PROVIDENT BANCORP, INC.

annual report.

2023

provident
bancorp inc.

a letter from the ceo.

To Our Shareholders,

We entered 2023 with the clear and focused goal of realigning our strategy to reinforce our dedication to traditional banking practices while prudently reducing our exposure in higher-risk areas. I am pleased to report that our concerted efforts have yielded positive results. Through decisive actions and strategic initiatives, we have restored the bank to profitability and cultivated a team that is resilient, adaptable and ready to lend strength and stability to the institution during challenging periods.

To chart the course of our new direction, we deployed a comprehensive 3-year strategic plan in the first quarter of 2023. In line with this revised strategy, we recalibrated our lending practices, emphasizing prudence and risk management, and pivoted our focus towards nurturing stronger community ties by increasing our involvement in local business and charitable gatherings. As part of our execution of this strategy we reduced our exposure in the digital asset lending space by nearly 70% year over year and participated in over 100 local business/ charitable events which reaffirms our dedication to the communities we serve.

Our focus is now directed towards 2024 and beyond and we remain steadfast in strengthening our foundation and navigating through the headwinds posed by the current economic and banking climates. We are confronted with industry challenges caused by the fallout from the 2023 liquidity crisis and prevailing high interest rates. Like many other banks, we are in fierce competition for deposits and battling with narrowing net interest margins.

Addressing these challenges involves several strategic initiatives. In late 2023 we engaged CETO, a renowned industry expert, to conduct a comprehensive review of our products and fee schedule. The evaluation was aimed to identify areas where adjustments can be made to enhance our competitiveness and unlock revenue potential. Changes related to this review are scheduled to go live May 1, 2024. Additionally, the entire team has been tasked with conducting a thorough review of our expenses, aiming to identify and eliminate unnecessary costs to help us maintain financial resilience in the face of ongoing economic pressures. In line with our commitment to supporting the community, after a four-year hiatus, we have made the decision to reopen the branch at our main office to meet the evolving needs of our customers and enhance accessibility to our services. Lastly, we are laser-focused on growing deposits, recognizing their pivotal role in strengthening our liquidity position and fueling future growth.

While the challenges of the past couple years have been formidable, they also served as catalysts for transformation. We take immense pride in our turnaround accomplishments in 2023, achieved through strategic planning, decisive action, and unwavering commitment. As a result, we feel well equipped to tackle any challenges that may lie ahead. We extend our sincere gratitude to our shareholders, directors, colleagues, and clients whose support and trust have been instrumental in our journey.

Thank you for your continued belief in our vision and our ability to overcome adversity.

Joseph B. Reilly

Joe Reilly
Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2023

OR

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

For the transition period from ______________ to______________

Commission File Number: 001-39090

PROVIDENT BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**84-4132422**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5 Market Street, Amesbury, Massachusetts	**01913**
(Address of Principal Executive Offices)	Zip Code

(978) 834-8555

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	PVBC	The NASDAQ Stock Market LLC

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

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

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

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the last sale price as of June 30, 2023, as reported by the Nasdaq Capital Market, was approximately $130.4 million.

The number of shares outstanding of the registrant's common stock as of March 21, 2024 was 17,659,146.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's proxy statement for the 2024 Annual Meeting of Stockholders (Part III).

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Part I

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- any concentration risk within our lending and deposit portfolio;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for credit losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- cyber attacks, computer viruses and other technological risks that may breach the security of our websites or other systems, or those of third parties upon which we rely, to obtain unauthorized access to confidential information and destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- the ability of the U.S. Government to manage federal debt limits;
- our ability to continue to implement or change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, reduce the fair value of financial instruments or reduce the origination levels in our lending business, or increase the level of defaults, losses and prepayments on loans we have made and make whether held in portfolio or sold in the secondary markets;
- adverse changes in the securities markets;
- changes in and impacts of laws or government regulations or policies affecting financial institutions, including changes in regulatory fees, tax policy and rates, and capital requirements, and our ability to comply with such laws and regulations;
- our ability to address any issues raised in regulatory examinations;
- our ability to remediate any material weakness in our internal controls over financial reporting;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate any assets, liabilities, customers, systems and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- the ability to raise capital to implement our business plan, if necessary;
- our ability to retain key employees;

- effects of natural disasters and global pandemics;
- changes in our ability to pay dividends;
- the effects of any U.S. government shutdown;
- the effects of climate change and societal, investor and governmental responses to climate change;
- the effects of social and governance change and societal and investor sentiment and governmental responses to social and governance matters;
- the effects of domestic and international hostilities, including terrorism;
- our ability to control costs and expenses, particularly in relation to the non-discretionary costs associated with operating as a publicly traded company;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

PART I

ITEM 1. BUSINESS

Provident Bancorp, Inc.

Provident Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in 2019 to act as the holding company for BankProv (the "Bank"). At December 31, 2023, Provident Bancorp, Inc. had total assets of $1.67 billion, deposits of $1.33 billion and shareholders' equity of $221.9 million on a consolidated basis.

The Company's executive offices are located at 5 Market Street, Amesbury, Massachusetts 01913, and the telephone number is (877) 487-2977. The Company is subject to regulation and examination by the Board of Governors of the Federal Reserve System and the Massachusetts Commissioner of Banks.

BankProv

BankProv, founded in 1828, is a Massachusetts-chartered stock savings bank that offers both traditional and technology-driven banking solutions to its commercial and consumer clients.

BankProv operates from its main office and two branch offices in the Northeastern Massachusetts area, three branch offices in Southeastern New Hampshire and one branch located in Bedford, New Hampshire. The Bank also has a loan production office in Ponte Vedra, Florida. Our primary lending and deposit-gathering area encompasses the Seacoast Region of Northeastern Massachusetts and Southeastern New Hampshire. However, we also receive deposits from our business customers who are located nationwide in addition to our enterprise value and mortgage warehouse loans which are offered nationwide. We attract deposits from the general public and use those funds to originate primarily commercial real estate and commercial business loans, and to invest in securities.

BankProv is subject to regulation and examination by the Massachusetts Commissioner of Banks and the Federal Deposit Insurance Corporation ("FDIC").

Our website address is www.bankprov.com. Information on this website is not and should not be considered a part of this Annual Report.

Available Information

The Company is a public company and files interim, quarterly and annual reports with the Securities and Exchange Commission. These reports are on file and a matter of public record with the Securities and Exchange Commission. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov). The Company's reports can also be obtained for free on our website, www.bankprov.com.

Market Area and Competition

The Bank faces significant competition both in generating loans and attracting deposits from other commercial banks, savings banks, credit unions, mortgage banking companies, finance companies, online lenders or online banks, and other institutional lenders. Competitive factors considered for loan generation include interest rates, terms offered, loan products offered, services provided and geographic locations. In attracting deposits, the Bank's primary competitors are savings banks, commercial and co-operative banks, credit unions, internet banks, as well as other nonbank institutions that offer financial alternatives such as brokerage firms and insurance companies. Competitive factors considered in attracting and retaining deposits include deposit and investment products and their respective rates of return, liquidity, and risk, among other factors, such as convenient branch locations, personalized customer service, online and mobile access to accounts and automated teller machines. The Bank's market area is attractive and entry into the market area by financial institutions previously not competing there has occurred and may continue to occur, which could impact the Bank's growth or profitability. The Bank's primary footprint is generally comprised of the Seacoast Region of northeastern Massachusetts and southeastern New Hampshire, as well as the Manchester and Concord region in central New Hampshire. The Bank also performs lending activities and generates related deposits in certain segments, including mortgage warehouse and enterprise value lending, nationwide.

Lending Activities

Commercial Business Loans. We make commercial business loans primarily in our market area to a variety of small- and medium-sized businesses, including professional and nonprofit organizations, and, to a lesser extent, sole proprietorships. At December 31, 2023, commercial business loans were $176.1 million, or 13.1% of our total loan portfolio. As part of our relationship driven focus, we encourage our commercial business borrowers to maintain their primary deposit accounts with us, generally enhancing the overall profitability of the relationship.

Commercial lending products include term loans and revolving lines of credit, which are made with either variable or fixed rates of interest. Variable rates and rates on Small Business Administration ("SBA") loans (with the exception of SBA Payment Protection Program ("PPP") loans) are generally based on the prime rate as published in The Wall Street Journal, plus a margin. Initial rates on non-SBA fixed-rate business loans are generally based on a corresponding Federal Home Loan Bank rate, plus a margin. Commercial business loans typically have shorter maturity terms and higher interest rates than commercial real estate loans but may involve more credit risk due to the nature of the collateral. We focus our efforts on originating such loans to experienced borrowers in our growing small- to medium-sized market, including privately-held companies with local or regional businesses and non-profit entities that operate in our market area.

When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment. These loans are generally secured by the assets of the respective borrowers.

A portion of our commercial business loans are guaranteed by the SBA through the SBA 7(a) loan program. The SBA 7(a) loan program supports, through a U.S. Government guarantee, some portion of the traditional commercial loan underwriting that might not be fully covered absent the guarantee. A typical example would be a business acquiring another business, where the value purchased is an enterprise value (as opposed to tangible assets), which results in a collateral shortfall under traditional loan underwriting requirements. In addition, SBA 7(a) loans, through term loans, can provide a good source of permanent working capital for growing companies. BankProv is a Preferred Lender under the SBA's PLP Program, which allows expedited underwriting and approval of SBA 7(a) loans.

Our largest commercial business loan at December 31, 2023 totaled $10.7 million, was originated in 2019 and is a renewable energy loan that as of December 31, 2023 was performing in accordance with its original repayment terms. Our second largest commercial business loan totaled $9.9 million, was originated in 2021 and is a commercial line of credit that as of December 31, 2023 was performing in accordance with its original repayment terms. The third largest commercial loan totaled $7.9 million, was originated in 2022 and is a renewable energy loan that as of December 31, 2023 was performing in accordance with its original repayment terms.

Enterprise Value Loans. As of December 31, 2023, enterprise value loans, which we also refer to as search fund lending, merger and acquisition, re-capitalization, and shareholder/partner buyout loans, totaled $433.6 million, or 32.3% of our total loan portfolio, with relationships spanning 28 states. We originate these loans to small- and medium-size businesses in a senior secured position; relying largely on the enterprise value of the business and ongoing cash flow to support operational and debt service requirements. These are fully amortizing term loans (up to seven years) with material levels of equity and/or combination of seller financing behind our senior secured lending.

Our largest enterprise value loan at December 31, 2023 totaled $21.6 million, was originated in 2021 and as of December 31, 2023 was performing in accordance with its original repayment terms. Our second largest enterprise value loan totaled $13.0 million, was originated in 2020 and as of December 31, 2023 was performing in accordance with its original repayment terms. Our third largest enterprise value loan totaled $11.8 million, was originated in 2022 and is part of a larger relationship totaling $17.6 million as of December 31, 2023. The relationship received a modification due to financial difficulty during 2023, which deferred principal payments until the end of the modification period and, as of December 31, 2023, was performing in accordance with its modified repayment terms.

The following table provides information with respect to our enterprise value loans by type at December 31, 2023.

Type of Industry	Balance
	(In thousands)
Advertising	$ 68,221
Consulting services	63,395
Industrial/manufacturing/warehouse	66,697
Information technology and software	27,846
Retail	71,211
Real estate services	33,152
Research and development	10,921
Other	92,190
Total	$ 433,633

Commercial Real Estate Loans. At December 31, 2023, commercial real estate loans were $468.9 million, or 34.9% of our total loan portfolio. This amount includes $56.5 million of multi-family loans, which we consider a subset of commercial real estate loans, and are described below. Our commercial real estate loans are generally secured by properties used for business purposes such as industrial facilities, retail facilities and office buildings. At December 31, 2023, $167.2 million of our commercial real estate portfolio was secured by owner-occupied commercial real estate, and $301.7 million was secured by non-owner occupied commercial real estate. We currently target new commercial real estate loan originations to experienced investors in our market area. The average outstanding loan in our commercial real estate portfolio was $787,000 as of December 31, 2023, although we originate significantly larger commercial real estate loans, with our ten largest commercial real estate loans having an average balance of $10.8 million at December 31, 2023.

We focus our commercial real estate lending on properties within our primary market areas, but we will originate commercial real estate loans on properties located outside the area based on an established relationship with a strong borrower. We intend to continue to grow our commercial real estate loan portfolio while maintaining prudent underwriting standards. In addition to originating these loans, we occasionally will participate in commercial real estate loans with other financial institutions. We ensure such participations are underwritten in accordance with our policies before we will participate in such loans.

We originate a variety of fixed- and adjustable-rate commercial real estate loans with terms and amortization periods generally up to 20 years, although our Loan Policy permits longer terms and amortization periods depending on the risk profile, which may include balloon loans. Interest rates and payments on our adjustable-rate loans adjust every three, five or seven years and generally are indexed to the corresponding Federal Home Loan Bank borrowing rate plus a margin. Most of our adjustable-rate commercial real estate loans adjust every five years and amortize over terms of 20 years. We generally include pre-payment penalties on commercial real estate loans we originate.

The following table provides information with respect to our commercial real estate loans by type at December 31, 2023. The table excludes multi-family loans, discussed below.

Type of Loan	Balance
	(In thousands)
Residential one-to-four family	$ 30,341
Mixed use	45,241
Office	56,482
Retail	23,912
Industrial/manufacturing/warehouse	80,220
Hotel/motel/inn	17,809
Mobile home/park	32,763
Self-storage facility	56,620
Other commercial real estate	69,017
Total	$ 412,405

If we foreclose on a commercial real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

Our largest commercial real estate loan at December 31, 2023 was $17.2 million, was originated in 2021 and is secured by a self-storage facility. Our second largest commercial real estate loan at December 31, 2023 was $15.8 million, was originated in 2013 and is secured by an office building. Our third largest commercial real estate loan at December 31, 2023 was $15.4 million, was originated in 2019 and is secured by a cooperative housing complex. All of the collateral securing these loans is located in our primary lending area. At December 31, 2023, all of these loans were performing in accordance with their original repayment terms.

