disruption affecting our business and the clients we serve. As vaccination efforts continue, restrictions on businesses have been lifted and a return to more normal economic activity has begun. However, a significant degree of uncertainty still exists concerning the ultimate duration and magnitude of the COVID-19 pandemic and subsequent outbreaks, including whether restrictions that have been lifted will need to be imposed again or tightened in the future. Given the ongoing and dynamic nature of the circumstances, it is still difficult to predict the full impact of the COVID-19 pandemic on our business. The extent of such impact will depend on future developments, including but not limited to the continued roll-out of vaccinations, which play an important role as to when the coronavirus can be controlled and abated.

The primary measures we use to evaluate and manage our financial results are set forth in the table below. Although we believe these measures are meaningful in evaluating our results and financial condition, they may not be directly comparable to similar measures used by other financial services companies and may not provide an appropriate basis to compare our results or financial condition to the results or financial condition of our competitors. The following table sets forth the key financial measures we use to evaluate the success of our business and our financial position and operating performance.

Key Financial Measures

	Key Financial Measures[a]	
	At or For the Years Ended December 31,	
	2021	2020
	(Dollars in thousands, except per share data)	
Selected balance sheet measures:		
Total assets	$ 2,456,264	$ 2,253,747
Gross portfolio loans	1,894,881	1,625,627
Deposits	2,123,998	1,827,316
FHLB borrowings	50,000	175,000
Subordinated debt	34,441	25,258
Total equity	201,987	176,602
Selected statement of income measures:		
Total revenue[c]	73,543	57,719
Net interest income before provision for loan losses	67,886	54,835
Income before income tax expense	33,861	7,301
Net income	26,586	5,904
Basic earnings per share	$ 3.38	$ 0.75
Diluted earnings per share	$ 3.36	$ 0.75

	Key Financial Measures[a]	
	At or For the Years Ended December 31,	
	2021	2020
Other financial measures and ratios:		
Return on average assets	1.17 %	0.28 %
Return on average common shareholders' equity[c]	13.86 %	3.35 %
Net interest margin	3.17 %	2.77 %
Efficiency ratio[c]	53.9 %	73.9 %
Tangible book value per share (end of period)[c][d]	$ 26.19	$ 22.43
Net charge-offs to average loans[b]	0.23 %	0.01 %
Nonperforming assets to total assets[e]	0.68 %	1.48 %
Allowance for loan losses to nonperforming loans	101.90 %	62.87 %
Allowance for loan losses to total loans[b]	0.89 %	1.29 %

(a) We derived the selected balance sheet measures as of December 31, 2021 and 2020 and the selected statement of income measures for the years ended December 31, 2021 and 2020 from our audited consolidated financial statements included elsewhere in this annual report. Average balances have been computed using daily averages. Our historical results may not be indicative of our results for any future period.

(b) Calculated using the principal amounts outstanding on loans.

(c) This measure is not a measure recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See "Non-GAAP Financial Measures" for a description of this measure and a reconciliation of this measure to its most directly comparable GAAP measure.

(d) Excludes unvested restricted stock awards.

(e) Nonperforming assets consist of nonperforming loans and other real estate owned.

Critical Accounting Policies and Estimates

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

We believe that accounting estimates related to the measurement of the allowance for loan losses, the valuation of derivative instruments, investment securities and deferred income taxes, and the evaluation of investment securities for other than temporary impairment are particularly critical and susceptible to significant near-term change.

Allowance for Loan Losses

Determining an appropriate level of allowance for loan losses involves a high degree of judgment. We use a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes elements for specific reserves on impaired loans and loss allocations for non-impaired loans.

Loss allocations are identified for individual loans deemed to be impaired in accordance with GAAP. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements, including nonaccrual loans and all loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or if the loan is collateral dependent, at the fair value of the collateral less costs to sell. For collateral dependent loans, management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

Loss allocations for non-impaired loans are determined by portfolio segment and are based on the Bank's and peer banks' historical loss experiences over an economic cycle adjusted for qualitative factors. Qualitative factors include, but are not limited to, lending policies and procedures, nature and volume of the portfolio, concentrations of credit, lending management and staff, volume and severity of problem loans, quality of review and rating systems, value of underlying collateral, current economic conditions, and competitive and regulatory issues. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in loan portfolios as of the balance sheet date.

Loss allocations for non-impaired loans are based on an internal rating system and the application of loss allocation factors. The loan rating system is described under the caption "Credit quality indicators" in Note 5 of the Notes to Consolidated Financial Statements. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. The loss allocation factors also take into account general and regional economic statistics, trends, and portfolio characteristics such as the age of the portfolio and the Bank's experience with a particular loan product. We periodically reassess and adjust the loss allocation factors used in the assignment of loss factors that we believe are not adequately presented in historical loss experience including trends in real estate values, changes in unemployment levels and increases in delinquency levels to appropriately reflect our analysis of migratory loss experience.

Because the methodology is partly based upon peer bank data and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Adversely different conditions or assumptions could lead to increases in the allowance. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. As of December 31, 2021, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

Derivative Instrument Valuation

The Company enters into interest rate swap agreements as part of the Company's interest rate risk management strategy. Management applies the hedge accounting provisions of Accounting Standards Codification ("ASC") Topic 815, and formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the various hedges. Additionally, the Company assesses whether the derivative used in its hedging transaction is expected to be and has been highly effective in offsetting changes in the fair value or cash flows of the hedged item. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value of the derivative in earnings after termination of the hedge relationship.

The Company has characterized all of its interest rate swaps that qualify under ASC Topic 815, *"Hedge Accounting,"* as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by fluctuations in the contractually specified interest rates, and are recorded at fair value in other assets within the consolidated balance sheet. Changes in the fair value of these cash flow hedges are initially recorded in accumulated other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings.

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

Investment Securities Valuation

Fair values of the Company’s investment securities 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 Company’s private placement municipal housing authority bonds, classified as held to maturity, have no available quoted market price. The fair value for these securities is estimated using a discounted cash flow model. Due to the judgments and uncertainties involved in the estimation process, the estimates could result in materially different results under different assumptions and conditions.

Evaluation of Investment Securities for Other Than Temporary Impairment

The Company evaluates investment securities within the Company’s available for sale and held to maturity portfolios for other-than-temporary impairment (“OTTI”), at least quarterly. If the fair value of a debt security is below the amortized cost basis of the security, OTTI is required to be recognized if any of the following are met: (1) the Company intends to sell the security; (2) it is “more likely than not” that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that are intended for sale, or more likely than not will be required to sell, the full amount of the loss is recognized as OTTI through earnings. Credit related OTTI for all other impaired debt securities is recognized through earnings. Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes. Should actual factors and conditions differ materially from those expected by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

Deferred Income Taxes

In accordance with ASC Topic 740, “*Income Taxes*,” certain aspects of accounting for income taxes require significant management judgment, including assessing the realizability of Deferred Tax Assets (DTAs). Such judgments are subjective and involve estimates and assumptions about matters that are inherently uncertain. Should actual factors and conditions differ materially from those used by management, the actual realization of DTAs could differ materially from the amounts recorded in the Consolidated Financial Statements and the accompanying Notes thereto.

DTAs generally represent items for which a benefit has been recognized for financial accounting purposes that cannot be realized for tax purposes until a future period. The realization of DTAs depends upon future sources of taxable income. Valuation allowances are established for those DTAs determined not likely to be realized based on management’s judgment.

Earnings and Performance Overview

2021 Earnings Overview

Our net income for the year ended December 31, 2021 was $26.6 million, an increase of $20.7 million, or 350.3%, compared to the year ended December 31, 2020. Diluted earnings per share was $3.36 for the year ended December 31, 2021, compared to diluted earnings per share of $0.75 for the year ended December 31, 2020. Our returns on average shareholders' equity and average assets for the year ended December 31, 2021, were 13.86% and 1.17%, respectively, compared to 3.35% and 0.28%, respectively for the year ended December 31, 2020.

The increase in net income for 2021 compared to 2020 was primarily impacted by lower interest expense on deposits, an increase in interest and fees on loans due to loan growth, the resumption of loan sales, a decrease in noninterest expense, and a decrease in the provision for loan losses resulting from lower loan loss reserves in 2021 when compared to 2020, which saw a large increase in reserves due to the COVID-19 pandemic.

Net interest income for the year ended December 31, 2021 was $67.9 million, an increase of $13.1 million compared to the year ended December 31, 2020. Our net interest margin increased 40 basis points to 3.17% for the year ended December 31, 2021 compared to the year ended December 31, 2020 reflecting lower interest expense from a decrease in rates on interest bearing deposits, as well as growing noninterest bearing deposits as a percentage of total deposits.

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 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 years ended December 31, 2021 and 2020 was $68.1 million and $55.0 million, respectively. Net interest income increased primarily due to lower rates on interest bearing deposits, and to a lesser extent, an increase in loan volume.

FTE basis interest income for the year ended December 31, 2021 increased $3.9 million, or 5.0%, to $81.6 million compared to FTE basis interest income for the year ended December 31, 2020 due primarily to an increase in commercial real estate loans and commercial business loans. Average interest earning assets were $2.1 billion for the year ended December 31, 2021, increasing by $159.4 million, or 8.0%, from the year ended December 31, 2020. The average balance of total loans increased $125.4 million, or 7.8%. The total average balance of securities for the year ended December 31, 2021 increased by $4.7 million, or 4.7%, from the year ended December 31, 2020. The total yield in earnings assets decreased to 3.75% at December 31, 2021, compared to 3.85% at December 31, 2020. The decrease in yield was primarily driven by marginally lower yields on loans, as well as lower yields on our cash and investment balances as a result of the overall low rate environment for 2021.

Interest expense for the year ended December 31, 2021 decreased by $9.2 million, or 40.4%, compared to interest expense for 2020 due to a decrease in rates on interest bearing deposits. Average interest bearing liabilities for the year ended December 31, 2021 increased by $34.4 million, or 2.1%, from the year ended December 31, 2020, primarily due to an increase in interest bearing liabilities, partially offset by a reduction in wholesale funding.

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

The following table below 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 years ended December 31, 2021 and 2020.

	Years Ended December 31,					
	2021			2020		
	Average Balance	Interest	Yield/ Rate[4]	Average Balance	Interest	Yield/ Rate[4]
	(Dollars in thousands)					
Assets:						
Cash and fed funds sold	$ 294,471	$ 376	0.13 %	$ 261,689	$ 585	0.22 %
Securities[1]	103,592	3,071	2.96	98,938	3,103	3.14
Loans:						
Commercial real estate	1,225,770	55,995	4.51	1,095,367	51,218	4.60
Residential real estate	99,101	3,363	3.39	129,585	4,645	3.58
Construction	97,163	3,780	3.84	97,230	4,262	4.31
Commercial business	313,422	14,589	4.59	295,662	13,530	4.50
Consumer	7,929	315	3.97	121	10	8.00
Total loans	1,743,385	78,042	4.42	1,617,965	73,665	4.48
Federal Home Loan Bank stock	4,156	88	2.12	7,625	346	4.53
Total earning assets	2,145,604	$ 81,577	3.75 %	1,986,217	$ 77,699	3.85 %
Other assets	120,955			125,261		
Total assets	$ 2,266,559			$ 2,111,478		
Liabilities and shareholders' equity:						
Interest bearing liabilities:						
NOW	$ 111,515	$ 198	0.18 %	$ 80,805	$ 141	0.17 %
Money market	804,679	4,042	0.50	516,527	4,071	0.79
Savings	175,629	413	0.23	169,763	1,368	0.81
Time	508,651	5,790	1.14	712,461	12,600	1.77
Total interest bearing deposits	1,600,474	10,443	0.65	1,479,556	18,180	1.23
Borrowed money	103,919	3,047	2.89	190,463	4,472	2.31
Total interest bearing liabilities	1,704,393	$ 13,490	0.79 %	1,670,019	$ 22,652	1.36 %
Noninterest bearing deposits	323,648			215,073		
Other liabilities	46,710			49,897		
Total liabilities	2,074,751			1,934,989		
Shareholders' equity	191,808			176,489		
Total liabilities and shareholders' equity	$ 2,266,559			$ 2,111,478		
Net interest income[2]		$ 68,087			$ 55,047	
Interest rate spread			2.96 %			2.49 %
Net interest margin[3]			3.17 %			2.77 %

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

(2) The adjustment for securities and loans taxable equivalency was $201 thousand and $212 thousand, respectively, for the years ended December 31, 2021 and 2020. Tax exempt income was converted to a fully taxable equivalent basis at a 20 percent tax rate for 2021 and 2020.

(3) Net interest income as a percentage of total 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.

	Year Ended December 31, 2021 vs 2020 Increase (Decrease)		
	Volume	Rate	Total
		(In thousands)	
Interest and dividend income:			
Cash and fed funds sold	$ 66	$ (275)	$ (209)
Securities	142	(174)	(32)
Loans:			
Commercial real estate	5,992	(1,215)	4,777
Residential real estate	(1,045)	(237)	(1,282)
Construction	(3)	(479)	(482)
Commercial business	825	234	1,059
Consumer	312	(7)	305
Total loans	6,081	(1,704)	4,377
Federal Home Loan Bank stock	(119)	(139)	(258)
Total change in interest and dividend income	$ 6,170	$ (2,292)	$ 3,878
Interest expense:			
Deposits:			
NOW	$ 55	$ 2	$ 57
Money market	1,772	(1,801)	(29)
Savings	46	(1,001)	(955)
Time	(3,033)	(3,777)	(6,810)
Total deposits	(1,160)	(6,577)	(7,737)
Borrowed money	(2,357)	932	(1,425)
Total change in interest expense	(3,517)	(5,645)	(9,162)
Change in net interest income	$ 9,687	$ 3,353	$ 13,040

Provision for Loan Losses

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

The credit for loan losses for the year ended December 31, 2021 was $0.1 million compared to a $7.6 million provision for loan losses for the year ended December 31, 2020. The decrease in the provision for loan losses was primarily due to improving economic trends for the year ended December 31, 2021 and lower COVID-19 related reserves when compared to 2020.

Noninterest Income

Noninterest income is a component of our revenue and is comprised primarily of fees generated from loan and deposit relationships with our customers, fees generated from sales and referrals of loans, income earned on bank owned life insurance and gains on sales of investment securities. The following table compares noninterest income for the years ended December 31, 2021 and 2020.

	Years Ended December 31,		Change	
	2021	2020	$	%
	(Dollars in thousands)			
Gains and fees from sales of loans	$ 2,692	$ 43	$ 2,649	6,160 %
Bank owned life insurance	1,023	967	56	6
Service charges and fees	872	788	84	11
Gain on sale of other real estate owned, net	—	19	(19)	(100)
Other	1,070	1,067	3	—
Total noninterest income	$ 5,657	$ 2,884	$ 2,773	96 %

Noninterest income increased by $2.8 million to $5.7 million for the year ended December 31, 2021, compared to the year ended December 31, 2020.

The increase in noninterest income was primarily a result of resumed loan sales, totaling $2.7 million for the year ended December 31, 2021. The increase for the year was also impacted by a one-time federal payroll tax credit for COVID-19 of $0.9 million, partially offset by a $0.2 million loss on the sale of the Company's former headquarters building. In addition, in 2020 the Company recognized a $0.4 million benefit of nonrecurring swap fees related to interest rate swaps with commercial banking customers.

Noninterest Expense

The following table compares noninterest expense for the years ended December 31, 2021 and 2020.

	Years Ended December 31,		Change	
	2021	2020	$	%
	(Dollars in thousands)			
Salaries and employee benefits	$ 18,317	$ 21,355	$ (3,038)	(14)%
Occupancy and equipment	10,682	10,926	(244)	(2)
Data processing	2,409	3,216	(807)	(25)
Professional services	2,260	2,110	150	7
Director fees	1,303	1,214	89	7
FDIC insurance	1,232	791	441	56
Marketing	404	630	(226)	(36)
Other	3,132	2,571	561	22
Total noninterest expense	$ 39,739	$ 42,813	$ (3,074)	(7)%

Noninterest expense decreased by $3.1 million, or 7%, to $39.7 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The decrease in noninterest expense was primarily driven by a decrease in salaries and employee benefits expense and data processing expense.

Salaries and employee benefits totaled $18.3 million for the year ended December 31, 2021, a decrease of $3.0 million when compared to the same period in 2020. The decrease in salaries and employee benefits was primarily driven by a decrease in full time equivalent employees as a direct result of the Voluntary Early Retirement Incentive Plan offered to eligible employees and other employee actions taken during the fourth quarter of 2020. Average full time equivalent employees totaled 126 for the year ended December 31, 2021 compared to 146 for the same period in 2020. In addition, salaries and employee benefits expense also benefited by one-time deferrals of $0.9 million for the year ended December 31, 2021 related to costs associated with the implementation of a new online banking and other systems. Salaries and employee benefits were also favorably impacted as higher loan originations enabled the Bank to defer a greater amount of expenses.

