

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 March 31, 2018
- 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)

<u>Massachusetts</u> (State or other jurisdiction of incorporation or organization)	<u>45-3231576</u> (I.R.S. Employer Identification Number)
<u>5 Market Street, Amesbury, Massachusetts</u> (Address of Principal Executive Offices)	<u>01913</u> Zip Code
<u>(978) 834-8555</u> (Registrant's telephone number)	
<u>N/A</u> (Former name, former address, and former fiscal year 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

As of May 03, 2018, there were 9,628,496 shares of the Registrant's common stock, no par value per share, outstanding.

Provident Bancorp, Inc.
Form 10-Q

	Page
<u>Part I.</u>	<u>Financial Information</u>
<u>Item 1.</u>	<u>Interim Financial Statements</u>
	<u>Consolidated Balance Sheets as of March 31, 2018 (unaudited) and December 31, 2017</u>
	<u>2</u>
	<u>Consolidated Statements of Income for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>
	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>
	<u>4</u>
	<u>Consolidated Statements of Changes in Shareholders' Equity for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>
	<u>5</u>
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (unaudited)</u>
	<u>6</u>
	<u>Notes to Consolidated Financial Statements (unaudited)</u>
	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>
	<u>25</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	<u>37</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>37</u>
<u>Part II.</u>	<u>Other Information</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
	<u>37</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>37</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>38</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>
	<u>38</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	<u>38</u>
<u>Item 5.</u>	<u>Other Information</u>
	<u>38</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>38</u>
<u>Signatures</u>	<u>39</u>

Part I. Financial Information

Item 1. Financial Statements

PROVIDENT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	At March 31, 2018 <i>(unaudited)</i>	At December 31, 2017
Assets		
Cash and due from banks	\$ 8,809	\$ 10,326
Interest-bearing demand deposits with other banks	13,511	37,363
Cash and cash equivalents	22,320	47,689
Investments in available-for-sale securities (at fair value)	57,790	61,429
Federal Home Loan Bank stock, at cost	2,166	1,854
Loans, net	759,882	742,138
Assets held-for-sale	-	3,286
Bank owned life insurance	25,711	25,540
Premises and equipment, net	14,287	10,981
Accrued interest receivable	2,270	2,345
Deferred tax asset, net	5,274	4,920
Other assets	1,472	2,083
Total assets	\$ 891,172	\$ 902,265
Liabilities and Equity		
Deposits:		
Noninterest-bearing	\$ 181,368	\$ 186,222
Interest-bearing	538,337	563,835
Total deposits	719,705	750,057
Federal Home Loan Bank advances	45,211	26,841
Other liabilities	8,926	9,590
Total liabilities	773,842	786,488
Shareholders' equity:		
Preferred stock; authorized 50,000 shares: no shares issued and outstanding	-	-
Common stock, no par value: 30,000,000 shares authorized; 9,657,319 shares issued, 9,628,496 shares outstanding at March 31, 2018 and December 31, 2017	-	-
Additional paid-in capital	44,923	44,592
Retained earnings	76,069	74,047
Accumulated other comprehensive (loss) income	(270)	589
Unearned compensation - ESOP	(2,798)	(2,857)
Treasury stock: 28,823 shares at March 31, 2018 and December 31, 2017	(594)	(594)
Total shareholders' equity	117,330	115,777
Total liabilities and shareholders' equity	\$ 891,172	\$ 902,265

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

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31,	
<i>(Dollars in thousands, except per share data)</i>	2018	2017
	(unaudited)	
Interest and dividend income:		
Interest and fees on loans	\$ 9,276	\$ 7,233
Interest and dividends on securities	435	873
Interest on interest-bearing deposits	42	6
Total interest and dividend income	9,753	8,112
Interest expense:		
Interest on deposits	920	570
Interest on Federal Home Loan Bank advances	114	211
Total interest expense	1,034	781
Net interest and dividend income	8,719	7,331
Provision for loan losses	656	563
Net interest and dividend income after provision for loan losses	8,063	6,768
Noninterest income:		
Customer service fees on deposit accounts	364	338
Service charges and fees - other	453	502
Gain on sale of securities, net	-	482
Bank owned life insurance income	171	150
Other income	25	30
Total noninterest income	1,013	1,502
Noninterest expense:		
Salaries and employee benefits	4,158	3,676
Occupancy expense	450	471
Equipment expense	122	150
FDIC assessment	82	68
Data processing	204	190
Marketing expense	53	50
Professional fees	248	214
Directors' compensation	163	145
Other	896	657
Total noninterest expense	6,376	5,621
Income before income tax expense	2,700	2,649
Income tax expense	678	847
Net income	\$ 2,022	\$ 1,802
Earnings per share:		
Basic	\$ 0.22	\$ 0.20
Diluted	\$ 0.22	\$ 0.20
Weighted Average Shares:		
Basic	9,219,865	9,192,568
Diluted	9,295,003	9,192,568

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

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

<i>(In thousands)</i>	Three Months Ended March 31,	
	2018	2017
Net income	\$ 2,022	\$ 1,802
Other comprehensive income (loss):		
Unrealized holding (losses) gains	(1,213)	740
Reclassification adjustment for realized gains in net income	-	(482)
Unrealized (loss) gain	(1,213)	258
Income tax effect	354	(97)
Net of tax amount	(859)	161
Total comprehensive income	<u>\$ 1,163</u>	<u>\$ 1,963</u>

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

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

(Unaudited)

<i>(In thousands, except share data)</i>	Shares of Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unearned Compensation ESOP	Treasury Stock	Total
Balance, December 31, 2017	9,628,496	\$ 44,592	\$ 74,047	\$ 589	\$ (2,857)	\$ (594)	\$ 115,777
Net income	-	-	2,022	-	-	-	2,022
Other comprehensive loss	-	-	-	(859)	-	-	(859)
Stock-based compensation expense	-	240	-	-	-	-	240
ESOP shares earned	-	91	-	-	59	-	150
Balance, March 31, 2018	<u>9,628,496</u>	<u>\$ 44,923</u>	<u>\$ 76,069</u>	<u>\$ (270)</u>	<u>\$ (2,798)</u>	<u>\$ (594)</u>	<u>\$ 117,330</u>
Balance, December 31, 2016	9,652,448	\$ 43,393	\$ 66,229	\$ 2,622	\$ (3,095)	\$ -	\$ 109,149
Net income	-	-	1,802	-	-	-	1,802
Other comprehensive income	-	-	-	161	-	-	161
Stock-based compensation expense	-	231	-	-	-	-	231
Treasury stock acquired	(11,460)	-	-	-	-	(222)	(222)
ESOP shares earned	-	55	-	-	59	-	114
Balance, March 31, 2017	<u>9,640,988</u>	<u>\$ 43,679</u>	<u>\$ 68,031</u>	<u>\$ 2,783</u>	<u>\$ (3,036)</u>	<u>\$ (222)</u>	<u>\$ 111,235</u>