Multi-Family Loans. At December 31, 2023, multi-family loans were $56.5 million, or 4.2% of our total loan portfolio. We seek to originate new multi-family loans to experienced investors in our market area. Our multi-family loans are generally secured by properties consisting of five to fifteen units. The average outstanding loan size in our multi-family portfolio was $665,000 as of December 31, 2023. We generally do not make multi-family loans outside our primary market areas. In addition to originating these loans, we also participate in multi-family loans with other financial institutions. We verify whether such participations are underwritten in accordance with our policies before we will participate in such loans.

We originate a variety of fixed- and adjustable-rate multi-family loans for terms up to 30 years. Interest rates and payments on our adjustable-rate loans adjust every three, five or seven years and generally are indexed to the corresponding Federal Home Loan Bank borrowing rate plus a margin. Most of our adjustable-rate multi-family loans adjust every five years and amortize over terms of 20 to 25 years. We generally include pre-payment penalties on multi-family loans we originate.

If we foreclose on a multi-family loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on multi-family loans can be unpredictable and substantial.

Our largest multi-family loan at December 31, 2023 was $7.7 million and was originated in 2021. At December 31, 2023, this loan was performing in accordance with its original repayment terms.

Construction and Land Development Loans. At December 31, 2023, construction and land development loans were $77.9 million, or 5.8% of our total loan portfolio, primarily consisting of $74.1 million of commercial real estate and multi-family construction loans. At December 31, 2023, $74.1 million of our commercial and multi-family construction loans are expected to convert to permanent loans upon completion of the construction phase. The majority of the balance of these loans is secured by properties located in our primary lending area.

We primarily make construction loans for commercial development projects, including hotels, condominiums and single-family residences, small industrial buildings, retail and office buildings and apartment buildings. Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 12 to 24 months, although some construction loans are renewed, generally for one or two additional years. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be repaid in full.

We also originate construction and site development loans to contractors and builders to finance the construction of single-family homes and subdivisions. We actively monitor the number of unsold homes in our construction loan portfolio and local housing markets to maintain an appropriate balance between home sales and new loan originations. We generally limit the maximum number of speculative units (units that are not pre-sold) approved for each project to two units and we diversify the risk associated with speculative construction lending by doing business with experienced builders in our market area.

Residential construction loans include single-family tract construction loans for the construction of entry-level residential homes. While maturity dates for residential construction loans are largely a function of the estimated construction period of the project, and generally do not exceed one year, land development loans generally are for 18 to 24 months. Substantially all of our residential construction loans have adjustable rates of interest based on The Wall Street Journal prime rate plus a margin. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspections by our approved inspectors warrant.

Our largest construction and land development loan at December 31, 2023 was $16.1 million, was originated in 2021 and is secured by an entertainment resort. At December 31, 2023, this loan was performing in accordance with its original repayment terms.

Mortgage Warehouse Loans. Our mortgage warehouse lending business has a national platform with relationship managers across the United States that offers Master Repurchase Agreement facilities ("facilities") to independent non-bank mortgage origination companies, which allow them to fund the closing of residential mortgage loans. Each facility advance is fully collateralized by a security interest in one- to four-family residential mortgage loans and is further enhanced by deposit balances. The primary source of repayment of the facilities is the sale of the underlying mortgage loans to outside investors, which typically occurs within 15 days, with the exception of construction loans which generally take longer to pay off due to the nature of the loan. These investors can include Federal National Mortgage Association/Federal Home Loan Mortgage Corporation and Government National Mortgage Association, as well as other large financial institutions.

We approve facilities to non-bank mortgage origination borrowers by conducting a thorough due diligence review of the company and its ownership to assess their financial liquidity and regulatory risk profiles. We use a proprietary risk based scoring model to underwrite the companies which correlates to our internal regulatory loan risk grading system and continually monitor companies' performance through both internal and external financial management and quality reviews. At December 31, 2023, mortgage warehouse loans were $166.6 million, or 12.4% of our total loan portfolio.

Digital Asset Loans. The Bank has ceased originating loans to digital asset customers. At December 31, 2023 the outstanding balance of digital asset loans was $12.2 million, or 0.9% of our total loan portfolio, and consisted of one portfolio loan. This loan is secured by cryptocurrency mining equipment, the United States dollar value of Bitcoin held in control accounts, an interest in a joint venture partnership, and cash held at the Bank.

Loan Underwriting Risks

Commercial Business Loans. Commercial business loans are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business and the collateral securing these loans may fluctuate in value, and thus have a higher risk profile than a typical real estate-secured loan. Our commercial business loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment, the value of which may depreciate over time, may be more difficult to appraise and may be more susceptible to fluctuation in value. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. These types of loans are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict.

Enterprise Value Loans. Enterprise value loans may expose us to a greater risk of non-payment and loss than traditional commercial business loans because: (1) repayment of such loans may be dependent upon the successful execution of the borrower's business plan, which may include new management and be based on projected cash flows that may include business synergies, cost savings, and revenue growth that have yet to be realized; (2) they may require additional financing from their private equity sponsors or others, a successful sale to a third party, a public offering, or some other form of liquidity event; or (3) in the event of default and liquidation, there may be reliance on the sale of intangible assets that may have insufficient value to repay the debt in full.

Commercial Real Estate and Multi-Family Loans. Loans secured by commercial real estate and multi-family properties generally have larger balances and thus involve a greater degree of risk. In addition, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss. A primary concern in commercial real estate and multi-family lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income producing properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. We monitor cash flows on income producing properties by requiring borrowers and loan guarantors, if any, to provide annual financial statements on commercial real estate and multi-family loans. We also consider and review a global cash flow analysis of the borrower, the net operating income of the property, the borrower's expertise, credit history, and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x.

In accordance with our loan policy, an environmental phase one report may be obtained when the possibility exists that hazardous materials may have existed on a site, or a site may have been impacted by adjoining properties that handled hazardous materials. These types of loans are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. In addition, some of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment, which may increase the risk of default or non-payment.

Further, if we foreclose on a commercial real estate or multi-family loan, our holding period for the collateral may be longer because there are fewer potential purchasers of the collateral, which can result in substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability.

Construction and Land Development Loans. Our construction loans are based upon estimates of costs and values associated with the completed project. Underwriting is focused on the borrowers' financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations. All construction loans for which the builder does not have a binding purchase agreement must be approved by senior loan officers.

Construction lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. A discounted cash flow analysis is utilized for determining the value of any construction project of five or more units. Our ability to continue to originate a significant amount of construction loans is dependent on the strength of the housing market in our market areas.

Land loans secured by improved lots generally involve greater risks because land loans are difficult to evaluate. If the estimate of value proves to be inaccurate, in the event of default and foreclosure, we may be confronted with a property the value of which is insufficient to assure full payment. These types of loans are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict.

Mortgage Warehouse Loans. Mortgage warehouse loans are primarily facilities to non-bank mortgage origination companies. The risk of fraud associated with this type of lending includes, but is not limited to, settlement process risks, the risk of financing nonexistent loans or fictitious mortgage loan transactions, or the risk that collateral delivered is fraudulent or non-existent, creating a risk of loss of the full amount financed on the underlying residential mortgage loan, or in the settlement processes. In addition to fraud risk, there is also the risk of the mortgage companies being unable to sell the loans.

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, an increased monthly payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying collateral also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate loans make our asset base more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment caps.

Loan Originations, Purchases and Sales

We have grown our loan portfolio by developing expertise for customers who typically have not been supported by larger financial institutions but whose business needs are usually too complex for smaller institutions. Loan originations come from a variety of sources, including current customers, business development by our relationship managers, walk-in traffic, our website, networking events and referrals from customers, employees, directors, business owners, investors, entrepreneurs, builders, realtors, and other professional third parties, including brokers. Loan originations are further supported by lending services offered through cross-selling and employees' community service.

Historically, we generally originated loans for our portfolio. We occasionally sell participation interests in commercial real estate loans and commercial business loans to local financial institutions, primarily on the portion of loans exceeding our borrowing limits. We sold portions of loans totaling $3.0 million and $6.2 million for the years ended December 31, 2023 and 2022, respectively, and as of December 31, 2023 we were servicing $17.3 million of commercial real estate and commercial business loans for others.

We purchased $4.6 million in loan participations during the year ended December 31, 2023 and as of that date had outstanding purchased loan participations totaling $24.2 million. We did not have any loan participation purchases for the year ended December 31, 2022.

Loan Approval Procedures and Authority

Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by BankProv's Board of Directors and management. BankProv's Board of Directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer's experience, the type of loan and whether the loan is secured or unsecured. All loans require the approval of a minimum of two lending officers, one of which must be a Senior Vice President or above (the exceptions are borrowing relationships of $25,000 and below, as well as borrowing relationships that are 100% cash secured, which can be approved by one officer with sufficient authority for that loan type). For loan relationships below $2.0 million, approval is required by designated individuals with delegated loan authority as identified within our loan policy. Our loan policy dictates that for loan relationships between $2.0 million and $3.0 million approval is required by two of the following members of our Credit Committee: Chief Executive Officer, Chief Financial Officer, Chief Lending Officer and/or Chief Credit Officer. Loan relationships exceeding $3.0 million in exposure that do not involve exceptions to policy must be authorized by the Credit Committee. Loan relationships exceeding $3.0 million in exposure that involve exceptions to policy, including loans in excess of our internal loans-to-one borrower limitation, must be authorized by BankProv's Risk Committee of the Board of Directors. Exceptions are fully disclosed to the approving authority, either an individual officer or the appropriate management or board committee prior to commitment. Exceptions are reported to the Board of Directors quarterly.

Loans-to-One Borrower Limit and Loan Category Concentration

The maximum amount that we may lend to one borrower and the borrower's related entities is generally limited, by statute, to 20% of our capital, which is defined under Massachusetts law as the sum of our capital stock, surplus account and undivided profits. Our regulatory limit on loans-to-one borrower is assessed quarterly and was $40.9 million at December 31, 2023. In addition, we generally establish our internal loans-to-one borrower limit as 90% of our regulatory limit. This amount was $36.8 million as of December 31, 2023, with loans greater than this amount requiring approval by BankProv's Risk Committee of the Board of Directors.

At December 31, 2023, our largest lending relationship consisted of four enterprise value commercial loans with a total exposure of $36.4 million, secured by all business assets. The loans in this relationship were performing in accordance with their original repayment terms at December 31, 2023. Our second largest lending relationship had a total exposure of $31.3 million and consisted of $14.7 million in exposure on eight construction and land development loans, $16.3 million in exposure on eight commercial real estate loans, and one commercial business loan with a total exposure of $328,000. This relationship was performing in accordance with its original repayment terms at December 31, 2023. Our third largest lending relationship had a total exposure of $27.9 million and consisted of $24.7 million in exposure on eight commercial business loans and $3.2 million on one commercial real estate loan. This relationship was performing in accordance with its original repayment terms at December 31, 2023.

Investment Activities

We have legal authority to invest in various types of investment securities and liquid assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, residential mortgage-backed securities and municipal government bonds, deposits at the Federal Home Loan Bank of Boston, certificates of deposit of federally insured institutions, investment grade corporate bonds and investment grade marketable equity securities, including common stock and money market mutual funds. We also are required to maintain an investment in Federal Home Loan Bank of Boston stock, which investment is based on the level of our Federal Home Loan Bank borrowings. While we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at December 31, 2023.

At December 31, 2023, our investment portfolio had a fair value of $28.6 million, and consisted of U.S. Government Agency asset- and mortgage-backed securities, and state and municipal bonds.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide a use of funds when demand for loans is weak and to generate a favorable return. Our Board of Directors has the overall responsibility for the investment portfolio, including approval of our investment policy. The Risk Committee of the Board of Directors and management are responsible for implementation of the investment policy and monitoring our investment performance. Our Risk Committee reviews the status of our investment portfolio quarterly.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through a provision for credit losses charged to earnings. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Sources of Funds

General. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also use borrowings, primarily Federal Home Loan Bank of Boston and Federal Reserve Bank of Boston (“FRB”), brokered deposits, and listing services, to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and manage our cost of funds. In addition, funds are derived from scheduled loan payments, investment securities maturities and sales, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposit Accounts. The majority of our deposits are from depositors who reside in our primary market areas. However, a significant portion of our brokered deposits and listing service deposits, described below, are from depositors located outside our primary market areas. We also receive out-of-market deposits from our nationwide business customers. Deposits are attracted through the offering of a broad selection of deposit instruments, including noninterest-bearing demand deposits (such as checking accounts), interest-bearing demand accounts (such as NOW and money market accounts), savings accounts and certificates of deposit. In addition to accounts for individuals, we also offer several commercial checking accounts designed for the businesses operating in our market area, and we encourage our commercial borrowing customers to maintain their deposit relationships with us.

The Bank’s growth efforts for core deposits (which we define as all deposits except for certificates of deposit) include a variety of strategies, primarily centered on proactive engagement with our customers. Our investment in technology has enabled us to better serve commercial customers who demand faster processing times and simplified online interaction. Deposit account terms vary according to the minimum balance required, the time period that funds must remain on deposit, and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, balance sheet liquidity needs, profitability, and relationship preferences. We generally review our deposit mix and pricing on a weekly basis. Our deposit pricing strategy has generally been to offer competitive rates and services and to periodically offer special rates in order to attract deposits of a specific type or term. We do not price our deposit products to be among the highest rate paying institution in our market area, but instead focus on providing a comprehensive offering of services, accompanied by expertise across our product portfolios, to gather deposits.