Data processing expense totaled $2.4 million for the year ended December 31, 2021, a decrease of $0.8 million when compared to the same period in 2020. The decrease in data processing expense was primarily due to a $1.1 million one-time charge related to early termination fees payable to a legacy technology vendor recognized during the fourth quarter of 2020.

Income Taxes

Income tax expense for the years ended December 31, 2021 and 2020 totaled $7.3 million and $1.4 million, respectively. The effective tax rates for the years ended December 31, 2021 and 2020, were 21.5% and 19.1%, respectively.

Our net deferred tax asset at December 31, 2021 was $7.6 million, compared to $11.3 million at December 31, 2020. The decrease in the deferred tax asset at December 31, 2021 when compared to the same period in 2020 was primarily a result of fair value marks related to hedge positions involving interest rate swaps and a decrease in the allowance for loan losses.

On October 8, 2015, the Bank established a wholly-owned subsidiary, Bankwell Loan Servicing Group, Inc. (a Passive Investment Company “PIC”). The PIC was organized in accordance with Connecticut statutes to hold and manage certain loans that are collateralized by real estate. Income earned by the PIC is exempt from Connecticut income tax and any dividends paid by the PIC to the Bank are not taxable income for Connecticut income tax purposes. See Note 13 to our Consolidated Financial Statements for further information regarding income taxes.

Financial Condition

Summary

Assets totaled $2.5 billion at December 31, 2021, compared to assets of $2.3 billion at December 31, 2020. The increase in assets is primarily due to loan growth, partially offset by a decrease in excess liquidity. Gross loans totaled $1.9 billion at December 31, 2021, an increase of $269.3 million compared to December 31, 2020. Excluding Paycheck Protection Program ("PPP") loans, gross loans increased by $303.9 million at December 31, 2021 when compared to December 31, 2020. Deposits totaled $2.1 billion at December 31, 2021, compared to deposits of $1.8 billion at December 31, 2020. The increase in deposits was a result of successful commercial core deposit gathering efforts.

Shareholders’ equity totaled $202.0 million as of December 31, 2021, an increase of $25.4 million compared to December 31, 2020, primarily a result of (i) net income of $26.6 million for the year ended December 31, 2021 and (ii) a $7.0 million favorable impact to accumulated other comprehensive income driven by fair value marks related to hedge positions involving interest rate swaps. The Company's interest rate swaps are used to hedge interest rate risk. The Company's current interest rate swap positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The increase in Shareholders’ equity was partially offset by dividends paid of $5.0 million and common stock repurchases of $5.1 million.

Loan Portfolio

We originate commercial real estate loans, construction loans, commercial business loans and other consumer loans. Lending activities are conducted principally in the New York metropolitan area and throughout Connecticut, with the majority in Fairfield and New Haven Counties of Connecticut. Our loan portfolio is the largest category of our earnings assets.

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

	2021		2020		Change
	Total	%	Total	%	Total
	(Dollars in thousands)				
Real estate loans:					
Residential	$ 79,987	4.22 %	$ 113,557	6.99 %	$ (33,570)
Commercial	1,356,709	71.60	1,148,383	70.64	208,326
Construction	98,341	5.19	87,007	5.35	11,334
	1,535,037	81.01	1,348,947	82.98	186,090
Commercial business	350,975	18.52	276,601	17.02	74,374
Consumer	8,869	0.47	79	—	8,790
Total loans	$ 1,894,881	100.00 %	$ 1,625,627	100.00 %	$ 269,254

Primary loan categories

Residential real estate. Residential real estate loans decreased by $33.6 million, or 29.6%, at December 31, 2021 compared to December 31, 2020 and amounted to $80.0 million, representing 4% of total loans at December 31, 2021. In the fourth quarter of 2017, management made the strategic decision to no longer originate residential mortgage loans.

Commercial real estate. Commercial real estate loans were $1.4 billion and represented 72% of our total loan portfolio at December 31, 2021, a net increase of $208.3 million, or 18.1%, from December 31, 2020. Commercial real estate loan growth during this period largely reflects strong production from experienced relationship managers in the marketplace and their ability to source quality opportunities, and enhanced lending to existing customers. Commercial real estate loans are secured by a variety of property types, including office buildings, retail facilities, commercial mixed use and multi-family dwellings.

Construction. Construction loans were $98.3 million at December 31 2021, up $11.3 million from December 31, 2020. Construction loans totaled $87.0 million at December 31, 2020. Commercial construction loans consist of commercial development projects, such as apartment buildings and condominiums, as well as office buildings, retail and other income producing properties and land loans.

Commercial business. Commercial business loans were $351.0 million and represented 19% of our total loan portfolio at December 31, 2021, a net increase of $74.4 million, or 26.9%, from December 31, 2020. The increase in commercial business loans is a direct result of the Bank's commitment in growing this portfolio. The December 31, 2021 and December 31, 2020 balance includes $0.2 million and $34.8 million of PPP loans made under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), respectively. Commercial business loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion and are generally secured by assignments of corporate assets, real estate and personal guarantees of the business owners.

We evaluate the appropriateness of our underwriting standards in response to changes in national and regional economic conditions, including such matters as market interest rates, energy prices, trends in real estate values, and employment levels. Based on our assessment of these matters, underwriting standards and credit monitoring activities are enhanced from time to time in response to changes in these conditions.

The following table presents an analysis of the maturity of our commercial real estate, commercial construction and commercial business loan portfolios as of December 31, 2021.

	December 31, 2021			
	Commercial Real Estate	Commercial Construction	Commercial Business	Total
	(In thousands)			
Amounts due:				
One year or less	$ 94,267	$ 29,057	$ 74,795	$ 198,119
After one year:				
One to five years	862,018	28,251	158,824	1,049,093
Over five years	400,424	41,033	117,356	558,813
Total due after one year	1,262,442	69,284	276,180	1,607,906
Total	$ 1,356,709	$ 98,341	$ 350,975	$ 1,806,025

The following table presents an analysis of the interest rate sensitivity of our commercial real estate, commercial construction and commercial business loan portfolios due after one year as of December 31, 2021.

	December 31, 2021		
	Adjustable Interest Rate	Fixed Interest Rate	Total
	(In thousands)		
Commercial real estate	$ 298,504	$ 963,938	$ 1,262,442
Commercial construction	59,491	9,793	69,284
Commercial business	146,285	129,895	276,180
Total loans due after one year	$ 504,280	$ 1,103,626	$ 1,607,906

Asset Quality

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

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and extends credit of up to 80% of the market value of the collateral, depending on the borrower's creditworthiness and the type of collateral. The borrower's ability to service the debt is monitored on an ongoing basis. Real estate is the primary form of collateral. Other important forms of collateral are business assets, time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment for commercial loans, to be based on the borrower's ability to generate continuing cash flows. In the fourth quarter of 2017 management made the strategic decision to no longer originate residential mortgage loans. At the beginning of the third quarter of 2019, the Company no longer offered home equity loans or lines of credit. The Company's policy for residential lending generally required that the amount of the loan may not exceed 80% of the original appraised value of the property. In certain situations, the amount may have exceeded 80% LTV either with private mortgage insurance being required for that portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community's low/moderate income housing program, or a religious or civic organization.

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

Acquired Loans. Loans acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Acquired loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are initially recorded at fair value without recording an allowance for loan losses. Determining the fair value of the loans is determined using market participant assumptions in estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

Under the accounting model for acquired loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the "accretable yield", is accreted into interest income over the life of the loans. Accordingly, acquired loans are not subject to classification as nonaccrual in the same manner as originated loans. Rather, acquired loans are considered to be accruing loans because their interest income relates to the accretable yield recognized and not to contractual interest payments. The excess of the loans' contractually required payments over the cash flows expected to be collected is the nonaccretable difference. As such, charge-offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to the acquisition. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require the establishment of an allowance for loan losses by a charge to the provision for loan losses.

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:

	At December 31,	
	2021	2020
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
Residential	$ 2,380	$ 1,492
Commercial	3,482	21,093
Commercial business	1,728	1,834
Construction	8,997	8,997
Total nonaccrual loans	16,587	33,416
Property acquired through foreclosure or repossession, net	—	—
Total nonperforming assets	$ 16,587	$ 33,416
Nonperforming assets to total assets	0.68 %	1.48 %
Nonperforming loans to total loans	0.88 %	2.06 %

Total nonaccrual loans were $16.6 million as of December 31, 2021. Nonperforming assets as a percentage of total assets was 0.68% at December 31, 2021, down from 1.48% at December 31, 2020. The allowance for loan losses at December 31, 2021 was $16.9 million, representing 0.89% of total loans. The $4.1 million decrease in the allowance for loan losses at December 31, 2021 when compared to December 31, 2020 was primarily due to improving economic trends and lower COVID-19 related reserves when compared to 2020.

Nonaccrual Loans. Loans greater than 90 days past due are generally put on nonaccrual status (excluding certain acquired credit impaired loans). Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent payments are recognized on a cash basis or principal recapture basis depending on a number of factors including probability of collection and if impairment is identified. 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. At December 31, 2021 and 2020, there were no commitments to lend additional funds to any borrower on nonaccrual status.

Past Due Loans. When a loan is 15 days past due, the Company sends the borrower a late notice. The Company attempts to contact the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, after the 90th day of delinquency, the Company may take other appropriate legal action. A summary report of all loans 30 days or more past due is provided to the Board of Directors of the Company periodically. Loans greater than 90 days past due are generally put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms. Loans that are granted payment deferrals under the CARES Act are not required to be reported as past due or placed on non-accrual status if the criteria under section 4013 of the CARES Act are met. As of December 31, 2021, no loans remained on active deferral under the CARES Act.

The following table presents past due loans as of December 31, 2021 and 2020:

	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater Past Due	Total Past Due
		(In thousands)		
As of December 31, 2021				
Residential real estate	$ 873	$ —	$ 878	$ 1,751
Commercial real estate	2,186	10,500	4,244	16,930
Construction	—	—	8,997	8,997
Commercial business	1,995	1,483	1,469	4,947
Consumer	—	3	—	3
Total loans	$ 5,054	$ 11,986	$ 15,588	$ 32,628
As of December 31, 2020				
Residential real estate	$ 245	$ —	$ 177	$ 422
Commercial real estate	1,305	193	2,541	4,039
Construction	8,997	—	—	8,997
Commercial business	45	55	1,526	1,626
Total loans	$ 10,592	$ 248	$ 4,244	$ 15,084

Total past due loans totaled $32.6 million and represented 1.72% of total loans as of December 31, 2021, increasing $17.5 million from December 31, 2020. The increase in past due loans primarily relates to one commercial real estate loan totaling $10.5 million for which a loan extension is currently in progress. In addition, a total of $4.9 million of past due loans as of December 31, 2021 have since been brought current as of January 31, 2022.

Troubled Debt Restructurings (TDR). Loans are considered restructured in a troubled debt restructuring when the borrower is experiencing financial difficulties and the Bank has granted concessions to a borrower due to the borrower's financial condition that we otherwise would not have considered. These concessions may include modifications of the terms of the debt such as reduction of the stated interest rate other than normal market rate adjustments, extension of maturity dates, or reduction of principal balance or accrued interest. The decision to restructure a loan, rather than aggressively enforcing the collection of the loan, may benefit us by increasing the ultimate probability of collection.

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

Restructured loans are classified as accruing or nonaccruing based on management's assessment of the collectability of the loan. Loans which are already on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. At December 31, 2021 and December 31, 2020 there were five nonaccrual loans identified as TDRs totaling $2.0 million and three nonaccrual loans identified as TDRs totaling $1.4 million, respectively.

The following table presents information on troubled debt restructured loans:

	At December 31, 2021	At December 31, 2020
	(In thousands)	
Accruing troubled debt restructured loans:		
Residential real estate	$ 1,770	$ 2,399
Commercial real estate	19,489	4,929
Commercial business	2,594	328
Accruing troubled debt restructured loans	23,853	7,656
Nonaccrual troubled debt restructured loans:		
Residential real estate	$ 1,502	$ 872
Commercial business	465	571
Nonaccrual troubled debt restructured loans	1,967	1,443
Total troubled debt restructured loans	$ 25,820	$ 9,099

As of December 31, 2021 and 2020, loans classified as troubled debt restructurings totaled $25.8 million and $9.1 million, respectively.

Potential Problem Loans. We classify certain loans as "special mention", "substandard", or "doubtful", based on criteria consistent with guidelines provided by our banking regulators. Potential problem loans represent loans that are currently performing, but for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. We cannot predict the extent to which economic conditions or other factors may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. Potential problem loans are assessed for loss exposure using the methods described in Note 5 to our Consolidated Financial Statements under the caption "Credit Quality Indicators".

We expect the levels of nonperforming assets and potential problem loans to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with our degree of success in resolving problem assets. We take a proactive approach with respect to the identification and resolution of problem loans.

Allowance for Loan Losses

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

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

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

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

	At December 31, 2021	At December 31, 2020
	(Dollars in thousands)	
Balance at beginning of period	$ 21,009	$ 13,509
Charge-offs:		
Residential real estate	—	—
Commercial real estate	(3,977)	—
Construction	—	—
Commercial business	(77)	(83)
Consumer	(39)	(40)
Total charge-offs	(4,093)	(123)
Recoveries:		
Residential real estate	—	—
Commercial real estate	—	15
Commercial Business	30	—
Consumer	13	3
Total recoveries	43	18
Net charge-offs	(4,050)	(105)
(Credit) provision charged to earnings	(57)	7,605
Balance at end of period	$ 16,902	$ 21,009
Net charge-offs to average loans	0.23 %	0.01 %
Allowance for loan losses to total loans	0.89 %	1.29 %

At December 31, 2021, our allowance for loan losses was $16.9 million and represented 0.89% of total loans, compared to $21.0 million and 1.29% of total loans at December 31, 2020. The decrease in the ratio of allowance for loan losses to total loans is driven by a reduction in loan loss reserves as a result of improving economic trends and charge-offs taken against previously established loan loss reserves. For the year ended December 31, 2021, the credit for loan losses totaled $0.1 million. For the year ended December 31, 2020 the provision for loan losses totaled $7.6 million. Net charge-offs for the year ended December 31, 2021 were $4.1 million and represented 0.23% of average loans. For the year ended December 31, 2020, net charge-offs were $0.1 million and represented 0.01% of average loans.

The carrying amount of total impaired loans at December 31, 2021 was $47.2 million. This compares to a carrying amount of $47.7 million for total impaired loans at December 31, 2020. The amount of allowance for loan losses related to impaired loans was $2.9 million and $5.0 million, respectively, at December 31, 2021 and 2020.

The following table presents the allocation of the allowance for loan losses and the percentage of the related loan segments to total loans:

	At December 31,			
	2021		2020	
	Amount	Percent of Loan Portfolio	Amount	Percent of Loan Portfolio
	(Dollars in thousands)			
Residential real estate	$ 504	4.22 %	$ 610	6.99 %
Commercial real estate	12,751	71.60	16,425	70.64
Construction	4	5.19	221	5.35
Commercial business	3,590	18.52	3,753	17.02
Consumer	53	0.47	—	—
Total allowance for loan losses	$ 16,902	100.00 %	$ 21,009	100.00 %

The allocation of the allowance for loan losses at December 31, 2021 reflects our assessment of credit risk and probable loss within each portfolio. We believe that the level of the allowance for loan losses at December 31, 2021 is appropriate to cover probable losses.

Investment Securities

We manage our investment securities portfolio to provide a readily available source of liquidity for balance sheet management, to generate interest income and to implement interest rate risk management strategies. Investments are designated as either marketable equity, available for sale, held to maturity or trading securities at the time of purchase. We do not currently maintain a portfolio of trading securities. Investment securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Investment securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Investment securities held to maturity are reported at amortized cost. Marketable equity securities are reported at fair value, with any changes in fair value recognized in earnings.

