Section 1: 10-Q (FORM 10-Q)

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from _______________ to ______________________

Commission File No. 001-37504

Provident Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts	**45-3231576**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5 Market Street, Amesbury, Massachusetts	**01913**
(Address of Principal Executive Offices)	Zip Code

(978) 834-8555
(Registrant's telephone number)

N/A
(Former name or former address, if changed since last report)

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 requirements for the past 90 days.
YES ☒ NO☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ☒ NO ☐.

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

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

(Do not check if a smaller reporting company)

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

As of November 14, 2016, there were 9,498,722 shares of the Registrant’s common stock, no par value per share, issued and outstanding.

Provident Bancorp, Inc.
Form 10-Q

		Page
Part I.	**Financial Information**	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015	2
	Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	3
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)	4
	Consolidated Statements of Changes in Shareholders’ Equity for the Nine Months Ended September 30, 2016 and 2015 (unaudited)	5
	Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015 (unaudited)	6-7
	Notes to Consolidated Financial Statements (unaudited)	8-27
Item 2.	Managements Discussion and Analysis of Financial Condition and Results of Operation	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	43
Item 4.	Controls and Procedures	43
Part II.	**Other Information**	
Item 1.	Legal Proceedings	43
Item 1A.	Risk Factors	43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3.	Defaults upon Senior Securities	43
Item 4.	Mine Safety Disclosures	43
Item 5.	Other Information	43
Item 6.	Exhibits	44
Signatures		45
Exhibit Index		

Table of Contents

Part I. Financial Information
Item 1. Financial Statements

PROVIDENT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands)	At September 30, 2016 *(unaudited)*	At December 31, 2015
Assets		
Cash and due from banks	$ 9,528	$ 7,302
Interest-bearing demand deposits with other banks	12,581	12,865
Money market mutual funds	681	297
Cash and cash equivalents	22,790	20,464
Investments in available-for-sale securities (at fair value)	115,462	80,984
Investments in held-to-maturity securities (fair value of $46,474 as of December 31, 2015)	-	44,623
Federal Home Loan Bank stock, at cost	2,467	3,310
Loans, net	589,364	554,929
Bank owned life insurance	19,252	18,793
Premises and equipment, net	11,682	11,606
Accrued interest receivable	2,018	2,251
Deferred tax asset, net	3,786	5,056
Other assets	1,381	1,381
Total assets	$ 768,202	$ 743,397
Liabilities and Equity		
Deposits:		
Noninterest-bearing	$ 160,851	$ 153,093
Interest-bearing	449,480	424,142
Total deposits	610,331	577,235
Federal Home Loan Bank advances	41,458	57,423
Other liabilities	8,070	7,333
Total liabilities	659,859	641,991
Shareholders' equity:		
Preferred stock; authorized 50,000 shares: 0 shares issued and outstanding	-	-
Common stock, no par value: 30,000,000 shares authorized; 9,498,722 shares issued and outstanding	-	-
Additional paid-in capital	43,237	43,159
Retained earnings	64,501	59,890
Accumulated other comprehensive income	3,759	1,690
Unearned compensation - ESOP	(3,154)	(3,333)
Total shareholders' equity	108,343	101,406
Total liabilities and shareholders' equity	$ 768,202	$ 743,397

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(unaudited)			
Interest and dividend income:				
Interest and fees on loans	$ 6,611	$ 5,634	$ 18,861	$ 16,294
Interest and dividends on securities	807	798	2,549	2,453
Interest on interest-bearing deposits	8	16	22	27
Total interest and dividend income	7,426	6,448	21,432	18,774
Interest expense:				
Interest on deposits	539	410	1,623	1,227
Interest on Federal Home Loan Bank advances	174	157	468	437
Total interest expense	713	567	2,091	1,664
Net interest and dividend income	6,713	5,881	19,341	17,110
Provision for loan losses	163	174	484	645
Net interest and dividend income after provision for loan losses	6,550	5,707	18,857	16,465
Noninterest income:				
Customer service fees on deposit accounts	339	343	936	876
Service charges and fees – other	427	468	1,293	1,289
Gain on sale of securities, net	438	215	475	317
Other income	159	134	561	361
Total noninterest income	1,363	1,160	3,265	2,843
Noninterest expense:				
Salaries and employee benefits	3,219	3,016	9,500	8,681
Occupancy expense	412	383	1,194	1,170
Equipment expense	162	132	471	400
FDIC assessment	103	93	293	283
Data processing	163	142	491	415
Marketing expense	70	18	178	144
Professional fees	299	217	876	662
Charitable Foundation expense	-	2,150	-	2,150
Other	784	720	2,213	2,314
Total noninterest expense	5,212	6,871	15,216	16,219
Income (loss) before income tax expense (benefit)	2,701	(4)	6,906	3,089
Income tax expense (benefit)	940	(134)	2,295	717
Net income	$ 1,761	$ 130	$ 4,611	$ 2,372
Net Income attributable to common shareholders	$ 1,761	$ 86	$ 4,611	$ 2,243
Income per share:				
Basic	$ 0.19	N/A	$ 0.50	N/A
Diluted	$ 0.19	N/A	$ 0.50	N/A
Weighted Average Shares:				
Basic	9,179,269	N/A	9,173,331	N/A
Diluted	9,179,269	N/A	9,173,331	N/A

The accompanying notes are an integral part of the consolidated financial statements.

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Net income	$ 1,761	$ 130	$ 4,611	$ 2,372
Other comprehensive income:				
Change in net unrealized holding (losses) gains	(296)	(265)	1,575	(800)
Reclassification adjustment for realized gains in net income	(438)	(215)	(475)	(317)
Net change in unrealized (loss) gain	(734)	(480)	1,100	(1,117)
Income tax effect	290	169	(376)	421
Net of tax amount	(444)	(311)	724	(696)
Change in net unrealized holding gains on securities transferred from held-to-maturity to available-for-sale	-	-	2,239	-
Income tax effect	-	-	(894)	-
Net of tax amount	-	-	1,345	-
Other comprehensive income (loss)	(444)	(311)	2,069	(696)
Total comprehensive income (loss)	$ 1,317	$ (181)	$ 6,680	$ 1,676

The accompanying notes are an integral part of the consolidated financial statements.

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(In thousands, except share data)	Shares of Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation ESOP	Total
Balance, December 31, 2015	9,498,722	$ -	$ 43,159	$ 59,890	$ 1,690	$ (3,333)	$ 101,406
Net income	-	-	-	4,611	-	-	4,611
Net change in other comprehensive income	-	-	-	-	2,069	-	2,069
ESOP shares earned	-	-	78	-	-	179	257
Balance, September 30, 2016	9,498,722	$ -	$ 43,237	$ 64,501	$ 3,759	$ (3,154)	$ 108,343
Balance, December 31, 2014	275,000	$ 17,145	$ 275	$ 55,959	$ 2,412	$ -	$ 75,791
Net income	-	-	-	2,372	-	-	2,372
Net change in other comprehensive income	-	-	-	-	(696)	-	(696)
Preferred stock dividends	-	-	-	(129)	-	-	(129)
Issuance of 5,034,323 shares to the mutual holding company	5,034,323	-	-	-	-	-	-
Transfer due to stock offering	(275,000)	-	(275)	275	-	-	-
Issuance of 4,274,425 shares in the initial public offering, net of expenses of $1,547	4,274,425	-	41,197	-	-	-	41,197
Issuance and contribution of 189,974 shares to the Provident Community Charitable Organization	189,974	-	1,900	-	-	-	1,900
Purchase of 357,152 shares of common stock by the ESOP	-	-	-	-	-	(3,572)	(3,572)
ESOP shares earned	-	-	31	-	-	120	151
Balance, September 30, 2015	9,498,722	$ 17,145	$ 43,128	$ 58,477	$ 1,716	$ (3,452)	$ 117,014

The accompanying notes are an integral part of the consolidated financial statements.