Borrowings. We primarily utilize advances from the Federal Home Loan Bank of Boston to supplement our supply of investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock, certain loans and other assets, provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution’s net worth or on the Federal Home Loan Bank’s assessment of the institution’s creditworthiness. As of December 31, 2023, we had a borrowing capacity of $126.3 million with the Federal Home Loan Bank of Boston, including an available line of credit of $2.0 million, with $104.7 million in advances outstanding. All of our borrowings from the Federal Home Loan Bank are secured by investment securities and qualified collateral, including one- to four-family loans and multi-family and commercial real estate loans held in our portfolio.

We also may utilize the FRB Borrower In Custody (“BIC”) program as a source of overnight borrowings. As of December 31, 2023, we had a borrowing capacity of $282.4 million with the FRB with none outstanding.

Personnel

As of December 31, 2023, we had 188 full-time and seven part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good working relationship with our employees.

Subsidiaries

BankProv’s subsidiaries include Provident Security Corporation, 5 Market Street Security Corporation and Prov 1, LLC. Provident Security Corporation and 5 Market Street Security Corporation were established to buy, sell, and hold investments for their own account. Prov 1, LLC was established to engage in any lawful act or activity for which limited liability companies may be organized. A certificate of cancellation for Prov 1 LLC was executed in 2023.

Federal Taxation

General. The Company and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company and the Bank.

Method of Accounting. For federal income tax purposes, we currently report our income and expenses on a calendar year basis using the accrual method of accounting for filing federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions considered “large banks,” effective for taxable years beginning after 1995. The Bank is considered a “large bank” and therefore uses the charge-off method of accounting for bad debt reserves.

Minimum Tax. The alternative minimum tax (“AMT”) for corporations has been repealed for tax years beginning after December 31, 2017. Any unused minimum tax credit of a corporation may be used to offset regular tax liability for any tax year. At December 31, 2023 we had no minimum tax credit carryforward.

Net Operating Loss Carryovers. Generally, a corporation may carry forward net operating losses generated in tax years beginning after December 31, 2017 indefinitely and can offset up to 80% of taxable income. At December 31, 2023, we had $14.8 million of net operating loss carry forward.

Capital Loss Carryovers. Generally, a corporation may carry back capital losses to the preceding three taxable years and forward to the succeeding five taxable years. Any capital loss carryback or carryover is treated as a short-term capital loss for the year to which it is carried. As such, it is grouped with any other capital losses for the year to which carried and is used to offset any capital gains. Any undeducted loss remaining after the five-year carryover period is not deductible. At December 31, 2023, we had no capital loss carryovers.

Corporate Dividends. The Company may generally exclude from income 100% of dividends received from the Bank as a member of the same affiliated group of corporations.

Audit of Tax Returns. Our federal income tax returns have not been audited in the most recent five-year period.

State Taxation

Financial institutions in Massachusetts are required to file combined income tax returns. The Massachusetts excise tax rate for savings banks is currently 9.0% of federal taxable income, adjusted for certain items. Taxable income includes gross income as defined under the Internal Revenue Code, plus interest from bonds, notes and evidences of indebtedness of any state, including Massachusetts, less deductions, but not the credits, allowable under the provisions of the Internal Revenue Code, except for those deductions relating to dividends received and income or franchise taxes imposed by a state or political subdivision. Carryforwards and carrybacks of net operating losses and capital losses are not allowed. The Company’ state tax returns, as well as those of its subsidiaries, are not currently under audit.

A financial institution or business corporation is generally entitled to special tax treatment as a “security corporation” under Massachusetts law provided that: (a) its activities are limited to buying, selling, dealing in or holding securities on its own behalf and not as a broker; and (b) it has applied for, and received, classification as a “security corporation” by the Commissioner of the Massachusetts Department of Revenue. A security corporation that is also a bank holding company under the Internal Revenue Code must pay a tax equal to 0.33% of its gross income. A security corporation that is not a bank holding company under the Internal Revenue Code must pay a tax equal to 1.32% of its gross income. The Bank’s subsidiaries, Provident Security Corporation and 5 Market Street Security Corporation, which engage in securities transactions on their own behalf, are qualified as security corporations. As such, each has received security corporation classification by the Massachusetts Department of Revenue; and does not conduct any activities deemed impermissible under the governing statutes and the various regulations, directives, letter rulings and administrative pronouncements issued by the Massachusetts Department of Revenue.

The New Hampshire Business Profits tax is assessed at the rate of 7.5%. For this purpose, gross business profits generally mean federal taxable income subject to certain modifications provided for in New Hampshire law. The New Hampshire Business Enterprise tax is assessed at 0.55% of the total amount of payroll and certain employee benefits expense, interest expense, and dividends paid to shareholders. The New Hampshire Business Enterprise tax is applied as a credit towards the New Hampshire Business Profits tax.

As a Maryland business corporation, the Company is required to file an annual report with and pay franchise taxes to the state of Maryland.

In addition, we operate in other states, primarily due to our nationwide lending operations. However, the tax obligations in other states related to those operations are not material to our financial condition or results of operations.

SUPERVISION AND REGULATION

General

BankProv is a Massachusetts-chartered stock savings bank. The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation and by the Depositors Insurance Fund for amounts in excess of the Federal Deposit Insurance Corporation insurance limits. BankProv is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the Federal Deposit Insurance Corporation, as its primary federal regulator and primary deposit insurer. BankProv is required to file reports with, and is periodically examined by, the Federal Deposit Insurance Corporation and the Massachusetts Commissioner of Banks concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. BankProv is a member of the Federal Home Loan Bank of Boston.

The system of regulation and supervision of BankProv establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and borrowers and, for purposes of the Federal Deposit Insurance Corporation, the protection of the insurance fund. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

As a bank holding company, Provident Bancorp, Inc. is required to comply with the rules and regulations of the Federal Reserve Board. It is required to file certain reports with the Federal Reserve Board and is subject to examination by and the enforcement authority of the Federal Reserve Board. Provident Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by Congress, the Massachusetts legislature, the Massachusetts Commissioner of Banks, the Federal Deposit Insurance Corporation, or the Federal Reserve Board could have a material adverse impact on the operations and financial performance of Provident Bancorp, Inc. and BankProv. In addition, Provident Bancorp, Inc. and BankProv are affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve Board. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Provident Bancorp, Inc. and BankProv.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to BankProv and Provident Bancorp, Inc. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on BankProv and Provident Bancorp, Inc.

Massachusetts Banking Laws and Supervision

BankProv, as a Massachusetts-chartered stock savings bank, is regulated and supervised by the Massachusetts Commissioner of Banks. The Massachusetts Commissioner of Banks is required to regularly examine each state-chartered bank. The approval of the Massachusetts Commissioner of Banks is required to establish or close branches, to merge with another bank, to issue stock and to undertake many other activities. Any Massachusetts savings bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to enforcement or supervisory actions. The Massachusetts Commissioner of Banks may suspend or remove directors or officers of a savings bank who have violated the law, conducted a bank's business in a manner that is unsafe, unsound or contrary to the depositors' interests, or been negligent in the performance of their duties. In addition, the Massachusetts Commissioner of Banks has the authority to appoint a receiver or conservator if it is determined that a bank is conducting its business in an unsafe or unauthorized manner, and under certain other circumstances.

The powers that Massachusetts-chartered savings banks can exercise under these laws include, but are not limited to, the following.

Lending Activities. A Massachusetts-chartered savings bank may make a wide variety of mortgage loans including fixed-rate loans, adjustable-rate loans, variable-rate loans, participation loans, graduated payment loans, construction and development loans, condominium and co-operative loans, second mortgage loans and other types of loans that may be made in accordance with applicable law and regulations. Commercial loans may be made to corporations and other commercial enterprises with or without security. Consumer and personal loans may also be made with or without security.

Insurance Sales. Massachusetts savings banks may engage in insurance sales activities if the Massachusetts Commissioner of Banks has approved a plan of operation for insurance activities and the bank obtains a license from the Massachusetts Division of Insurance.

A savings bank may be licensed directly or indirectly through an affiliate or a subsidiary corporation established for this purpose. Although BankProv has received approval for insurance sales activities, it does not offer insurance products.

Investment Activities. In general, a Massachusetts-chartered savings bank may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4.0% of the bank's deposits. Massachusetts-chartered savings banks may in addition invest an amount equal to 1.0% of their deposits in stocks of Massachusetts corporations or companies with substantial employment in the Commonwealth which have pledged to the Massachusetts Commissioner of Banks that such monies will be used for further development within the Commonwealth. At the present time, BankProv has the authority to invest in equity securities. However, such investment authority is constrained by federal law. See "—Federal Bank Regulation—Investment Activities" for such federal restrictions.

Dividends. A Massachusetts stock savings bank may declare from net profits cash dividends not more frequently than quarterly and non-cash dividends at any time. No dividends may be declared, credited or paid if the bank's capital stock is impaired. A Massachusetts savings bank with outstanding preferred stock may not, without the prior approval of the Commissioner of Banks, declare dividends to the common stock without also declaring dividends to the preferred stock. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years, less any required transfer to surplus or to a fund for the retirement of any preferred stock. For this purpose, net profits mean the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes.

Protection of Personal Information. Massachusetts has adopted regulatory requirements intended to protect personal information. The requirements are similar to existing federal laws such as the Gramm-Leach-Bliley Act, discussed below under "—Federal Bank Regulation—Privacy Regulations." They require organizations to establish written information security programs to prevent identity theft. The Massachusetts regulation also contains technology system requirements, especially for the encryption of personal information sent over wireless or public networks or stored on portable devices.

Parity Approval. A Massachusetts bank may, in accordance with Massachusetts law, exercise any power and engage in any activity that has been authorized for national banks, federal thrifts or state banks in a state other than Massachusetts, provided that the activity is permissible under applicable federal law and not specifically prohibited by Massachusetts law. Such powers and activities must be subject to the same limitations and restrictions imposed on the national bank, federal thrift or out-of-state bank that exercised the power or activity. A Massachusetts bank may exercise such power and engage in such activities by providing 30 days' advanced written notice to the Massachusetts Commissioner of Banks.

Loans-to-One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations of one borrower to a bank may not exceed 20.0% of the total of the bank's capital, which is defined under Massachusetts law as the sum of the bank's capital stock, surplus account and undivided profits.

Loans to a Bank's Insiders. Massachusetts law provides that a Massachusetts financial institution shall comply with Regulation O of the Federal Reserve Board, which generally requires that extensions of credit to insiders and insiders' related interests:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and
- not exceed certain limitations on the amount of credit extended to such persons and their related interests, individually and in the aggregate, which limits are based, in part, on the amount of the Massachusetts financial institution's capital.

Regulatory Enforcement Authority. Any Massachusetts bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to enforcement actions for non-compliance, including seizure of the property and business of the bank and suspension or revocation of its charter. The Massachusetts Commissioner of Banks may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank's business in a manner which is unsafe, unsound, or contrary to the depositors' interests, or been negligent in the performance of their duties. In addition, upon finding that a bank has engaged in an unfair or deceptive act or practice, the Massachusetts Commissioner of Banks may issue an order to cease and desist and impose a fine on the bank concerned. Massachusetts consumer protection and civil rights statutes applicable to BankProv permit private individual and class action lawsuits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

Depositors Insurance Fund. BankProv is a member of the Depositors Insurance Fund, a corporation that insures Massachusetts savings bank deposits in excess of federal deposit insurance coverage. The Depositors Insurance Fund is authorized to charge savings banks a risk-based assessment on deposit balances in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Massachusetts has other statutes and regulations that are similar to the federal provisions discussed below.

Federal Bank Regulation

Capital Requirements. Federal regulations require Federal Deposit Insurance Corporation-insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8.0%, and a Tier 1 capital to average assets leverage ratio of 4.0%.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that made such an election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). BankProv has exercised the opt-out and therefore does not include AOCI in its regulatory capital determinations. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. At December 31, 2023, BankProv exceeded the fully phased in regulatory requirement for the capital conservation buffer.

The federal banking agencies, including the Federal Deposit Insurance Corporation, have established a "community bank leverage ratio" of between 8 to 10% of average total consolidated assets for qualifying institutions with assets of less than $10 billion. Institutions with capital meeting the specified requirements and electing to follow the alternative framework are deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements. A qualifying institution may opt in and out of the community bank leverage ratio on its quarterly call report.

The optional community bank leverage ratio has currently been established at 9%.

As of December 31, 2023, the Bank has not opted into the community bank leverage ratio framework.

The Federal Deposit Insurance Corporation Improvement Act required each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family loans. The Federal Deposit Insurance Corporation, along with the other federal banking agencies, adopted a regulation providing that the agencies will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. The Federal Deposit Insurance Corporation also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness that set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. The agencies have also established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Investment Activities. All state-chartered Federal Deposit Insurance Corporation-insured banks, including savings banks, are generally limited in their activities as principal and equity investments to activities and equity investments of the type and in the amount authorized for national banks, notwithstanding state law, subject to certain exceptions. For example, state-chartered banks may, with Federal Deposit Insurance Corporation approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. The maximum permissible investment is 100% of Tier 1 Capital, as specified by the Federal Deposit Insurance Corporation's regulations, or the maximum amount permitted by Massachusetts law, whichever is less.