The amortized cost and fair value of investment securities as of the dates indicated are presented in the following table:

	At December 31,			
	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Marketable equity securities	$ 2,107	$ 2,168	$ 2,083	$ 2,207
Securities available for sale:				
U.S. Government and agency obligations	73,571	75,189	73,574	76,878
Corporate bonds	14,500	15,009	11,500	11,727
Total securities available for sale	$ 88,071	$ 90,198	$ 85,074	$ 88,605
Securities held to maturity:				
State agency and municipal obligations	$ 15,998	$ 18,393	$ 16,018	$ 19,962
Government mortgage-backed securities	45	52	60	70
Total securities held to maturity	$ 16,043	$ 18,445	$ 16,078	$ 20,032

At December 31, 2021, the carrying value of our investment securities portfolio totaled $108.4 million and represented 4% of total assets, compared to $106.9 million and 5% of total assets at December 31, 2020. The increase of $1.5 million primarily reflects purchases of corporate bonds. We purchase investment grade securities with a focus on liquidity, earnings and duration exposure.

The net unrealized gain position on our investment portfolio at December 31, 2021 was $4.5 million and included gross unrealized losses of $0.5 million. The net unrealized gain position on our investment portfolio at December 31, 2020 was

$7.5 million and did not include any gross unrealized losses. All of our investment securities are rated investment grade or deemed to be of investment grade quality.

The following tables summarize the amortized cost and weighted average yield of securities in our investment securities portfolio as of December 31, 2021 and 2020, based on remaining period to contractual maturity. Information for mortgage-backed securities is based on the final contractual maturity dates without considering repayments and prepayments.

	Due Within 1 Year		Due 1–5 Years		Due 5–10 Years		Due After 10 Years or No Contractual Maturity	
At December 31, 2021	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**
				(Dollars in thousands)				
Marketable equity securities	$ —	— %	$ —	— %	$ —	— %	$ 2,107	2.20 %
Securities available for sale:								
U.S. Government and agency obligations	—	—	25,747	1.07	16,540	2.65	31,284	2.28
Corporate bonds	—	—	—	—	13,000	4.11	1,500	4.50
Total securities available for sale	$ —	— %	$ 25,747	1.07 %	$ 29,540	3.29 %	$ 32,784	2.38 %
Securities held to maturity:								
State agency and municipal obligations	$ —	— %	$ —	— %	$ —	— %	$ 15,998	4.87 %
Government mortgage-backed securities	—	—	—	—	—	—	45	5.41
Total securities held to maturity	$ —	— %	$ —	— %	$ —	— %	$ 16,043	4.87 %

	Due Within 1 Year		Due 1–5 Years		Due 5–10 Years		Due After 10 Years or No Contractual Maturity	
At December 31, 2020	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**	**Amortized Cost**	**Yield**
				(Dollars in thousands)				
Marketable equity securities	$ —	— %	$ —	— %	$ —	— %	$ 2,083	2.20 %
Securities available for sale:								
U.S. Government and agency obligations	9,976	2.02	—	—	8,038	2.88	55,560	2.49
Corporate bonds	—	—	4,000	4.09	6,000	4.65	1,500	4.50
Total securities available for sale	$ 9,976	2.02 %	$ 4,000	4.09 %	$ 14,038	3.63 %	$ 57,060	2.54 %
Securities held to maturity:								
State agency and municipal obligations	$ —	— %	$ —	— %	$ —	— %	$ 16,018	5.01 %
Government mortgage-backed securities	—	—	—	—	—	—	60	5.35
Total securities held to maturity	$ —	— %	$ —	— %	$ —	— %	$ 16,078	5.01 %

Bank Owned Life Insurance ("BOLI")

BOLI amounted to $49.2 million as of December 31, 2021. The purchase of life insurance policies results in an income-earning asset on our consolidated balance sheet that provides monthly tax-free income to us. We expect to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. BOLI is included in our Consolidated Balance Sheets at its cash surrender value. Increases in the cash surrender value are reported as a component of noninterest income in our Consolidated Statements of Income.

Deposit Activities and Other Sources of Funds

Our sources of funds include deposits, brokered certificates of deposit, FHLB borrowings, subordinated debt and proceeds from the sales, maturities and payments of loans and investment securities.

Total deposits represented 86% of our total assets at December 31, 2021. While scheduled loan and securities repayments are a relatively stable sources of funds, loan and investment security prepayments and deposit inflows are influenced by prevailing interest rates and local economic conditions and are inherently uncertain.

Deposits

We offer a wide variety of deposit products and rates to consumer and business customers consistent with FDIC regulations. Our management team meets regularly to determine pricing and marketing initiatives. In addition to being an important source of funding for us, deposits also provide an ongoing stream of fee revenue.

We participate in the Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep Service ("ICS") programs. We use CDARS and ICS to place customer funds into certificate of deposit accounts and money market accounts, respectively, into other participating banks. These transactions occur in amounts that are less than FDIC insurance limits to ensure that deposit customers are eligible for FDIC insurance on the full amount of their deposits. Reciprocal amounts of deposits are received from other participating banks that do the same with their customer deposits, and, we also execute one-way buy transactions. With the exception of reciprocal deposits, CDARS and ICS One-Way buy transactions are considered to be brokered deposits for bank regulatory purposes.

Time deposits may also be generated through the use of a listing service. We subscribe to a listing service, accessible to financial institutions, in which we may advertise our time deposit rates. Interested financial institutions then contact us directly to acquire a time certificate of deposit. There is no third party brokerage service involved in this transaction.

The following table sets forth the composition of our deposits for the dates indicated:

	At December 31,					
	2021			2020		
	Amount	Percent	Weighted Average Rate	Amount	Percent	Weighted Average Rate
	(Dollars in thousands)					
Noninterest-bearing demand	$ 398,956	18.78 %	— %	$ 270,235	14.79 %	— %
NOW	119,479	5.62	0.18	101,737	5.57	0.17
Money market	954,674	44.95	0.50	669,364	36.63	0.79
Savings	193,631	9.12	0.23	158,750	8.69	0.81
Time	457,258	21.53	1.14	627,230	34.32	1.77
Total deposits	$ 2,123,998	100.00 %	0.65 %	$ 1,827,316	100.00 %	1.23 %

Total deposits were $2.1 billion at December 31, 2021, an increase of $296.7 million, or 16%, from December 31, 2020, reflecting successful commercial core deposit gathering efforts.

Brokered certificates of deposits ("Brokered CDs") totaled $249.4 million and $238.9 million at December 31, 2021 and December 31, 2020, respectively. There were no certificates of deposits from national listing services at December 31, 2021. Certificates of deposits from national listing services totaled $18.4 million at December 31, 2020. Brokered money market accounts totaled $104.0 million and $13.5 million at December 31, 2021 and 2020, respectively. Brokered deposits represent brokered certificates of deposit, brokered money market accounts, one way buy Certificate of Deposit Account Registry Service ("CDARS"), and one way buy Insured Cash Sweep ("ICS"). The increase in these brokered deposits is a result of replacing FHLB advances with more cost effective brokered deposits.

At December 31, 2021 and 2020, time deposits, including CDARS and brokered certificates of deposit, with a denomination of $100 thousand or more totaled $391.2 million and $519.8 million, respectively, maturing during the periods indicated in the table below:

	At December 31, 2021	At December 31, 2020
	(In thousands)	
Maturing:		
Within 3 months	$ 80,417	$ 141,784
After 3 but within 6 months	21,935	67,064
After 6 months but within 1 year	25,625	118,880
After 1 year	263,216	192,051
Total	$ 391,193	$ 519,779

The Bank is a member of the FHLB, which is part of a twelve district Federal Home Loan Bank System. Members are required to own capital stock of the FHLB, and borrowings are collateralized by qualifying assets not otherwise pledged. The maximum amount of credit that the FHLB will extend varies from time to time, depending on its policies and the amount of qualifying collateral the member can pledge. The Bank had satisfied its collateral requirement at December 31, 2021.

We utilize advances from the FHLB as part of our overall funding strategy, to meet short-term liquidity needs and to manage interest rate risk arising from the difference in asset and liability maturities. Total FHLB advances were $50.0 million at December 31, 2021 compared to $175.0 million at December 31, 2020. The decrease of $125.0 million primarily reflects the substitution of lower cost brokered deposits in lieu of FHLB advances and a permanent reduction in wholesale funding.

Advances from the FHLB include short-term advances with original maturity dates of one year or less. The following table sets forth certain information concerning short-term FHLB advances as of and for the periods indicated in the following table:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(Dollars in thousands)	
Average amount outstanding during the period	$ 78,370	$ 165,232
Amount outstanding at end of period	50,000	175,000
Highest month end balance during the period	125,000	175,000
Weighted average interest rate at end of period(1)	1.81 %	1.84 %

(1) The Company's FHLB borrowings are subject to longer term swap agreements and the weighted average rate reflects the all in swap rate under these long term swap agreements.

On August 19, 2015, the Company completed a private placement of $25.5 million in aggregate principal amount of fixed rate subordinated notes (the “2015 Notes”) to certain institutional investors. The 2015 Notes were non-callable for five years, had a stated maturity of August 15, 2025, and bore interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date. The 2015 Notes became callable, in part or in whole, beginning August 2020. On May 15, 2021, the Company repaid $10.0 million of the 2015 Notes and on November 15, 2021, the Company repaid the remaining $15.5 million of the 2015 Notes.

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

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

Derivative Instruments

The Company uses interest rate swap instruments to fix the interest rate on short-term FHLB borrowings or brokered deposits, all of which are designated as cash flow hedges. The hedge strategy converts the rate of interest on short-term rolling FHLB advances or brokered deposits to long-term fixed interest rates, thereby protecting the Bank from interest rate variability in the contractually specified interest rates.

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

Information about derivative instruments at December 31, 2021 and 2020 was as follows:

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

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

	As of December 31, 2020					
	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:						
Interest rate swaps	$ —	Other assets	$ —	$ 225,000	Accrued expenses and other liabilities	$ (23,567)
Derivatives not designated as hedging instruments:						
Interest rate swaps(1)	$ 38,500	Other assets	$ 4,444	$ 38,500	Accrued expenses and other liabilities	$ (4,444)

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

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 position is monitored daily by management. The Asset Liability Committee, or ALCO, establishes guidelines to ensure maintenance of prudent levels of liquidity. ALCO reports to the Company's Board of Directors.

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

Capital Resources

Shareholders' equity totaled $202.0 million as of December 31, 2021, an increase of $25.4 million compared to December 31, 2020, primarily a result of (i) net income of $26.6 million for the year ended December 31, 2021 and (ii) a $7.0 million favorable impact to accumulated other comprehensive income driven by fair value marks related to hedge positions involving interest rate swaps. The Company's interest rate swaps are used to hedge interest rate risk. The Company's current interest rate swap positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The increase in Shareholders' equity was partially offset by dividends paid of $5.0 million and common stock repurchases of $5.1 million. As of December 31, 2021, the tangible common equity ratio and tangible book value per share were 8.13% and $26.19, respectively.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At December 31, 2021, 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. At December 31, 2021, the Bank's ratio of total common equity tier 1 capital to risk-weighted assets was 11.18%, total capital to risk-weighted assets was 12.00%, Tier 1 capital to risk-weighted assets was 11.18% and Tier 1 capital to average assets was 9.94%.

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.

Contractual Obligations

The following table summarizes our contractual obligations to make future payments as of December 31, 2021. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts.

	Payments Due by Period				
	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
			(in thousands)		
Contractual Obligations:					
FHLB advances	$ 50,000	$ 50,000	$ —	$ —	$ —
Subordinated debt	35,000	—	—	—	35,000
Operating lease agreements	18,877	2,255	4,158	4,006	8,458
Time deposits with stated maturity dates	457,258	167,147	289,969	142	—
Total contractual obligations	$ 561,135	$ 219,402	$ 294,127	$ 4,148	$ 43,458

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance sheet risk to meet the financing needs of our customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement we have in particular classes of financial instruments.

We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Bank minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Commitments to extend credit totaled $396.9 million and $237.1 million, respectively at December 31, 2021 and 2020. The following table summarizes our commitments to extend credit as of the dates indicated. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. In addition, borrowers may be required to meet certain performance requirements to continue to draw on these commitments. We manage our liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that we will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

As of December 31, 2021

	Amount of Commitment Expiration per Period				
	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
			(in thousands)		
Other Commitments:					
Loan commitments	$ 266,915	$ 191,066	$ 36,348	$ 22,036	$ 17,465
Undisbursed construction loans	125,700	13,312	43,129	45,364	23,895
Unused home equity lines of credit	4,254	200	10	—	4,044
Total other commitments	$ 396,869	$ 204,578	$ 79,487	$ 67,400	$ 45,404

As of December 31, 2020

	Amount of Commitment Expiration per Period				
	Total	Less Than 1 Year	1–3 Years	4–5 Years	After 5 Years
			(in thousands)		
Other Commitments:					
Loan commitments	$ 114,574	$ 70,958	$ 18,447	$ 17,030	$ 8,139
Undisbursed construction loans	117,457	9,862	40,635	14,599	52,361
Unused home equity lines of credit	5,029	250	210	—	4,569
Total other commitments	$ 237,060	$ 81,070	$ 59,292	$ 31,629	$ 65,069

Recently Issued Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Asset/Liability Management and Interest Rate Risk

We measure interest rate risk using simulation analysis to calculate earnings and equity at risk. These risk measures are quantified using simulation software from one of the leading firms in the field of asset/liability modeling. Key assumptions relate to the behavior of interest rates and spreads, prepayment speeds and the run-off of deposits. From such simulations, interest rate risk, or IRR, is quantified and appropriate strategies are formulated and implemented. We model IRR by using two primary risk measurement techniques: simulation of net interest income and simulation of economic value of equity. These two measurements are complementary and provide both short-term and long-term risk profiles for the Company. Because both 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 December 31, 2021, 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 December 31, 2021 and 2020:

Parallel Ramp

	Estimated Percent Change in Net Interest Income	
	At December 31,	
Rate Changes (basis points)	2021	2020
(100)	(0.80)%	0.20 %
200	(2.20)	(1.40)

Parallel Shock

Rate Changes (basis points)	Estimated Percent Change in Net Interest Income At December 31, 2021	2020
(100)	(1.70)%	(0.30)%
100	(1.00)	(1.00)
200	(1.90)	(1.70)
300	(2.40)	(2.00)

The net interest income at risk simulation results indicate that, as of December 31, 2021, 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 re-pricing risk and options risk embedded in the balance sheet. It measures the sensitivity of economic value of equity to changes in interest rates. Economic value of equity at risk simulation values only the current balance sheet and does not incorporate the growth assumptions used in one of the income simulations. As with the net interest income simulation, this simulation captures product characteristics such as loan resets, repricing terms, maturity dates, rate caps and floors. Key assumptions include loan prepayment speeds, deposit pricing elasticity and non-maturity deposit attrition rates. These assumptions can have significant impacts on valuation results as the assumptions remain in effect for the entire life of each asset and liability. All key assumptions are subject to a periodic review.

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

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

Parallel Shock

Rate Changes (basis points)	Estimated Percent Change in Economic Value of Equity At December 31, 2021	2020
(100)	(21.40)%	(47.30)%
100	3.10	9.30
200	3.60	13.80
300	4.50	18.40

While ALCO reviews and updates simulation assumptions and also periodically back-tests the simulation results to ensure that the assumptions are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin. Over time, the repricing, maturity and prepayment characteristics of financial instruments and the composition of our balance sheet may change to a different degree than estimated. ALCO recognizes that deposit balances could shift into higher yielding alternatives as market rates change. ALCO has modeled increased costs of deposits in the rising rate simulation scenarios presented above. In the minus 100 scenario above, the change in EVE of (21.4)% is outside of policy parameters; however, the Bank continues to be well-capitalized. The result of this simulation was discussed with the ALCO and the Company has decided to not take any further action at this time as this scenario is deemed unlikely in the current interest rate environment.

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

Impact of Inflation

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

Inflation generally increases the costs of funds and operating overhead, and to the extent loans and other assets bear variable rates, the yields on such assets fluctuate accordingly. 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 8. Financial Statements and Supplementary Data

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bankwell Financial Group, Inc. and its subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Qualitative Factor Adjustments to the Allowance for Loan Losses

As described in Notes 1 and 5 to the consolidated financial statements, the Company's allowance for loan losses totaled $16.9 million as of December 31, 2021, which consists of a general reserve of $14.0 million and a specific reserve of $2.9 million. Management estimates the allowance based on loan losses believed to be inherent in the Company's loan portfolio, segmented by product type and risk classification, at the balance sheet date. The Company's allowance for loan losses consists of a general reserve, which management develops based on historical loss ratios from its data and, where appropriate, its peers' data adjusted for qualitative factors not reflected in the historical loss experience as well as a specific reserve based on management's identification of impaired loans. Management considers several qualitative factors, both internal and external to the Company, including valuation of underlying collateral; macro and local economic factors; nature and volume of loan portfolio; concentration of credit risk; net charge-off trends and non-accrual trends, and past due and classified loan trends when determining the general reserve. The adjustment for qualitative factors requires a significant amount of judgment by management and involves a high degree of estimation uncertainty.