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net income	$ 4,611	$ 2,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities premiums, net of accretion	627	660
ESOP expense	257	151
Contribution of stock to charitable foundation	-	1,900
Gain on sales, calls and donations of securities, net	(475)	(317)
Change in deferred loan fees, net	(76)	(93)
Provision for loan losses	484	645
Depreciation and amortization	628	549
Decrease in accrued interest receivable	233	55
Increase in taxes receivable	(67)	(879)
Increase in cash surrender value of life insurance	(459)	(288)
Decrease (increase) in other assets	67	(779)
Increase (decrease) in other liabilities	737	(57)
Net cash provided by operating activities	6,567	3,919
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,386)	(1,415)
Proceeds from sales of available-for-sale securities	2,912	739
Proceeds from pay downs, maturities and calls of available-for-sale securities	11,586	8,570
Proceeds from pay downs, maturities and calls of held-to-maturity securities	220	-
Redemption of Federal Home Loan Bank Stock	843	-
Loan originations and principal collections, net	(34,601)	(28,174)
Recoveries of loans previously charged off	26	20
Loans purchased	(268)	-
Additions to premises and equipment	(704)	(249)
Purchase of bank owned life insurance	-	(3,447)
Net cash used in investing activities	(21,372)	(23,956)

The accompanying notes are an integral part of the consolidated financial statements.

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

(In thousands)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	60,202	28,927
Net decrease in time deposits	(27,106)	(7,762)
Proceeds from sale of common stock, net	-	41,197
Common stock purchased by ESOP	-	(3,572)
Proceeds from advances from the Federal Home Loan Bank	11,500	-
Net change in Federal Home Loan Bank short-term advances	(27,465)	(21,825)
Preferred stock dividends	-	(129)
Net cash provided by financing activities	17,131	36,836
Net increase in cash and cash equivalents	2,326	16,799
Cash and cash equivalents at beginning of period	20,464	9,558
Cash and cash equivalents at end of period	$ 22,790	$ 26,357
Supplemental disclosures:		
Interest paid	$ 2,095	$ 1,658
Income taxes paid	2,362	1,600
Held-to-maturity securities transferred to available-for-sale	44,240	-

The accompanying notes are an integral part of the consolidated financial statements.

(1) Basis of Presentation

The accompanying unaudited financial statements of Provident Bancorp, Inc., a Massachusetts corporation (the "Company"), were prepared in accordance with the instructions for Form 10-Q and with Regulation S-X and do not include information or footnotes necessary for a complete presentation of the financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles ("GAAP"). However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three and nine-month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for future periods, including the entire fiscal year. These financial statements should be read in conjunction with the annual financial statements and notes thereto included in the annual report on Form 10-K the Company filed with the Securities and Exchange Commission on March 30, 2016.

The consolidated financial statements include the accounts of Provident Bancorp, Inc., its wholly owned subsidiary, The Provident Bank (the "Bank"), and the Bank's wholly owned subsidiaries, Provident Security Corporation and 5 Market Street Security Corporation. Provident Security Corporation and 5 Market Street Security Corporation were established to buy, sell, and hold investments for their own account. All significant inter-company balances and transactions have been eliminated in consolidation.

(2) Corporate Structure

On March 10, 2015, the Board of Directors of the Company adopted a plan of stock issuance (the "Plan") pursuant to which the Company sold shares of common stock, representing a minority ownership of the estimated pro forma market value of the Company. On July 15, 2015, the Company issued 4,274,425 shares of common stock to the public at $10.00 per share, including 357,152 shares purchased by The Provident Bank Employee Stock Ownership Plan. In addition, the Company issued 5,034,323 shares to Provident Bancorp, the Company's mutual holding company (the "MHC"), and 189,974 shares to The Provident Community Charitable Organization, Inc., a charitable foundation that was formed in connection with the stock offering and is dedicated to supporting charitable organizations operating in the Bank's local community. A total of 9,498,722 shares of common stock were outstanding following the completion of the stock offering.

Expenses incurred related to the offering were $1.5 million, and were recorded against offering proceeds.

Upon the completion of the stock offering, a special "liquidation account" was established for the benefit of certain depositors of the Bank in an amount equal to the percentage ownership interest in the equity of the Company to be held by persons other than the MHC as of the date of the latest balance sheet contained in the prospectus utilized in connection with the offering. The Company is not permitted to pay dividends on its capital stock if the Company's shareholders' equity would be reduced below the amount of the liquidation account. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account.

(3) Recent Accounting Pronouncements

ASU (Accounting Standards Update) No. 2014-09 – Revenue from Contracts with Customers (Topic 606). The ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, to clarify and converge revenue recognition principles under US GAAP and Internationl Financial Reporting Standards (IFRS). The update outlines five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; (v) recognize revenue when each performance obligation is satisfied. The update requires more comprehensive disclosures, relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue, and cash flows arising from contracts with customers, which will mainly impact construction and high-tech industries. The most significant potential impact to banking entities relates to less prescriptive derecognition requirements on the sale of other real estate owned (OREO) property. In August 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Accordingly, the amendments are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. An entity may elect either a full retrospective or a modified retrospective application. The Company does not expect the application of this guidance will have a material impact on the Company's financial statements.

ASU No. 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) - "Classification of Certain Government-Guaranteed Residential Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)". The ASU has been issued to reduce diversity in practice in the classification of foreclosed residential mortgage loans held by creditors that are fully guaranteed under certain government programs, including the Federal Housing Administration guarantees. A residential mortgage loan would be derecognized and a separate other receivable would be recognized upon foreclosure if the loan has both of the following characteristics: (i) the loan has a government guarantee that is not separable from the loan before foreclosure entitling the creditor to the full unpaid principal balance of the loan; and (ii) at the time of foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover the full unpaid principal balance of the loan through the guarantee. Notably, upon foreclosure, the separate other receivable would be measured based on the current amount of the loan balance expected to be recovered under the guarantee. The amendments were effective for the Company as of January 1, 2016. This amendment did not impact the Company’s financial statements and the Company does not expect the application of this guidance will have a material impact on the Company’s financial statements in the future.

ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): “Recognition and Measurement of Financial Assets and Financial Liabilities.” The ASU has been issued to improve the recognition and measurement of financial instruments by requiring 1) equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 3) the use of the exit price notion when measuring fair value of financial instruments for disclosure purposes; and 4) separate presentation by the reporting organization in other comprehensive income for the portion of the total change in the fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard is effective for the Company beginning on January 1, 2018. The Company holds a portfolio of marketable equity securities; depending on the size and composition of the portfolio at the adoption date, the impact of the ASU could be material to the Company’s consolidated financial statements.

ASU 2016-02, Leases (Topic 842). The amendments in this update require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. The Company does not expect the application of this guidance will have a material impact on the Company's financial statements.

ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): "Measurement of Credit Losses on Financial Instruments." The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The amendments in this update will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of its pending adoption of this guidance on the Company's financial statements.

(4) Investment Securities

In May 2016, the Company reclassified its $44.2 million held-to-maturity investment portfolio to available-for-sale. Due to its strong outlook for loan growth and falling interest rates, the Company decided to proceed with the reclassification to provide liquidity. The reclassification increased total shareholders' equity by $1.3 million associated with the recording of the net security gains on the portfolio, net of tax effect, to accumulated other comprehensive income. In accordance with regulatory and accounting requirements, the Company is prohibited from classifying security purchases as held-to-maturity for a period of two years.