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

PROVIDENT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In thousands)</i>	Three Months Ended March 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 2,022	\$ 1,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities premiums, net of accretion	67	192
ESOP expense	150	114
Gain on sale of securities, net	-	(482)
Change in deferred loan fees, net	(27)	71
Provision for loan losses	656	563
Depreciation and amortization	185	208
Decrease (increase) in accrued interest receivable	75	(13)
Share-based compensation expense	240	231
Increase in cash surrender value of life insurance	(171)	(150)
Decrease (increase) in other assets	611	(295)
Decrease in other liabilities	(664)	(315)
Net cash provided by operating activities	3,144	1,926
Cash flows from investing activities:		
Purchases of available-for-sale securities	-	(11,318)
Proceeds from sales of available-for-sale securities	-	1,555
Proceeds from pay downs, maturities and calls of available-for-sale securities	2,359	4,346
Purchase of Federal Home Loan Bank stock	(312)	(1,107)
Loan originations and purchases, net of paydowns	(18,373)	(27,083)
Additions to premises and equipment	(58)	(3,082)
Additions to assets held-for-sale	(147)	-
Net cash used in investing activities	(16,531)	(36,689)

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

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

(Unaudited)

<i>(In thousands)</i>	Three Months Ended March 30,	
	2018	2017
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	(22,826)	6,911
Net (decrease) increase in time deposits	(7,526)	45,704
Proceeds from advances from Federal Home Loan Bank	-	7,000
Net change in Federal Home Loan Bank short-term advances	18,370	(23,988)
Purchase of treasury stock	-	(222)
Net cash (used in) provided by financing activities	(11,982)	35,405
Net (decrease) increase in cash and cash equivalents	(25,369)	642
Cash and cash equivalents at beginning of period	47,689	10,705
Cash and cash equivalents at end of period	\$ 22,320	\$ 11,347
Supplemental disclosures:		
Interest paid	\$ 1,098	\$ 788
Income taxes paid	642	100
Assets held-for-sale transferred to premises and equipment	3,433	-

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

PROVIDENT BANCORP, INC.
Notes to Consolidated Financial Statements

(Unaudited)

(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 U.S. generally accepted accounting principles (“GAAP”). However, in the opinion of management, all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three-month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for future periods, including the entire fiscal year. Certain amounts in 2017 have been reclassified to be consistent with the 2018 consolidated financial statement presentation, and had no effect on the net income reported in the consolidated statement of income. 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 15, 2018.

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 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.

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 is 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

In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) No. 2014-09 – Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in ASC 605. This ASU requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605. In March 2016, the FASB also issued ASU 2016-08, an amendment to the guidance in ASU 2014-09, which reframed the structure of the indicators of when an entity is acting as an agent and focused on evidence that an entity is acting as the principal or agent in a revenue transaction. ASU 2016-08 also eliminated two of the indicators (the entity's consideration is in the form of a commission, and the entity is not exposed to credit risk) in making that determination. This amendment also clarifies that each indicator may be more or less relevant to the assessment depending on the terms and conditions of the contract. In May 2016, the FASB issued ASU 2016-12, an amendment to ASU 2014-09, which provided practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on transition, collectability, non-cash consideration and presentation of sales and other similar taxes. The amendments, collectively, should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption (modified retrospective approach).

This ASU was effective for the Company on January 1, 2018. Because the ASU does not apply to revenue associated with leases and financial instruments (including loans and securities), the Company concluded that the new guidance did not impact the elements of its consolidated statements of income most closely associated with leases and financial instruments (such as interest income, interest expense and securities gains). The Company completed its identification of all revenue streams included in its financial statements and has identified its deposit- related fees, service charges, debit and prepaid card interchange income and other fee income to be within the scope of the standard. The Company has also completed its review of the related contracts. The Company's overall assessment indicates that adoption of this ASU did not materially change its current method and timing of recognizing revenue for the identified revenue streams and therefore, the adoption of this ASU on January 1, 2018, did not have a significant impact to the Company's financial condition, results of operations and consolidated financial statements.

In January 2016, the FASB issued *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, those without readily determinable fair values, 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 was effective for the Company on January 1, 2018. The Company evaluated the impact of this pronouncement and divested its entire marketable equity securities portfolio in 2017. The Company's investment in Federal Home Loan Bank Stock is not included in the scope of this pronouncement. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued *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 the Company on January 1, 2019, with early adoption permitted. Adoption will require a modified retrospective transition where the lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented. The Company does not expect the application of this guidance will have a material impact on the Company's financial statements.

In June 2016, the FASB issued *ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): “Measurement of Credit Losses on Financial Instruments.”* The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that will replace today's “incurred loss” model and can result in the earlier recognition of credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The amendments in this update will be effective for the Company on January 1, 2020. 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.

In August 2016, the FASB issued *ASU No. 2016-15, Statement of Cash Flows (Topic 230): “Classification of Certain Cash Receipts and Cash Payments.”* This ASU changes how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The amendments address the classification of the following eight items in the statement of cash flows: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the Predominance Principle. The amendments in this update were effective for the Company on January 1, 2018. As the guidance only affects the classification within the statement of cash flows, the adoption of this guidance did not have a material impact on the Company's financial statements.

In March 2017, the FASB issued *ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (subtopic 310-20): “Premium Amortization on Purchased Callable Debt Securities.”* This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments will be effective for the Company on January 1, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the application of this guidance will have a material impact on the Company's financial statements.

(4) Investment Securities

The following summarizes the amortized cost of investment securities classified as available-for-sale and their approximate fair values at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	<u>Amortized Cost Basis</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
March 31, 2018				
State and municipal securities	\$ 20,199	\$ 304	\$ 200	\$ 20,303
Asset-backed securities	7,327	-	129	7,198
Government mortgage-backed securities	30,719	196	626	30,289
Total available-for-sale securities	<u>\$ 58,245</u>	<u>\$ 500</u>	<u>\$ 955</u>	<u>\$ 57,790</u>
December 31, 2017				
State and municipal securities	\$ 20,726	\$ 745	\$ 17	\$ 21,454
Asset-backed securities	7,524	30	37	7,517
Government mortgage-backed securities	32,421	317	280	32,458
Total available-for-sale securities	<u>\$ 60,671</u>	<u>\$ 1,092</u>	<u>\$ 334</u>	<u>\$ 61,429</u>

The scheduled maturities of debt securities were as follows at March 31, 2018:

<i>(In thousands)</i>	<u>Available-for-Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due after one year through five years	\$ 419	\$ 427
Due after five years through ten years	2,396	2,441
Due after ten years	17,384	17,435
Government mortgage-backed securities	30,719	30,289
Asset-backed securities	7,327	7,198
	<u>\$ 58,245</u>	<u>\$ 57,790</u>

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 longer are as follows at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
March 31, 2018						
Temporarily impaired securities:						
State and municipal securities	\$ 7,790	\$ 170	\$ 595	\$ 30	\$ 8,385	\$ 200
Asset-backed securities	5,948	96	1,250	33	7,198	129
Government mortgage-backed securities	10,206	149	12,757	477	22,963	626
Total temporarily impaired securities	<u>\$ 23,944</u>	<u>\$ 415</u>	<u>\$ 14,602</u>	<u>\$ 540</u>	<u>\$ 38,546</u>	<u>\$ 955</u>
December 31, 2017						
Temporarily impaired securities:						
State and municipal securities	\$ -	\$ -	\$ 611	\$ 17	\$ 611	\$ 17
Asset-backed securities	1,745	13	1,335	24	3,080	37
Government mortgage-backed securities	5,231	20	13,584	260	18,815	280
Total temporarily impaired securities	<u>\$ 6,976</u>	<u>\$ 33</u>	<u>\$ 15,530</u>	<u>\$ 301</u>	<u>\$ 22,506</u>	<u>\$ 334</u>

Government mortgage-backed securities, state and municipal securities and asset-backed securities: Management believes that no individual unrealized loss at March 31, 2018 represents an other-than-temporarily impairment (OTTI) because the decline in fair value of these 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.