In addition, the Federal Deposit Insurance Corporation is authorized to permit a state bank to engage in state-authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if it meets all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the Deposit Insurance Fund. The Federal Deposit Insurance Corporation has adopted procedures for institutions seeking approval to engage in such activities or investments. In addition, a state nonmember bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary" if the bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Interstate Banking and Branching. Federal law permits well capitalized and well managed bank holding companies to acquire banks in any state, subject to Federal Reserve Board approval, certain concentration limits and other specified conditions. Interstate mergers of banks are also authorized, subject to regulatory approval and other specified conditions. In addition, amendments made by the Dodd-Frank Act permit banks to establish de novo branches on an interstate basis to the extent that branching is authorized by the law of the host state for the banks chartered by that state.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulators take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be "well capitalized" if it has a community bank leverage ratio leverage ratio of 9.0% or greater, or if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater, and a common equity Tier 1 capital ratio of 6.5% or greater. An institution is deemed to be "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater, and a common equity Tier 1 capital ratio of 4.5% or greater. An institution is deemed to be "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0%, or a common equity Tier 1 capital ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0%, or a common equity Tier 1 capital ratio of less than 3.0%. An institution is deemed to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%. As of December 31, 2023, BankProv was a "well capitalized" institution under the Federal Deposit Insurance Corporation prompt corrective action regulations.

At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the institution's holding company must guarantee the performance of that plan in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. Based upon its capital levels, a bank that is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. If an "undercapitalized" bank fails to submit an acceptable capital restoration plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional restrictions, including but not limited to: an order by the Federal Deposit Insurance Corporation to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks or to dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

The previously referenced rulemaking to establish a "community bank leverage ratio" adjusted the referenced categories for qualifying institutions that opt into the alternative framework for regulatory capital requirements. Institutions that exceed the community bank leverage ratio would be considered to have met the capital ratio requirements to be "well capitalized" for the agencies' prompt corrective regulations.

Transaction with Affiliates and the Federal Reserve's Regulation W. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act, as made applicable to BankProv through Section 18(j) of the Federal Deposit Insurance Act, and Regulation W, as made applicable through Federal Deposit Insurance Corporation regulation. Under Sections 23A and 23B and Regulation W, an affiliate of a bank includes any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank (although subsidiaries of the bank itself, except depository institutions and financial subsidiaries, are generally not considered affiliates). Generally, Section 23A of the Federal Reserve Act and Regulation W limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such bank's capital stock and surplus, and with all such covered transactions with all affiliates to an amount equal to 20.0% of such bank's capital stock and surplus. The term "covered transaction" includes the making of loans to, purchase of assets from, and issuance of a guarantee to an affiliate, and other similar transactions. In addition, loans or other extensions of credit by the financial institution to an affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act. Section 23B of the Federal Reserve Act applies to "covered transactions" as well as to certain other transactions, including the provision of services and the sale of assets by a bank to an affiliate, and requires that all such transactions be on terms and under circumstances that are substantially the same, or at least as favorable, to the institution or its subsidiary as prevailing at the time for comparable transactions with or involving a non-affiliate.

Loans to Insiders. Sections 22(h) and (g) of the Federal Reserve Act, as made applicable to BankProv through Section 18(j) of the Federal Deposit Insurance Act, and Regulation O, made applicable to BankProv through Federal Deposit Insurance Corporation regulation, place restrictions on loans to a bank's and its affiliates' insiders, i.e., executive officers, directors and principal shareholders, and those insiders' related interests. Under Section 22(h) of the Federal Reserve Act and Regulation O, loans to a director, an executive officer and to a greater than 10.0% shareholder of a financial institution, and these individuals' related interests, together with all other outstanding loans to such person and his or her related interests, may not exceed specified limits. Section 22(h) of the Federal Reserve Act also requires that loans to directors, executive officers and principal shareholders be made on terms and conditions substantially the same as offered in comparable transactions to persons who are not insiders and also requires prior approval by a majority of the board for certain loans. In addition, the aggregate amount of extensions of credit by a financial institution to insiders cannot exceed the institution's unimpaired capital and unimpaired surplus. Section 22(g) of the Federal Reserve Act and Regulation O place additional restrictions on loans to executive officers.

Enforcement. The Federal Deposit Insurance Corporation has extensive enforcement authority over insured state savings banks, including BankProv. The enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations, breaches of fiduciary duty and unsafe or unsound practices. The Federal Deposit Insurance Corporation is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized." The Federal Deposit Insurance Corporation may also appoint itself as conservator or receiver for an insured state non-member bank under specified circumstances, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; (4) insufficient capital; or (5) the incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

Federal Insurance of Deposit Accounts. BankProv is a member of the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation. Deposit accounts in BankProv are insured up to a maximum of $250,000 for each separately insured depositor per account ownership category.

The Federal Deposit Insurance Corporation imposes an assessment for deposit insurance on all depository institutions. Under the Federal Deposit Insurance Corporation's risk-based assessment system, insured institutions deemed less risky of failure pay lower assessments. Assessment rates (inclusive of possible adjustments) for most banks with less than $10 billion of assets are based on a formula using financial data and supervisory ratings, and currently range from 2.5 to 32 basis points of each institution's total assets less tangible capital.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of BankProv. Future insurance assessment rates cannot be predicted.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or regulatory condition imposed in writing. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

Privacy Regulations. Federal regulations generally require that BankProv disclose its privacy policy, including identifying with whom it shares a customer's "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter. In addition, BankProv is required to provide its customers with the ability to "opt-out" of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. BankProv currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

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

On October 24, 2023, the Federal Deposit Insurance Corporation and the other federal banking agencies issued a final rule to strengthen and modernize the CRA regulations. Under the final rule, banks with assets of at least $600 million as of December 31 in both of the prior two calendar years and less than $2 billion as of December 31 in either of the prior two calendar years will be an "intermediate bank." The agencies will evaluate intermediate banks under the Retail Lending Test and either the current community development test, referred to in the final rule as the Intermediate Bank Community Development Test, or, at the bank's option, the Community Development Financing Test. The applicability date for the majority of the provisions in the updated CRA regulations is January 1, 2026, and additional requirements will be applicable on January 1, 2027.

Massachusetts has its own statutory counterpart to the CRA which is also applicable to BankProv. The Massachusetts version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. Massachusetts law requires the Massachusetts Commissioner of Banks to consider, but not be limited to, a bank's record of performance under Massachusetts law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. BankProv's most recent rating under Massachusetts law was "Satisfactory."

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

Bank Secrecy Act, USA PATRIOT Act, and Anti-Money Laundering Regulations. BankProv is subject to federal anti-money laundering and anti-terrorist financing laws, including the Bank Secrecy Act ("BSA") and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), and those laws' implementing regulations issued by the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"). The USA PATRIOT Act gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the BSA, Title III of the USA PATRIOT Act implemented measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Together, the BSA and USA PATRIOT Act impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act. Among other things, of the BSA and the USA PATRIOT Act, and their implementing regulations require banks to: establish anti-money laundering compliance programs that include policies, procedures, and internal controls, the appointment of an anti-money laundering compliance officer, a training program, independent testing, and customer due diligence; file certain reports with FinCEN and law enforcement that are designed to assist in the detection and prevention of money laundering and terrorist financing activities; establish programs specifying procedures for obtaining and maintaining certain records from customers seeking to open new accounts, including verifying the identity of customers; in certain circumstances, comply with enhanced due diligence policies, procedures and controls designed to detect and report money-laundering, terrorist financing and other suspicious activity; monitor account activity for suspicious transactions; and conduct heightened level of review for certain high risk customers or accounts. The USA PATRIOT Act also includes prohibitions on correspondent accounts for foreign shell banks and requires compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

Other Applicable Federal and State Laws and Regulations

Interest and other charges collected or contracted for by BankProv are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to state and federal laws applicable to credit transactions, such as the:

- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Massachusetts Debt Collection Regulations, establishing standards, by defining unfair or deceptive acts or practices, for the collection of debts from persons within the Commonwealth of Massachusetts;
- The General Laws of Massachusetts, Chapter 167E, which governs BankProv's lending powers; and
- Rules and regulations of the various federal and state agencies charged with the responsibility of implementing such federal and state laws.

The deposit operations of BankProv also are subject to, among others, the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- General Laws of Massachusetts, Chapter 167D, which governs deposit powers.

Federal Home Loan Bank System

BankProv is a member of the Federal Home Loan Bank System, which consists of eleven regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Members of the Federal Home Loan Bank are required to acquire and hold shares of capital stock in the Federal Home Loan Bank. BankProv was in compliance with this requirement at December 31, 2023. Based on redemption provisions of the Federal Home Loan Bank of Boston, the stock has no quoted market value and is carried at cost.

At its discretion, the Federal Home Loan Bank of Boston may declare dividends on their stock. The Federal Home Loan Banks are required to provide funds for certain purposes including, for example, contributing funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. In 2023, the Federal Home Loan Bank of Boston paid dividends equal to an annual yield of 7.67%. There can be no assurance that such dividends will continue in the future.

Holding Company Regulation

Provident Bancorp, Inc. is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. Provident Bancorp, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for Provident Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the Federal Reserve Board, prior approval may also be necessary from other agencies having supervisory jurisdiction over the bank to be acquired before any bank acquisition can be completed.

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as a fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being "well capitalized" and "well managed," to opt to become a "financial holding company" and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking. We have not opted into financial holding company status.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the holding company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. There is an exception to this approval requirement for well capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding capital distributions, including dividends, by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. In addition, the Federal Reserve Board has issued guidance that requires consultation with the agency prior to a bank holding company's payment of dividends or repurchase of stock under certain circumstances. These regulatory policies could affect the ability of Provident Bancorp, Inc. to pay dividends, repurchase its stock or otherwise engage in capital distributions.

Under the Federal Deposit Insurance Act, depository institutions are liable to the Federal Deposit Insurance Corporation for losses suffered or anticipated by the Federal Deposit Insurance Corporation in connection with the default of a commonly controlled depository institution or any assistance provided by the Federal Deposit Insurance Corporation to such an institution in danger of default.

The status of Provident Bancorp, Inc. as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Massachusetts Holding Company Regulation. Under the Massachusetts banking laws, a company owning or controlling two or more banking institutions, including a savings bank, is regulated as a bank holding company. The term "company" is defined by the Massachusetts banking laws similarly to the definition of "company" under the Bank Holding Company Act. Each Massachusetts bank holding company: (i) must obtain the approval of the Massachusetts Board of Bank Incorporation before engaging in certain transactions, such as the acquisition of more than 5% of the voting stock of another banking institution; (ii) must register, and file reports, with the Massachusetts Commissioner of Banks; and (iii) is subject to examination by the Massachusetts Commissioner of Banks. Provident Bancorp, Inc. is not a "bank holding company" under the Massachusetts banking laws.

Federal Securities Laws

Provident Bancorp, Inc.'s common stock is registered with the Securities and Exchange Commission. Provident Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Acquisition of the Company

Under the Change in Bank Control Act, no person, or group of persons acting in concert, may acquire control of a bank holding company such as Provident Bancorp, Inc. unless the Federal Reserve Board has been given 60 days' prior written notice and not disapproved the proposed acquisition. The Federal Reserve Board considers several factors in evaluating a notice, including the financial and managerial resources of the acquirer and competitive effects. Control, as defined under the Change in Bank Control Act and applicable regulations, means the power, directly or indirectly, to direct the management or policies of the company or to vote 25% or more of any class of voting securities of the company. Acquisition of more than 10% of any class of a bank holding company's voting securities constitutes a rebuttable presumption of control under certain circumstances, including where, as is the case with Provident Bancorp, Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

In addition, federal regulations provide that no company may acquire control of a bank holding company without the prior approval of the Federal Reserve Board. Control, as defined under the Bank Holding Company Act and Federal Reserve Board regulations, means ownership, control or power to vote 25% or more of any class of voting stock, control in any manner over the election of a majority of the company's directors, or a determination by the regulator that the acquiror has the power to exercise, directly or indirectly, a controlling influence over the management or policies of the company. Any company that acquires such control becomes a “bank holding company” subject to registration, examination and regulation by the Federal Reserve Board. In 2020, the Federal Reserve Board amended its regulations concerning when a company exercises a controlling influence over a bank or bank holding company for purposes of the Bank Holding Company Act. Relevant factors include the company’s voting and nonvoting equity investment in the bank or bank holding company, director, officer and employee overlap, and the scope of business relationships between the company and bank or bank holding company.

ITEM 1A. RISK FACTORS

An investment in common stock involves risks. Stockholders should carefully consider the risks described below, together with other information contained in this Annual Report on Form 10-K and other documents that we have filed with the Securities and Exchange Commission (“SEC”), before making any purchase or sale decisions regarding the Company’s common stock. If any of the following risks actually occur, the Company’s financial condition or operating results may be harmed. In that case, the trading price of the Company’s common stock may decline and stockholders may lose part or all of their investment in the Company’s common stock.

Risks Related to Our Lending Activities

Our emphasis on commercial business, commercial real estate, real estate, construction and land development lending involves risks that could adversely affect our financial condition and results of operations.

We have a focus on commercial business loans, while continuing to originate commercial real estate, multi-family and construction and land development loans. As of December 31, 2023, our commercial loan portfolio, which includes commercial real estate, enterprise value, commercial business, multi-family, construction and land development and digital asset loans, totaled $1.17 billion, or 87.0% of total loans. As a result, our credit risk profile may be higher than traditional savings institutions that have higher concentrations of one- to four-family residential loans. These types of commercial lending activities, while potentially more profitable than one- to four-family residential lending, are generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. These loans also generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, any charge-offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Collateral evaluation and financial statement analysis of these types of loans also requires a more detailed analysis at the time of loan underwriting and on an ongoing basis.

Commercial business, enterprise value and digital asset loans expose us to additional risks since they typically are made on the basis of the borrower’s ability to make repayments from the cash flows of the borrower’s business and are secured by non-real estate collateral that may depreciate over time, may be illiquid and may fluctuate in value based on the success of the business, guarantor, or market conditions.