The following summarizes the amortized cost of investment securities classified as available-for-sale and their approximate fair values at September 30, 2016 and December 31, 2015:

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
State and municipal	$ 45,057	$ 2,197	$ 1	$ 47,253
Corporate debt	1,000	45	-	1,045
Asset-backed securities	9,035	198	4	9,229
Government mortgage-backed securities	43,698	942	57	44,583
Trust preferred securities	1,368	39	396	1,011
Marketable equity securities	9,911	3,305	194	13,022
	110,069	6,726	652	116,143
Money market mutual funds included in cash and cash equivalents	(681)	-	-	(681)
Total available-for-sale securities	$ 109,388	$ 6,726	$ 652	$ 115,462
December 31, 2015				
U.S. Government and federal agency	$ 1,996	$ 37	$ -	$ 2,033
State and municipal	3,373	309	-	3,682
Corporate debt	1,000	71	-	1,071
Asset-backed securities	9,656	9	41	9,624
Government mortgage-backed securities	52,515	622	325	52,812
Trust preferred securities	1,368	55	307	1,116
Marketable equity securities	8,638	2,653	348	10,943
	78,546	3,756	1,021	81,281
Money market mutual funds included in cash and cash equivalents	(297)	-	-	(297)
Total available-for-sale securities	$ 78,249	$ 3,756	$ 1,021	$ 80,984

The following summarizes the amortized cost of investment securities classified as held-to-maturity and their approximate fair values at December 31, 2015:

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
State and municipal	$ 44,623	$ 1,905	$ 54	$ 46,474

The scheduled maturities of debt securities were as follows at September 30, 2016:

(In thousands)	Available-for-Sale Fair Value
Due within one year	$ 1,831
Due after one year through five years	2,359
Due after five years through ten years	7,362
Due after ten years	37,756
Government mortgage-backed securities	44,583
Asset-backed securities	9,229
	$ 103,120

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, are as follows at September 30, 2016 and December 31, 2015:

	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
Temporarily impaired securities:						
State and municipal	$ -	$ -	$ 166	$ 1	$ 166	$ 1
Asset-backed securities	-	-	581	4	581	4
Government mortgage-backed securities	1,176	1	3,095	56	4,271	57
Trust preferred securities	-	-	928	396	928	396
Marketable equity securities	1,193	63	752	131	1,945	194
Total temporarily impaired securities	$ 2,369	$ 64	$ 5,522	$ 588	$ 7,891	$ 652
December 31, 2015						
Temporarily impaired securities:						
State and municipal	$ 3,195	$ 28	$ 729	$ 26	$ 3,924	$ 54
Asset-backed securities	5,062	7	2,005	34	7,067	41
Government mortgage-backed securities	21,108	88	9,156	237	30,264	325
Trust preferred securities	-	-	1,017	307	1,017	307
Marketable equity securities	1,591	166	529	182	2,120	348
Total temporarily impaired securities	$ 30,956	$ 289	$ 13,436	$ 786	$ 44,392	$ 1,075

Government mortgage-backed securities, state and municipal securities and asset-backed securities: Because the decline in fair value of the government mortgage-backed securities, asset-backed securities and state and municipal securities is primarily attributable to changes in interest rates and not credit quality, and because the Company has the intent and ability to hold these investments until market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Marketable equity securities: Management continuously monitors equity securities for impairment by reviewing the financial condition of the issuer, company-specific events, industry developments, and general economic conditions. Management reviews corporate financial reports, credit agency reports and other publicly available information. Based on these reviews, these securities are not considered to be other-than-temporarily impaired.

Trust preferred securities: Management monitors its pooled-trust preferred securities for possible other-than-temporary impairment on a quarterly basis. This review includes an analysis of collateral reports, cash flows, stress default levels and financial ratios of the underlying issuers. Management utilizes a third party to compile this data and perform other-than-temporary impairment cash flow testing. Critical assumptions that go into the other-than-temporary impairment cash flow testing are prepayment speeds, default rates of the underlying issuers and discount margins. The result of the third-party other-than-temporary impairment cash flow testing indicated no other-than-temporary impairment as of September 30, 2016.

(5) Loans

A summary of loans is as follows:

(In thousands)	At September 30, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial real estate	$ 319,760	53.47%	$ 285,356	50.67%
Commercial	137,042	22.92%	112,073	19.90%
Residential real estate	81,411	13.61%	92,392	16.40%
Construction and land development	58,435	9.77%	71,535	12.70%
Consumer	1,403	0.23%	1,855	0.33%
	598,051	100.00%	563,211	100.00%
Allowance for loan losses	(8,386)		(7,905)	
Deferred loan fees, net	(301)		(377)	
Net loans	$ 589,364		$ 554,929	

The following tables set forth information regarding the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30,						
(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Balance at June 30, 2016	$ 4,001	$ 2,297	$ 364	$ 1,286	$ 102	$ 181	$ 8,231
Charge-offs	-	-	-	-	(11)	-	(11)
Recoveries	-	-	-	-	3	-	3
Provision (benefit)	168	101	(12)	(189)	6	89	163
Balance at September 30, 2016	$ 4,169	$ 2,398	$ 352	$ 1,097	$ 100	$ 270	$ 8,386
Balance at June 30, 2015	$ 3,510	$ 2,108	$ 541	$ 921	$ 159	$ 330	$ 7,569
Charge-offs	-	8	-	-	(16)	-	(8)
Recoveries	-	8	-	-	1	-	9
Provision (benefit)	83	18	(106)	175	(4)	8	174
Balance at September 30, 2015	$ 3,593	$ 2,142	$ 435	$ 1,096	$ 140	$ 338	$ 7,744

	For the nine months ended September 30,						
(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Balance at December 31, 2015	$ 3,827	$ 2,138	$ 412	$ 1,236	$ 119	$ 173	$ 7,905
Charge-offs	-	-	-	-	(29)	-	(29)
Recoveries	-	1	12	-	13	-	26
Provision (benefit)	342	259	(72)	(139)	(3)	97	484
Balance at September 30, 2016	$ 4,169	$ 2,398	$ 352	$ 1,097	$ 100	$ 270	$ 8,386
Balance at December 31, 2014	$ 3,500	$ 1,751	$ 560	$ 872	$ 184	$ 357	$ 7,224
Charge-offs	-	(96)	-	-	(49)	-	(145)
Recoveries	-	9	6	-	5	-	20
Provision (benefit)	93	478	(131)	224	-	(19)	645
Balance at September 30, 2015	$ 3,593	$ 2,142	$ 435	$ 1,096	$ 140	$ 338	$ 7,744

The following table sets forth information regarding the allowance for loan losses and related loan balances by segment at September 30, 2016 and December 31, 2015:

(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
September 30, 2016							
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	$ -	$ 437	$ -	$ -	$ -	$ -	$ 437
Ending balance:							
Collectively evaluated for impairment	4,169	1,961	352	1,097	100	270	7,949
Total allowance for loan losses ending balance	$ 4,169	$ 2,398	$ 352	$ 1,097	$ 100	$ 270	$ 8,386
Loans:							
Ending balance:							
Individually evaluated for impairment	$ 1,987	$ 1,697	$ 426	$ -	$ -	$ -	$ 4,110
Ending balance:							
Collectively evaluated for impairment	317,773#	135,345	80,985	58,435	1,403	-	593,941
Total loans ending balance	$ 319,760	$ 137,042	$ 81,411	$ 58,435	$ 1,403	$ -	$ 598,051
December 31, 2015							
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	$ -	$ 488	$ -	$ -	$ -	$ -	$ 488
Ending balance:							
Collectively evaluated for impairment	3,827	1,650	412	1,236	119	173	7,417
Total allowance for loan losses ending balance	$ 3,827	$ 2,138	$ 412	$ 1,236	$ 119	$ 173	$ 7,905
Loans:							
Ending balance:							
Individually evaluated for impairment	$ 3,272	$ 1,755	$ 437	$ -	$ -	$ -	$ 5,464
Ending balance:							
Collectively evaluated for impairment	282,084	110,318	91,955	71,535	1,855	-	557,747
Total loans ending balance	$ 285,356	$ 112,073	$ 92,392	$ 71,535	$ 1,855	$ -	$ 563,211

The following tables set forth information regarding non-accrual loans and loan delinquencies by portfolio segment at September 30, 2016 and December 31, 2015:

(In thousands)	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
September 30, 2016								
Commercial real estate	$ 405	$ -	$ -	$ 405	$319,355	$319,760	$ -	$ -
Commercial	58	-	-	58	136,984	137,042	-	952
Residential real estate	-	75	-	75	81,336	81,411	-	468
Construction and land development	-	-	-	-	58,435	58,435	-	-
Consumer	-	-	-	-	1,403	1,403	-	-
Total	$ 463	$ 75	$ -	$ 538	$597,513	$598,051	$ -	$ 1,420
December 31, 2015								
Commercial real estate	$ -	$ -	$ -	$ -	$285,356	$285,356	$ -	$ 106
Commercial	-	-	-	-	112,073	112,073	-	1,147
Residential real estate	130	173	365	668	91,724	92,392		1,031
Construction and land development	-	-	-	-	71,535	71,535	-	-
Consumer	1	1	-	2	1,853	1,855	-	-
Total	$ 131	$ 174	$ 365	$ 670	$562,541	$563,211	$ -	$ 2,284