We identified the qualitative factor component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factor component of the allowance for loan losses include the following, among others:

- We obtained an understanding of the relevant controls related to management's qualitative factor adjustments to the allowance for loan losses and tested such controls for design and operating effectiveness including controls related to management's establishment, review and approval of the qualitative factors and the completeness and accuracy of data used in determining the qualitative factors.

- We tested the completeness and accuracy of data used by management in determining qualitative factor adjustments by agreeing them to internal and external source data.

- We assessed the reasonableness of management's qualitative factor adjustments, including macro and local economic factors, nature and volume of loan portfolio, concentration of credit risk, net charge-off trends and non-accrual trends, and past due and classified loan trends by agreeing them to internal and external source data, evaluating the magnitude and directional consistency of such adjustments with prior periods and data points, and evaluating the consistency of such changes in accordance with the Company's loan policy.

- We tested management's conclusions regarding the appropriateness of the qualitative factor adjustments and agreed the impact to the allowance for loan losses calculation.

/s/ RSM US LLP

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

Hartford, Connecticut
March 8, 2022

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

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 291,598	$ 405,340
Federal funds sold	53,084	4,258
Cash and cash equivalents	344,682	409,598
Investment securities		
Marketable equity securities, at fair value	2,168	2,207
Available for sale investment securities, at fair value	90,198	88,605
Held to maturity investment securities, at amortized cost (fair values of $18,445 and $20,032 at December 31, 2021 and 2020, respectively)	16,043	16,078
Total investment securities	108,409	106,890
Loans receivable (net of allowance for loan losses of $16,902 and $21,009 at December 31, 2021 and 2020, respectively)	1,875,167	1,601,672
Accrued interest receivable	7,512	6,579
Federal Home Loan Bank stock, at cost	2,814	7,860
Premises and equipment, net	25,588	21,762
Bank-owned life insurance	49,174	42,651
Goodwill	2,589	2,589
Other intangible assets	—	76
Deferred income taxes, net	7,621	11,300
Other assets	32,708	42,770
Total assets	$ 2,456,264	$ 2,253,747
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing deposits	$ 398,956	$ 270,235
Interest bearing deposits	1,725,042	1,557,081
Total deposits	2,123,998	1,827,316
Advances from the Federal Home Loan Bank	50,000	175,000
Subordinated debentures (face value of $35,000 and $25,500 at December 31, 2021 and 2020, respectively, less unamortized debt issuance costs of $559 and $242 at December 31, 2021 and 2020, respectively)	34,441	25,258
Accrued expenses and other liabilities	45,838	49,571
Total liabilities	2,254,277	2,077,145
Commitments and contingencies (Note 12)		
Shareholders' equity		
Common stock, no par value; 10,000,000 shares authorized, 7,803,166 and 7,919,278 shares issued and outstanding at December 31, 2021 and 2020, respectively	118,148	121,338
Retained earnings	92,400	70,839
Accumulated other comprehensive loss	(8,561)	(15,575)
Total shareholders' equity	201,987	176,602
Total liabilities and shareholders' equity	$ 2,456,264	$ 2,253,747

See Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest and dividend income		
Interest and fees on loans	$ 78,042	$ 73,665
Interest and dividends on securities	2,958	3,237
Interest on cash and cash equivalents	376	585
Total interest and dividend income	81,376	77,487
Interest expense		
Interest expense on deposits	10,443	18,180
Interest expense on borrowings	3,047	4,472
Total interest expense	13,490	22,652
Net interest income	67,886	54,835
(Credit) provision for loan losses	(57)	7,605
Net interest income after (credit) provision for loan losses	67,943	47,230
Noninterest income		
Gains and fees from sales of loans	2,692	43
Bank owned life insurance	1,023	967
Service charges and fees	872	788
Gain on sale of other real estate owned, net	—	19
Other	1,070	1,067
Total noninterest income	5,657	2,884
Noninterest expense		
Salaries and employee benefits	18,317	21,355
Occupancy and equipment	10,682	10,926
Data processing	2,409	3,216
Professional services	2,260	2,110
Director fees	1,303	1,214
FDIC insurance	1,232	791
Marketing	404	630
Other	3,132	2,571
Total noninterest expense	39,739	42,813
Income before income tax expense	33,861	7,301
Income tax expense	7,275	1,397
Net income	$ 26,586	$ 5,904
Earnings Per Common Share:		
Basic	$ 3.38	$ 0.75
Diluted	$ 3.36	$ 0.75
Weighted Average Common Shares Outstanding:		
Basic	7,706,407	7,728,328
Diluted	7,761,811	7,748,453
Dividends per common share	$ 0.64	$ 0.56

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2021	**2020**
Net income	$ 26,586	$ 5,904
Other comprehensive income (loss):		
Unrealized (losses) gains on securities:		
Unrealized holding (losses) gains on available for sale securities	(1,404)	2,355
Reclassification adjustment for gains realized in net income	—	—
Net change in unrealized (losses) gains	(1,404)	2,355
Income tax benefit (expense)	311	(539)
Unrealized (losses) gains on securities, net of tax	(1,093)	1,816
Unrealized gains (losses) on interest rate swaps:		
Unrealized gains (losses) on interest rate swaps	10,415	(12,876)
Income tax (expense) benefit	(2,308)	3,001
Unrealized gains (losses) on interest rate swaps, net of tax	8,107	(9,875)
Total other comprehensive income (loss), net of tax	7,014	(8,059)
Comprehensive income (loss)	$ 33,600	$ (2,155)

See Notes to Consolidated Financial Statements

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

	Number of Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	7,868,803	$ 120,589	$ 69,324	$ (7,516)	$ 182,397
Net income	—	—	5,904	—	5,904
Other comprehensive loss, net of tax	—	—	—	(8,059)	(8,059)
Cash dividends declared ($0.56 per share)	—	—	(4,389)	—	(4,389)
Stock-based compensation expense	—	1,770	—	—	1,770
Issuance of restricted stock	109,199	—	—	—	—
Forfeitures of restricted stock	(1,725)	—	—	—	—
Stock options exercised	1,500	16	—	—	16
Repurchase of common stock	(58,499)	(1,037)	—	—	(1,037)
Balance at December 31, 2020	7,919,278	121,338	70,839	(15,575)	176,602
Net income	—	—	26,586	—	26,586
Other comprehensive income, net of tax	—	—	—	7,014	7,014
Cash dividends declared ($0.64 per share)	—	—	(5,025)	—	(5,025)
Stock-based compensation expense	—	1,834	—	—	1,834
Issuance of restricted stock	71,308	—	—	—	—
Forfeitures of restricted stock	(150)	—	—	—	—
Stock options exercised	3,500	53	—	—	53
Repurchase of common stock	(190,770)	(5,077)	—	—	(5,077)
Balance at December 31, 2021	7,803,166	$ 118,148	$ 92,400	$ (8,561)	$ 201,987

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net income	$ 26,586	$ 5,904
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of premiums and discounts on investment securities	230	95
(Credit) provision for loan losses	(57)	7,605
Provision (credit) for deferred income taxes	1,698	(3,516)
Change in fair value of marketable equity securities	63	(54)
Depreciation and amortization	3,583	3,276
Impairment of right-of-use asset	—	280
Amortization of debt issuance costs	265	52
Change in valuation allowance of right-of-use asset	(280)	—
Increase in cash surrender value of bank-owned life insurance	(1,023)	(967)
Gains and fees from sales of loans	(2,692)	(43)
Stock-based compensation	1,834	1,770
Net amortization of purchase accounting adjustments	76	138
Loss on sale of premises and equipment	498	35
Gain on sale and write-downs of other real estate owned, net	—	(19)
Write down of assets held for sale	—	1,652
Net change in:		
Deferred loan fees	(134)	809
Accrued interest receivable	(933)	(620)
Other assets	9,231	(19,582)
Accrued expenses and other liabilities	(4,387)	1,673
Net cash provided by (used in) operating activities	34,558	(1,512)
Cash flows from investing activities		
Proceeds from principal repayments on available for sale securities	15,599	14,522
Proceeds from principal repayments on held to maturity securities	4,779	238
Net proceeds from sales and calls of available for sale securities	10,000	2,200
Purchases of available for sale securities	(28,834)	(20,636)
Purchases of marketable equity securities	(24)	(35)
Purchases of held to maturity securities	(4,736)	—
Purchases of bank-owned life insurance	(5,500)	—
Net increase in loans	(273,304)	(21,426)
Loan principal sold from loans not originated for sale	(20,625)	(2,265)
Proceeds from sales of loans not originated for sale	23,317	2,307
Disposals of premises and equipment, net	4,257	3,337
Reduction (purchase) of Federal Home Loan Bank stock	5,046	(385)
Proceeds from sale of other real estate owned	—	199
Net cash used in investing activities	(270,025)	(21,944)

See Notes to Consolidated Financial Statements

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

Cash flows from financing activities				
Net change in time certificates of deposit	$	(169,971)	$	89
Net change in other deposits		466,653		335,324
Net change in FHLB advances		(125,000)		25,000
Proceeds from exercise of options		53		16
Issuance of subordinated debt		34,418		—
Retirement of subordinated debt		(25,500)		—
Dividends paid on common stock		(5,025)		(4,389)
Repurchase of common stock		(5,077)		(1,037)
Net cash provided by financing activities		170,551		355,003
Net (decrease) increase in cash and cash equivalents		(64,916)		331,547
Cash and cash equivalents:				
Beginning of year		409,598		78,051
End of period	$	344,682	$	409,598
Supplemental disclosures of cash flows information:				
Cash paid for:				
Interest	$	14,006	$	23,044
Income taxes		5,091		4,030
Noncash investing and financing activities				
Loans transferred to other real estate owned	$	—	$	180
Premises and equipment transferred to held for sale		—		4,265
Net change in unrealized losses or gains on available-for-sale securities		(1,404)		2,355
Net change in unrealized losses or gains on interest rate swaps		10,415		(12,876)
Establishment of right-of-use-asset and lease liability		11,884		169

See Notes to Consolidated Financial Statements

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 customers in our primary 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 primary market, particularly where we have strong relationships. The Bank operates branches in New Canaan, Stamford, Fairfield, Wilton, Westport, Darien, Norwalk, and Hamden, Connecticut.

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and the Bank, including its wholly owned passive investment company subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities as of the date of the consolidated balance sheet and revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the allowance for loan losses, derivative instrument valuation, investment securities valuation, evaluation of investment securities for other than temporary impairment and deferred income taxes valuation.

Segments

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

Basis of consolidated financial statement presentation

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

Cash and Cash Equivalents and Statement of Cash Flows

Cash and due from banks and federal funds sold are recognized as cash equivalents in the consolidated statements of cash flows. Federal funds sold generally mature in one day. For purposes of reporting cash flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash flows from loans and deposits are reported net. The balances of cash and due from banks and federal funds sold, at times, may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

Investment Securities

Management determines the appropriate classifications of investment securities at the date individual investment securities are acquired, and the appropriateness of such classifications is reaffirmed at each balance sheet date. The Company's investments are categorized as marketable equity, available for sale or held to maturity securities. Held to maturity investments are carried at amortized cost. Available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss) as a separate component of capital, net of estimated income taxes. Marketable equity securities are carried at fair value, with any changes in fair value reported in earnings.

Investment securities in the available for sale and held-to-maturity portfolios are reviewed quarterly for other-than-temporary impairment ("OTTI"). If the fair value of a debt security is below amortized cost, other-than-temporary impairment is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the security. OTTI is required to be recognized regardless of the credit loss component if the Company intends to sell the security or if it is "more-likely-than-not" that the Company will be required to sell the security before recovery of its amortized cost basis. The credit loss component of an other-than-temporary impairment write-down is recorded in earnings, while the remaining portion of the impairment loss is recognized in other comprehensive income (loss), provided the Company does not intend to sell the underlying debt security and it is more-likely-than-not that the Company will not be required to sell the debt security prior to recovery.

In determining whether a credit loss exists and the period over which the fair value of the debt security is expected to recover, management considers the following factors: the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, any external credit ratings, the level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities and the level of credit enhancement provided by the structure.

The sale of a held to maturity security within three months of its maturity date or after collection of at least 85% of the principal outstanding at the time the security was acquired is considered a maturity for purposes of classification and disclosure.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sales of securities are recognized at trade date utilizing the specific identification method.

Transfers of debt securities into the held to maturity classification from the available for sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the held to maturity securities. Such amounts are amortized over the remaining contractual lives of the securities. When transfers of debt securities into the available for sale classification from the held to maturity classification occur, any unrealized holding gains or losses on the transfer date are recognized in other comprehensive income.

Bank Owned Life Insurance

The investment in bank owned life insurance ("BOLI") represents the cash surrender value of life insurance policies on the lives of certain Bank employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income, and are not subject to income taxes. The financial strength of the insurance carrier is reviewed prior to the purchase of BOLI and annually thereafter.

Federal Home Loan Bank Stock

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

Loans Held For Sale

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

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

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

Loans Receivable

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

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

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

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

Loans greater than 90 days past due are put on nonaccrual status (excluding certain acquired credit impaired loans). Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent payments are recognized on a cash basis or principal recapture basis depending on a number of factors including probability of collection and if impairment is identified. 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.

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

Modifications to a loan are considered to be a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulties and 2) the modification constitutes a concession that is not in line with market rates and/or terms. Modified terms are dependent upon the financial position and needs of the individual borrower. Debt may be bifurcated with separate terms for each tranche of the restructured debt. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

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

If a performing loan is restructured into a TDR it remains in performing status. If a nonperforming loan is restructured into a TDR, it continues to be carried in nonaccrual status. Nonaccrual classification may be removed if the borrower demonstrates compliance with the modified terms for a minimum of six months. TDR's are reported as such for at least one year from the date of restructuring. In years after the restructuring, troubled debt restructured loans may be removed from this classification if the restructuring agreement specifies a market rate of interest equal to that which would be provided to a borrower with similar credit at the time of restructuring and the loan is not deemed to be impaired based on the modified terms.

Acquired Loans

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

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

Interest income is not recognized to the extent that the net investment in the loan would increase to an amount greater than the estimated payoff amount.

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

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

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

Allowance For Loan Losses (ALLL)

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

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

The allowance for loan losses consists of specific and general components. The specific component relates to impaired loans that are classified as "doubtful", "substandard" or "special mention". For these loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non classified loans and is based on historical loss experience, including appropriate peer data, adjusted for qualitative factors. Management considers several qualitative factors, both internal and external to the Company, including valuation of underlying collateral; macro and local economic factors; nature and volume of loan portfolio; concentration of credit risk; net charge-off trends and non-accrual trends, and past due and classified loan trends when determining the general reserve.

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

Reserve for Unfunded Commitments

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

Interest and Fees on Loans

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

A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt.

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

Goodwill and Intangibles

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Intangible assets are assets acquired in a business combination that lack physical substance but can be distinguished from goodwill because the intangible asset is capable of being sold or exchanged on its own or in combination with related contracts, assets or liabilities. Intangible assets are amortized on a straight-line or accelerated basis over estimated lives. Goodwill is not amortized. Goodwill and identifiable intangible assets are evaluated for impairment annually or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. When these assets are evaluated for impairment, if the carrying amount exceeds fair value, an impairment charge is recorded to income. The fair value is based on observable market prices, when practicable. Other valuation techniques may be used when market prices are unavailable, including estimated discounted cash flows. This type of analysis contains uncertainties because it requires management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. In the event of future changes in fair value, the Company may be exposed to an impairment charge that could be material.

Other Real Estate Owned

Assets acquired through deed in lieu or loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment

Premises and equipment are stated at cost, net of accumulated depreciation and amortization. Leasehold improvements are capitalized and amortized over the shorter of the terms of the related leases or the estimated economic lives of the improvements. Capitalized software development costs are amortized on a straight-line basis over the estimated useful life of the software. Depreciation and amortization is charged to operations using the straight-line method over the estimated useful lives of the related assets which range from three to thirty-nine years. Gains and losses on dispositions are recognized upon realization. Maintenance and repairs are expensed as incurred and improvements are capitalized.

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. Depreciation is not recognized on any assets that are classified as held for sale.