The credit risk related to commercial real estate and multi-family loans is considered to be greater than the risk related to one- to four-family residential or consumer loans because they typically have larger balances and are more affected by adverse conditions in the economy. Because payments on commercial real estate loans and multi-family loans typically often depend on the successful operation of the borrower’s business or the income stream of the real estate securing the loan as collateral, repayment of such loans may be affected by factors outside the borrower’s control, such as adverse conditions in the real estate market or in the economy, changes in government regulations or changes in the level of interest rates. Federal banking regulatory agencies have issued advisories on managing commercial real estate concentrations in a challenging economic environment. Failures in our risk management policies, procedures and controls could adversely affect our ability to manage this portfolio going forward and could result in an increased rate of delinquencies in, and increased losses from, this portfolio, which, accordingly, could have a material adverse effect on our business, financial condition and results of operations.

In addition, some of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. These balloon payments may require the borrower to either sell or refinance the underlying property in order to make the balloon payment, which may increase the risk of default or non-payment. Further, if we foreclose on a commercial real estate or multi-family loan, our holding period for the collateral may be longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral, which can result in substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability.

Construction and land development lending involves additional risks when compared to one- to four-family residential real estate lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest.

A secondary market for most types of commercial real estate, enterprise value, commercial business, multi-family, construction and land development, and digital asset loans is not readily available, so we generally do not have an economically feasible opportunity to mitigate credit risk by selling part or all of our interest in these loans.

The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny.

Regulators have promulgated guidance that provides that a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors, (1) total reported loans for construction, land acquisition and development, and other land represent 100% or more of total capital, or (2) total reported loans secured by multi-family and non-owner occupied, non-farm, non-residential properties, loans for construction, land acquisition and development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300% or more of total capital. As of December 31, 2023, our loans of the type described in (2) above represented 256.71% of total Bank capital. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flows from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The guidance assists banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. Although we believe we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, our regulators could require us to implement additional policies and procedures that may result in additional costs to us, may result in a curtailment of our multi-family and commercial real estate lending and/or require that we maintain higher levels of regulatory capital, any of which would adversely affect our loan originations and results of operations.

If our allowance for credit losses for loans is not sufficient to cover actual loan losses, our earnings could decrease.

The Company has an allowance for current expected credit losses on loans maintained through a provision for credit losses charged to expense. This represents our estimate of current expected credit losses based on an evaluation of risks within the portfolio of loans. The level of the allowance represents management's estimate of current expected credit losses over the contractual life of the existing loan portfolio. The determination of the appropriate level of the allowance inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and current trends and reasonable and supportable forecasts of future economic conditions, all of which may undergo frequent and material changes. Changes in economic and other conditions affecting borrowers, including inflation and interest rates, along with new information regarding existing loans other factors, may indicate the need for a future increase in the allowance. In addition, federal and state regulators periodically review our allowance for credit losses, and as a result of these reviews we may increase our credit loss expense or recognize further loan charge-offs. Material additions to the allowance would materially decrease our net income.

The foreclosure process may adversely impact our recoveries on non-performing loans

The judicial foreclosure process is protracted, which delays our ability to resolve non-performing loans through the sale of the underlying collateral. The longer timelines have been the result of many factors including additional consumer protection initiatives related to the foreclosure process, increased documentary requirements and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. This may result in a material adverse effect on collateral values and our ability to minimize its losses.

Changes in the secondary mortgage market may impede our ability to collect repayment on the mortgage warehouse facility lines.

Mortgage warehouse loans are facility lines to non-bank mortgage origination companies. The underlying collateral of these facility lines are residential real estate loans. Loans are originated by the mortgage companies for sale into secondary markets. The primary source of repayment of the facility lines is the cash flow upon sale of the loans. Changes in the secondary mortgage market may result in the mortgage companies' inability to sell the loans and repay their facility lines. Such events could result in an increase to our provision for loan losses, which could decrease our net income.

Risks Related to Our BaaS Activities

Regulatory scrutiny of BaaS solutions and related technology considerations has recently increased.

We provide banking products and services to our financial technology company ("fintech") partners, which includes providing certain financial services, including payments infrastructure and deposit services. Recently, federal bank regulators have increasingly focused on the risks related to bank and fintech partnerships, raising concerns regarding risk management, oversight, internal controls, information security, change management, and information technology operational resilience. This focus is demonstrated by recent regulatory enforcement actions against other banks that have allegedly not adequately addressed these concerns while growing their BaaS offerings. We could be subject to additional regulatory scrutiny with respect to that portion of our business that could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company.

Furthermore, while a financial institution can benefit from a fintech's products and technology to reach new customers and previously underserved communities, the financial institution bears ultimate accountability for its partners' compliance and risk management, including with respect to penalties, fines, and other measures that bank regulatory agencies take in the event of non-compliant activity or risks that are not well controlled. In addition, end customers of fintech may not conduct deposit activity in the same manner as other customers or the fintech itself. In recognition of this risk, in February 2023, the bank regulatory agencies issued joint guidance on liquidity risks related to crypto-asset-related entities, including guidance that financial institutions should actively monitor the liquidity risks inherent in such funding sources and establish and maintain effective risk management and controls commensurate with the level of liquidity risks from such funding sources. Our failure to properly monitor such liquidity risks and/or manage such risk from a regulatory standpoint could subject us to regulatory fines or other penalties, or business or reputational harm, and could adversely affect our financial condition and results of operations.

Risks Related to Laws and Regulations

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the monetary and related policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary and related policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond BankProv's control and the effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and/or increase our costs of operations.

We are subject to extensive regulation, supervision and examination by the Massachusetts Commissioner of Banks, the Federal Deposit Insurance Corporation and the Federal Reserve Board. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of BankProv rather than for holders of our common stock.

Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for credit losses. These regulations, along with the currently existing tax, accounting, securities, insurance, monetary laws, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firm. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Department of the Treasury's Financial Crimes Enforcement Network. Rules issued consistent with these laws and their implementing regulations require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. We also provide services to non-traditional deposit customers, such as digital currency customers, which require an enhanced Bank Secrecy Act program and enhanced Know Your Customer and compliance policies and procedures. We may become subject to additional regulatory scrutiny as a result of providing products and services to digital currency industry customers. Our primary banking regulators may be less familiar with the digital currency industry, or may consider the industry to involve greater risks than more established industries.

Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. Although we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations. We have not been subject to fines or other penalties, or suffered business or reputational harm with respect to potential money laundering activities or related laws and regulations, in the past.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.

The Community Reinvestment Act ("CRA"), the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions.

A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We could become subject to more stringent capital requirements, which could adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define "capital" for calculating these ratios. The minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. Unrealized gains and losses on certain "available-for-sale" securities holdings are to be included for purposes of calculating regulatory capital requirements unless a one-time opt-out was exercised. We exercised this one-time opt-out option. The regulations also establish a "capital conservation buffer" of 2.5% and the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions.

At December 31, 2023, BankProv met all of these requirements, including the full 2.5% capital conservation buffer.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit our ability to make distributions, including paying dividends or repurchasing shares. Specifically, BankProv's ability to pay dividends will be limited if it does not have the capital conservation buffer required by the capital rules, which may limit our ability to pay dividends to stockholders.

If deposits in excess of Federal Deposit Insurance Corporation insurance limits exceed thresholds established by the Depositors Insurance Fund, we may lose the benefits of excess deposit insurance provided by the Depositors Insurance Fund.

As a Massachusetts savings bank, our deposits are insured in full beyond federal deposit insurance coverage limits by the Depositors Insurance Fund, a private excess deposit insurer created under Massachusetts law. We believe offering full deposit insurance gives us a competitive advantage for individual, corporate and municipal depositors having deposit balances in excess of Federal Deposit Insurance Corporation insurance limits. However, the Depositors Insurance Fund may require member savings banks that pose greater than normal loss exposure risk to the Depositors Insurance Fund to take certain risk-mitigating measures or withdraw from the Depositors Insurance Fund and become a Massachusetts trust company by operation of law, subject to the Commissioner of Banks' approval. In such an event, we may be required to reduce our level of excess deposits, pay for the reinsurance of our excess deposits, make an additional capital contribution to the Depositors Insurance Fund, provide collateral or take other risk-mitigating measures that the Depositors Insurance Fund may require, which may include entering into reciprocal deposit programs. Reducing our excess deposits by taking any of the above risk-mitigating measures, which allows deposits to run off, reduces our overall level of deposits and increases the extent to which we may need to rely in the future on other, more expensive or less stable sources for funding, including Federal Home Loan Bank advances, which would reduce net income. Shifting excess deposits into reciprocal deposit programs may result in higher funding costs, which also would reduce net income.

The Federal Reserve Board may require us to commit capital resources to support BankProv.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Risk Related to Market Interest Rates

Future changes in interest rates could negatively affect our operating results and asset values.

Our profitability, like that of most financial institutions, depends to a large extent upon our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Accordingly, our results of operations depend largely on movements in market interest rates and our ability to manage our interest-rate-sensitive assets and liabilities in response to these movements. Factors such as inflation, recession and instability in financial markets, among other factors beyond our control, may affect interest rates.

As a result of recent increases in interest rates, the rates on our deposits have repriced upwards faster than the rates on our long-term loans and investments, which has resulted in compression of our interest rate spread, which has had a negative effect on our profitability. Furthermore, increases in interest rates may adversely affect the ability of our borrowers to make loan repayments on adjustable-rate loans, as the interest owed on such loans would increase as interest rates increase. Conversely, decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

In addition, as a result of rising interest rates, we have experienced a shift in deposits from lower-cost NOW and demand accounts to higher-cost savings accounts and certificates of deposit. However, the rates we earn on our loans did not increase as rapidly during the year ended December 31, 2023 due to fixed-rate loans where the interest rates did not increase commensurately with the increase in market interest rates.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. While we pursue an asset/liability strategy designed to mitigate our risk from changes in interest rates, changes in interest rates can still have a material adverse effect on our financial condition and results of operations. Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results.

Risks Related to Our Cryptocurrency Activities

Regulation of the cryptocurrency industry continues to evolve and is subject to change. Moreover, securities and commodities laws and regulations and other bodies of laws can apply to certain cryptocurrency businesses. These laws and regulations are complex, were frequently not designed or crafted with cryptocurrency technology in mind or with a sufficient understanding of cryptocurrency use cases and our interpretations of them may be subject to challenge by the relevant regulators. Future regulatory developments are *impossible to predict with certainty, and if we are unable to properly characterize our activities with respect to a crypto asset, we may be subject to regulatory scrutiny, inquiries, investigations, fines, and other penalties, which may adversely affect our business, operating results, and financial condition.*

The SEC and its staff have taken the position that certain crypto assets fall within the definition of a "security" under the U.S. federal securities laws. The legal test for determining whether any given crypto asset is a security is a highly complex, fact-driven analysis that evolves over time, and the outcome is difficult to predict. The SEC generally does not provide advance guidance or confirmation on the status of any particular crypto asset as a security. Furthermore, the SEC's views in this area have evolved over time and it is difficult to predict the direction or timing of any continuing evolution. It is also possible that a change in the governing administration or the appointment of new SEC commissioners could substantially impact the views of the SEC and its staff. For example, Chair Gary Gensler has repeatedly remarked on the need for further regulatory oversight on crypto assets, crypto trading, and lending platforms by the SEC. Public statements by senior officials at the SEC indicate that the SEC does not intend to take the position that Bitcoin or Ethereum are securities (in their current form). Bitcoin and Ethereum are the only crypto assets as to which senior officials at the SEC have publicly expressed such a view. However, such statements are not official policy statements by the SEC and reflect only the speakers' views, which are not binding on the SEC or any other agency or court and cannot be generalized to any other crypto asset. With respect to all other crypto assets, there is currently no certainty under the applicable legal test that such assets are not securities, notwithstanding the conclusions we may draw based on our risk-based assessment regarding the likelihood that a particular crypto asset could be deemed a "security" under applicable laws. Similarly, though the SEC's Strategic Hub for Innovation and Financial Technology published a framework for analyzing whether any given crypto asset is a security in 2019, this framework is also not a rule, regulation or statement of the SEC and is not binding on the SEC.

Several foreign jurisdictions have taken a broad-based approach to classifying crypto assets as "securities," while other foreign jurisdictions, such as Switzerland, Malta, and Singapore, have adopted a narrower approach. As a result, certain crypto assets may be deemed to be a "security" under the laws of some jurisdictions but not others. Various foreign jurisdictions may, in the future, adopt additional laws, regulations, or directives that affect the characterization of crypto assets as "securities."

The classification of a crypto asset as a security under applicable law has wide-ranging implications for the regulatory obligations that flow from the offer, sale, trading, and clearing of such assets. For example, a crypto asset that is a security in the United States may generally only be offered or sold in the United States pursuant to a registration statement filed with the SEC or in an offering that qualifies for an exemption from registration. Persons that effect transactions in crypto assets that are securities in the United States may be subject to registration with the SEC as a "broker" or "dealer." Persons facilitating clearing and settlement of securities may be subject to registration with the SEC as a clearing agency. Foreign jurisdictions may have similar licensing, registration, and qualification requirements.

We have policies and procedures to analyze whether the crypto assets underlying certain of our lending and deposit activities could be deemed to be a "security" under applicable laws. Our policies and procedures do not constitute a legal standard, but rather represent our company-developed model, which permits us to make a risk-based assessment regarding the likelihood that we are facilitating, or engaging in, transactions in unregistered securities. Regardless of our conclusions, we could be subject to legal or regulatory action in the event the SEC, a state or foreign regulatory authority, or a court were to determine that our activities involve a supported crypto asset "security" currently offered, sold, or traded under applicable laws. We believe that our processes reflect a comprehensive and thoughtful analysis and is reasonably designed to facilitate consistent application of available legal guidance to crypto assets to facilitate informed risk-based business judgment. However, we recognize that the application of securities laws to the specific facts and circumstances of crypto assets may be complex and subject to change, and that a listing determination does not guarantee any conclusion under the U.S. federal securities laws.