(5) Loans

A summary of loans is as follows:

<i>(Dollars in thousands)</i>	<u>At March 31, 2018</u>		<u>At December 31, 2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Commercial real estate	\$ 372,955	48.38%	\$ 371,510	49.35%
Commercial	259,994	33.72%	240,223	31.91%
Residential real estate	65,777	8.53%	67,724	9.00%
Construction and land development	53,875	6.99%	55,828	7.42%
Consumer	18,335	2.38%	17,455	2.32%
	770,936	100.00%	752,740	100.00%
Allowance for loan losses	(10,236)		(9,757)	
Deferred loan fees, net	(818)		(845)	
Net loans	<u>\$ 759,882</u>		<u>\$ 742,138</u>	

The following tables set forth information regarding the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018 and 2017:

<i>(In thousands)</i>	For the three months ended March 31,						
	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Balance at December 31, 2017	\$ 4,483	\$ 3,280	\$ 300	\$ 965	\$ 649	\$ 80	\$ 9,757
Charge-offs	-	(20)	-	-	(166)	-	(186)
Recoveries	-	1	-	-	8	-	9
Provision (benefit)	124	407	(8)	(26)	187	(28)	656
Balance at March 31, 2018	<u>\$ 4,607</u>	<u>\$ 3,668</u>	<u>\$ 292</u>	<u>\$ 939</u>	<u>\$ 678</u>	<u>\$ 52</u>	<u>\$ 10,236</u>
Balance at December 31, 2016	\$ 4,503	\$ 2,513	\$ 328	\$ 882	\$ 279	\$ 85	\$ 8,590
Charge-offs	(6)	-	-	-	(8)	-	(14)
Recoveries	-	-	-	-	-	-	-
Provision (benefit)	16	267	(8)	159	104	25	563
Balance at March 31, 2017	<u>\$ 4,513</u>	<u>\$ 2,780</u>	<u>\$ 320</u>	<u>\$ 1,041</u>	<u>\$ 375</u>	<u>\$ 110</u>	<u>\$ 9,139</u>

The following table sets forth information regarding the allowance for loan losses and related loan balances by segment at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
March 31, 2018							
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance:							
Collectively evaluated for impairment	4,607	3,668	292	939	678	52	10,236
Total allowance for loan losses ending balance	\$ 4,607	\$ 3,668	\$ 292	\$ 939	\$ 678	\$ 52	\$ 10,236
Loans:							
Ending balance:							
Individually evaluated for impairment	\$ 8,610	\$ 3,209	\$ 400	\$ -	\$ -	\$ -	\$ 12,219
Ending balance:							
Collectively evaluated for impairment	364,345	256,785	65,377	53,875	18,335	-	758,717
Total loans ending balance	\$ 372,955	\$ 259,994	\$ 65,777	\$ 53,875	\$ 18,335	\$ -	\$ 770,936
December 31, 2017							
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending balance:							
Collectively evaluated for impairment	4,483	3,280	300	965	649	80	9,757
Total allowance for loan losses ending balance	\$ 4,483	\$ 3,280	\$ 300	\$ 965	\$ 649	\$ 80	\$ 9,757
Loans:							
Ending balance:							
Individually evaluated for impairment	\$ 8,623	\$ 3,202	\$ 404	\$ -	\$ -	\$ -	\$ 12,229
Ending balance:							
Collectively evaluated for impairment	362,887	237,021	67,320	55,828	17,455	-	740,511
Total loans ending balance	\$ 371,510	\$ 240,223	\$ 67,724	\$ 55,828	\$ 17,455	\$ -	\$ 752,740

The following tables set forth information regarding non-accrual loans and loan delinquencies by portfolio segment at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	<u>30 - 59 Days</u>	<u>60 - 89 Days</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Total Current</u>	<u>Total Loans</u>	<u>90 Days or More Past Due and Accruing</u>	<u>Non-accrual Loans</u>
March 31, 2018								
Commercial real estate	\$ 820	\$ 3,577	\$ 3,670	\$ 8,067	\$ 364,888	\$ 372,955	\$ -	\$ 7,102
Commercial	235	2,906	-	3,141	256,853	259,994	-	1,501
Residential real estate	549	101	-	650	65,127	65,777	-	920
Construction and land development	-	-	-	-	53,875	53,875	-	-
Consumer	70	85	58	213	18,122	18,335	-	61
Total	<u>\$ 1,674</u>	<u>\$ 6,669</u>	<u>\$ 3,728</u>	<u>\$ 12,071</u>	<u>\$ 758,865</u>	<u>\$ 770,936</u>	<u>\$ -</u>	<u>\$ 9,584</u>
December 31, 2017								
Commercial real estate	\$ -	\$ 3,669	\$ -	\$ 3,669	\$ 367,841	\$ 371,510	\$ -	\$ 7,102
Commercial	12	-	-	12	240,211	240,223	-	1,505
Residential real estate	699	178	81	958	66,766	67,724	-	364
Construction and land development	-	-	-	-	55,828	55,828	-	-
Consumer	63	45	60	168	17,287	17,455	-	62
Total	<u>\$ 774</u>	<u>\$ 3,892</u>	<u>\$ 141</u>	<u>\$ 4,807</u>	<u>\$ 747,933</u>	<u>\$ 752,740</u>	<u>\$ -</u>	<u>\$ 9,033</u>

Information about the Company's impaired loans by portfolio segment was as follows at and for the period ended March 31, 2018 and at and for the year ended December 31, 2017:

<i>(In thousands)</i>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
March 31, 2018					
With no related allowance recorded:					
Commercial real estate	\$ 8,610	\$ 10,125	\$ -	\$ 8,616	\$ 24
Commercial	3,209	3,209	-	3,206	52
Residential real estate	400	400	-	402	4
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with no related allowance	<u>12,219</u>	<u>13,734</u>	<u>-</u>	<u>12,224</u>	<u>80</u>
With an allowance recorded:					
Commercial real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with an allowance recorded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total					
Commercial real estate	8,610	10,125	-	8,616	24
Commercial	3,209	3,209	-	3,206	52
Residential real estate	400	400	-	402	4
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans	<u>\$ 12,219</u>	<u>\$ 13,734</u>	<u>\$ -</u>	<u>\$ 12,224</u>	<u>\$ 80</u>
December 31, 2017					
With no related allowance recorded:					
Commercial real estate	\$ 8,623	\$ 10,139	\$ -	\$ 4,562	\$ 70
Commercial	3,202	3,202	-	2,054	123
Residential real estate	404	404	-	412	20
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with no related allowance	<u>12,229</u>	<u>13,745</u>	<u>-</u>	<u>7,028</u>	<u>213</u>
With an allowance recorded:					
Commercial real estate	-	-	-	-	-
Commercial	-	-	-	-	-
Residential real estate	-	-	-	-	-
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired with an allowance recorded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total					
Commercial real estate	8,623	10,139	-	4,562	70
Commercial	3,202	3,202	-	2,054	123
Residential real estate	404	404	-	412	20
Construction and land development	-	-	-	-	-
Consumer	-	-	-	-	-
Total impaired loans	<u>\$ 12,229</u>	<u>\$ 13,745</u>	<u>\$ -</u>	<u>\$ 7,028</u>	<u>\$ 213</u>

There were no troubled debt restructurings during the three months ended March 31, 2018.