Leases

The Company recognizes and measures it leases in accordance with ASC 842, "*Leases*". The Company leases real estate for its branch offices under various operating lease agreements. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and right-of-use-asset (ROUA) at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. The discount rate is the implicit rate if it's readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for all leases. The ROUA is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus any unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of any lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. The ROUA is included in premises and equipment, net and the lease liability is included in accrued expenses and other liabilities on the consolidated balance sheets.

Impairment of Long-Lived Assets

Long-lived assets, including premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expense.

Servicing Rights

When loans are sold on a servicing retained basis, servicing rights are initially recorded at fair value with the income statement effect recorded in noninterest income. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the life of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Any impairment is reported as a valuation allowance, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Changes in the valuation allowance are reported with service charges and fees income on the consolidated statements of income. The fair values of servicing rights are subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Loans serviced for others are not included in the accompanying consolidated balance sheets.

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

Income Taxes

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

In the ordinary course of business there is inherent uncertainty in quantifying the Company’s income tax positions. Income tax positions and recorded tax benefits assessed for all years are subject to examination based upon management’s evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have determined the amount of the tax benefit to be recognized by estimating the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company has $265 thousand and $394 thousand of liabilities for uncertain tax positions at December 31, 2021 and 2020, respectively. Where applicable, associated interest and penalties have also been recognized. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Advertising costs

Advertising costs are expensed as incurred.

Stock Compensation

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

Earnings Per Share

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

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

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

Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives accounted for as cash flow hedges. The Company's total comprehensive income or loss for the years ended December 31, 2021 and 2020 is reported in the Consolidated Statements of Comprehensive Income.

Fair Values of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at either December 31, 2021 or December 31, 2020. The estimated fair value amounts have been measured as of the respective period-ends, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

Derivative Instruments

The effective portion of unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The Bank assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The interest rate swap assets are presented in other assets and the interest rate swap liabilities are presented in accrued expenses and other liabilities in the consolidated balance sheets. The hedge strategy converts the contractually specified interest rate on short-term rolling FHLB advances or brokered deposits to long-term fixed interest rates, thereby protecting the Bank from interest rate variability. The Company does not offset derivative assets and derivative liabilities for financial statement presentation purposes.

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

Related Party Transactions

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

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 2021 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. 2016-13, Financial Instruments—Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments." This ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward looking "expected loss" model that will replace today's "incurred loss" model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. On July 17, 2019, the FASB proposed deferring the effective date of ASC 326 for smaller reporting companies as defined by the SEC. The FASB proposed a three year deferral for smaller reporting companies, with an effective date of January 1, 2023. On October 16, 2019, the FASB voted in favor of finalizing its proposal to defer the effective date of this standard. The FASB issued ASU No. 2019-10, which officially delayed the adoption of this standard for smaller reporting companies until fiscal years beginning after December 15, 2022. The Company does qualify to defer the adoption of this standard and has not yet adopted this standard. Management continues to evaluate the impact of its future adoption of this guidance on the Company's financial statements.

ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): "Simplifying the Test for Goodwill Impairment." This ASU simplifies the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity was required to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, this ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. On October 16, 2019, the FASB voted in favor of a proposal to defer the effective date of this standard in the same manner it is deferring the effective date of ASC 326. The FASB issued ASU No. 2019-10, which officially delayed the adoption of this standard for smaller reporting companies until fiscal years beginning after December 15, 2022. The Company does qualify to defer the adoption of this standard and has not yet adopted this standard. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

Recently adopted accounting pronouncements

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.

2. Shareholders’ Equity

Common Stock

The Company has 10,000,000 shares authorized and 7,803,166 shares issued and outstanding at December 31, 2021 and 10,000,000 shares authorized and 7,919,278 shares issued and outstanding at December 31, 2020. The Company's stock is traded on the NASDAQ stock market under the ticker symbol BWFG.

Dividends

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

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. 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. 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 year ended December 31, 2021, the Company purchased 190,770 shares of its Common Stock at a weighted average price of $26.62 per share. During the year ended December 31, 2020, the Company purchased 58,499 shares of its Common Stock at a weighted average price of $17.69 per share.

3. Goodwill and other intangible assets

Information on goodwill for the years ended December 31, 2021 and 2020 is as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(In thousands)	
Balance, beginning of the period	$ 2,589	$ 2,589
Impairment	—	—
Balance, end of the period	$ 2,589	$ 2,589

The Company tests for goodwill impairment annually as of June 30th. No impairment was required to be recorded on goodwill in 2021 or 2020.

The table below provides information regarding the carrying amounts and accumulated amortization of amortized intangible assets as of the dates set forth below. The intangible asset was fully amortized as of December 31, 2021.

	Gross Intangible Asset	Accumulated Amortization	Net Intangible Asset
		(In thousands)	
December 31, 2021			
Core deposit intangible	$ 1,029	$ 1,029	$ —
December 31, 2020			
Core deposit intangible	$ 1,029	$ 953	$ 76

Amortization expense related to the core deposit intangible totaled $0.1 million for each of the years ended December 31, 2021 and 2020.

4. Investment Securities

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

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

The amortized cost, gross unrealized gains and losses and fair values of available for sale and held to maturity securities segregated by contractual maturity at December 31, 2020 were as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Available for sale securities:				
U.S. Government and agency obligations				
Less than one year	$ 9,976	$ 172	$ —	$ 10,148
Due from five through ten years	8,038	848	—	8,886
Due after ten years	55,560	2,284	—	57,844
Total U.S. Government and agency obligations	73,574	3,304	—	76,878
Corporate bonds				
Due from one through five years	4,000	57	—	4,057
Due from five through ten years	6,000	163	—	6,163
Due after ten years	1,500	7	—	1,507
Total corporate bonds	11,500	227	—	11,727
Total available for sale securities	$ 85,074	$ 3,531	$ —	$ 88,605
Held to maturity securities:				
State agency and municipal obligations				
Due after ten years	$ 16,018	$ 3,944	$ —	$ 19,962
Government-sponsored mortgage backed securities				
No contractual maturity	60	10	—	70
Total held to maturity securities	$ 16,078	$ 3,954	$ —	$ 20,032

There were no sales of investment securities during the years ended December 31, 2021 or December 31, 2020.

At December 31, 2021 and December 31, 2020, none of the Company's securities were pledged as collateral with the Federal Home Loan Bank ("FHLB") or any other institution.

As of December 31, 2021, the actual duration of the Company's available for sale securities were significantly shorter than the notional maturities.

At December 31, 2021, the Company held marketable equity securities with a fair value of $2.2 million and an amortized cost of $2.1 million. At December 31, 2020, the Company held marketable equity securities with a fair value of $2.2 million and an amortized cost of $2.1 million. These securities represent an investment in mutual funds that have a primary objective to make investments for CRA purposes.

There were seven investment securities as of December 31, 2021, in which the fair value of the security was less than the amortized cost of the security. There were no such investment securities as of December 31, 2020.

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

	Length of Time in Continuous Unrealized Loss Position								
	Less Than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost	Fair Value	Unrealized Loss	Percent Decline from Amortized Cost
	(Dollars in thousands)								
December 31, 2021									
U.S. Government and agency obligations	$ 28,121	$ (239)	0.84 %	$ —	$ —	— %	$ 28,121	$ (239)	0.84 %
Corporate bonds	2,990	(10)	0.35	—	—	—	2,990	(10)	0.35
State agency and municipal obligations	4,443	(206)	4.44	—	—	—	4,443	(206)	4.44
Total investment securities	$ 35,554	$ (455)	1.27 %	$ —	$ —	— %	$ 35,554	$ (455)	1.27 %

The U.S. Government and agency obligations owned are either direct obligations of the U.S. Government or guaranteed by the U.S. Government. Therefore, the contractual cash flows are guaranteed and as a result the unrealized losses in this portfolio are considered to be only temporarily impaired.

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

The Company has the intent and ability to retain its investment securities in an unrealized loss position at December 31, 2021 until the decline in value has recovered or the security has matured.

5. Loans Receivable and Allowance for Loan Losses

The following table sets forth a summary of the loan portfolio at December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
	(In thousands)	
Real estate loans:		
Residential	$ 79,987	$ 113,557
Commercial	1,356,709	1,148,383
Construction	98,341	87,007
	1,535,037	1,348,947
Commercial business[(1)]	350,975	276,601
Consumer	8,869	79
Total loans	1,894,881	1,625,627
Allowance for loan losses	(16,902)	(21,009)
Deferred loan origination fees, net	(2,812)	(2,946)
Loans receivable, net	$ 1,875,167	$ 1,601,672

(1) The December 31, 2021 and December 31, 2020 balance includes $0.2 million and $34.8 million, respectively, of Paycheck Protection Program ("PPP") loans made under the CARES Act.

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

Risk management

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and extends credit of up to 80% of the market value of the collateral, depending on the borrower's creditworthiness and the type of collateral. The borrower’s ability to service the debt is monitored on an ongoing basis. Real estate is the primary form of collateral. Other important forms of collateral are business assets, time deposits and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment for commercial loans, to be based on the borrower’s ability to generate continuing cash flows. In the fourth quarter of 2017 management made the strategic decision to no longer originate residential mortgage loans. As of the beginning of the third quarter of 2019, the Company no longer offered home equity loans or lines of credit. The Company’s policy for residential lending generally required that the amount of the loan may not exceed 80% of the original appraised value of the property. In certain situations, the amount may have exceeded 80% LTV either with private mortgage insurance being required for that portion of the residential loan in excess of 80% of the appraised value of the property or where secondary financing is provided by a housing authority program second mortgage, a community’s low/moderate income housing program, or a religious or civic organization.

Credit quality of loans and the allowance for loan losses

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

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

Residential Real Estate: This portfolio segment consists of first mortgage loans secured by one-to-four family owner occupied residential properties for personal use located in the Company's market area. This segment also includes home equity loans and home equity lines of credit secured by owner occupied one-to-four family residential properties. Loans of this type were written at a combined maximum of 80% of the appraised value of the property and the Company requires a first or second lien position on the property. These loans can be affected by economic conditions and the values of the underlying properties.

Commercial Real Estate: This portfolio segment includes loans secured by commercial real estate, multi-family dwellings, owner-occupied commercial real estate and investor-owned one-to-four family dwellings. Loans secured by commercial real estate generally have larger loan balances and more credit risk than owner occupied one-to-four family mortgage loans.

Construction: This portfolio segment includes commercial construction loans for commercial development projects, including apartment buildings and condominiums, as well as office buildings, retail and other income producing properties and land loans, which are loans made with land as collateral. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied or leased real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment through sale or refinance. Construction loans also expose the Company to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties, which may cause some borrowers to be unable to continue paying debt service, which exposes the Company to greater risk of non-payment and loss.

Commercial Business: This portfolio segment includes commercial business loans secured by assignments of corporate assets and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than other loans, but they also have increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business. This segment also includes Paycheck Protection Program ("PPP") loans made under the CARES Act to small businesses impacted by COVID-19, to cover payroll and other operating expenses. Loans extended under the PPP are fully guaranteed by the U.S. Small Business Administration ("SBA").

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

Allowance for loan losses

The following tables set forth the activity in the Company's allowance for loan losses for the years ended December 31, 2021 and December 31, 2020, by portfolio segment:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
			(In thousands)			
For the Year Ended December 31, 2021						
Beginning balance	$ 610	$ 16,425	$ 221	$ 3,753	$ —	$ 21,009
Charge-offs	—	(3,977)	—	(77)	(39)	(4,093)
Recoveries	—	—	—	30	13	43
(Credits) provisions	(106)	303	(217)	(116)	79	(57)
Ending balance	$ 504	$ 12,751	$ 4	$ 3,590	$ 53	$ 16,902

	Residential Real Estate	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
			(In thousands)			
For the Year Ended December 31, 2020						
Beginning balance	$ 730	$ 10,551	$ 324	$ 1,903	$ 1	$ 13,509
Charge-offs	—	—	—	(83)	(40)	(123)
Recoveries	—	15	—	—	3	18
(Credits) provisions	(120)	5,859	(103)	1,933	36	7,605
Ending balance	$ 610	$ 16,425	$ 221	$ 3,753	$ —	$ 21,009

Loans evaluated for impairment and the related allowance for loan losses as of December 31, 2021 and December 31, 2020 were as follows:

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

	Portfolio	Allowance
	(In thousands)	
December 31, 2020		
Loans individually evaluated for impairment:		
Residential real estate	$ 4,604	$ —
Commercial real estate	37,579	4,960
Construction	8,997	—
Commercial business	6,507	85
Subtotal	57,687	5,045
Loans collectively evaluated for impairment:		
Residential real estate	108,953	610
Commercial real estate	1,110,804	11,465
Construction	78,010	221
Commercial business	270,094	3,668
Consumer	79	—
Subtotal	1,567,940	15,964
Total	$ 1,625,627	$ 21,009

As of December 31, 2020, of the $57.7 million of loans individually evaluated for impairment a total of $10.0 million of these loans were determined to not be impaired.

Credit quality indicators

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

The objectives of the Company’s risk rating system are to provide the Board of Directors and senior management with an objective assessment of the overall quality of the loan portfolio, to promptly and accurately identify loans with well-defined credit weaknesses so that timely action can be taken to minimize a potential credit loss, to identify relevant trends affecting the collectability of the loan portfolio, to isolate potential problem areas and to provide essential information for determining the adequacy of the allowance for loan losses. The Company’s credit risk rating system has nine grades, with each grade corresponding to a progressively greater risk of default. Risk ratings of (1) through (5) are "pass" categories and risk ratings of (6) through (9) are criticized asset categories as defined by the regulatory agencies.

A “special mention” (6) credit has a potential weakness which, if uncorrected, may result in a deterioration of the repayment prospects or inadequately protect the Company’s credit position at some time in the future. “Substandard” (7) loans are credits that have a well-defined weakness or weaknesses that jeopardize the full repayment of the debt. An asset rated “doubtful” (8) has all the weaknesses inherent in a substandard asset and which, in addition, make collection or liquidation in full highly questionable and improbable, when considering existing facts, conditions, and values. Loans classified as “loss” (9) are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing-off this asset even though partial recovery may be made in the future.

Risk ratings are assigned as necessary to differentiate risk within the portfolio. They are reviewed on an ongoing basis through the annual loan review process performed by Company personnel, normal renewal activity and the quarterly Watch List 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 December 31, 2021 and December 31, 2020:

Commercial Credit Quality Indicators

	December 31, 2021				December 31, 2020			
	Commercial Real Estate	Construction	Commercial Business	Total	Commercial Real Estate	Construction	Commercial Business	Total
	(In thousands)							
Pass	$ 1,307,992	$ 89,344	$ 345,153	$ 1,742,489	$ 1,105,825	$ 78,010	$ 269,728	$ 1,453,563
Special mention	19,051	—	1,454	20,505	12,560	—	2,055	14,615
Substandard	29,255	8,997	2,847	41,099	29,998	8,997	3,247	42,242
Doubtful	411	—	1,521	1,932	—	—	1,571	1,571
Loss	—	—	—	—	—	—	—	—
Total loans	$ 1,356,709	$ 98,341	$ 350,975	$ 1,806,025	$ 1,148,383	$ 87,007	$ 276,601	$ 1,511,991

Residential and Consumer Credit Quality Indicators

	December 31, 2021			December 31, 2020		
	Residential Real Estate	Consumer	Total	Residential Real Estate	Consumer	Total
	(In thousands)					
Pass	$ 75,692	$ 8,869	$ 84,561	$ 108,953	$ 79	$ 109,032
Special mention	145	—	145	713	—	713
Substandard	3,975	—	3,975	3,714	—	3,714
Doubtful	175	—	175	177	—	177
Loss	—	—	—	—	—	—
Total loans	$ 79,987	$ 8,869	$ 88,856	$ 113,557	$ 79	$ 113,636

Loan portfolio aging analysis

When a loan is 15 days past due, the Company sends the borrower a late notice. The Company attempts to contact the borrower by phone if the delinquency is not corrected promptly after the notice has been sent. When the loan is 30 days past due, the Company mails the borrower a letter reminding the borrower of the delinquency, and attempts to contact the borrower personally to determine the reason for the delinquency and ensure the borrower understands the terms of the loan. If necessary, after the 90th day of delinquency, the Company may take other appropriate legal action. A summary report of all loans 30 days or more past due is provided to the Board of Directors of the Company periodically. Loans greater than 90 days past due are generally put on nonaccrual status. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectability of interest and principal is no longer in doubt. A loan is considered to be no longer delinquent when timely payments are made for a period of at least six months (one year for loans providing for quarterly or semi-annual payments) by the borrower in accordance with the contractual terms. Loans that are granted payment deferrals under the CARES Act are not required to be reported as past due or placed on non-accrual status if the criteria under section 4013 of the CARES Act are met. As of December 31, 2021, no loans remained on active deferral under the CARES Act.