We may not properly characterize our activities with respect to any given crypto asset, or that the SEC, foreign regulatory authority, or a court, if the question were presented to it, would agree with our assessment. If the SEC, state or foreign regulatory authority, or a court were to determine that we were facilitating, or engaging in, transactions in unregistered securities, we would not be able to continue such activity, and may determine not to continue similar activities. In addition, we could be subject to judicial or administrative sanctions for our actions in failing to offer or sell the crypto asset in compliance with the registration requirements, or for acting as a broker, dealer, or national securities exchange without appropriate registration. Such an action could result in injunctions, cease and desist orders, as well as civil monetary penalties, fines, and disgorgement, criminal liability, and reputational harm.

Further, if Bitcoin, Ether, or any other supported crypto asset is deemed to be a security under any U.S. federal, state, or foreign jurisdiction, or in a proceeding in a court of law or otherwise, it may have adverse consequences for such supported crypto asset. For instance, all transactions in such supported crypto asset would have to be registered with the SEC or other foreign authority, or conducted in accordance with an exemption from registration, which could severely limit its liquidity, usability and transactability. Moreover, the networks on which such supported crypto assets are utilized may be required to be regulated as securities intermediaries, and subject to applicable rules, which could effectively render the network impracticable for its existing purposes. Further, it could draw negative publicity and a decline in the general acceptance of the crypto asset. Also, it may make it difficult for such supported crypto asset to be traded, cleared, and custodied as compared to other crypto asset that are not considered to be securities. Specifically, even if transactions in a crypto asset were registered with the SEC or conducted in accordance with an exemption from registration, the current intermediary-based framework for securities trading, clearance and settlement is not consistent with the operations of the crypto asset market. For example, under current SEC guidance, crypto asset securities cannot be held on behalf of customers by broker-dealers that also support custody of traditional securities; and the SEC has not permitted public permissionless blockchain-based clearance and settlement systems for securities.

Our use of crypto assets as collateral for loans, and the custodial arrangements with such collateral, involves risks that could adversely affect our financial condition and results of operations.

In 2021, the Bank began offering term loans for companies purchasing specialized digital asset mining equipment but discontinued this type of lending in 2022. As of December 31, 2023 we had $12.3 million of these loans outstanding, compared to $40.8 at December 31, 2022. Under the loan terms the Bank maintains a security in the purchased mining equipment as well as a security interest in the digital assets and cash collateral held in a collateral account to which the borrower is required to allocate a portion of the digital assets that they obtain using the mining equipment, up until the USD-equivalent amounts in the collateral account are equal to or greater than the unpaid balance of the loan. In the event of default the Bank can require the third-party custodian to liquidate the digital assets in the collateral account in United States dollar (“USD”) and repay the respective loan with such proceeds.

These loans expose us to additional risks since they typically are made on the basis of the borrower’s ability to make repayments from the cash flows of the borrower’s business and are secured by crypto asset collateral that may be illiquid and may fluctuate significantly in value. Failure to properly monitor the value of the collateral may result in our being under-collateralized. In addition, a failure by the custodian to properly or timely liquidate the collateral and/or to properly or timely remit the proceeds of the liquidation to us may result in our recognizing losses. Moreover, collateral held by a custodian or other third-party is subject to theft and/or mis-reporting of the possession of such collateral or the value thereof, which may further result in our recognizing losses.

In addition, these loans are subject to additional risks with respect to the short-term life of the mining equipment securing them. The failure to properly and timely monitor the production from the mining equipment, significant changes in the collateral valuations, casualty losses, or our inability to liquidate the equipment, could increase our potential losses in the event the Bank is required to repossess and sell the equipment to other mining operators.

Our lending activities in the cryptocurrency business space are covered by our insurance policies to the same extent as our other lending activities, such as with respect to certain acts of fraud, forgery or dishonesty. However, these lending activities, like our other lending activities, are subject to the risk that insurance coverage may not be available for certain losses, or, where available, such losses may exceed insurance limits. A similar risk applies to insurance coverage with respect to custodians we engage to hold collateral related to this lending activity. Losses with respect to insurance matters could have a material impact on our financial condition or results of operations.

The characteristics of digital currency have been, and may in the future continue to be, exploited to facilitate illegal activity such as fraud, money laundering, tax evasion and ransomware scams; if any of our customers do so or are alleged to have done so, it could adversely affect us.

Digital currencies and the digital currency industry are relatively new and, in many cases, lightly regulated or largely unregulated. Some types of digital currency have characteristics, such as the speed with which digital currency transactions can be conducted, the ability to conduct transactions without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, the irreversible nature of certain digital currency transactions and encryption technology that anonymizes these transactions, that make digital currency particularly susceptible to use in illegal activity such as fraud, money laundering, tax evasion and ransomware scams. Two prominent examples of marketplaces that accepted digital currency payments for illegal activities include Silk Road, an online marketplace on the dark web that, among other things, facilitated the sale of illegal drugs and forged legal documents using digital currencies and AlphaBay, another darknet market that utilized digital currencies to hide the locations of its servers and identities of its users. Both of these marketplaces were investigated and closed by U.S. law enforcement authorities. U.S. regulators, including the SEC, Commodity Futures Trading Commission (the “CFTC”), and Federal Trade Commission (the “FTC”), as well as non-U.S. regulators, have taken legal action against persons alleged to be engaged in Ponzi schemes and other fraudulent schemes involving digital currencies. In addition, the Federal Bureau of Investigation has noted the increasing use of digital currency in various ransomware scams.

While we believe that our risk management and compliance framework, which includes thorough reviews we conduct as part of our due diligence process (either in connection with onboarding new customers or monitoring existing customers), is reasonably designed to detect any such illicit activities conducted by our potential or existing customers (or, in the case of digital currency exchanges, their customers), we may not be able to detect such illegal activity in all instances. Because the speed, irreversibility and anonymity of certain digital currency transactions make them more difficult to track, fraudulent transactions may be more likely to occur. We may be specifically targeted by individuals seeking to conduct fraudulent transfers, and it may be difficult or impossible for us to detect and avoid such transactions in certain circumstances. If one of our customers were to engage in or be accused of engaging in illegal activities using digital currency, we could be subject to various fines and sanctions, including limitations on our activities, which could also cause reputational damage and adversely affect our business, financial condition and results of operations.

Risks Related to our Business Strategy

Strong competition for banking services could hurt our profits and slow growth.

We face intense competition in making loans and attracting deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits and may reduce our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. In addition, we face increasing competition for investors' funds and banking services from other financial service companies such as fintech companies, brokerage firms, money market funds, mutual funds and other corporate and government securities. We may have difficulty entering into new lines of business or new markets that are already served by existing financial institutions or other entities. Conversely, our competitors often aggressively price loan and deposit products when they enter into new lines of business or new market areas. Competitive factors driven by consumer sentiment or otherwise can also reduce our ability to generate fee income, such as through overdraft fees. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. If we are not able to effectively compete, our results of operations may be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In addition, we will continue to make investments in research, development, and marketing for new products and services. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services we may invest significant time and resources. Initial timetables for the development and introduction of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. Furthermore, if customers do not perceive our new offerings as providing significant value, they may fail to accept our new products and services. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, the burden on management and our information technology of introducing any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations.

Risk Related to Economic Conditions

A worsening of economic conditions could reduce demand for our products and services and/or result in increases in our level of non-performing loans, which could have an adverse effect on our results of operations.

Our real estate lending, and a large portion of our commercial business lending, depends primarily on the general economic conditions in Northeastern Massachusetts and Southern New Hampshire. Certain types of our commercial business loans are originated nationally and will be impacted by national or regional economic conditions. Economic conditions have a significant impact on the ability of the borrowers to repay loans and the value of the collateral securing these loans.

A deterioration in economic conditions, could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, in turn reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans;
- we may be required to increase our allowance for credit losses;
- the value of our securities portfolio may decline; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Further, a U.S. government debt default could have a material adverse impact on our business and financial performance. Other negative impacts could be volatile capital markets, an adverse impact on the U.S. economy and the U.S. dollar, as well as increased default rates among borrowers in light of increased economic uncertainty. Some of these impacts might occur even in the absence of an actual default but as a consequence of extended political negotiations around the threat of such a default and a government shutdown.

Inflation can have an adverse impact on our business and on our customers.

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Over the past two years, in response to a pronounced rise in inflation, the Federal Reserve Board has raised certain benchmark interest rates to combat inflation. As inflation increases and market interest rates rise the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non-interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates by the Federal Reserve Board to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations.

Unrelated bank failures could subject us to increased regulatory scrutiny and higher deposit insurance costs. Additionally, our stock price may be negatively impacted by negative depositor confidence in depository institutions resulting from these failures. Further, if we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, which have come under greater scrutiny in light of recent bank failures, it may have a material adverse effect on our financial condition and results of operations.

On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation. On March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services, and on May 1, 2023, First Republic Bank, San Francisco, California, was closed by the California Department of Financial Protection and Innovation. These banks also had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions.

These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of its deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. If we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, it may have a material adverse effect on our financial condition and results of operations.

The premiums of the FDICs deposit insurance program are subject to increases based on claims on the fund related to bank failures. Banking regulators have signaled further review of regulatory requirements and the potential for changes to laws or regulations governing banks and bank holding companies. Changes resulting from these events could include increased regulatory oversight, higher capital requirements or changes in the way regulatory capital is calculated, and the imposition of additional restrictions through regulatory changes or supervisory or enforcement activities, each of which could have a material impact on our business.

Risks Related to Operational Matters

System failure or breaches of our network security could materially and adversely affect our business, as well as subject us to increased operating costs as well as litigation and other liabilities.

Our ability to provide reliable service to customers and other network participants, as well as our internal operations, depend on the efficient and uninterrupted operation of our computer network systems and data centers as well as those of our retail distributors, network acceptance members and third-party processors, including our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Our business involves the movement of large sums of money, processing large numbers of transactions and managing the data necessary to do both. Interruptions in our service may result for a number of reasons. For example, the data center hosting facilities that we use could be closed without adequate notice or suffer unanticipated problems resulting in lengthy interruptions in our service. Any damage or failure that causes an interruption in our operations could cause customers, retail distributors and other partners to become dissatisfied with our products and services or obligate us to issue credits or pay fines or other penalties to them and could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, continue to implement security technology and establish operational procedures designed to prevent such damage, our security measures may not be successful. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

A significant amount of time and money may be spent to rectify the harm caused by a breach or hack. Our general liability insurance and business interruption insurance have limitations on coverage and may not be adequate to cover the losses or damages that we incur. Furthermore, cyber incidents carry a greater risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require customer reporting and/or reimbursement of customer loss.

Customer or employee fraud subjects us to additional operational risks.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Our loans to businesses and individuals and our deposit relationships and related transactions are also subject to exposure to the risk of loss due to fraud and other financial crimes. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. Any failure of our internal controls to prevent or promptly detect an occurrence, or any resulting loss that is not insured or exceeds applicable insurance limits, could have a material adverse effect on our financial condition and results of operations.

If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including credit, liquidity, operational, regulatory compliance and reputational. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected.

Our continued development of innovative and highly specialized deposit products, which is central to our strategic plan, will require us to devote management time and financial resources to making corresponding refinements to our enterprise risk management framework. We may not be successful in designing or implementing adjustments to our enterprise risk management to address changes in one or more of our businesses.

A lack of liquidity could adversely affect the Company's financial condition and results of operations.

Liquidity is essential to the Company's business. The Company relies on its ability to generate deposits and effectively manage the repayment and maturity schedules of loans to ensure that there is adequate liquidity to fund its operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. The Company's most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the FRB or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Company would lose a relatively low-cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and borrowings from the FHLB of Boston. The Company also has an available line of credit with the FRB Boston discount window. The Company also may borrow funds from third-party lenders, such as other financial institutions. The Company's access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Company's business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company.

Any decline in available funding could adversely impact the Company's ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as repaying borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These additional sources consist primarily of Federal Home Loan Bank advances, proceeds from the sale of loans, federal funds purchased, brokered certificates of deposit, listing service deposits, and other lines of credit. As we continue to grow, we are likely to become more dependent on these sources. Adverse operating results or changes in industry conditions could lead to difficulty or an inability in accessing these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Our business model may be more highly susceptible than comparably sized banks to fluctuations in our liquidity levels, due to cash needs of customers such as payroll providers, or a decrease in the number of smaller businesses that we service. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and results of operations would be adversely affected.

Deterioration in the performance or financial position of the Federal Home Loan Bank of Boston or the Federal Reserve Bank of Boston might restrict our ability to meet our funding needs. Additionally, the deterioration in the performance or financial position of the Federal Home Loan Bank of Boston could cause a suspension of its dividend and cause its stock to be deemed impaired.

Significant components of BankProv's liquidity needs are met through its access to funding pursuant to its membership in the Federal Home Loan Bank of Boston and the Federal Reserve Bank of Boston. Any deterioration in their performance or financial condition may affect our ability to access funding. If we are not able to access funding, we may not be able to meet our liquidity needs, which could have an adverse effect on the results of operations or financial condition. The purchase of stock in the Federal Home Loan Bank of Boston is a requirement for a member to gain access to funding. Any deterioration in their performance or financial condition may also require us to deem the required investment in Federal Home Loan Bank of Boston stock to be impaired. If we deem all or part of our investment in Federal Home Loan Bank of Boston stock impaired, such action could have a material adverse effect on our results of operations or financial condition.