The following summarizes troubled debt restructurings entered into during the three months ended March 31, 2017:

(Dollars in thousands)

	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
March 31, 2017			
Troubled debt restructurings:			
Commercial	1	\$ 249	\$ 249
	<u>1</u>	<u>\$ 249</u>	<u>\$ 249</u>

In the three months ended March 31 2017, the Company approved one troubled debt restructure totaling \$249,000, with no specific reserve required based on an analysis of the borrower's collateral coverage. The term of this commercial loan was extended to a three-year term.

The following tables present the Company's loans by risk rating and portfolio segment at March 31, 2018 and December 31, 2017:

(In thousands)

	Commercial Real Estate	Commercial	Residential Real Estate	Construction and Land Development	Consumer	Total
March 31, 2018						
Grade:						
Pass	\$ 355,967	\$ 236,485	\$ -	\$ 53,875	\$ -	\$ 646,327
Special mention	6,791	11,219	-	-	-	18,010
Substandard	10,197	12,290	633	-	-	23,120
Not formally rated	-	-	65,144	-	18,335	83,479
Total	<u>\$ 372,955</u>	<u>\$ 259,994</u>	<u>\$ 65,777</u>	<u>\$ 53,875</u>	<u>\$ 18,335</u>	<u>\$ 770,936</u>
December 31, 2017						
Grade:						
Pass	\$ 355,623	\$ 224,190	\$ -	\$ 55,828	\$ -	\$ 635,641
Special mention	6,852	9,155	-	-	-	16,007
Substandard	9,035	6,878	679	-	-	16,592
Not formally rated	-	-	67,045	-	17,455	84,500
Total	<u>\$ 371,510</u>	<u>\$ 240,223</u>	<u>\$ 67,724</u>	<u>\$ 55,828</u>	<u>\$ 17,455</u>	<u>\$ 752,740</u>

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.

(6) Deposits

A summary of deposit balances, by type is as follows:

<i>(In thousands)</i>	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
NOW and demand	\$ 289,868	\$ 309,514
Regular savings	115,144	112,610
Money market deposits	220,020	225,735
Total non-certificate accounts	<u>625,032</u>	<u>647,859</u>
Certificate accounts of \$250,000 or more	5,785	5,061
Certificate accounts less than \$250,000	88,888	97,137
Total certificate accounts	<u>94,673</u>	<u>102,198</u>
Total deposits	<u>\$ 719,705</u>	<u>\$ 750,057</u>

(7) Federal Home Loan Bank Advances

Borrowings from the Federal Home Loan Bank (the “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 real estate loans and other qualified assets.

Maturities of advances from the FHLB as of March 31, 2018 are summarized as follows:

(In thousands)

Fiscal Year-End	Dollar Amount
2018	\$ 30,350
2019	4,945
2020	6,416
2023	3,500
Total	<u>\$ 45,211</u>

(8) 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 three 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).

An asset’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 Assets Measured on a Recurring Basis

The Company’s investments in state and municipal, asset-backed and government mortgage-backed available-for-sale securities are generally classified within Level 2 of the fair value hierarchy. For these investments, the Company obtains 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 following summarizes financial instruments measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
March 31, 2018				
State and municipal securities	\$ 20,303	\$ -	\$ 20,303	\$ -
Asset-backed securities	7,198	-	7,198	-
Mortgage-backed securities	30,289	-	30,289	-
Totals	<u>\$ 57,790</u>	<u>\$ -</u>	<u>\$ 57,790</u>	<u>\$ -</u>
December 31, 2017				
State and municipal securities	\$ 21,454	\$ -	\$ 21,454	\$ -
Asset-backed securities	7,517	-	7,517	-
Mortgage-backed securities	32,458	-	32,458	-
Totals	<u>\$ 61,429</u>	<u>\$ -</u>	<u>\$ 61,429</u>	<u>\$ -</u>

Fair Values of Assets Measured on a Non-Recurring Basis

The Company's impaired loans are reported at the fair value of the underlying collateral, less estimated costs to sell, 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 assets measured at fair value on a nonrecurring basis at March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
March 31, 2018				
Impaired loan	\$ 3,670	\$ -	\$ -	\$ 3,670
December 31, 2017				
Impaired loan	\$ 3,670	\$ -	\$ -	\$ 3,670

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 March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>
March 31, 2018			
Impaired loan	\$ 3,670	Real estate appraisals	Discount for dated appraisals
December 31, 2017			
Impaired loan	\$ 3,670	Real estate appraisals	Discount for dated appraisals

(9) 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 March 31, 2018 and December 31, 2017:

<i>(In thousands)</i>	<u>Carrying Amount</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
March 31, 2018					
Financial assets:					
Cash and cash equivalents	\$ 22,320	\$ 22,320	\$ -	\$ -	\$ 22,320
Available-for-sale securities	57,790	-	57,790	-	57,790
Federal Home Loan Bank of Boston stock	2,166	2,166	-	-	2,166
Loans, net	759,882	-	-	751,501	751,501
Accrued interest receivable	2,270	-	2,270	-	2,270
Financial liabilities:					
Deposits	719,705	-	-	719,605	719,605
Federal Home Loan Bank advances	45,211	-	44,849	-	44,849
December 31, 2017					
Financial assets:					
Cash and cash equivalents	\$ 47,689	\$ 47,689	\$ -	\$ -	\$ 47,689
Available-for-sale securities	61,429	-	61,429	-	61,429
Federal Home Loan Bank of Boston stock	1,854	1,854	-	-	1,854
Loans, net	742,138	-	-	745,637	745,637
Accrued interest receivable	2,345	-	2,345	-	2,345
Financial liabilities:					
Deposits	750,057	-	-	749,898	749,898
Federal Home Loan Bank advances	26,841	-	26,655	-	26,655

(10) 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. At March 31, 2018, the Bank exceeded the fully phased in regulatory requirement for the capital conservation buffer. Failure to maintain the capital conservation buffer limits the ability of the Bank and the Company to pay dividends, repurchases shares or pay discretionary bonuses.