Table of Contents

Information about the Company's impaired loans by portfolio segment was as follows at and for the period ended September 30, 2016 and at and for the year ended December 31, 2015:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2016					
With no related allowance recorded:					
Commercial real estate	$ 1,987	$ 1,987	$ -	$ 2,941	$ 158
Commercial	823	823	-	793	31
Residential real estate	426	426	-	431	15
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with no related allowance	3,236	3,236	-	4,165	204
With an allowance recorded:					
Commercial real estate	-	-	-	-	-
Commercial	874	874	437	892	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with an allowance recorded	874	874	437	892	-
Total					
Commercial real estate	1,987	1,987	-	2,941	158
Commercial	1,697	1,697	437	1,685	31
Residential real estate	426	426	-	431	15
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans	$ 4,110	$ 4,110	$ 437	$ 5,057	$ 204
December 31, 2015					
With no related allowance recorded:					
Commercial real estate	$ 3,272	$ 3,272	$ -	$ 3,788	$ 149
Commercial	661	661	-	611	20
Residential real estate	437	437	-	323	17
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with no related allowance	4,370	4,370	-	4,722	186
With an allowance recorded:					
Commercial real estate	-	-	-	-	-
Commercial	1,094	1,094	488	901	2
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with an allowance recorded	1,094	1,094	488	901	2
Total					
Commercial real estate	3,272	3,272	-	3,788	149
Commercial	1,755	1,755	488	1,512	22
Residential real estate	437	437	-	323	17
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans	$ 5,464	$ 5,464	$ 488	$ 5,623	$ 188

The following summarizes troubled debt restructurings entered into during the nine months ended September 30, 2016:

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
September 30, 2016			
Troubled debt restructurings:			
Commercial	1	$ 58	$ 58
	1	$ 58	$ 58

In 2016, we approved one troubled debt restructure totaling $58 thousand, with no specific reserve required based on an analysis of the borrower's repayment ability and/or collateral coverage. This commercial loan was placed on an extended 13-month interest only period with re-amortization to follow based on a five-year term.

The following tables present the Company's loans by risk rating and portfolio segment at September 30, 2016 and December 31, 2015:

(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Total
September 30, 2016						
Grade:						
Pass	$ 301,352	$ 131,813	$ -	$ 58,435	$ -	$ 491,600
Special mention	14,908	1,258	-	-	-	16,166
Substandard	3,500	3,097	941	-	-	7,538
Doubtful	-	874	-	-	-	874
Not formally rated	-	-	80,470	-	1,403	81,873
Total	$ 319,760	$ 137,042	$ 81,411	$ 58,435	$ 1,403	$ 598,051
December 31, 2015						
Grade:						
Pass	$ 265,325	$ 106,677	$ -	$ 71,535	$ -	$ 443,537
Special mention	15,700	1,403	-	-	-	17,103
Substandard	4,331	3,083	1,329	-	-	8,743
Doubtful	-	910	-	-	-	910
Not formally rated	-	-	91,063	-	1,855	92,918
Total	$ 285,356	$ 112,073	$ 92,392	$ 71,535	$ 1,855	$ 563,211

Credit Quality Information
The Company utilizes a seven grade internal loan risk rating system for commercial real estate, construction and land development, and commercial loans as follows:

Loans rated 1-3: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 4: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible loss and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and land development, and commercial loans.

For residential real estate and consumer loans, the Company initially assesses credit quality based upon the borrower's ability to pay and rates such loans as pass. Subsequent risk rating downgrades are based upon the borrower's payment activity. All other residential and consumer loans are not formally rated.

(6) Federal Home Loan Bank Advances
Borrowings from the Federal Home Loan Bank (FHLB) are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties, certain commercial loans and other qualified assets.

Maturities of advances from the FHLB ending after September 30, 2016 are summarized as follows:

(In thousands)		
2016	$	21,612
2017		5,000
2018		5,000
2020		6,346
Thereafter		3,500
Total	$	41,458

Table of Contents

(7) Fair Value Measurements

The Company reports certain assets at fair value in accordance with GAAP, which defines fair value and establishes a framework for measuring fair value in accordance with generally accepted accounting principles. 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. The guidance 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 six levels of inputs that may be used to measure fair values:

Basis of Fair Value Measurements

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Fair Values of Financial Instruments Measured on a Recurring Basis

The Company’s investments in U.S. Government and federal agency, state and municipal, corporate debt, asset-backed and government mortgage-backed securities available-for-sale are generally classified within Level 2 of the fair value hierarchy. For these investments, we obtain fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument’s terms and conditions.

The Company classifies its investments in trust preferred securities as Level 3 securities. Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Company classified its investments in marketable equity securities as Level 1 securities. Such securities are classified as Level 1 securities because fair values are obtained through quoted market prices for identical securities in active exchange markets.

The following summarizes financial instruments measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015:

	Fair Value Measurements at Reporting Date Using			
(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
September 30, 2016				
State and municipal	47,253	-	47,253	-
Corporate debt	1,045	-	1,045	-
Asset-backed securities	9,229	-	9,229	-
Mortgage-backed securities	44,583	-	44,583	-
Trust preferred securities	1,011	-	-	1,011
Marketable equity securities	12,341	12,341	-	-
Totals	$ 115,462	$ 12,341	$ 102,110	$ 1,011
December 31, 2015				
U.S. Government and federal agency	$ 2,033	$ -	$ 2,033	$ -
State and municipal	3,682	-	3,682	-
Corporate debt	1,071	-	1,071	-
Asset-backed securities	9,624	-	9,624	-
Mortgage-backed securities	52,812	-	52,812	-
Trust preferred securities	1,116	-	-	1,116
Marketable equity securities	10,646	10,646	-	-
Totals	$ 80,984	$ 10,646	$ 69,222	$ 1,116

The following is a summary of activity for Level 3 financial instruments measured at fair value on a recurring basis for the nine months periods ended September 30, 2016 and 2015.

(In thousands)	Available-for-Sale Securities
Balance beginning January 1, 2016	$ 1,116
Total gains or (losses) (realized/unrealized)	
Included in earnings	-
Included in other comprehensive income	(105)
Paydowns	-
Ending balance, September 30, 2016	$ 1,011
Balance beginning January 1, 2015	$ 1,122
Total gains or (losses) (realized/unrealized)	
Included in earnings	-
Included in other comprehensive income	262
Paydowns	(134)
Ending balance, September 30, 2015	$ 1,250

Fair Values of Financial Instruments Measured on a Nonrecurring Basis

The Company's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party. However, the Company generally discounts appraisals to arrive at fair value, therefore classifies such loans as Level 3 because the discounts are a significant input that is not observable.

The following summarizes financial instruments measured at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015:

	Fair Value Measurements at Reporting Date Using:			
(In thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
September 30, 2016				
Impaired loans	$ 437	$ -	$ -	$ 437
December 31, 2015				
Impaired loans	$ 606	$ -	$ -	$ 606

The following is a summary of the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at September 30, 2016 and December 31, 2015:

(In thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
September 30, 2016				
Impaired loans	$ 437	Real estate appraisals	Discount for dated appraisals	6-10%
December 31, 2015				
Impaired loans	$ 606	Real estate appraisals	Discount for dated appraisals	6-10%

(8) Fair Value of Financial Instruments

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The carrying amounts and estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows at September 30, 2016 and December 31, 2015:

	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
September 30, 2016					
Financial assets:					
Cash and cash equivalents	$ 22,790	$ 22,790	$ -	$ -	$ 22,790
Available-for-sale securities	115,462	12,341	102,110	1,011	115,462
Federal Home Loan Bank of Boston stock	2,467	2,467	-	-	2,467
Loans, net	589,364	-	-	599,931	599,931
Accrued interest receivable	2,018	-	2,018	-	2,018
Financial liabilities:					
Deposits	610,331	-	-	610,543	610,543
Federal Home Loan Bank advances	41,458	-	41,897	-	41,897
December 31, 2015					
Financial assets:					
Cash and cash equivalents	$ 20,464	$ 20,464	$ -	$ -	$ 20,464
Available-for-sale securities	80,984	10,646	69,222	1,116	80,984
Held-to-maturity securities	44,623	-	46,474	-	46,474
Federal Home Loan Bank of Boston stock	3,310	3,310	-	-	3,310
Loans, net	554,929	-	-	561,937	561,937
Accrued interest receivable	2,251	-	2,251	-	2,251
Financial liabilities:					
Deposits	577,235	-	-	577,316	577,316
Federal Home Loan Bank advances	57,423	-	57,774	-	57,774

(9) Regulatory Capital

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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to capital regulations adopted by the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The new regulations require a new Common Equity Tier 1 ("CET1") capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5% and a Tier 1 ratio of 8.0%, a total risk based capital ratio of 10% and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that started phasing in on January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Bank and the Company to pay dividends, repurchases shares or pay discretionary bonuses.