The following tables set forth certain information with respect to the Company's loan portfolio delinquencies by portfolio segment as of December 31, 2021 and December 31, 2020:

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

	December 31, 2020					
	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Real estate loans:						
Residential real estate	$ 245	$ —	$ 177	$ 422	$ 113,135	$ 113,557
Commercial real estate	1,305	193	2,541	4,039	1,144,344	1,148,383
Construction	8,997	—	—	8,997	78,010	87,007
Commercial business	45	55	1,526	1,626	274,975	276,601
Consumer	—	—	—	—	79	79
Total loans	$ 10,592	$ 248	$ 4,244	$ 15,084	$ 1,610,543	$ 1,625,627

There were two loans, totaling $1.1 million, delinquent greater than 90 days and still accruing interest as of December 31, 2021. The delinquencies for these particular loans was a result of an administrative delay. There were no loans delinquent greater than 90 days and still accruing interest as of December 31, 2020.

Loans on nonaccrual status

The following is a summary of nonaccrual loans by portfolio segment as of December 31, 2021 and December 31, 2020:

	December 31,	
	2021	2020
	(In thousands)	
Residential real estate	$ 2,380	$ 1,492
Commercial real estate	3,482	21,093
Commercial business	1,728	1,834
Construction	8,997	8,997
Total	$ 16,587	$ 33,416

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 years ended December 31, 2021 and 2020 was $0.9 million and $0.8 million, respectively.

There was $62 thousand and no interest income recognized on these loans for the year ended December 31, 2021 and 2020, respectively.

At December 31, 2021 and December 31, 2020, there were no commitments to lend additional funds to borrowers on nonaccrual status. Nonaccrual loans with no specific reserve totaled $14.2 million and $17.5 million at December 31, 2021 and December 31, 2020, respectively.

Impaired loans

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

The following tables summarize impaired loans by portfolio segment and the average carrying amount and interest income recognized on impaired loans by portfolio segment as of December 31, 2021 and December 31, 2020:

	As of and for the Year Ended December 31, 2021				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
			(In thousands)		
Impaired loans without a valuation allowance:					
Residential real estate	$ 1,851	$ 2,038	$ —	$ 1,885	$ —
Commercial real estate	8,338	8,698	—	8,367	509
Construction	8,997	8,997	—	8,997	—
Commercial business	1,938	2,582	—	2,002	25
Total impaired loans without a valuation allowance	21,124	22,315	—	21,251	534
Impaired loans with a valuation allowance:					
Residential real estate	2,299	2,304	261	2,337	65
Commercial real estate	21,328	21,367	2,520	22,139	552
Commercial business	2,430	2,429	87	2,719	93
Total impaired loans with a valuation allowance	26,057	26,100	2,868	27,195	710
Total impaired loans	$ 47,181	$ 48,415	$ 2,868	$ 48,446	$ 1,244

	As of and for the Year Ended December 31, 2020				
	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
			(In thousands)		
Impaired loans without a valuation allowance:					
Residential real estate	$ 3,891	$ 4,108	$ —	$ 3,985	$ 89
Commercial real estate	8,964	9,282	—	9,246	149
Construction	8,997	8,997	—	8,997	—
Commercial business	1,899	2,512	—	1,971	19
Total impaired loans without a valuation allowance	23,751	24,899	—	24,199	257
Impaired loans with a valuation allowance:					
Commercial real estate	21,035	21,049	4,960	20,852	283
Commercial business	2,920	2,922	85	2,965	—
Total impaired loans with a valuation allowance	23,955	23,971	5,045	23,817	283
Total impaired loans	$ 47,706	$ 48,870	$ 5,045	$ 48,016	$ 540

Troubled debt restructurings ("TDRs")

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

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

Loans classified as TDRs totaled $25.8 million at December 31, 2021 and $9.1 million at December 31, 2020. The following table provides information on loans that were modified as TDRs during the periods presented:

			Outstanding Recorded Investment			
	Number of Loans		Pre-Modification		Post-Modification	
	2021	2020	2021	2020	2021	2020
			(Dollars in thousands)			
Years ended December 31,						
Commercial real estate	2	—	$ 13,534	$ —	$ 13,570	$ —
Residential real estate	2	—	764	—	764	—
Commercial business	1	—	2,567	—	2,655	—
Total	5	—	$ 16,865	$ —	$ 16,989	$ —

At December 31, 2021 and December 31, 2020, there were five nonaccrual loans identified as TDRs totaling $2.0 million and three nonaccrual loans identified as TDRs totaling $1.4 million, respectively.

There were no loans modified in a troubled debt restructuring that re-defaulted during the year ended December 31, 2021 or December 31, 2020.

The following table provides information on how loans were modified as a TDR for the years ended December 31, 2021 and December 31, 2020.

	December 31,	
	2021	2020
	(In thousands)	
Rate concession	$ 3,168	$ —
Maturity, rate and payment concession	13,057	—
Payment concession	764	—
Total	$ 16,989	$ —

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

6. Premises and Equipment

At December 31, 2021 and December 31, 2020, premises and equipment consisted of the following:

	December 31, 2021	December 31, 2020
	(In thousands)	
Land	$ 850	$ 850
Building	2,734	9,866
Right-of-use asset	14,389	8,591
Leasehold improvements	7,133	5,418
Furniture and fixtures	2,517	2,954
Equipment and software	3,700	3,581
Automobiles	67	67
Premises and equipment, gross	31,390	31,327
Accumulated depreciation and amortization	(5,802)	(9,565)
Premises and equipment, net	$ 25,588	$ 21,762

For the years ended December 31, 2021 and December 31, 2020, depreciation and amortization expense related to premises and equipment totaled $3.6 million and $3.3 million, respectively. For the years ended December 31, 2021 and December 31, 2020, depreciation and amortization expense includes amortization of the right-of-use-asset, totaling $1.6 million and $1.4 million, respectively.

7. Leases

As of December 31, 2021, the Company leases real estate for eight branch offices under various operating lease agreements. The branch leases have maturities ranging from 2022 to 2031, some of which include options to extend the lease term. The Company is not reasonably certain to exercise these renewal options, and as a result, these optional periods are not included in determining the lease term. The weighted average remaining life of the lease term for these leases was 7.5 years as of December 31, 2021. In addition, the Company's new headquarter building (included in premises and equipment) has a remaining lease life of 9.8 years as of December 31, 2021. The lease commencement date was March 15, 2021 for the Company's new headquarter building.

The Company utilized a weighted average discount rate of 5.5% in determining the lease liability for its branch locations and a discount rate of 4.5% for its headquarter building.

The total fixed operating lease costs were $3.0 million and $2.3 million for the years ended December 31, 2021 and December 31, 2020, respectively. The total variable operating lease costs were $0.1 million for each of the years ended December 31, 2021 and December 31, 2020. The right-of-use-asset, included in premises and equipment, net was $14.4 million as of December 31, 2021 and the corresponding lease liability, included in accrued expenses and other liabilities was $15.2 million as of December 31, 2021.

Future minimum lease payments as of December 31, 2021 are as follows:

	December 31, 2021
	(In thousands)
2022	$ 2,255
2023	2,135
2024	2,023
2025	1,991
2026	2,015
Thereafter	8,458
Total	$ 18,877

A reconciliation of the undiscounted cash flows in the maturity table above and the lease liability recognized in the consolidated balance sheet as of December 31, 2021, is shown below:

		December 31, 2021
		(In thousands)
Undiscounted cash flows	$	18,877
Discount effect of cash flows		(3,712)
Lease liability	$	15,165

8. Other Assets

The components of other assets as of December 31, 2021 and December 31, 2020 are summarized below:

		December 31, 2021		December 31, 2020
		(In thousands)		
Deferred compensation	$	3,667	$	2,121
Servicing assets, net of valuation allowance		818		628
Derivative assets		3,628		4,444
Collateral posted related to interest rate swaps		15,845		28,205
Assets held for sale		2,268		2,613
Other		6,482		4,759
Total Other Assets	$	32,708	$	42,770

Deferred compensation

The Company has a non-qualified deferred compensation plan for the Board of Directors that allows for the deferral of fees earned related to services rendered for the Company. The deferred compensation balance increased $1.5 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily driven by an appreciation in fair market value and participant contributions.

Loan servicing

The Bank sells loans in the secondary market and retains the right to service many of these loans. The Bank earns fees for the servicing provided. Loans serviced for others are not included in the accompanying consolidated balance sheets. The balance of loans serviced for others was $111.6 million and $109.4 million at December 31, 2021 and December 31, 2020, respectively. The risks inherent in servicing assets relate primarily to changes in the timing of prepayments that result from shifts in interest rates. The significant assumptions used in the valuation at December 31, 2021 for servicing assets included a discount rate of 10% and prepayment speed assumptions ranging from 3% to 17%. The significant assumptions used in the valuation at December 31, 2020 for servicing assets included a discount rate of 10% and prepayment speed assumptions ranging from 3% to 16%.

The carrying value of loan servicing rights was $0.8 million and $0.6 million as of December 31, 2021 and December 31, 2020, respectively.

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

	December 31, 2021	December 31, 2020
	(In thousands)	
Loan servicing rights:		
Balance at beginning of year	$ 628	$ 978
Servicing rights capitalized	457	16
Servicing rights amortized	(149)	(128)
Servicing rights disposed	(166)	(338)
Change in valuation allowance	48	100
Balance at end of year	$ 818	$ 628

Included in accrued expenses and other liabilities as of December 31, 2021 and December 31, 2020, respectively, are $14 thousand and $21 thousand for loan servicing liabilities related to loans serviced for others for which the Company does not receive a servicing fee.

Assets held for sale

For the year ended December 31, 2021, the assets held for sale balance of $2.3 million consists of a former Bank office building. Upon the transfer to held for sale, the asset was written down to its fair market value, less costs to sell, and a charge of $1.7 million was recognized for the year ended December 31, 2020. The asset was further impaired for the year ended December 31, 2021, and a charge of $0.3 million was recognized. The impairment charge is included in occupancy and equipment expense on the consolidated statements of income. The asset held for sale is included in other assets on the consolidated balance sheets.

9. Deposits

At December 31, 2021 and December 31, 2020, deposits consisted of the following:

	December 31,	
	2021	2020
	(In thousands)	
Noninterest bearing demand deposit accounts	$ 398,956	$ 270,235
Interest bearing accounts:		
NOW	119,479	101,737
Money market	954,674	669,364
Savings	193,631	158,750
Time certificates of deposit	457,258	627,230
Total interest bearing accounts	1,725,042	1,557,081
Total deposits	$ 2,123,998	$ 1,827,316

Maturities of time certificates of deposit as of December 31, 2021 and December 31, 2020 are summarized below:

	December 31,	
	2021	2020
	(In thousands)	
2021	$ —	$ 418,117
2022	167,147	50,425
2023	179,520	128,495
2024	110,449	30,160
2025	33	33
2026	109	—
Total	$ 457,258	$ 627,230

The aggregate amount of individual certificate accounts, including brokered deposits with balances of $250,000 or more, were approximately $305.7 million and $353.7 million at December 31, 2021 and December 31, 2020, respectively.

Brokered certificate of deposits totaled $249.4 million and $238.9 million at December 31, 2021 and December 31, 2020, respectively. There were no certificates of deposits from national listing services at December 31, 2021. Certificates of deposits from national listing services totaled $18.4 million at December 31, 2020. Brokered money market accounts totaled $104.0 million and $13.5 million at December 31, 2021 and 2020, respectively.

The following table summarizes interest expense by account type for the years ended December 31, 2021 and 2020:

	Years Ended December 31, 2021	Years Ended December 31, 2020
	(In thousands)	
NOW	$ 198	$ 141
Money market	4,042	4,071
Savings	413	1,368
Time certificates of deposit	5,790	12,600
Total interest expense on deposits	$ 10,443	$ 18,180

10. Federal Home Loan Bank Advances and Other Borrowings

The following is a summary of FHLB advances with maturity dates and weighted average rates at December 31, 2021 and December 31, 2020:

	December 31, 2021 Amount Due	December 31, 2021 Weighted Average Rate(1)	December 31, 2020 Amount Due	December 31, 2020 Weighted Average Rate(1)
	(Dollars in thousands)			
Year of Maturity:				
2021	$ —	— %	$ 175,000	1.84 %
2022	50,000	1.81	—	—
Total advances	$ 50,000	1.81 %	$ 175,000	1.84 %

(1) The Company's FHLB borrowings are subject to longer term swap agreements and the weighted average rate reflects the all in swap rate under these long term swap agreements.

$50 million of the above mentioned FHLB advances as of December 31, 2021 were subject to interest rate swap transactions and $175 million of the above mentioned FHLB advances as of December 31, 2020 were subject to interest rate swap transactions, see Note 18.

Interest expense on FHLB advances totaled $1.4 million and $3.1 million for the years ended December 31, 2021 and December 31, 2020, respectively.

The Bank has additional borrowing capacity at the FHLB up to a certain percentage of the value of qualified collateral. In accordance with agreements with the FHLB, the qualified collateral must be free and clear of liens, pledges and encumbrances. At December 31, 2021, the Company had pledged eligible loans with a book value of $657.1 million as collateral to support borrowing capacity at the FHLB of Boston. As of December 31, 2021, the Company has immediate availability to borrow an additional $349.1 million based on qualified collateral.

At December 31, 2021, the Bank had a secured letter of credit with the FHLB and unsecured lines of credit with Atlantic Community Bankers Bank, Zions Bank and Texas Capital Bank. The total letter or line of credit and the amount outstanding at December 31, 2021 is summarized below:

	December 31, 2021	
	Total Letter or Line of Credit	Total Outstanding
	(In thousands)	
FHLB	$ 20,000	$ —
Atlantic Community Bankers Bank	12,000	—
Zions Bank	25,000	—
Texas Capital Bank	5,000	—
Total	$ 62,000	$ —

Federal Home Loan Bank Stock

As a member of the FHLB, the Bank is required to maintain investments in their capital stock. The Bank owned 28,140 shares and 78,596 shares at December 31, 2021 and December 31, 2020, respectively. There is no ready market or quoted market values for the stock and as such is classified as restricted stock. The shares have a par value of $100 and are carried on the consolidated balance sheets at cost, and evaluated for impairment, as the stock is only redeemable at par subject to the redemption practices of the FHLB.

The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank; and (d) the liquidity position of the Federal Home Loan Bank.

Management evaluated the stock and concluded that the stock was not impaired as of December 31, 2021 or December 31, 2020.

11. Subordinated Debentures

On August 19, 2015, the Company completed a private placement of $25.5 million in aggregate principal amount of fixed rate subordinated notes (the "Notes") to certain institutional investors. The Notes were non-callable for five years, had a stated maturity of August 15, 2025, and bore interest at a quarterly pay fixed rate of 5.75% per annum to the maturity date. The Notes became callable, in part or in whole, beginning August 2020. On May 15, 2021, the Company repaid $10.0 million of the 2015 Notes and on November 15, 2021, the Company repaid the remaining $15.5 million of the 2015 Notes.

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

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

The 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 December 31, 2021 and 2020, unamortized debt issuance costs were $0.6 million and $0.2 million, respectively. Debt issuance costs amortize over the expected life of the related debt. For the years ended December 31, 2021 and 2020 the amortization expense for debt issuance costs were $0.3 million and $0.1 million, respectively, and were recognized as an increase to interest expense on borrowings within the consolidated statements of income.

The Company recognized $1.2 million and $1.5 million in interest expense related to its subordinated debt for the years ended December 31, 2021 and 2020, respectively.

12. Commitments and Contingencies

Leases

As of December 31, 2021, the Company leases real estate for eight branch offices under various operating lease agreements. The branch leases have maturities ranging from 2022 to 2031, some of which include options to extend the lease term. Reference Note 7 for further detail.

Legal matters

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

Off-balance sheet instruments

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customers default, and the value of any existing collateral becomes worthless. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that they control the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contract amounts represented credit risk at December 31, 2021 and December 31, 2020 were as follows:

	December 31,	
	2021	2020
	(In thousands)	
Commitments to extend credit:		
Loan commitments	$ 266,915	$ 114,574
Undisbursed construction loans	125,700	117,457
Unused home equity lines of credit	4,254	5,029
	$ 396,869	$ 237,060

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract or certain milestones in the case of construction loans or otherwise required collateral under borrowing base limits are met. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies, but may include residential and commercial property, deposits and securities.