As of March 31, 2018 and December 31, 2017, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

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

<i>(dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2018						
Total Capital (to Risk Weighted Assets)	\$ 119,362	15.0%	\$ 63,651	≥ 8.0%	\$ 79,564	≥ 10.0%
Tier 1 Capital (to Risk Weighted Assets)	109,413	13.8	47,738	≥ 6.0	63,651	≥ 8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	109,413	13.8	35,804	≥ 4.5	51,716	≥ 6.5
Tier 1 Capital (to Average Assets)	109,413	12.4	35,418	≥ 4.0	44,273	≥ 5.0
December 31, 2017						
Total Capital (to Risk Weighted Assets)	\$ 116,869	15.0%	\$ 62,514	≥ 8.0%	\$ 78,142	≥ 10.0%
Tier 1 Capital (to Risk Weighted Assets)	107,112	13.7	46,885	≥ 6.0	62,514	≥ 8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	107,112	13.7	35,164	≥ 4.5	50,792	≥ 6.5
Tier 1 Capital (to Average Assets)	107,112	11.8	36,299	≥ 4.0	45,374	≥ 5.0

The Company may use capital management tools such as cash dividends and common share repurchases. Massachusetts regulations restrict repurchases for the first three years following the stock offering except where compelling and valid business reasons are established to the satisfaction of the Massachusetts Commissioner of Banks, and except to fund stock benefit plans. The Company is also subject to the Federal Reserve Board's notice provisions for stock repurchases. In January 2017, the Company received a non-objection from the Federal Reserve Board to adopt a stock repurchase program for up to 6.6% of its common stock. As of March 31, 2018, the Company had repurchased 28,823 shares of its stock at an average price of \$20.59 per share, or 4.6% of the 625,015 shares authorized for repurchase under the Company's repurchase program.

(11) 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 loan to the ESOP to purchase 357,152 shares of the Company’s common stock at a price of \$10.00 per share. The loan is payable annually over 15 years at a rate per annum equal to the Prime Rate as of December 31 (4.50% at December 31, 2017). Loan payments are principally funded by cash contributions from the Bank.

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Allocated	71,430	47,620
Committed to be allocated	5,952	23,810
Unallocated	<u>279,770</u>	<u>285,722</u>
Total	<u>357,152</u>	<u>357,152</u>

The fair value of unallocated shares was approximately \$7.4 million at March 31 2018.

Total compensation expense recognized in connection with the ESOP for the three months ended March 31, 2018 and 2017 was \$150,000 and \$114,000, respectively.

(12) 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. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. Unallocated ESOP shares, treasury stock and unvested restricted stock is not deemed outstanding for earnings per share calculations.

<i>(Dollars in thousands, except per share amounts)</i>	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net Income attributable to common shareholders	<u>\$ 2,022</u>	<u>\$ 1,802</u>
Average number of common shares issued	9,657,319	9,652,448
Less:		
average unallocated ESOP shares	(286,226)	(306,254)
average unvested restricted stock	(122,405)	(148,602)
average treasury stock acquired	<u>(28,823)</u>	<u>(5,024)</u>
Average number of common shares outstanding to calculate basic earnings per common share	9,219,865	9,192,568
Effect of dilutive unvested restricted stock and stock option awards	75,138	-
Average number of common shares outstanding to calculate diluted earnings per common share	<u>9,295,003</u>	<u>9,192,568</u>
Earnings per common share:		
Basic	\$ 0.22	\$ 0.20
Diluted	\$ 0.22	\$ 0.20

(13) Share-Based Compensation

Under the Provident Bancorp, Inc. 2016 Equity Incentive Plan (the "Equity Plan"), the Company may grant options, restricted stock, restricted units or performance awards to its directors, officers and employees. Both incentive stock options and non-qualified stock options may be granted under the Equity Plan, with the total shares reserved for options equaling 446,440. The exercise price of each option equals the market price of the Company's stock on the date of grant and the term of each option is generally ten years. The total number of shares reserved for restricted stock or restricted units is 178,575. Options and other awards vest ratably over five years.

Expense related to options and restricted stock granted to directors is recognized in directors' compensation within non-interest expense.

Stock Options

The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

- Volatility is based on peer group volatility because the Company does not have a sufficient trading history.
- Expected life represents the period of time that the option is expected to be outstanding, taking into account the contractual term, and the vesting period.
- The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equivalent to the expected life of the option.

A summary of the status of the Company's stock option grants for the three months ended March 31, 2018, is presented in the table below:

	<u>Stock Option Awards</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2017	396,443	\$ 17.61		
Granted	-	-		
Outstanding at March 31, 2018	396,443	\$ 17.61	8.68	\$ 3,544,000
Outstanding and expected to vest at March 31, 2018	396,443	\$ 17.59	8.68	\$ 3,544,000
Vested and Exercisable at March 31, 2018	76,854	17.40	8.64	\$ 703,000
Unrecognized compensation cost	\$ 1,481,000			
Weighted average remaining recognition period (years)	3.68			

For the three months ended March 31, 2018 and 2017, total expense for the stock options was \$101,000 and \$97,000, respectively.

Restricted Stock

Shares issued upon the granting of restricted stock may be either authorized but unissued shares or reacquired shares held by the Company. Any shares forfeited because vesting requirements are not met will again be available for issuance under the Equity Plan. The fair market value of shares awarded, based on the market prices at the date of grant, is recorded as unearned compensation and amortized over the applicable vesting period.

The following table presents the activity in restricted stock awards under the Equity Plan for the three months March 31, 2018:

	Unvested Restricted Stock Awards	Weighted Average Grant Date Price
Unvested restricted stock awards at January 1, 2018	127,852	\$ 17.59
Granted	-	-
Vested	-	-
Unvested restricted stock awards at March 31, 2018	<u>127,852</u>	<u>\$ 17.59</u>
Unrecognized compensation cost	<u>\$ 2,046,000</u>	
Weighted average remaining recognition period (years)	<u>3.68</u>	

For the three months ended March 31, 2018 and 2017, total expense for the restricted stock awards was \$139,000 and \$134,000, respectively.

(14) Subsequent Event

On April 3, 2018, the Bank conducted a foreclosure sale of certain collateral consisting of both real and personal property which secured four non-accruing loans originally made by the Bank having an aggregate principal outstanding balance of approximately \$7.5 million of which \$4.9 million is outstanding at the Bank with the remaining \$2.6 million participated out to another institution. The Bank received \$8.3 million in cash from this foreclosure sale. Certain subordinated lienholders are now disputing the priority of the Bank's liens and the right of the Bank to retain approximately \$2.1 million of the proceeds from this foreclosure sale, but have not yet filed a formal claim. Until the dispute is resolved, the Bank has deposited, and will continue to hold, the disputed proceeds (i.e., approximately \$2.1 million which includes \$543,000 that is participated out to another institution) in a suspense deposit account at the Bank. At this time, we cannot reasonably estimate a range of potential loss, if any, to the Bank, with respect to this matter.

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

Management's discussion and analysis of financial condition and results of operations at March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017 is intended to assist in understanding our financial condition and results of operations. Operating results for the three-month period ended March 31, 2018 may not be indicative of results for all of 2018 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," "believes," "will," "intends," "may," "will be," "would" or similar expressions. 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 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. These factors include general economic conditions, including 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; changes in accounting policies; changes in laws and regulations; our success in introducing new products or entering new markets; our ability to retain key employees; failures or breaches of our IT systems; 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 update any forward-looking statements after the date of this quarterly report.