Risks Related to Environmental and Other Global Matters

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

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or regulations or more stringent interpretations or enforcement policies with respect to existing laws and regulations may increase our exposure to environmental liability, and heightened pressure from investors and other stakeholders may require us to incur additional expenses with respect to environmental matters. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers.

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses may also change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes and other issues. The impact on our customers will likely vary depending on their specific attributes, including reliance on carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

Our business, financial condition, and results of operations could be adversely affected by natural disasters, health epidemics, and other catastrophic events.

We could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a pandemic, natural disaster, war, act of terrorism, accident, or other reason. Any of these events could result in the temporary reduction of operations, employees, and customers, which could limit our ability to provide services. Additionally, many of our borrowers may suffer property damage, experience interruption of their businesses or lose their jobs after such events. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value.

Risks Related to Accounting Matters

Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.

In preparing our periodic reports that we file under the Securities Exchange Act of 1934, including our consolidated financial statements, our management is required to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management's best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our valuation of our stock-based compensation plans, our determination of our income tax provision, and our evaluation of the adequacy of our allowance for credit losses.

Other Risks Related to Our Business

Legal and regulatory proceedings and related matters could adversely affect us or the financial services industry in general.

We, and other participants in the financial services industry upon whom we rely on to operate, have been and may in the future become involved in legal and regulatory proceedings. Most of the proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and other participants in the financial services industry or we may not prevail in any proceeding or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

Our success depends on hiring, retaining and motivating certain key personnel.

Our performance largely depends on the talents and efforts of highly skilled individuals. We rely on key personnel to manage and operate our business, including major revenue generating functions such as loan and deposit generation. The loss of key staff may adversely affect our ability to maintain and manage these functions effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

Managing reputational risk is important to attracting and maintaining customers, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers, employees, or directors. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation, all of which could adversely affect our operating results.

A protracted government shutdown could negatively affect our financial condition and results of operations.

A protracted federal government shutdown could result in reduced income for government employees or employees of companies that engage in business with the federal government, which could result in greater loan delinquencies, increases in our nonperforming, criticized and classified assets and a decline in demand for our products and services.

Various factors may make takeover attempts more difficult to achieve.

Certain provisions of our articles of incorporation and state and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of Provident Bancorp, Inc. without our Board of Directors' approval. Under federal law, subject to certain exemptions, a person, entity or group must notify the Federal Reserve Board before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company, including shares of our common stock or shares of our preferred stock were those shares to become entitled to vote upon the election of two directors because of missed dividends, creates a rebuttable presumption that the acquirer "controls" the bank holding company. Also, a bank holding company must obtain the prior approval of the Federal Reserve Board before, among other things, acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, including BankProv.

There also are provisions in our articles of incorporation that may be used to delay or block a takeover attempt, including a provision that prohibits any person from voting more than 10% of the shares of common stock outstanding. Furthermore, shares of restricted stock and stock options that we have granted or may grant to employees and directors, stock ownership by our management and directors, employment agreements that we have entered into with our executive officers and other factors may make it more difficult for companies or persons to acquire control of Provident Bancorp, Inc. without the consent of our Board of Directors. Taken as a whole, these statutory provisions and provisions in our articles of incorporation could result in our being less attractive to a potential acquirer and thus could adversely affect the market price of our common stock.

Our articles of incorporation provide that state and federal courts located in the state of Maryland are the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our articles of incorporation generally provide that, unless we consent in writing to the selection of an alternative forum, Maryland is the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty, any action asserting a claim arising pursuant to any provision of Maryland corporate law, or any action asserting a claim governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors and officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our articles of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings and financial condition.

A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact on us. Among other things, a downgrade in the U.S. government's credit rating could adversely impact the value of our securities portfolio and may trigger requirements that we post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on the business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

As part of our overall Enterprise Risk Management strategy, we maintain a robust Information Technology and Security Management Program ("ITSM") which includes processes to assess, identify, monitor and manage cybersecurity risks. The program includes provisions for annual cybersecurity risk assessments, ongoing monitoring and testing, as well as annual training for employees, executives, and Board Members. We use the Federal Financial Institutions Examination Council's ("FFIEC") cybersecurity assessment tool to identify risks and ascertain cybersecurity preparedness and the National Institute of Standards and Technology's ("NIST") Cybersecurity Framework to benchmark our internal policies and procedures against best practices. We engage consultants and auditors to assist in the completion of our annual risk assessment and review of controls related to the ITSM.

The Company also maintains a robust Vendor Risk Management program to manage risks related to third-party relationships in a manner that is consistent with the Company's strategic goals, organizational objectives, and risk appetite. This includes comprehensive risk and control assessments with respect to the appropriate safeguarding of sensitive information.

To date, there have been no cybersecurity threats or incidents that have materially affected or are reasonably likely to materially affect the Company, the Bank, our business strategy, results of operations, or financial condition.

Governance

The Board of Directors is responsible for overseeing the development, approval, implementation and maintenance of the ITSM, including overseeing the program's execution in accordance with the overall strategic goals of the Bank. The Board conducts oversight, in part, through the use of committees. The Risk Management Committee ("RMC") of the Board of Directors is charged with monitoring and reviewing risk assessments, assurance, testing, and training as well as overseeing the correction of identified deficiencies as they relate to the ITSM. The Company's Information Security team, with input from the Information Technology and Risk departments, is responsible for incident management, disaster recovery, business continuity and cybersecurity programs and policies. The Bank's Incident Response Manual and Cyber Incident Policy outline how potential cybersecurity threats or incidents are communicated to the RMC. The RMC is responsible for determining if cybersecurity incidents or threats should be escalated to the Board of Directors. The information security team and the RMC work together to mitigate cybersecurity threats or incidents.

The information security officer ("ISO") is responsible for cybersecurity under the ITSM and is a licensed Certified Internal Auditor, who has experience with the Massachusetts Division of Banks specializing in information technology examinations. The ISO reports directly to the VP, Operational Risk who was a former Chief Information Security Officer ("CISO") for the United States segment of a multi-national bank. The Chief Operating Officer, who is a member of the executive team and RMC, is a former CISO and holds both a Certified Fraud Examiner and Certified Information Security Manager certification. The Chair of the RMC of the Board also has multiple certifications in information and cybersecurity, including a Certified Information Systems Security Professional certification.

ITEM 2. PROPERTIES

At December 31, 2023, we conducted business through our main office and six branch offices located in Amesbury and Newburyport, Massachusetts and Bedford, Exeter, Portsmouth and Seabrook, New Hampshire, as well as a loan production office located in Ponte Vedra, Florida. We own five of our offices, including our main office, and lease two of our branch offices as well as a loan production office. At December 31, 2023, the total net book value of our land, buildings, furniture, fixtures, equipment and lease right-of-use assets was $16.8 million.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market, Holder and Dividend Information. Our common stock is traded on the NASDAQ Capital Market under the symbol "PVBC." The approximate number of holders of record of Provident Bancorp Inc.'s common stock as of March 22, 2023, was 679. Certain shares of Provident Bancorp Inc. are held in "nominee" or "street" name and, accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

(b) Sales of Unregistered Securities. Not applicable.

(c) Use of Proceeds. Not applicable.

(e) Stock Repurchases. On March 12, 2021, the Company announced that its Board of Directors had adopted a stock repurchase program under which it would repurchase up to 1,400,000 shares of its common stock, or approximately 7.5% of the then-outstanding shares. The repurchase program has no expiration date. As of December 31, 2023, the Company had repurchased 1,145,479 shares of its outstanding common stock under this program, however, the Company did not repurchase any shares of its outstanding common stock under this program during the year ended December 31, 2023.

ITEM 6. RESERVED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis reflects our consolidated financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. You should read the information in this section in conjunction with the business and financial information regarding Provident Bancorp, Inc., including the financial statements, provided in this Annual Report.

Critical Accounting Policies

A summary of our accounting policies is described in Note 2 to the Consolidated Financial Statements included in this Annual Report. 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 are inherently uncertain and 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 Credit Losses for Loans.

On January 1, 2023, the company adopted Accounting Standards Update ("ASU") 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended ("ASC 326"), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance-sheet ("OBS") credit exposures such as loan commitments and standby letters of credit. The Company adopted ASC 326 using the modified retrospective method, therefore, the results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The allowance for credit losses on loans ("ACLL") represents management's estimate of expected credit losses over the expected contractual life of our loan portfolio. Determining the appropriateness of the ACLL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the ACLL in those future periods.

The appropriateness of the ACLL could change significantly because current economic conditions and forecasts can change and future events are inherently difficult to predict. It is difficult to estimate how potential changes in any one economic factor or input might affect the overall allowance because a wide variety of factors and inputs are considered in estimating the allowance and changes in those factors and inputs considered may not occur at the same rate and may not be consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. One of the most significant judgments used in determining the allowance for credit losses is the macroeconomic forecast provided by a third party. Changes in the macroeconomic forecast, especially for the national unemployment rate, could significantly impact the calculated estimated credit losses.

While management utilizes its best judgment and information available, the ultimate adequacy of our ACLL is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, and changes in interest rates.

The Company employs a process and methodology to estimate the ACLL that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors involves pooling loans into portfolio segments for loans that share similar risk characters.

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 can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, can have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

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, can have an effect on the credit quality in this segment.

Enterprise value: Loans in this segment are made to small- and medium-size businesses in a senior secure position and are generally secured by the enterprise value of the business. The enterprise value consists of the going concern value of the business and takes into account the value of business assets (both tangible and intangible). Repayment is expected from the cash flows of the business. Economic and industry specific conditions can have an effect on the credit quality of this segment.

Digital asset: We no longer originate digital asset loans. Loans in this segment were made to businesses in the digital asset space and are generally secured by digital asset mining equipment or by the United States dollar value of digital currency assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, resultant decreased consumer spending as well as decreases in the value of digital currency can have an effect on the credit quality of this segment.

Residential real estate: 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. We no longer originate residential real estate loans, and previously we did not typically originate loans with a loan-to-value ratio greater than 80% or grant subprime loans. Loans with loan to value ratios greater than 80% required the purchase of private mortgage insurance.

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, the accuracy of estimates of the value of the property upon completion, time to sell at an adequate price, and market conditions.

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

Mortgage warehouse: Loans in this segment are primarily facility lines to non-bank mortgage origination companies. The underlying collateral of these loans are residential real estate loans. Loans are originated by the mortgage companies for sale into secondary markets, which is typically within 15 days of the loan closing, with the exception of construction loans which generally take longer to pay off due to the nature of the loan. The primary source of repayment is the cash flow upon the sale of the loans. The credit risk associated with this type of lending is the risk that the mortgage companies are unable to sell the loans.

Management estimates the ACLL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as portfolio mix, delinquency levels, or term as well as for changes in economic conditions, such as changes in unemployment rates, property values, gross domestic product ("GDP"), home pricing index ("HPI"), or other relevant factors. Incorporated in the estimate for the ACLL is consideration of qualitative factors, which include the following for all loan pools:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices.
- Changes in the experience, depth, and ability of lending management.
- Changes in the quality of the organization's loan review system.
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations.
- The effect of other external factors (i.e., legal and regulatory requirements) on the level of estimated credit losses.

In addition to the above, the mortgage warehouse pool includes a qualitative factor for changes in international, national, regional, and local conditions as the ACLL model for this loan pool does not apply an economic regression model in the calculation of the historical loss rate.

The allowance for unfunded commitments is maintained at a level by the Company to be sufficient to absorb expected lifetime losses related to unfunded credit facilities (including unfunded loan commitments and letters of credit).

The Company measures the ACLL using the following methods:

Portfolio Segment	Measurement Method	Loss Driver
Commercial real estate	Discounted cash flow	National unemployment rate, national GDP
Commercial	Discounted cash flow	National unemployment rate, national GDP
Enterprise value	Discounted cash flow	National unemployment rate, national GDP
Digital asset	Discounted cash flow	National unemployment rate, national GDP
Residential real estate	Discounted cash flow	National unemployment rate, national HPI
Construction and land development	Discounted cash flow	National unemployment rate, national GDP
Consumer	Discounted cash flow	National unemployment rate, national GDP
Mortgage warehouse	Remaining life method	Not applicable

When the discounted cash flow method is used to determine the ACLL, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

When the remaining life method is used to determine the ACLL, a calculated loss rate is applied to the pool of loans based on the remaining life expectation of the pool. The remaining life expectation is based on management's reasonable expectation at the reporting date.

Loans that do not share risk characteristics, whether or not they are performing in accordance with their loan terms, are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. The Company will individually evaluate a loan 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 making this determination include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Insignificant payment delays and payment shortfalls generally are not considered reason enough to individually analyze a loan. 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. When management determines that a loan should be individually analyzed, expected credit losses are based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

Selected Financial Data

The following tables set forth selected consolidated historical financial and other data of Provident Bancorp, Inc. for the years ended and at the dates indicated. The following is only a summary and you should read it in conjunction with the business and financial information regarding Provident Bancorp, Inc. contained elsewhere in this Annual Report. The information at December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, is derived in part from the audited consolidated financial statements that appear in this Annual Report.