The new regulations implemented changes to what constitutes regulatory capital. Certain instruments no longer constitute qualifying capital, subject to phase-out periods. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CET1 must be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on the Bank's regulatory capital ratios.

The new regulations also changed the risk weights of certain assets, including an increase in the risk weight of certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or on non-accrual status to 150% from 100%, a credit conversion factor for the unused portion of commitments with maturities of less than one year that are not cancellable to 20% from 0%, an increase in the risk weight for mortgage servicing rights and deferred tax assets that are not deducted from capital to 250% from 100%, and an increase in the risk weight for equity exposures to 600% from 0%.

As of September 30, 2016 and December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. The completion of the stock offering has significantly enhanced the Bank's Regulatory Capital.

The Bank’s actual capital amounts and ratios are presented in the following table.

(dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount		For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount		To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
September 30, 2016								
Total Capital (to Risk Weighted Assets)	$ 109,589	17.2%	$ 50,867	≥	8.0%	$ 63,584	≥	10.0%
Tier 1 Capital (to Risk Weighted Assets)	100,235	15.8	38,150	≥	6.0	50,867	≥	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	100,235	15.8	28,613	≥	4.5	41,329	≥	6.5
Tier 1 Capital (to Average Assets)	100,235	13.2	30,408	≥	4.0	38,010	≥	5.0
December 31, 2015								
Total Capital (to Risk Weighted Assets)	$ 104,032	17.1%	$ 48,780	≥	8.0%	$ 60,975	≥	10.0%
Tier 1 Capital (to Risk Weighted Assets)	95,370	15.6	36,585	≥	6.0	48,780	≥	8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	95,370	15.6	27,439	≥	4.5	39,634	≥	6.5
Tier 1 Capital (to Average Assets)	95,370	13.4	28,435	≥	4.0	35,544	≥	5.0

(10) Employee Stock Ownership Plan

The Bank maintains an Employee Stock Ownership Plan (“ESOP”) to provide eligible employees the opportunity to own Company stock. This plan is a tax-qualified retirement plan for the benefit of Bank employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released per year through 2029 is 23,810.

The Company contributed funds to a subsidiary to enable it to grant a loan to the ESOP for the purchase of 357,152 shares of the Company’s common stock at a price of $10.00 per share. The loan obtained by the ESOP from the Company’s subsidiary to purchase Company common stock is payable annually over 15 years at a rate per annum equal to the Prime Rate (3.50% at September 30, 2016). Loan payments are principally funded by cash contributions from the Bank.

	September 30, 2016
Shares held by the ESOP include the following:	
Allocated	23,810
Committed to be allocated	17,858
Unallocated	315,484
Total	357,152

The fair value of unallocated shares was approximately $4.9 million at September 30, 2016.

Total compensation expense recognized in connection with the ESOP for the nine months ended September 30, 2016 was $257,000.

(11) Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculation. There were no potentially dilutive common stock equivalents as of September 30, 2016. Earnings per share is not applicable for the period ended September 30, 2015.

(Dollars in thousands)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Net Income attributable to common shareholders	$ 1,761	$ 4,611
Average number of common shares outstanding	9,498,722	9,498,722
Less: unallocated ESOP shares	(319,453)	(325,391)
Average number of common shares outstanding	9,179,269	9,173,331

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

Management's discussion and analysis of financial condition and results of operations at September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015 is intended to assist in understanding our financial condition and results of operations. Operating results for the three and nine month periods ended September 30, 2016 may not be indicative of results for all of 2016 or any other period. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this report.

Forward-Looking Statements

This document may contain certain forward-looking statements, such as statements of the Company's or the Bank's plans, objectives, expectations, estimates and intentions. Forward-looking statements may be identified by the use of words such as "expects," "subject," and "believes," "will," "intends," "will be," "would" or similar expressions. These statements are subject to change based on various important factors (some of which are beyond the Company's or the Bank's control) and actual results may differ materially. Readers should not place undue reliance on any forward-looking statements, which reflect management's analysis of factors only as of the date of which they are given. These factors include general economic conditions, including its trends and levels of interest rates, the ability of our borrowers to repay their loans, the ability of the Company or the Bank to effectively manage its growth, real estate values in the market area, loan demand, competition, and results of regulatory examinations, among other factors. The foregoing list of important factors is not exclusive. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including Current Reports on Form 8-K.

Except as required by applicable law and regulation, the Company does not undertake — and specifically disclaims any obligation — to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Critical Accounting Policies

Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

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

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 size and composition 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.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment disclosures.

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction and land development, commercial and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in our policies or methodology pertaining to the general component of the allowance for loan losses during the nine months ended September 30, 2016 or during the twelve months ended December 31, 2015.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: We generally do not originate loans with a loan-to-value ratio greater than 80% and do not grant subprime loans. Loans with loan to value ratios greater than 80% require the purchase of private mortgage insurance. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate: Loans in this segment are primarily income-producing properties throughout Massachusetts and New Hampshire. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Construction and land development: Loans in this segment primarily include speculative and pre sold real estate development loans for which payment is derived from sale of the property and construction to permanent loans for which payment is derived from cash flows of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer: Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan.

We periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. All troubled debt restructurings are initially classified as impaired.

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Income Taxes. The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. A tax valuation allowance is established, as needed, to reduce net deferred tax assets to the amount expected to be realized.

The Company examines its significant income tax positions quarterly to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities.

Balance Sheet Analysis

Assets. Total assets were $768.2 million at September 30, 2016, an increase of $24.8 million, or 3.3%, from $743.4 million at December 31, 2015. The increase resulted primarily from an increase in net loans of $34.4 million, which was partially offset by a net decrease in investments of $10.1 million.

Cash and Cash Equivalents. Cash and cash equivalents increased $2.3 million, or 11.4%, to $22.8 million at September 30, 2016 from $20.5 million at December 31, 2015. The increase in cash and cash equivalents resulted from an increase in deposits and excess cash flows from the securities portfolio.

Loans. At September 30, 2016, net loans were $589.4 million, or 76.7% of total assets, compared to $554.9 million, or 74.6% of total assets, at December 31, 2015. An increase in commercial real estate loans of $34.4 million, or 12.1%, and an increase in commercial loans of $25.0 million, or 22.3%, were partially offset by a decrease in construction and land development loans of $13.1 million, or 18.3%, and a decrease in residential real estate loans of $11.0 million, or 11.9%. Our focus in 2014 on commercial lending is represented in the increase in commercial and commercial real estate loans. The decrease in construction and land development loans and part of the increase in commercial real estate loans were related to loans moving from the construction phase to permanent funding.

The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

(In thousands)	At September 30, 2016		At December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial real estate	$ 319,760	53.47%	$ 285,356	50.67%
Commercial	137,042	22.92%	112,073	19.90%
Residential real estate	81,411	13.61%	92,392	16.40%
Construction and land development	58,435	9.77%	71,535	12.70%
Consumer	1,403	0.23%	1,855	0.33%
	598,051	100.00%	563,211	100.00%
Allowance for loan losses	(8,386)		(7,905)	
Deferred loan fees, net	(301)		(377)	
Net loans	$ 589,364		$ 554,929	

Securities. Our available-for-sale securities portfolio increased $34.5 million, or 42.6%, to $115.5 million at September 30, 2016 from $81.0 million at December 31, 2015, while our held-to-maturity securities portfolio decreased $44.6 million to $0 at September 30, 2016 from $44.6 million at December 31, 2015. On May 31, 2016, the Company transferred all of its held-to-maturity securities to available-for-sale to provide additional liquidity to support loan growth. The cost basis transferred was $44.2 million with an unrealized net gain of $2.2 million. Our securities portfolio in total decreased as we have set aside excess cash flows from securities to fund potential loan growth instead of re-investing the proceeds in investment securities.