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 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.

The Company classifies a loan as impaired when, based on current information and events, it is probable that it 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 three months ended March 31, 2018 or during the twelve months ended December 31, 2017.

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 a conversion of the construction loans to permanent loans for which payment is then 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 can be 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.

Stock-based Compensation Plans. The Company measures and recognizes compensation cost relating to stock-based payment transactions based on the grant-date fair value of the equity instruments issued. Stock-based compensation is recognized over the period the employee is required to provide services for the award. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options granted. The determination of fair value involves a number of significant estimates, which require a number of assumptions to determine the model inputs. The fair value of restricted stock is recorded based on the grant date value of the equity instrument issued.

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 \$891.2 million at March 31, 2018, a decrease of \$11.1 million, or 1.2%, from \$902.3 million at December 31, 2017. The decrease resulted primarily from decreases in cash and cash equivalents of \$25.4 million, and available-for-sale investment securities of \$3.6 million. These decreases were partially offset by an increase in net loans of \$17.7 million.

Cash and Cash Equivalents. Cash and cash equivalents decreased \$25.4 million, or 53.2%, to \$22.3 million at March 31, 2018 from \$47.7 million at December 31, 2017. The decrease is primarily due to utilizing funds for loan growth and a decrease in deposits, offset by an increase in borrowed funds.

Loans. At March 31, 2018, net loans were \$759.9 million, or 85.3% of total assets, compared to \$742.1 million, or 82.3% of total assets, at December 31, 2017. Increases in commercial loans of \$19.8 million, or 8.2%, commercial real estate loans of \$1.4 million, or 0.4%, and in consumer loans of \$880,000, or 5.0%, were partially offset by a decrease in construction and land development loans of \$2.0 million, or 3.5%, and residential real estate loans of \$1.9 million, or 2.9%. Our commercial loan growth is attributed to adding lenders and a continued assessment of other opportunities in our expanded market area. The consumer loan growth is primarily due to loan purchases via the BancAlliance Lending Club Program that the Bank entered into an agreement with in 2016.

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

<i>(Dollars in thousands)</i>	At March 31, 2018		At December 31, 2017	
	Amount	Percent	Amount	Percent
Commercial real estate	\$ 372,955	48.38%	\$ 371,510	49.35%
Commercial	259,994	33.72%	240,223	31.91%
Residential real estate	65,777	8.53%	67,724	9.00%
Construction and land development	53,875	6.99%	55,828	7.42%
Consumer	18,335	2.38%	17,455	2.32%
	770,936	100.00%	752,740	100.00%
Allowance for loan losses	(10,236)		(9,757)	
Deferred loan fees, net	(818)		(845)	
Net loans	\$ 759,882		\$ 742,138	

Assets Held-for-Sale. The Company purchased a building in Portsmouth, New Hampshire in January 2017 with the intention of using a majority of the space for banking operations. The cost of this building and the related improvements was \$3.3 million as of December 31, 2017. During 2017, the Company entered into an agreement to sell the building for \$3.3 million, with the building to be developed into a mixed used commercial building, and transferred the building into the held-for-sale category. During the first quarter of 2018, the Company transferred the assets back into the premises and equipment category as the Company terminated the agreement to sell the building, and entered into a new agreement with a third party to construct the commercial building, in which the Company will occupy space. The Company will then sell any unused units.

Deposits. Total deposits decreased \$30.4 million, or 4.0%, to \$719.7 million at March 31, 2018 from \$750.1 million at December 31, 2017. The primary reason for the decrease in deposits was due to a decrease of \$19.6 million, or 6.3%, in NOW and demand deposits, a decrease of \$7.5 million, or 7.4%, time deposits, and a decrease in money market deposits of \$5.7 million, or 2.5%. The decrease in the NOW and demand deposits is primarily from municipal deposits. We expect these deposits to increase in the June 30, 2018 quarter. Time deposits decreased primarily due to the roll-off of brokered CDs.

Borrowings. Borrowings at both March 31, 2018 and December 31, 2017 consisted entirely of Federal Home Loan Bank advances. Borrowings increased \$18.4 million, or 68.4%, to \$45.2 million at March 31, 2018 from \$26.8 million at December 31, 2017. The increase was primarily due to the decrease in deposits.

Shareholders' Equity. Total shareholders' equity increased \$1.6 million, or 1.3%, to \$117.3 million at March 31, 2018, from \$115.8 million at December 31, 2017. The increase was primarily due to year-to-date net income of \$2.0 million; partially offset by decreases of \$859,000 in year-to-date accumulated other comprehensive income, reflecting a decrease in the fair value of available-for-sale securities. Book value per share increased to \$12.19 at March 31, 2018 from \$12.02 at December 31, 2017.

Asset Quality.

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

<i>(Dollars in thousands)</i>	At March 31, 2018	At December 31, 2017
Non-accrual loans:		
Real estate:		
Commercial	\$ 7,102	\$ 7,102
Residential	920	364
Construction and land development	-	-
Commercial	1,501	1,505
Consumer	61	62
Total non-accrual loans	<u>9,584</u>	<u>9,033</u>
Accruing loans past due 90 days or more	-	-
Real estate owned	-	-
Total non-performing assets	<u>\$ 9,584</u>	<u>\$ 9,033</u>
Total loans (1)	\$ 770,118	\$ 751,895
Total assets	\$ 891,172	\$ 902,265
Total non-performing loans to total loans (1)	1.24%	1.20%
Total non-performing assets to total assets	1.08%	1.00%

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

The increase in non-performing assets at March 31, 2018 compared to December 31, 2017 was primarily due to an increase of \$556,000 in non-accrual one- to four-family loans. The Company has cooperative relationships with the vast majority of its nonperforming loan customers. Substantially all non-performing loans are collateralized by real estate and the repayment is largely dependent on the return of such loans to performing status or the liquidation of the underlying real estate collateral. The Company pursues the resolution of all non-performing loans through collections, restructures, voluntary liquidation of collateral by the borrower and, where necessary, legal action. When attempts to work with a customer to return a loan to performing status, including restructuring the loan, are unsuccessful, the Company will initiate appropriate legal action seeking to acquire property by deed in lieu of foreclosure or through foreclosure, or to liquidate business assets.

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 net non-accrual loans and charge-offs, national and local business conditions, 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:

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2018	2017
Allowance at beginning of period	\$ 9,757	\$ 8,590
Provision for loan losses	656	563
Charge offs:		
Real estate:		
Commercial	-	6
Residential	-	-
Construction and land development	-	-
Commercial	20	-
Consumer	166	8
Total charge-offs	<u>186</u>	<u>14</u>
Recoveries:		
Real estate:		
Commercial	-	-
Residential	-	-
Construction and land development	-	-
Commercial	1	-
Consumer	8	-
Total recoveries	<u>9</u>	<u>-</u>
Net charge-offs	<u>177</u>	<u>14</u>
Allowance at end of period	<u>\$ 10,236</u>	<u>\$ 9,139</u>
Non-performing loans at end of period	\$ 9,584	\$ 1,379
Total loans outstanding at end of period (1)	770,118	660,013
Average loans outstanding during the period (1)	766,968	646,136
Allowance to non-performing loans	106.80%	662.73%
Allowance to total loans outstanding at end of period	1.33%	1.38%
Net charge-offs to average loans outstanding during the during the period (annualized)	0.09%	0.01%

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

Results of Operations for the Three Months Ended March 31, 2018 and 2017

General. Net income increased \$220,000 to \$2.0 million for the three months ended March 31, 2018 from \$1.8 million for the three months ended March 31, 2017. The increase was related to an increase of \$1.4 million in net interest and dividend income, partially offset by a \$489,000 decrease in noninterest income and an increase in noninterest expense of \$755,000. In addition, the provision for income taxes decreased by \$169,000 due to the decrease in the federal tax rate from 35% to 21%.