These commitments subject the Company to potential exposure in excess of amounts recorded in the financial statements, and therefore, management maintains a specific reserve for unfunded credit commitments. This reserve is reported as a component of accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets. The reserve for unfunded commitments totaled $170 thousand at December 31, 2021 and $90 thousand at December 31, 2020.

As of December 31, 2021, the Bank had a remaining capital commitment of $3.6 million to two Small Business Investment Companies ("SBIC"). One of these lending funds represents a related party business entity associated with one of the Company's Directors. Contributions to these funds represent an equity investment for the Company. In addition, as of December 31, 2021, the Bank had a commitment of $0.1 million, payable evenly over two years, to a non-profit business.

13. Income Taxes

The components of income tax expense for the years ended December 31, 2021 and December 31, 2020 consisted of:

	December 31, 2021	December 31, 2020
	(In thousands)	
Current provision:		
Federal	$ 5,023	$ 4,295
State	553	618
Total current	5,576	4,913
Deferred provision (credit):		
Federal	1,655	(3,071)
State	44	(445)
Total deferred	1,699	(3,516)
Total income tax expense	$ 7,275	$ 1,397

In October, 2015, the Company created Bankwell Loan Servicing Group, Inc., a Passive Investment Company ("PIC") organized for state income tax purposes. The PIC is a wholly-owned subsidiary of the Bank operating in accordance with Connecticut statutes. The PIC's activities are limited in scope to holding and managing loans that are collateralized by real estate. Income earned by a PIC is determined in accordance with the statutory requirements for a passive investment company and the dividends paid by the PIC to the Bank are not taxable income for Connecticut income tax purposes. As a result of the formation of the PIC, the Bank is currently not subject to Connecticut income taxes. State taxes are being recognized for income taxes on income earned in other states.

A reconciliation of the anticipated income tax expense, computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2021 and December 31, 2020 to the income before income taxes, to the amount reported in the consolidated statements of income for the years ended December 31, 2021 and December 31, 2020 was as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Income tax expense at statutory federal rate	$ 7,111	$ 1,533
State tax expense	597	174
Income exempt from tax	(366)	(345)
Stock compensation	28	101
Deferred director fees	(20)	2
Other items, net	(75)	(68)
Income tax expense	$ 7,275	$ 1,397

At December 31, 2021 and December 31, 2020, the components of deferred tax assets and liabilities were as follows:

	December 31,	
	2021	2020
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,829	$ 4,724
Net operating loss carryforwards	407	444
Deferred fees	1,697	1,433
Deferred director fees	488	341
Start-up costs	41	70
Unrealized loss on derivatives	2,935	5,246
Lease liabilities	3,402	2,009
Other	1,019	1,311
Gross deferred tax assets	13,818	15,578
Deferred tax liabilities:		
Deferred expenses	1,066	774
Servicing rights	180	136
Core deposit intangible	—	17
Depreciation	991	309
Unrealized gain on available for sale securities	475	786
Right-of-use-assets	3,228	1,986
Other	257	270
Gross deferred tax liabilities	6,197	4,278
Net deferred tax asset	$ 7,621	$ 11,300

A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Management evaluated its remaining deferred tax assets and believes no valuation allowances were needed at December 31, 2021 or December 31, 2020.

At December 31, 2021, the Company had federal net operating loss carryovers of $1.9 million. The carryovers were transferred to the Company upon the merger with The Wilton Bank. The losses will expire after 2032 and are subject to certain annual limitations which amount to $176 thousand per annum.

Management regularly analyzes their tax positions and at December 31, 2021 management has established a reserve for uncertain tax positions in conjunction with the Company's out of state lending activity. The total reserve for uncertain tax positions totaled $265 thousand as of December 31, 2021. The tax years 2018 and subsequent are subject to examination by federal and state taxing authorities. The statute of limitations has expired on the years before 2018. No examinations are currently in process.

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

	At December 31,	
	2021	2020
	(In thousands)	
Balance, beginning of year	$ 394	$ 269
Net (reductions) additions relating to potential liability with taxing authorities	(129)	125
Balance, end of year	$ 265	$ 394

14. 401(K) Profit Sharing Plan

The Company's employees are eligible to participate in The Bankwell Financial Group, Inc. and its Subsidiaries and Affiliates 401(k) Plan (the "401k Plan"). The 401k Plan covers substantially all employees who are at least 21 years of age. Under the terms of the 401k Plan, participants can contribute up to a certain percentage of their compensation, subject to federal limitations. The Company matches eligible contributions and may make discretionary matching and/or profit sharing contributions. Participants are immediately vested in their contributions and become fully vested in the Company's contributions after completing five years of service. The Company expensed $275 thousand and $297 thousand related to the 401k Plan during the years ended December 31, 2021 and December 31, 2020, respectively.

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

	For the Years Ended December 31,	
	2021	**2020**
	(In thousands, except per share data)	
Net income	$ 26,586	$ 5,904
Dividends to participating securities(1)	(97)	(70)
Undistributed earnings allocated to participating securities(1)	(412)	(23)
Net income for earnings per share calculation	$ 26,077	$ 5,811
Weighted average shares outstanding, basic	7,706	7,728
Effect of dilutive equity-based awards(2)	56	20
Weighted average shares outstanding, diluted	7,762	7,748
Net earnings per common share:		
Basic earnings per common share	$ 3.38	$ 0.75
Diluted earnings per common share	$ 3.36	$ 0.75

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

16. 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 "Plan." The current plan under which any future issuances of equity awards will be made is the 2012 BNC Financial Group, Inc. Stock Plan, or the "2012 Plan," as amended from time-to-time. All equity awards made under the 2012 Plan are made by means of an award agreement, which contains the specific terms and conditions of the grant. To date, all equity awards have been in the form of stock options or restricted stock. At December 31, 2021, there were 542,221 shares reserved for future issuance under the 2012 Plan.

Stock options: The Company accounts for stock options based on the fair value at the date of grant and records an expense over the vesting period of such awards on a straight line basis.

There were no options granted during the years ended December 31, 2021 or December 31, 2020.

A summary of the status of outstanding stock options at December 31, 2021 is presented below:

	December 31, 2021	
	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	15,180	$ 16.82
Exercised	(3,500)	15.00
Options outstanding at end of period	11,680	17.37
Options exercisable at end of period	11,680	17.37

Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date. The total intrinsic value of stock options exercised during the years ended December 31, 2021 and December 31, 2020 was $19.0 thousand and $27.0 thousand, respectively.

The range of exercise prices for the 11,680 options exercisable at December 31, 2021 was $15.00 to $17.86 per share. The weighted average remaining contractual life for these options was 1.2 years at December 31, 2021. At December 31, 2021, as all awarded options have vested, all of the outstanding options are exercisable, and the aggregate intrinsic value of these options was $181 thousand.

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

The following table presents the activity for restricted stock for the year ended December 31, 2021:

	December 31, 2021	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	163,369 (1)	$ 26.22
Granted	71,308 (2)	22.77
Vested	(44,168) (3)	27.75
Forfeited	(150)	33.02
Unvested at end of period	190,359	24.57

(1) Includes 15,099 shares of performance based restricted stock.
(2) Includes 18,843 shares of performance based restricted stock.
(3) Includes 4,480 shares of performance based restricted stock.

The total fair value of restricted stock awards vested during the year ended December 31, 2021 was $1.1 million.

The Company’s restricted stock expense for the years ended December 31, 2021 and December 31, 2020 was $1.8 million and $1.8 million, respectively. At December 31, 2021, there was $3.2 million of unrecognized stock compensation expense for restricted stock, expected to be recognized over a weighted average period of 2.8 years.

Performance based restricted stock: The Company has 29,462 shares of performance based restricted stock outstanding as of December 31, 2021 pursuant to the Company’s 2012 Stock Plan. The awards vest over a three year service period, provided certain performance metrics are met. The share quantity that ultimately vests can range between 0% and 200%, which is dependent on the degree to which the performance metrics are met. The Company records an expense over the vesting period based on (a) the probability that the performance metric will be met and (b) the fair market value of the Company’s stock at the date of the grant.

17. Comprehensive Income

Comprehensive income represents the sum of net income and items of other comprehensive income or loss, including net unrealized gains or losses on securities available for sale and net unrealized gains or losses on derivatives. The Company's derivative instruments are utilized to manage economic risks, including interest rate risk. Changes in fair value of the Company's derivatives are primarily driven by changes in interest rates and recognized in other comprehensive income. The

Company's current derivative positions will cause a decrease to other comprehensive income in a falling interest rate environment and an increase in a rising interest rate environment. The Company's total comprehensive income or loss for the years ended December 31, 2021 and December 31, 2020 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 years ended December 31, 2021 and December 31, 2020:

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
		(In thousands)	
Balance at December 31, 2020	$ 2,744	$ (18,319)	$ (15,575)
Other comprehensive (loss) income before reclassifications, net of tax	(1,093)	5,212	4,119
Amounts reclassified from accumulated other comprehensive income, net of tax	—	2,895	2,895
Net other comprehensive (loss) income	(1,093)	8,107	7,014
Balance at December 31, 2021	$ 1,651	$ (10,212)	$ (8,561)

	Net Unrealized Gain (Loss) on Available for Sale Securities	Net Unrealized Gain (Loss) on Interest Rate Swaps	Total
		(In thousands)	
Balance at December 31, 2019	$ 928	$ (8,444)	$ (7,516)
Other comprehensive income (loss) before reclassifications, net of tax	1,816	(11,481)	(9,665)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	1,606	1,606
Net other comprehensive income (loss)	1,816	(9,875)	(8,059)
Balance at December 31, 2020	$ 2,744	$ (18,319)	$ (15,575)

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

Accumulated Other Comprehensive Income (Loss) Components	For the Years Ended December 31, 2021	2020	Associated Line Item in the Consolidated Statements Of Income
	(In thousands)		
Derivatives:			
Unrealized losses on derivatives	$ (3,719)	$ (2,094)	Interest expense on borrowings
Tax benefit	824	488	Income tax expense
Net of tax	$ (2,895)	$ (1,606)	

18. Derivative Instruments

The Company manages economic risks, including interest rate, liquidity, and credit risk by managing the amount, sources, and duration of its funding along with the use of interest rate derivative financial instruments, namely interest rate swaps. The Company does not use derivatives for speculative purposes. As of December 31, 2021, the Company was a party to eight interest rate swaps, designated as hedging instruments, to add stability to interest expense and to manage its exposure to the variability of the future cash flows attributable to the contractually specified interest rates. The notional amount for each swap is $25 million and in each case, the Company has entered into pay-fixed interest rate swaps to convert rolling 90 days Federal Home Loan Bank advances or brokered deposits. As of December 31, 2021, the Company is party to four interest rate swaps not designated as hedging instruments, to minimize interest rate risk exposure with loans to customers.

The Company accounts for all non-borrower related interest rate swaps as effective cash flow hedges. None of the interest rate swap agreements contain any credit risk related contingent features. A hedging instrument is expected at inception to be highly effective at offsetting changes in the hedged transactions attributable to the changes in the hedged risk.

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

Interest rate swaps with a positive fair value are recorded as other assets and interest rate swaps with a negative fair value are recorded as other liabilities on the Consolidated Balance Sheets.

Information about derivative instruments for the years ended December 31, 2021 and December 31, 2020 is as follows:

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

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

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

	As of December 31, 2020										
	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:											
Interest rate swaps	$	—	Other assets	$	—	$	225,000	Accrued expenses and other liabilities	$	(23,567)	
Derivatives not designated as hedging instruments:											
Interest rate swaps(1)	$	38,500	Other assets	$	4,444	$	38,500	Accrued expenses and other liabilities	$	(4,444)	

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

Accrued interest payable related to interest rate swaps as of December 31, 2020 totaled $0.6 million and is excluded from the fair value presented in the table above. The fair value of interest rate swaps in a net liability position, including accrued interest, totaled $24.2 million as of December 31, 2020.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company expects to reclassify $2.9 million to interest expense during the next 12 months.

The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction. The Company does not offset derivative assets and derivative liabilities for financial statement presentation purposes.

Changes in the consolidated statements of comprehensive income (loss) related to interest rate derivatives designated as hedges of cash flows were as follows for the years ended December 31, 2021 and December 31, 2020:

	December 31, 2021		December 31, 2020	
	(In thousands)			
Interest rate swaps designated as cash flow hedges:				
Unrealized income (loss) recognized in accumulated other comprehensive (loss) income before reclassifications	$	6,696	$	(14,970)
Amounts reclassified from accumulated other comprehensive income		3,719		2,094
Income tax (expense) benefit on items recognized in accumulated other comprehensive (loss) income		(2,308)		3,001
Other comprehensive income (loss)	$	8,107	$	(9,875)

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

The following tables summarize gross and net information about derivative instruments that are offset in the Consolidated Balance Sheets at December 31, 2021 and December 31, 2020:

	December 31, 2021					
	(In thousands)					
				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	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	Financial Instruments	Cash Collateral Received	Net Amount
Derivative Assets	$ 3,604	$ —	$ 3,604	$ 217	$ —	$ 3,387

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

	December 31, 2021					
	(In thousands)					
				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	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	Financial Instruments	Cash Collateral Posted(2)	Net Amount
Derivative Liabilities	$ 17,338	$ —	$ 17,338	$ 217	$ 15,845	$ 1,276

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

	December 31, 2020					
	(In thousands)					
				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	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	Financial Instruments	Cash Collateral Received	Net Amount
Derivative Assets	$ 4,484	$ —	$ 4,484	$ —	$ —	$ 4,484

(1) Includes accrued interest receivable totaling $40 thousand

	December 31, 2020					
	(In thousands)					
				Gross Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivative Liabilities	$ 28,673	$ —	$ 28,673	$ —	$ 28,205	$ 468

(1) Includes accrued interest payable totaling $662 thousand.

19. 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 December 31, 2021 and December 31, 2020 were as follows:

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

	December 31, 2020				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Financial assets:					
Cash and due from banks	$ 405,340	$ 405,340	$ 405,340	$ —	$ —
Federal funds sold	4,258	4,258	4,258	—	—
Marketable equity securities	2,207	2,207	2,207	—	—
Available for sale securities	88,605	88,605	10,148	78,457	—
Held to maturity securities	16,078	20,032	—	70	19,962
Loans receivable, net	1,601,672	1,605,402	—	—	1,605,402
Accrued interest receivable	6,579	6,579	—	6,579	—
FHLB stock	7,860	7,860	—	7,860	—
Servicing asset, net of valuation allowance	628	628	—	—	628
Derivative asset	4,444	4,444	—	4,444	—
Assets held for sale	2,613	2,613	—	—	2,613
Financial liabilities:					
Noninterest bearing deposits	$ 270,235	$ 270,235	$ —	$ 270,235	$ —
NOW and money market	771,101	771,101	—	771,101	—
Savings	158,750	158,750	—	158,750	—
Time deposits	627,230	631,891	—	—	631,891
Accrued interest payable	1,750	1,750	—	1,750	—
Advances from the FHLB	175,000	174,997	—	—	174,997
Subordinated debentures	25,258	25,447	—	—	25,447
Servicing liability	21	21	—	—	21
Derivative liability	28,011	28,011	—	28,011	—

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

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

Marketable equity securities, available for sale securities and held to maturity 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 a U.S. treasury note and in marketable equity securities for which a quoted price is readily available in the market. Level 3 held to maturity securities represent private placement municipal housing authority bonds for which no quoted market price is available. The fair value for these securities is estimated using a discounted cash flow model, using discount rates ranging from 3.3% to 4.6% as of December 31, 2021 and 2.9% to 3.3% as of December 31, 2020. These securities are CRA eligible investments.

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

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

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.

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

Borrowings and subordinated debentures: The fair value of the Company's borrowings and subordinated debentures is estimated using a discounted cash flow calculation that applies discount rates currently offered based on similar maturities. The Company also considers its own creditworthiness in determining the fair value of its borrowings and subordinated debt. Contractual cash flows for the subordinated debt are reduced based on the estimated rates of default, the severity of losses to be incurred on a default, and the rates at which the subordinated debt is expected to prepay after the call date.

Off-balance-sheet instruments: Loan commitments on which the committed interest rate is less than the current market rate are insignificant at December 31, 2021 and December 31, 2020.

20. Fair Value Measurements

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

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

Level 2 — Significant other observable inputs other than Level 1 prices such as quoted prices for similar 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 December 31, 2021 and December 31, 2020, 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 years ended December 31, 2021 and December 31, 2020.