Deposits. Total deposits increased $33.1 million, or 5.7%, to $610.3 million at September 30, 2016 from $577.2 million at December 31, 2015. The increase was primarily due to an increase in NOW accounts of $26.2 million, an increase in money market accounts of $17.0 million, and an increase in savings accounts of $9.2 million. The increases were offset by a decrease in time deposits of $27.1 million. The increase was attributed to our continued strategy of obtaining our customers' entire deposit relationship, while the decreases relate to the maturity of brokered deposits.

Borrowings. Borrowings at September 30, 2016 consisted entirely of Federal Home Loan Bank advances. Borrowings decreased $16.0 million, or 27.8%, to $41.4 million at September 30, 2016 from $57.4 million at December 31, 2015.

Shareholders' Equity. Total shareholders' equity increased $6.9 million, or 6.8%, to $108.3 million at September 30, 2016, from $101.4 million at December 31, 2015. The increases are primarily due to year-to-date net income of $4.6 million and an increase in other comprehensive income of $2.1 million, which includes the $1.3 million net of tax unrealized gain from transferring securities from held-to-maturity to available-for-sale.

Asset Quality.

The following table sets forth information regarding our non-performing assets at the dates indicated.

(In thousands)	At September 30, 2016	At December 31, 2015
Non-accrual loans:		
Real estate:		
Commercial	$ -	$ 106
Residential	468	1,031
Construction and land development	-	-
Commercial	952	1,147
Consumer	-	-
Total non-accrual loans	1,420	2,284
Accruing loans past due 90 days or more	-	-
Real estate owned	-	-
Total non-performing assets	$ 1,420	$ 2,284
Total loans (1)	$ 597,750	$ 562,834
Total assets	$ 768,202	$ 743,397
Total non-performing loans to total loans (1)	0.24%	0.41%
Total non-performing assets to total assets	0.18%	0.31%

(1) Loans are presented before the allowance for loan losses but include deferred fees/costs

The decrease in non-performing assets at September 30, 2016 compared to December 31, 2015 was primarily due to loans being upgraded to accrual status having proven the ability to repay the loan for the required period of time.

Allowance for Loan Losses. The allowance for loan losses is maintained at levels considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio size and composition, amount of and trend regarding delinquent and non-accrual loans, national and local business conditions and loss experience and an overall evaluation of the quality of the underlying collateral.

The following table sets forth activity in our allowance for loan losses for the periods indicated:

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Allowance at beginning of period	$ 7,905	$ 7,224
Provision for loan losses	484	645
Charge offs:		
Real estate:		
Commercial	-	-
Residential	-	-
Construction and land development	-	-
Commercial	-	96
Consumer	29	49
Total charge-offs	29	145
Recoveries:		
Real estate:		
Commercial	-	-
Residential	12	6
Construction and land development	-	-
Commercial	1	9
Consumer	13	5
Total recoveries	26	20
Net charge-offs (recoveries)	3	125
Allowance at end of period	$ 8,386	$ 7,744
Non-performing loans at end of period	$ 1,420	$ 3,098
Total loans outstanding at end of period (1)	$ 597,750	$ 529,529
Average loans outstanding during the period (1)	$ 574,655	$ 507,642
Allowance to non-performing loans	590.56%	249.97%
Allowance to total loans outstanding at end of period	1.40%	1.46%
Net charge-offs to average loans outstanding during the period (annualized)	0.00%	0.03%

(1) Loans are presented before the allowance for loan losses but include deferred fees/costs

Results of Operations for the Three Months Ended September 30, 2016 and 2015

General. Net income attributable to common shareholders increased $1.7 million to $1.8 million for the three months ended September 30, 2016 from $86,000 for the three months ended September 30, 2015. The increase was related to the $832,000 increase in net interest and dividend income, and a decrease in noninterest expense of $1.7 million, which is mainly related to the $2.2 million funding of the Bank’s charitable foundation in the third quarter of 2015. These were partially offset by an increase in salaries and employee benefits of $203,000, and an increase in income tax expense of $1.1 million.

Interest and Dividend Income. Interest and dividend income, which includes Federal Home Loan Bank stock, increased $978,000, or 15.2%, to $7.4 million for the three months ended September 30, 2016 from $6.4 million for the three months ended September 30, 2015. This was primarily attributable to an increase in interest and fees on loans, which increased $977,000, or 17.3%, to $6.6 million for the three months ended September 30, 2016 from $5.6 million for the three months ended September 30, 2015.

The increase in interest income on loans was due to an increase in the average balance of loans of $66.9 million, or 12.8%, to $589.3 million for the three months ended September 30, 2016 from $522.4 million for the three months ended September 30, 2015. Yield on loans also increased 18 basis points to 4.4% for the quarter ended September 30, 2016 due to our continued focus on higher-yielding commercial lending.

Interest Expense. Interest expense increased $146,000, or 25.7%, to $713,000 for the three months ended September 30, 2016 from $567,000 for the three months ended September 30, 2015, primarily caused by an increase in interest expense on deposits. Interest expense on deposits increased $129,000, or 31.5%, to $539,000 for the three months ended September 30, 2016 from $410,000 for the three months ended September 30, 2015, due to the average rate paid on interest-bearing deposits increasing eight basis points to 0.48% for the three months ended September 30, 2016 from 0.40% for the three months ended September 30, 2015. The increase in the average rate was primarily the result of increases in the average rate paid on NOW accounts.

Net Interest and Dividend Income. Net interest and dividend income increased $832,000, or 14.1%, to $6.7 million for the three months ended September 30, 2016 from $5.9 million for the three months ended September 30, 2015. The increase was due to both higher balances of earning assets and expanding margins. Our net interest rate spread increased 19 basis points to 3.53% for the three months ended September 30, 2016 from 3.34% for the three months ended September 30, 2015. Our net interest margin increased 19 basis points to 3.72% for the three months ended September 30, 2016 from 3.53% for the three months ended September 30, 2015. The average yield we earned on interest-earning assets increased 25 basis points to 4.12% while the average rate paid on interest-bearing liabilities increased six basis points to 0.59%.

Provision for Loan Losses. The provision for loan losses was $163,000 for the three months ended September 30, 2016 compared to $174,000 for the three months ended September 30, 2015. The provisions recorded resulted in an allowance for loan losses of $8.4 million, or 1.40% of total loans at September 30, 2016, compared to $7.9 million, or 1.40% of total loans, at December 31, 2015 and $7.7 million, or 1.46% of total loans, at September 30, 2015. The provision for the quarter ended September 30, 2016 resulted primarily from an increase in the loan portfolio as we apply historical loss ratios to newly originated loans, which, absent other factors, results in an increase in the allowance for loan losses as the loan portfolio increases.

Noninterest Income. Noninterest income increased $203,000, or 17.5%, to $1.4 million for the three months ended September 30, 2016 from $1.2 million for the three months ended September 30, 2015. The increase was primarily caused by an increase in the gain on sales of securities of $223,000, or 103.7%, to $438,000 for the three months ended September 30, 2016 from $215,000 for the three months ended September 30, 2015.

Noninterest Expense. Noninterest expense decreased $1.7 million, or 24.1%, to $5.2 million for the three months ended September 30, 2016 from $6.9 million for the three months ended September 30, 2015. The largest decrease was related to the $2.2 million funding of the Bank's charitable foundation during the three months ended September 30, 2015 compared to no such expense recorded during the three months ended September 30, 2016. The decrease was partially offset by an increase in salaries and employee benefits expense, which increased $203,000, or 6.7%, to $3.2 million for the three months ended September 30, 2016 from $3.0 million for the three months ended September 30, 2015. The increase in salaries and employee benefits was due primarily to our hiring additional employees to support our loan growth and the opening of a new branch. Professional services expenses increased $82,000, or 37.8%, to $299 ,000 for the three months ended September 30, 2016 from $217,000 for the three months ended September 30, 2015 due to increased management training and legal and accounting fees.