Interest and Dividend Income. Interest and dividend income increased \$1.6 million, or 20.2%, to \$9.8 million for the three months ended March 31, 2018 from \$8.1 million for the three months ended March 31, 2017. This increase was primarily attributable to an increase in interest and fees on loans, which increased \$2.0 million, or 28.2%, to \$9.3 million for the three months ended March 31, 2018 from \$7.2 million for the three months ended March 31, 2017. The increase in interest and fees on loans was partially offset by a decrease in interest and dividends on securities, which decreased \$438,000, or 50.2%, to \$435,000 for the three months ended March 31, 2017 from \$873,000 for the three months ended March 31, 2017.

The increase in interest income on loans was due to an increase in the average balance of loans of \$120.8 million, or 18.7%, to \$767.0 million for the three months ended March 31, 2018 from \$646.1 million for the three months ended March 31, 2017. Interest income increased to a lesser extent due to the yield on loans increasing 36 basis points to 4.84% for the three months ended March 31, 2018 due to our continued focus on higher-yielding commercial lending. The decrease in interest and dividends on securities was due to the Company selling \$30.6 million of state and municipal securities and divesting of all equity securities during the third and fourth quarters of 2017.

Interest Expense. Interest expense increased \$253,000, or 32.4%, to \$1.0 million for the three months ended March 31, 2018 from \$781,000 for the three months ended March 31, 2017, caused by an increase in interest expense on deposits partially offset by a decrease in interest expense on borrowings. Interest expense on deposits increased \$350,000, or 61.4%, to \$920,000 for the three months ended March 31, 2018 from \$570,000 for the three months ended March 31, 2017, due to an increase in the average rate paid on interest-bearing deposits of 19 basis points to 0.66% for the three months ended March 31, 2018 from 0.47% for the three months ended March 31, 2017. The increase in the average rate was primarily the result of increases in the average rate paid on money market accounts and certificates of deposit. The average rate paid on money market accounts and certificates of deposit increased due to changes in the rate environment. Interest expense on deposits also increased due to an increase in the average balance of interest-bearing deposits of \$71.0 million, or 14.6%, to \$556.3 million for the three months ended March 31, 2018 from \$485.3 million for the three months ended March 31, 2017. The increase resulted primarily from an increase in the average balance of money market accounts, which increased \$75.1 million, or 50.2%.

Interest expense on borrowings decreased \$97,000, or 46.0%, to \$114,000 for the three months ended March 31, 2018 from \$211,000 for the three months ended March 31, 2017. The interest expense on borrowings decreased due to the decrease in average outstanding balance of \$38.8 million, or 63.0% to \$22.8 million for the three months ended March 31, 2018. The decrease in the average outstanding balance was partially offset by a 63 basis point increase in the cost of borrowings to 2.0% for the three months ended March 31, 2018.

Net Interest and Dividend Income. Net interest and dividend income increased \$1.4 million, or 18.9%, to \$8.7 million for the three months ended March 31, 2018 from \$7.3 million for the three months ended March 31, 2017. The increase was due to both higher balances of earning assets and expanding margins. Our net interest rate spread increased 33 basis points to 3.95% for the three months ended March 31, 2018 from 3.62% for the three months ended March 31, 2017. Our net interest margin increased 38 basis points to 4.17% for the three months ended March 31, 2018 from 3.79% for the three months ended March 31, 2017.

Provision for Loan Losses. The provision for loan losses was \$656,000 for the three months ended March 31, 2018 compared to \$563,000 for the three months ended March 31, 2017. The provision recorded resulted in an allowance for loan losses of \$10.2 million, or 1.33% of total loans at March 31, 2018, compared to \$9.8 million, or 1.30% of total loans, at December 31, 2017 and \$9.1 million, or 1.38% of total loans, at March 31, 2017. The changes in the provision and allowance for loan losses were based on management's assessment of loan portfolio growth and composition trends, historical charge-off trends, levels of problem loans and other asset quality trends. Non-accrual loans as of March 31, 2018 was primarily composed of two loan relationships with a carrying value of \$8.5 million.

Noninterest Income. Noninterest income decreased \$489,000, or 32.6%, to \$1.0 million for the three months ended March 31, 2018 from \$1.5 million for the three months ended March 31, 2017. The decrease was primarily caused by a decrease in the gain on sales of securities. Gains on sales of securities was zero for the three months ended March 31, 2018 compared to \$482,000 for the three months ended March 31, 2017.

Noninterest Expense. Noninterest expense increased \$755,000, or 13.4%, to \$6.4 million for the three months ended March 31, 2018 from \$5.6 million for the three months ended March 31, 2017. The largest increases were related to the salaries and employee benefits expense, and other expense. The increase in salary and employee benefits of \$482,000, or 13.1%, to \$4.2 million for the three months ended March 31, 2018 from \$3.7 million for the three months ended March 31, 2017 was primarily related to an increased number of lenders. The increase in other expense of \$239,000, or 36.4%, to \$896,000 for the three months ended March 31, 2018 from \$657,000 for the three months ended March 31, 2017 was primarily related to costs incurred working out nonperforming loans and an increase in contributions expense.

Income Tax Provision. We recorded a provision for income taxes of \$678,000 for the three months ended March 31, 2018, reflecting an effective tax rate of 25.1%, compared to a provision of \$847,000 for the three months ended March 31, 2017, reflecting an effective tax rate of 32.0%. The changes in the income tax provision were primarily due to a reduction of the federal corporate income tax rate from 35% to 21%.

Subsequent Event. On April 3, 2018, the Bank conducted a foreclosure sale of certain collateral consisting of both real and personal property which secured four non-accruing loans originally made by the Bank having an aggregate principal outstanding balance of approximately \$7.5 million of which \$4.9 million is outstanding at the Bank with the remaining \$2.6 million participated out to another institution. The Bank received \$8.3 million in cash from this foreclosure sale. Certain subordinated lienholders are now disputing the priority of the Bank's liens and the right of the Bank to retain approximately \$2.1 million of the proceeds from this foreclosure sale, but have not yet filed a formal claim. Until the dispute is resolved, the Bank has deposited, and will continue to hold, the disputed proceeds (i.e., approximately \$2.1 million which includes \$543,000 that is participated out to another institution) in a suspense deposit account at the Bank. At this time, we cannot reasonably estimate a range of potential loss, if any, to the Bank, with respect to this matter.