	Fair Value		
	Level 1	Level 2	Level 3
		(In thousands)	
December 31, 2021			
Marketable equity securities	$ 2,168	$ —	$ —
Available for sale investment securities:			
U.S. Government and agency obligations	25,569	49,620	—
Corporate bonds	—	15,009	—
Derivative asset	—	3,628	—
Derivative liability	—	16,780	—
December 31, 2020			
Marketable equity securities	$ 2,207	$ —	$ —
Available for sale investment securities:			
U.S. Government and agency obligations	10,148	66,730	—
Corporate bonds	—	11,727	—
Derivative asset	—	4,444	—
Derivative liability	—	28,011	—

Marketable equity securities and available for sale 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 also considers the creditworthiness of each counterparty for assets and the creditworthiness of the Company for liabilities. 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 December 31, 2021 and December 31, 2020, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

	Fair Value		
	Level 1	Level 2	Level 3
		(In thousands)	
December 31, 2021			
Impaired loans	$ —	$ —	$ 44,313
Servicing asset, net	—	—	804
Assets held for sale	—	—	2,268
December 31, 2020			
Impaired loans	$ —	$ —	$ 42,661
Servicing asset, net	—	—	607
Assets held for sale	—	—	2,613

The following table presents information about quantitative inputs and assumptions for Level 3 financial instruments carried at fair value on a nonrecurring basis at December 31, 2021 and December 31, 2020:

	Fair Value		Valuation Methodology	Unobservable Input	Range
			(Dollars in thousands)		
December 31, 2021					
Impaired loans	$	18,548	Appraisals	Discount to appraised value	8.00 %
		25,765	Discounted cash flows	Discount rate	3.00–6.75%
	$	44,313			
Servicing asset, net	$	804	Discounted cash flows	Discount rate	10.00% (1)
				Prepayment rate	3.00-17.00%
Assets held for sale	$	2,268	Sale & Income Approach	Adjustment to valuation and cost to sell	N/A
December 31, 2020					
Impaired loans	$	20,703	Appraisals	Discount to appraised value	8.00–33.00%
		21,958	Discounted cash flows	Discount rate	3.00–12.00%
	$	42,661			
Servicing asset, net	$	607	Discounted cash flows	Discount rate	10.00 % (2)
				Prepayment rate	3.00-16.00%
Assets held for sale	$	2,613	Sale & Income Approach	Adjustment to valuation and cost to sell	N/A

(1) Servicing liabilities totaling $14 thousand were valued using a discount rate of 0.8%.
(2) Servicing liabilities totaling $21 thousand were valued using a discount rate of 0.2%.

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

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

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

21. 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 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.

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 December 31, 2021, 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 December 31, 2021 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
			(Dollars in thousands)			
Bankwell Bank						
December 31, 2021						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 232,106	11.18 %	$ 145,353	7.00 %	$ 134,971	6.50 %
Total Capital to Risk-Weighted Assets	249,178	12.00 %	218,030	10.50 %	207,648	10.00 %
Tier I Capital to Risk-Weighted Assets	232,106	11.18 %	176,500	8.50 %	166,118	8.00 %
Tier I Capital to Average Assets	232,106	9.94 %	93,392	4.00 %	116,740	5.00 %
Bankwell Financial Group, Inc.						
December 31, 2021						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 207,393	9.97 %	$ 145,629	7.00 %	N/A	N/A
Total Capital to Risk-Weighted Assets	260,024	12.50 %	218,443	10.50 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	207,393	9.97 %	176,835	8.50 %	N/A	N/A
Tier I Capital to Average Assets	207,393	8.87 %	93,534	4.00 %	N/A	N/A

The capital amounts and ratios for the Bank and Company at December 31, 2020 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
			(Dollars in thousands)			
Bankwell Bank						
December 31, 2020						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 191,579	11.06 %	$ 121,216	7.00 %	$ 112,558	6.50 %
Total Capital to Risk-Weighted Assets	212,588	12.28 %	181,825	10.50 %	173,166	10.00 %
Tier I Capital to Risk-Weighted Assets	191,579	11.06 %	147,191	8.50 %	138,533	8.00 %
Tier I Capital to Average Assets	191,579	8.44 %	90,836	4.00 %	113,545	5.00 %
Bankwell Financial Group, Inc.						
December 31, 2020						
Common Equity Tier 1 Capital to Risk-Weighted Assets	$ 189,529	10.93 %	$ 121,408	7.00 %	N/A	N/A
Total Capital to Risk-Weighted Assets	230,696	13.30 %	182,111	10.50 %	N/A	N/A
Tier I Capital to Risk-Weighted Assets	189,529	10.93 %	147,423	8.50 %	N/A	N/A
Tier I Capital to Average Assets	189,529	8.34 %	90,916	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 Company. In accordance with Connecticut statutes, regulatory approval is required to pay dividends in excess of the Bank's profits retained in the current year plus retained profits from the previous two years. The Bank is also prohibited from paying dividends that would reduce its capital ratios below minimum regulatory requirements.

Reserve requirements on cash

The Bank was not required to maintain a minimum reserve balance in the Federal Reserve Bank (FRB) at December 31, 2021 or December 31, 2020 as the FRB has waived this requirement due to the COVID-19 pandemic.

22. Related Party Transactions

In the normal course of business, the Company may grant loans to executive officers, directors and members of their immediate families, as defined, and to entities in which these individuals have more than a 10% equity ownership. Such loans are transacted at terms including interest rates, similar to those available to unrelated customers. Changes in loans outstanding to such related parties during the years ending December 31, 2021 and December 31, 2020 were as follows:

	December 31,	
	2021	2020
	(In thousands)	
Balance, beginning of year	$ 30,592	$ 66
Additional loans	—	30,529
Repayments	(5,176)	(3)
Balance, end of year	$ 25,416	$ 30,592

Related party deposits aggregated approximately $53.8 million and $17.4 million at December 31, 2021 and December 31, 2020, respectively.

During the years ended December 31, 2021 and December 31, 2020, the Company paid approximately $13 thousand and $16 thousand, respectively, to related parties for services provided to the Company. The payments were primarily for consulting and legal services.

As of December 31, 2021, the Bank had a $0.8 million investment in a SBIC that represents a related party business entity associated with one of the Company's Directors. Contributions to this fund represent an equity investment for the Company.

23. Parent Company Only Financial Statements

Bankwell Financial Group, Inc., the Parent Company, operates its wholly-owned subsidiary, Bankwell Bank. The earnings of this subsidiary are recognized by the Parent Company using the equity method of accounting. Accordingly, earnings are recorded as increases in the Parent Company's investment in the subsidiary and dividends paid reduce the investment in the subsidiary.

Condensed financial statements of the Parent Company only are as follows:

Condensed Statements of Financial Condition

	At December 31,	
	2021	**2020**
	(In Thousands)	
ASSETS		
Cash and due from banks	$ 9,520	$ 22,780
Investment in subsidiary	226,700	178,651
Premises and equipment, net	—	3
Deferred income taxes, net	332	205
Other assets	3,667	2,525
Total assets	$ 240,219	$ 204,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	$ 34,441	$ 25,258
Accrued expenses and other liabilities	3,791	2,304
Shareholders' equity	201,987	176,602
Total liabilities and shareholders' equity	$ 240,219	$ 204,164

Condensed Statements of Income

	Year Ended December 31,	
	2021	**2020**
	(In Thousands)	
Interest income	$ 27	$ 16
Dividend income from subsidiary	—	24,600
Total income	27	24,616
Expenses	4,476	4,325
Income before equity in undistributed earnings of subsidiaries	(4,449)	20,291
Equity in undistributed earnings of subsidiaries	31,035	(14,387)
Net Income	$ 26,586	$ 5,904

Condensed Statements of Cash Flows

	For the Years Ended December 31, 2021	2020
	(In Thousands)	
Cash flows from operating activities		
Net income	$ 26,586	$ 5,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings	(31,035)	14,387
(Increase) decrease in other assets	(1,142)	327
Increase in deferred income taxes, net	(127)	(18)
Increase (decrease) in other liabilities	1,487	(654)
Stock-based compensation	1,834	1,770
Amortization of debt issuance costs	265	52
Net cash (used in) provided by operating activities	(2,132)	21,768
Cash flows from investing activities		
Decrease in premises and equipment, net	3	4
Net cash provided by investing activities	3	4
Cash flows from financing activities		
Issuance of subordinated debt	34,418	—
Retirement of subordinated debt	(25,500)	—
Proceeds from exercise of options & warrants	53	16
Dividends paid on common stock	(5,025)	(4,389)
Repurchase of common stock	(5,077)	(1,037)
Capital contribution to Bank	(10,000)	—
Net cash used in financing activities	(11,131)	(5,410)
Net (decrease) increase in cash and cash equivalents	(13,260)	16,362
Cash and cash equivalents:		
Beginning of year	22,780	6,418
End of year	$ 9,520	$ 22,780
Supplemental disclosures of cash flows information:		
Cash paid for:		
Interest	—	—
Income taxes	—	—

24. Subsequent Events

The Company's Board of Directors declared a $0.20 per share cash dividend, payable February 24, 2022 to shareholders of record on February 14, 2022, representing an 11% increase when compared to the prior quarter's dividend.

Subsequent to the year ended December 31, 2021, as of March 7, 2022, the Company purchased 109,564 shares of its Common Stock at a weighted average price of $34.01 per share.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of Bankwell’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, management, including the Chief Executive Officer and Chief Financial Officer, concluded that Bankwell’s disclosure controls and procedures were effective as of the end of the period covered by this report.

Internal Control over Financial Reporting

Bankwell’s management has issued a report on its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021. As of December 31, 2021, senior management concluded that Bankwell maintained effective internal control over financial reporting.

There were no changes made in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. The report of the Company's management follows.

Management’s Report on Internal Control over Financial Reporting

The management of Bankwell Financial Group and its Subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company’s internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer 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.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2021 based on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management’s assessment, management concluded that, as of December 31, 2021, the Company’s internal control over financial reporting was effective based on criteria established in *Internal Control-Integrated Framework* (2013) issued by COSO.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In accordance with the rules and regulations of the SEC, management’s report on the design and effectiveness of Bankwell’s system of internal control over financial reporting is not subject to attestation by Bankwell’s independent registered public accounting firm. The SEC rules and regulations applicable to Bankwell only require a report by management. Accordingly, this annual report filed on Form 10-K for the year ended December 31, 2021 does not include an opinion by Bankwell’s independent registered public accounting firm regarding management’s system of internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company responds to this item by incorporating herein by reference the material responsive to such item in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed with the Commission no later than April 30, 2022.

Item 11. Executive Compensation

The Company responds to this item by incorporating herein by reference the material responsive to such item in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed with the Commission no later than April 30, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Company responds to this item by incorporating herein by reference the material responsive to such item in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed with the Commission no later than April 30, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company responds to this item by incorporating herein by reference the material responsive to such item in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed with the Commission no later than April 30, 2022.

Item 14. Principal Accountant Fees and Services

The Company responds to this item by incorporating herein by reference the material responsive to such item in the Company's definitive proxy statement for its 2022 Annual Meeting of Stockholders, to be filed with the Commission no later than April 30, 2022.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(A)(1) FINANCIAL STATEMENTS

The following consolidated financial statements of the Company are included in Item 8 of this report:

(A)(2) FINANCIAL STATEMENT SCHEDULES

Certain schedules to the consolidated financial statements have been omitted if they were not required by Article 9 of Regulation S-X or if, under the related instructions, they were inapplicable, or the information was contained elsewhere herein.

(A)(3) EXHIBITS

The exhibits listed in the Exhibit Index in this Form 10-K are filed herewith or are incorporated herein by reference to other SEC filings.

Exhibit Index

Number	Description
Exhibit 3.1	Certificate of Incorporation as amended to date [1]
Exhibit 3.2	Amended and Restated Bylaws [1]
Exhibit 4.1	Description of the Registrant's Common Stock[5]
Exhibit 10.1†	Employment Agreement of Christopher R. Gruseke dated December 29, 2016 [3]
Exhibit 10.2†	2002 Bank Management, Director and Founder Stock Option Plan [1]
Exhibit 10.3†	2006 Bank of New Canaan Stock Option Plan [1]
Exhibit 10.4†	2007 Bank of New Canaan Stock Option and Equity Award Plan [1]
Exhibit 10.5†	2011 BNC Financial Group, Inc. Stock Option and Equity Award Plan [1]
Exhibit 10.6†	2012 BNC Financial Group, Inc. Stock Plan [1]
Exhibit 10.7†	Amendment to the 2012 BNC Financial Group, Inc. Stock Plan [1]
Exhibit 10.8†	BNC Financial Group, Inc. and Affiliates Deferred Compensation Plan for Directors, January 23, 2008[1]
Exhibit 10.9†	Employment Agreement of Penko Ivanov [4]
Exhibit 10.10	Form of Director Indemnification Agreement [2]
Exhibit 10.11	Form of Executive Officer Indemnification Agreement [2]
Exhibit 10.12†	Employment Agreement of Christine Chivily [4]
Exhibit 10.13	Agreement dated February 5, 2020 between Lawrence B. Seidman and Bankwell Financial Group, Inc.[5]
Exhibit 10.14†	Employment Agreement of Matthew McNeill [6]
Exhibit 10.15†	2018 Bankwell Financial Group, Inc. Long-Term Incentive Plan [6]
Exhibit 21.1	Subsidiaries of the Registrant [1]
Exhibit 23.1	Consent of RSM US LLP
Exhibit 31.1	Certification of Christopher R. Gruseke Pursuant to Rule 13a-14(a)
Exhibit 31.2	Certification of Penko Ivanov pursuant to Rule 13a-14(a)
Exhibit 32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Bankwell Financial Group, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2021, formatted in Inline eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Management contract or compensatory plan or arrangement

(1) Filed as part of the Registrant's Registration Statement on Form S-1 filed on April 4, 2014.

(2) Filed as part of the Registrant's Amendment No. 1 to Registration Statement on Form S-1 filed on May 5, 2014.

(3) Filed as part of the Registrant's December 31, 2016 Form 10-K.

(4) Filed as part of the Registrant's June 30, 2018 Form 10-Q.

(5) Filed as part of the Registrant's December 31, 2019 Form 10-K

(6) Filed as part of the Registrant's December 31, 2020 Form 10-K

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANKWELL FINANCIAL GROUP, INC.

By: /s/ Christopher R. Gruseke

Christopher R. Gruseke
President and Chief Executive Officer

Dated: March 8, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature & Title	Date
/s/ Christopher R. Gruseke	March 8, 2022
Christopher R. Gruseke President, Chief Executive Officer and a Director (principal executive officer)	
/s/ Penko Ivanov	March 8, 2022
Penko Ivanov Executive Vice President & Chief Financial Officer (principal financial and accounting officer)	
/s/ George P. Bauer	March 8, 2022
George P. Bauer Director	
/s/ Gail Brathwaite	March 8, 2022
Gail Brathwaite Director	
/s/ Richard Castiglioni	March 8, 2022
Richard Castiglioni Director	
/s/ Eric J. Dale	March 8, 2022
Eric J. Dale Director	
/s/ Blake S. Drexler	March 8, 2022
Blake S. Drexler Director	
/s/ James M. Garnett	March 8, 2022
James M. Garnett Director	
/s/ Daniel S. Jones	March 8, 2022
Daniel S. Jones Director	
/s/ Todd Lampert	March 8, 2022
Todd Lampert Director	
/s/ Victor S. Liss	March 8, 2022
Victor S. Liss Director	
/s/ Carl M. Porto	March 8, 2022
Carl M. Porto Director	
/s/ Lawrence B. Seidman	March 8, 2022
Lawrence B. Seidman Director	

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Nos. 333-197040 and 333-199104) on Form S-8 and (No. 333-205922) on Form S-3 of Bankwell Financial Group, Inc. of our report dated March 8, 2022, relating to the consolidated financial statements of Bankwell Financial Group, Inc., appearing in this Annual Report on Form 10-K of Bankwell Financial Group, Inc. for the year ended December 31, 2021.

/s/ RSM US LLP

Hartford, Connecticut
March 8, 2022

Exhibit 31.1

CERTIFICATIONS

I, Christopher R. Gruseke, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 8, 2022

/s/ Christopher R. Gruseke
Christopher R. Gruseke
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Penko Ivanov, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 8, 2022

/s/ Penko Ivanov
Penko Ivanov
Executive Vice President and Chief
Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

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

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

To the best of their knowledge, the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (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: March 8, 2022

/s/ Penko Ivanov

Penko Ivanov
Executive Vice President and Chief Financial Officer
Date: March 8, 2022