Income Tax Provision. We recorded a provision for income taxes of $940,000 for the three months ended September 30, 2016, reflecting an effective tax rate of 34.8%, compared to a benefit of $134,000 for the three months ended September 30, 2015. The changes in the income tax provision were primarily due to an increase in pre-tax income. Our effective tax rates are below statutory federal and states rates due primarily to tax-exempt income related to investments in BOLI and municipal securities.

Average Balance sheet and Related Yields and Rates

The following tables set forth the average balance sheets, annualized average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the amount of tax free interest-earning assets is immaterial. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Three Months Ended September 30,					
	2016			2015		
(dollars in thousands)	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
Assets:						
Interest-earning assets:						
Loans	$ 589,335	$ 6,611	4.49%	$ 522,404	$ 5,634	4.31%
Interest-earning deposits	7,864	8	0.41%	25,828	16	0.25%
Investment securities	121,596	785	2.58%	114,450	769	2.69%
Federal Home Loan Bank stock	2,369	22	3.71%	3,642	29	3.19%
Total interest-earning assets	721,164	7,426	4.12%	666,324	6,448	3.87%
Non-interest earning assets	38,970			36,377		
Total assets	$ 760,134			$ 702,701		
Interest-bearing liabilities:						
Savings accounts	$ 116,685	55	0.19%	$ 95,218	35	0.15%
Money market accounts	118,439	88	0.30%	112,993	76	0.27%
NOW accounts	112,446	171	0.61%	83,418	32	0.15%
Certificates of deposit	101,426	225	0.89%	119,457	267	0.89%
Total interest-bearing deposits	448,996	539	0.48%	411,086	410	0.40%
Federal Home Loan Bank advances	35,512	174	1.96%	17,560	157	3.58%
Total interest-bearing liabilities	484,508	713	0.59%	428,646	567	0.53%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	159,571			151,094		
Other noninterest-bearing liabilities	8,003			18,003		
Total liabilities	652,082			597,743		
Total equity	108,052			104,958		
Total liabilities and equity	$ 760,134			$ 702,701		
Net interest income		$ 6,713			$ 5,881	
Interest rate spread (1)			3.53%			3.34%
Net interest-earning assets (2)	$ 236,656			$ 237,678		
Net interest margin (3)			3.72%			3.53%
Average interest-earning assets to interest-bearing liabilities	148.84%			155.45%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-bearing assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effect attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015		
	Increase (Decrease) Due to		Total
(in thousands)	Rate	Volume	Increase (Decrease)
Interest-earning assets:			
Loans	$ 233	$ 744	$ 977
Interest-earning deposits	7	(15)	(8)
Investment securities	(31)	47	16
Federal Home Loan Bank Stock	4	(11)	(7)
Total interest-earning assets	213	765	978
Interest-bearing liabilities:			
Savings accounts	11	9	20
Money Market Accounts	8	4	12
Now Accounts	124	15	139
Certificates of deposit	(2)	(40)	(42)
Total interest-bearing deposits	141	(12)	129
Federal Home Loan Bank advances	(93)	110	17
Total interest-bearing liabilities	48	98	146
Change in net interest income	$ 166	$ 666	$ 832

Results of Operations for the Nine Months Ended September 30, 2016 and 2015

General. Net income attributable to common shareholders increased $2.4 million, or 105.6%, to $4.6 million for the nine months ended September 30, 2016 from $2.2 million for the nine months ended September 30, 2015. The increase was related to a $2.2 million increase in net interest and dividend income, and a decrease in noninterest expense of $1.0 million, which is related to the $2.2 million funding of the Bank's charitable foundation in the third quarter of 2015. These were partially offset by an increase in salaries and employee benefits of $819,000, and an increase in income tax expense of $1.6 million.

Interest and Dividend Income. Interest and dividend income, which includes Federal Home Loan Bank stock, increased $2.7 million, or 14.2%, to $21.4 million for the nine months ended September 30, 2016 from $18.8 million for the nine months ended September 30, 2015. This was primarily attributable to an increase in interest and fees on loans, which increased $2.6 million, or 15.8%, to $18.9 million for the nine months ended September 30, 2016 from $16.3 million for the nine months ended September 30, 2015, and an increase in interest and dividends on securities of $96,000, or 3.9%.

The increase in interest income on loans was due to an increase in the average balance of loans of $67.0 million, or 13.2%, to $574.6 million for the nine months ended September 30, 2016 from $507.6 million for the nine months ended September 30, 2015. Yield on loans increased 10 basis points to 4.38% for the nine months ended September 30, 2016 due to our continued focus on higher-yielding commercial lending.

The increase in interest income on investment securities was primarily due to an increase in average balance of $5.6 million, or 4.8%, to $123.2 million during the nine months ended September 30, 2016 from $117.6 million for the nine months ended September 30, 2015. The average balance increased due to investment purchases made in the last quarter of 2015.

Interest Expense. Interest expense increased $427,000, or 25.7%, to $2.1 million for the nine months ended September 30, 2016 from $1.7 million for the nine months ended September 30, 2015, primarily caused by an increase in interest expense on deposits. Interest expense on deposits increased $396,000, or 32.3%, to $1.6 million for the nine months ended September 30, 2016 from $1.2 million for the nine months ended September 30, 2015, as the average rate paid on interest-bearing deposits increased nine basis points to 0.49% for the nine months ended September 30, 2016 from 0.40% for the nine months ended September 30, 2015. The increase in the average rate was primarily the result of increases in the average rates paid on the NOW accounts.

Net Interest and Dividend Income. Net interest and dividend income increased $2.2 million, or 13.0%, to $19.3 million for the nine months ended September 30, 2016 from $17.1 million for the nine months ended September 30, 2015. The increase was due to both higher balances of earning assets and expanding margins. Our net interest rate spread increased seven basis points to 3.46% for the nine months ended September 30, 2016 from 3.39% for the nine months ended September 30, 2015, while our net interest margin increased nine basis points to 3.64% for the nine months ended September 30, 2016 from 3.55% for the nine months ended September 30, 2015. The average yield we earned on interest-earning assets increased 14 basis points to 4.04% while the average rate paid on interest-bearing liabilities increased seven basis points to 0.58%.

Provision for Loan Losses. The provision for loan losses was $484,000 for the nine months ended September 30, 2016 compared to $645,000 for the nine months ended September 30, 2015. The provisions recorded resulted in an allowance for loan losses of $8.4 million, or 1.40% of total loans, at September 30, 2016, compared to $7.9 million, or 1.40% of total loans, at December 31, 2015 and $7.7 million, or 1.46% of total loans, at September 30, 2015. The provision for the nine months ended September 30, 2016 resulted primarily from an increase in the loan portfolio as we apply historical loss ratios to newly originated loans, which, absent other factors, results in an increase in the allowance for loan losses as the loan portfolio increases.

Noninterest Income. Noninterest income increased $422,000, or 14.8%, to $3.3 million for the nine months ended September 30, 2016 from $2.8 million for the nine months ended September 30, 2015. The increase was primarily caused by the increase in gains on sales of securities of $158,000, or 49.8%, to $475,000 at September 30, 2016 compared to $317,000 at September 30, 2015, and an increase in other income of $200,000, or 55.4%, to $561,000 for the nine months ended September 30, 2016 compared to $361,000 at September 30, 2015. The increase in other income represents an increase in BOLI income. Additional BOLI of $6.2 million was purchased in the fourth quarter of 2015.