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 March 31,					
	2018			2017		
	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
<i>(Dollars in thousands)</i>						
Assets:						
Interest-earning assets:						
Loans	\$ 766,968	\$ 9,276	4.84%	\$ 646,136	\$ 7,233	4.48%
Interest-earning deposits	8,680	42	1.94%	3,686	6	0.65%
Investment securities	59,761	408	2.73%	121,303	848	2.80%
Federal Home Loan Bank stock	1,670	27	6.47%	3,511	25	2.85%
Total interest-earning assets	837,079	9,753	4.66%	774,636	8,112	4.19%
Non-interest earning assets	49,958			48,499		
Total assets	<u>\$ 887,037</u>			<u>\$ 823,135</u>		
Interest-bearing liabilities:						
Savings accounts	\$ 118,382	70	0.24%	\$ 118,296	59	0.20%
Money market accounts	224,681	401	0.71%	149,545	126	0.34%
NOW accounts	110,907	154	0.56%	114,529	168	0.59%
Certificates of deposit	102,325	295	1.15%	102,884	217	0.84%
Total interest-bearing deposits	556,295	920	0.66%	485,254	570	0.47%
Federal Home Loan Bank advances	22,814	114	2.00%	61,597	211	1.37%
Total interest-bearing liabilities	579,109	1,034	0.71%	546,851	781	0.57%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	180,850			151,522		
Other noninterest-bearing liabilities	9,244			8,330		
Total liabilities	769,203			706,703		
Total equity	116,834			116,432		
Total liabilities and equity	<u>\$ 886,037</u>			<u>\$ 823,135</u>		
Net interest income		<u>\$ 8,719</u>			<u>\$ 7,331</u>	
Interest rate spread (1)			<u>3.95%</u>			<u>3.62%</u>
Net interest-earning assets (2)	<u>\$ 257,970</u>			<u>\$ 227,785</u>		
Net interest margin (3)			<u>4.17%</u>			<u>3.79%</u>
Average interest-earning assets to interest-bearing liabilities	<u>144.55%</u>			<u>141.65%</u>		

- (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 total 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 March 31, 2018		
	Compared to the Three Months Ended March 31, 2017		
	Increase (Decrease) Due to		Total
	Rate	Volume	Increase (Decrease)
<i>(In thousands)</i>			
Interest-earning assets:			
Loans	\$ 614	\$ 1,429	\$ 2,043
Interest-earning deposits	21	15	36
Investment securities	(19)	(421)	(440)
Federal Home Loan Bank stock	20	(18)	2
Total interest-earning assets	636	1,005	1,641
Interest-bearing liabilities:			
Savings accounts	11	0	11
Money Market accounts	190	85	275
Now accounts	(9)	(5)	(14)
Certificates of deposit	79	(1)	78
Total interest-bearing deposits	271	79	350
Federal Home Loan Bank advances	71	(168)	(97)
Total interest-bearing liabilities	342	(89)	253
Change in net interest income	\$ 294	\$ 1,094	\$ 1,388

Management of Market Risk

Net Interest Income Simulation. We analyze our sensitivity to changes in interest rates through a net interest income simulation model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period in the current interest rate environment. We then calculate what the net interest income would be for the same period under the assumption that interest rates increase 200 basis points from current market rates and under the assumption that interest rates decrease 100 basis points from current market rates, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve.

The following table presents the estimated changes in net interest income of The Provident Bank, calculated on a bank-only basis, that would result from changes in market interest rates over twelve-month periods beginning March 31, 2018.

<i>(Dollars in thousands)</i> Changes in Interest Rates (Basis Points)	At March 31, 2018	
	Estimated	
	Over Next 12 Months	Change
200	\$ 37,855	(0.04)%
0	37,869	-
-100	36,886	(2.60)%

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an economic value of equity (“EVE”) model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of our EVE divided by the present value of our total assets for a given interest rate scenario. EVE attempts to quantify our economic value using a discounted cash flow methodology while the EVE ratio reflects that value as a form of capital ratio. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates, and under the assumption that interest rates decrease 100 basis points from current market rates.

The following table presents the estimated changes in EVE of The Provident Bank, calculated on a bank-only basis, that would result from changes in market interest rates as of March 31, 2018.

<i>(Dollars in thousands)</i> Changes in Interest Rates (Basis Points)	At March 31, 2018	
	Economic	
	Value of Equity	Change
400	\$ 139,898	(1.00)%
300	140,688	(0.10)%
200	141,637	0.60%
100	142,270	1.00%
0	140,812	-
-100	129,130	(8.30)%

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the tables presented above assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assume that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

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, FHLB advances, 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 March 31, 2018, cash and cash equivalents totaled \$22.3 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$57.8 million at March 31, 2018.

At March 31, 2018, 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 \$45.2 million in advances outstanding. At March 31, 2018, we also had an available line of credit with the Federal Reserve Bank of Boston's borrower-in-custody program of \$194.3 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 March 31, 2018 and December 31, 2017, we had \$11.2 million and \$18.6 million in loan commitments outstanding, respectively. In addition to commitments to originate loans, at March 31, 2018 and December 31, 2017, we had \$172.2 million and \$166.0 million in unadvanced funds to borrowers, respectively. We also had \$1.9 million and \$2.0 million in outstanding letters of credit at March 31, 2018 and December 31, 2017, respectively.

Certificates of deposit due within one year of March 31, 2018 totaled \$82.9 million, or 11.5% 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. 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 three months ended March 31, 2018, we originated \$58.9 million of loans, all of which were intended to be held in our portfolio and we purchased \$1.0 million in loans. We did not purchase any securities. During the three months ended March 31, 2017, we originated \$56.5 million of loans, all of which were intended to be held in our portfolio. We also purchased \$4.4 million in loans and \$11.3 million in securities.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced net decrease in total deposits of \$30.4 million and a net increase of \$52.6 million for the three months ended March 31, 2018 and 2017, 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 increased \$18.4 million and decreased \$17.0 million during the three months ended March 31, 2018 and 2017, 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 March 31, 2018, 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

See Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operation”.

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 March 31, 2018. 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 March 31, 2018, 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

There have been no material changes to the risk factors disclosed in the Company’s Annual Report on form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.

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

- (a) Not applicable.
- (b) Not applicable.
- (c) The Company's repurchases of common stock for the three months ended March 31, 2018 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2018 - January 31, 2018	-	\$ -	-	605,855
February 1, 2018 - February 28, 2018	-	-	-	605,855
March 1, 2018 - March 31, 2018	-	-	-	605,855
Total	-	\$ -	-	-

(1) On January 26, 2017, the Company announced a repurchase program under which it would repurchase up to 6.6% of the then-outstanding shares of the Company's common stock (625,015 shares) from time to time, depending on market conditions. The repurchase program would continue until it is completed or terminated by the Company's Board of Directors.

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. \(1\)](#)

[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 March 31, 2018, 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.

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: May 10, 2018

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

Date: May 10, 2018

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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: May 10, 2018

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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: May 10, 2018

/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 March 31, 2018 (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: May 10, 2018

/s/ David P. Mansfield

David P. Mansfield

President and Chief Executive Officer

Date: May 10, 2018

/s/ Carol L. Houle

Carol L. Houle

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.

[\(Back To Top\)](#)