Noninterest Expense. Noninterest expense decreased $1.0 million, or 6.2%, to $15.2 million for the nine months ended September 30, 2016 from $16.2 million for the nine months ended September 30, 2015. The decrease was primarily related to the $2.2 million funding of the Bank's charitable foundation during the nine months ended September 30, 2015 compared to no such expense recorded during the nine months ended September 30, 2016. Other expense also decreased $101,000, or 4.4%, to $2.2 million for the nine months ended September 30, 2016, due primarily to the lower trustee expenses. The 2016 decrease in trustee expenses was due to the non-replacement of retiring members of the board of directors. The decrease in noninterest expense was partially offset by an increase in salaries and employee benefits expense, which increased $819,000, or 9.4%, to $9.5 million for the nine months ended September 30, 2016 from $8.7 million for the nine months ended September 30, 2015. The increase in salaries and employee benefits was due primarily to our hiring additional employees to support our loan growth and the opening of a new branch. Professional services expenses increased $214,000, or 32.3%, to $876,000 for the nine months ended September 30, 2016 from $662,000 for the nine months ended September 30, 2015 due to increased management training and legal fees.

Income Tax Provision. We recorded a provision for income taxes of $2.3 million for the nine months ended September 30, 2016, reflecting an effective tax rate of 33.2%, compared to a provision of $717,000, reflecting an effective tax rate of 23.2% for the nine months ended September 30, 2015. The changes in the income tax provision were primarily due to an increase in pre-tax income. The increase in the effective tax rate was primarily due to a decrease in our tax-exempt investments and an increase in taxable income. Our effective tax rates are below statutory federal and states rates due primarily to tax-exempt income related to investments in BOLI and municipal securities.

Average Balance sheet and Related Yields and Rates

The following tables set forth the average balance sheets, annualized average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the amount of tax free interest-earning assets is immaterial. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effect of deferred fees, discounts, and premiums that are amortized or accreted to interest income or interest expense.

	For the Nine Months Ended September 30,					
	2016			2015		
(dollars in thousands)	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
Assets:						
Interest-earning assets:						
Loans	$ 574,655	$ 18,861	4.38%	$ 507,642	$ 16,294	4.28%
Interest-earning deposits	7,260	22	0.40%	13,386	27	0.27%
Investment securities	123,230	2,481	2.68%	117,635	2,408	2.73%
Federal Home Loan Bank stock	2,607	68	3.48%	3,642	45	1.65%
Total interest-earning assets	707,752	21,432	4.04%	642,305	18,774	3.90%
Non-interest earning assets	39,368			33,780		
Total assets	$ 747,120			$ 676,085		
Interest-bearing liabilities:						
Savings accounts	$ 109,936	140	0.17%	$ 94,086	103	0.15%
Money market accounts	111,912	229	0.27%	111,679	222	0.27%
NOW accounts	110,492	490	0.59%	79,369	92	0.15%
Certificates of deposit	113,134	764	0.90%	122,738	810	0.88%
Total interest-bearing deposits	445,474	1,623	0.49%	407,872	1,227	0.40%
Federal Home Loan Bank advances	35,082	468	1.78%	31,085	437	1.87%
Total interest-bearing liabilities	480,556	2,091	0.58%	438,957	1,664	0.51%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	153,990			138,675		
Other noninterest-bearing liabilities	7,452			11,941		
Total liabilities	641,998			589,573		
Total equity	105,122			86,512		
Total liabilities and equity	$ 747,120			$ 676,085		
Net interest income		$ 19,341			$ 17,110	
Interest rate spread (1)			3.46%			3.39%
Net interest-earning assets (2)	$ 227,196			$ 203,348		
Net interest margin (3)			3.64%			3.55%
Average interest-earning assets to interest-bearing liabilities	147.28%			146.33%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-bearing assets and the weighted average rate of interest-bearing liabilities.
(2) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effect attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	For the Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015		
	Increase (Decrease) Due to		Total
(in thousands)	Rate	Volume	Increase (Decrease)
Interest-earning assets:			
Loans	$ 375	$ 2,192	$ 2,567
Interest-earning deposits	10	(15)	(5)
Investment securities	(40)	113	73
Federal Home Loan Bank Stock	39	(16)	23
Total interest-earning assets	384	2,275	2,658
Interest-bearing liabilities:			
Savings accounts	18	19	37
Money Market Accounts	7	0	7
Now Accounts	350	48	398
Certificates of deposit	19	(65)	(46)
Total interest-bearing deposits	393	3	396
Federal Home Loan Bank advances	(23)	54	31
Total interest-bearing liabilities	370	57	427
Change in net interest income	$ 14	$ 2,217	$ 2,231

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2016, cash and cash equivalents totaled $22.8 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $115.5 million at September 30, 2016.

At September 30, 2016, we had the ability to borrow a total of $194.1 million from the Federal Home Loan Bank of Boston. On that date, we had $41.4 million in advances outstanding. At September 30, 2016, we also had an available line of credit with the Federal Reserve Bank of Boston’s borrower-in-custody program of $127.9 million, none of which was outstanding as of that date.

We have no material commitments or demands that are likely to affect our liquidity other than set forth below. In the event loan demand were to increase faster than expected, or any unforeseen demand or commitment were to occur, we could access our borrowing capacity with the Federal Home Loan Bank of Boston or obtain additional funds through brokered certificates of deposit.

At September 30, 2016 and December 31, 2015 we had $22.0 million and $15.6 million in loan commitments outstanding, respectively. In addition to commitments to originate loans, at September 30, 2016 and December 31, 2015, we had $195.1 million and $191.6 million in un-advanced funds to borrowers, respectively. We also had $5.1 million and $5.5 million in outstanding letters of credit at September 30, 2016 and December 31, 2015, respectively.

Certificates of deposit due within one year of September 30, 2016 totaled $69.2 million, or 11.3% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and Federal Home Loan Bank of Boston advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit at September 30, 2016. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. During the nine months ended September 30, 2016, we originated $141.4 million of loans, all of which were intended to be held in our portfolio. We also purchased $1.4 million in securities. During the nine months ended September 30, 2015, we originated $138.5 million of loans, all of which were intended to be held in our portfolio, and we purchased $1.4 million in securities.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced net increases in total deposits of $33.1 million and $21.2 million for the nine months ended September 30, 2016 and 2015, respectively. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Federal Home Loan Bank advances decreased $16.0 million and $21.8 million during the nine months ended September 30, 2016 and 2015, respectively.

The Provident Bank is subject to various regulatory capital requirements administered by the Massachusetts Commissioner of Banks and the Federal Deposit Insurance Corporation. At September 30, 2016, The Provident Bank exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines. See Note 9 of the Notes to the Unaudited Consolidated Financial Statements for additional information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable, as the Company is a smaller reporting company.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2016. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended September 30, 2016, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Company is subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

Not applicable, as the Company is a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) There were no issuer repurchases of securities during the period covered by this Report and the Company does not have any authorized stock repurchase programs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Amended and Restated Articles of Organization of Provident Bancorp, Inc. (1)
3.2	By-Laws of Provident Bancorp, Inc. (1)
10.1	Provident Bancorp, Inc. 2016 Equity Incentive Plan (2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Provident Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Unaudited Consolidated Financial Statements.

---

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (file no. 333-202716), initially filed with the Securities and Exchange Commission on March 13, 2015.

(2) Incorporated by reference to Appendix A to the proxy statement for the Special Meeting of Shareholders filed with the Securities and Exchange Commission on August 9, 2016 (file no. 001-37504)

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

PROVIDENT BANCORP, INC.

Date: November 14, 2016	/s/ David P. Mansfield David P. Mansfield President and Chief Executive Officer
Date: November 14, 2016	/s/ Carol L. Houle Carol L. Houle Executive Vice President and Chief Financial Officer

(Back To Top)

Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David P. Mansfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Bancorp, 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)) 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) 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
   (c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
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:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 14, 2016	/s/ David P. Mansfield David P. Mansfield President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Carol L. Houle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Bancorp, 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)) 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) 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
   - (c) 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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:
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2016

/s/ Carol L. Houle
Carol L. Houle
Executive Vice President and Chief Financial Officer

(Back To Top)

Section 4: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

David P. Mansfield, President and Chief Executive Officer of Provident Bancorp, Inc. (the "Company"), and Carol L. Houle, Executive Vice President and Chief Financial Officer of the Company, each certify in his or her capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended September 30, 2016 (the "Report") and that to the best of their knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2016

/s/ David P. Mansfield
David P. Mansfield
President and Chief Executive Officer

Date: November 14, 2016

/s/ Carol L. Houle
Carol L. Houle
Executive Vice President and Chief Financial Officer

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

(Back To Top)