	At December 31,				
	2023	2022	2021	2020	2019
Financial Condition Data:			(In thousands)		
Total assets	$ 1,670,309	$ 1,636,381	$ 1,729,283	$ 1,505,781	$ 1,121,788
Cash and cash equivalents	220,332	80,629	153,115	83,819	59,658
Debt securities available-for-sale (at fair value)	28,571	28,600	36,837	32,215	41,790
Federal Home Loan Bank stock, at cost	4,056	4,266	785	895	1,416
Loans held for sale	—	—	22,846	—	—
Loans, net of allowance for credit losses (1)	1,321,158	1,416,047	1,433,803	1,314,810	959,286
Bank-owned life insurance	44,735	43,615	42,569	36,684	26,925
Deposits	1,331,222	1,279,582	1,459,895	1,237,428	849,905
Borrowings	104,697	126,829	13,500	13,500	24,998
Total shareholders' equity (2)	221,902	207,542	233,782	235,856	230,933

	For the Year Ended December 31,				
	2023	2022	2021	2020	2019
Operating Data:		(In thousands, except per share data)			
Interest and dividend income	$ 90,297	$ 79,327	$ 64,803	$ 60,403	$ 51,538
Interest expense	32,126	4,297	3,370	5,931	8,148
Net interest and dividend income	58,171	75,030	61,433	54,472	43,390
Total credit loss (benefit) expense	(678)	56,428	3,887	5,597	5,326
Net interest and dividend income after credit loss (benefit) expense	58,849	18,602	57,546	48,875	38,064
Gains on sales of securities, net	—	—	—	—	113
Other noninterest income	7,061	6,149	5,166	3,543	3,998
Write down of other assets and receivables	—	395	225	2,207	—
Noninterest expense	51,133	51,614	40,394	33,601	27,556
Income (loss) before income taxes	14,777	(27,258)	22,093	16,610	14,619
Income tax expense (benefit)	3,823	(5,790)	5,954	4,625	3,811
Net income (loss)	$ 10,954	$ (21,468)	$ 16,139	$ 11,985	$ 10,808
Earnings (loss) per common share:					
Basic	$ 0.66	$ (1.30)	$ 0.96	$ 0.66	0.60
Diluted	$ 0.66	$ (1.30)	$ 0.93	$ 0.66	0.60

(1) Excludes loans held-for-sale.
(2) Includes retained earnings and accumulated other comprehensive income/loss.

	At or For the Year Ended December 31,				
	2023	2022	2021	2020	2019
Performance Ratios:					
Return (loss) on average assets	0.66%	(1.24)%	1.02%	0.89%	1.04%
Return (loss) on average equity	5.10%	(9.26)%	6.86%	5.05%	7.38%
Interest rate spread (1)	2.63%	4.34%	3.89%	3.93%	4.05%
Net interest margin (2)	3.71%	4.61%	4.06%	4.23%	4.44%
Efficiency ratio (3)	78.39%	64.07%	60.99%	61.72%	58.15%
Dividend payout ratio	—%	(9.26)%	15.86%	13.65%	—%
Average interest-earning assets to average interest-bearing liabilities	152.87%	199.92%	176.80%	165.71%	146.87%
Average equity to average assets	12.85%	13.43%	14.82%	17.58%	14.08%
Regulatory Capital Ratios:					
Total capital to risk weighted assets (bank	14.02%	12.62%	14.18%	14.60%	17.62%
Tier 1 capital to risk weighted assets (bank	12.77%	11.37%	12.93%	13.35%	16.37%
Tier 1 capital to average assets (bank only)	11.59%	11.17%	12.07%	12.37%	15.18%
Common equity tier 1 capital (bank only)	12.77%	11.37%	12.93%	13.35%	16.37%
Total capital to total assets (company)	13.29%	12.68%	13.52%	15.66%	20.59%
Asset Quality Ratios:					
Allowance for credit losses - loans as a of total loans (4)	1.61%	1.94%	1.34%	1.39%	1.42%
Allowance for credit losses - loans as a of non-performing loans	130.60%	102.51%	674.14%	341.72%	237.58%
Net charge-offs to average outstanding loans during the year	0.35%	3.24%	0.22%	0.08%	0.35%
Non-performing loans as a percentage of total loans (4)	1.23%	1.90%	0.20%	0.41%	0.60%
Non-performing loans as a percentage of total assets	0.99%	1.67%	0.17%	0.36%	0.52%
Total non-performing assets as a percentage of total assets	0.99%	2.04%	0.17%	0.36%	0.52%
Other:					
Number of offices	7	7	7	7	7
Number of full-time equivalent employees	192	203	175	158	139

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
(2) Represents net interest income as a percent of average interest-earning assets.
(3) Represents noninterest expense divided by the sum of net interest income and noninterest income, excluding gains on securities available-for-sale, net.
(4) Loans are presented at amortized cost before the allowance for credit losses.

Comparison of Financial Condition at December 31, 2023 and December 31, 2022

Results for the year ended December 31, 2023 reflect the Bank's continued focus on its revised business plan, increasing its commitment to traditional banking activities and reducing its exposure to areas with increased risk. In this regard, the Bank re-established metrics and limitations to better manage and monitor the Bank's overall risk position, including generally managing overall growth to 5% per year, and adopting more comprehensive capital management policies and procedures. The Bank was successful in its endeavors to implement business practices that better manage and monitor its risk position, including capital, liquidity, asset quality and growth segments. This success was evidenced by improved capital ratios, asset quality ratios and liquidity position as of December 31, 2023 when compared to December 31, 2022.

Assets. Total assets increased $33.9 million, or 2.1%, to $1.67 billion at December 31, 2023, compared to $1.64 billion at December 31, 2022, due primarily to an increase in cash and cash equivalents, partially offset by a decrease in net loans.

Cash and Cash Equivalents. Cash and cash equivalents increased $139.7 million, or 173.3%, to $220.3 million primarily due to an effort to improve our liquidity position as a result of market events, and to support certain deposit products that are subject to heightened volatility.

Loan Portfolio Analysis. At December 31, 2023, total loans were $1.34 billion, a decrease of $101.4 million, or 7.0%, when compared to $1.44 billion at December 31, 2022. The decrease in total loans was primarily driven by decreases in mortgage warehouse loans of $46.7 million, commercial loans of $40.8 million, and the digital asset loan portfolio of $28.5 million, partially offset by an increase in commercial real estate loans of $15.3 million. The decrease in total loans was primarily driven by a shift in strategy to decrease the overall risk profile of our loan portfolio by allowing attrition in our commercial business and enterprise value segments, reduced balances in our mortgage warehouse segment, as well as a concerted effort to reduce our exposure to digital assets lending. We plan to continue to focus our growth on more traditional lending segments, including commercial real estate, while decreasing or maintaining our levels in the commercial business and enterprise value portfolio segments. These efforts to reduce our risk profile also resulted in a reduction of our ACLL, primarily due to decreases in loan balances, diversifying our portfolio concentrations and the exiting of loans carrying individual reserves.

The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated, excluding loans held for sale.

	At December 31,					
	2023		2022		2021	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate (1)	$ 468,928	34.92 %	$ 453,592	31.41 %	$ 428,202	29.46 %
Commercial	176,124	13.12	216,931	15.02	239,736	16.50
Enterprise value	433,633	32.29	438,745	30.38	365,769	25.17
Digital asset	12,289	0.92	40,781	2.82	121,299	8.35
Residential real estate (2)	7,169	0.53	8,165	0.57	570	0.04
Construction and land development	77,851	5.80	72,267	5.00	42,553	2.93
Consumer	168	0.01	391	0.03	1,519	0.10
Mortgage warehouse	166,567	12.41	213,244	14.77	253,651	17.45
Total loans	1,342,729	100.00 %	1,444,116	100.00 %	1,453,299	100.00 %
Allowance for credit losses - loans	(21,571)		(28,069)		(19,496)	
Net Loans	$ 1,321,158		$ 1,416,047		$ 1,433,803	

(1) Includes multi-family loans.
(2) Includes home equity loans and lines of credit.

Loan Maturity. The following table sets forth certain information at December 31, 2023 regarding the contractual maturity of our loan portfolio. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table does not include any estimate of prepayments that could significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below.

(In thousands)	Commercial Real Estate	Commercial	Enterprise Value	Digital Asset	Residential Real Estate	Construction and Land Development	Consumer	Mortgage Warehouse	Total Loans
Amounts due in:									
One year or less	$ 32,839	$ 41,084	$ 27,353	$ 12,289	$ 13	$ 4,050	$ 168	$166,567	$ 284,363
More than one year to five years	29,331	50,220	263,337	—	191	26,817	—	—	369,896
More than five years through 15 years	137,326	68,800	142,943	—	3,330	32,908	—	—	385,307
More than 15 years	269,432	16,020	—	—	3,635	14,076	—	—	303,163
Total	$ 468,928	$ 176,124	$433,633	$ 12,289	$ 7,169	$ 77,851	$ 168	$166,567	$1,342,729

The following table sets forth our fixed and adjustable-rate loans at December 31, 2023 that are contractually due after December 31, 2024.

(In thousands)	Fixed Rates	Floating or Adjustable Rates	Total Due After December 31, 2024
Commercial real estate	$ 42,312	$ 393,777	$ 436,089
Commercial	35,460	99,580	135,040
Enterprise value	389,845	16,435	406,280
Residential real estate	1,961	5,195	7,156
Construction and land development	26,771	47,030	73,801
Total loans	$ 496,349	$ 562,017	$ 1,058,366

Asset Quality

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies, uniform underwriting criteria, and providing prompt attention to potential problem loans. Management of asset quality is accomplished through strong internal controls, monitoring and reporting of key risk indicators, and both internal and independent third-party loan reviews. The primary objective of our loan review process is to measure borrower performance and assess risk for the purpose of identifying loan weakness in order to minimize loan loss exposure. From the time of loan origination through final repayment, commercial real estate, enterprise value, construction and land development and commercial loans are assigned a risk rating. We use an internal loan grading system and formally review the ratings annually for most loans, in addition to independent third-party review.

Internal and independent third-party loan reviews vary by loan type and, depending on the size and complexity of the loan, some loans may warrant detailed individual review, other loans may have less risk, based upon size, or inclusion in a homogeneous pool, reducing the need for detailed individual analysis. Assets with these characteristics, such as consumer loans and residential mortgages, may be reviewed based on risk indicators such as delinquency or credit rating. In cases of significant concern, a total re-evaluation of a loan and its associated risks are documented. We may re-evaluate the fair market value or net realizable value to determine the likelihood of potential loss exposure and, consequently, the adequacy of specific and general credit loss reserves.

When a borrower fails to make a required loan payment, we take steps to have the borrower cure the delinquency and restore the loan to current status, including contacting the borrower at regular intervals. When the borrower is in default, we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the property securing the loan generally is sold at foreclosure. On a monthly and/or quarterly basis, management provides the Board of Directors delinquency reports and analysis, including information on any foreclosures, if applicable.

Delinquent Loans. The following tables set forth our loan delinquencies by type and amount at the dates indicated.

	At December 31,								
	2023			2022			2021		
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or more Past Due
Commercial real estate	$ 18,226	$ —	$ —	$ 240	$ —	$ 1	$ —	$ —	$ —
Commercial	5	100	1,813	—	—	41	13	111	1,362
Enterprise Value	3,348	—	—	—	—	92	—	—	491
Residential real estate	—	—	236	—	—	73	—	—	345
Consumer	2	3	4	—	9	—	15	11	—
Total	$ 21,581	$ 103	$ 2,053	$ 240	$ 9	$ 207	$ 28	$ 122	$ 2,198

The increase in delinquencies was primarily related to an increase in commercial real estate loan delinquencies, related to one relationship, which was briefly overdue as it was in the process of being modified at December 31, 2023.

Non-performing Assets. Non-performing assets include loans that are 90 or more days past due or on non-accrual status, including loans that have been modified due to the financial difficulty of the borrower, and real estate and other loan collateral acquired through foreclosure and repossession. The Company modifies loans to borrowers experiencing financial difficulty by providing the following types of modifications: principal forgiveness, other-than-insignificant payment delays, term extensions, interest rate reductions, or a combination of these modifications. All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at fair value less costs to sell, establishing a new cost basis. Declines in fair value subsequent to foreclosure will result in charges against income, while operating costs after acquisition are expensed.

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

	At December 31,		
(Dollars in thousands)	2023	2022	2021
Non-accrual loans:			
Commercial real estate	$ —	$ 56	$ —
Commercial	1,857	101	1,582
Enterprise value	1,991	92	491
Digital asset	12,289	26,488	—
Residential real estate	376	227	602
Consumer	4	—	—
Total non-accrual loans	16,517	26,964	2,675
Other repossessed assets	—	6,051	—
Total non-performing assets	$ 16,517	33,015	$ 2,675
Total loans (1)	$ 1,342,729	1,444,116	$ 1,453,299
Total assets	$ 1,670,309	1,636,381	$ 1,729,283
Total non-performing loans to total loans (1)	1.23%	1.87%	0.18%
Total non-performing assets to total assets	0.99%	2.02%	0.15%

(1) Loans are presented at amortized cost before the allowance for credit losses.

The decrease in our non-performing loans and changes in the related ratios were primarily due to a reduction in digital asset non-accrual balances at December 31, 2023, as compared to the prior year. This decline was primarily due to the cessation of any new lending in this segment and several large paydowns and payoffs as we actively worked to reduce our exposure.

Loans modified during 2023 to borrows experiencing financial difficulty totaled $29.9 million or 2.23% of total loans at December 31, 2023. See Note 4 – Loans and Allowance for Credit Losses for Loans of the Notes to the Consolidated Financial Statements for additional information. The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, there were no past due balances or subsequent defaults related to loans modified during the year, nor had the Company committed to lend any additional funds to borrowers experiencing financial difficulty whose loans had been modified during the year ended December 31, 2023.

Prior to the Company's adoption of ASU 2022-02 on January 1, 2023, loans were considered troubled debt restructuring ("TDRs") when the Company granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. There were no new TDRs entered into during the year ended December 31, 2022, and the total recorded investment as of that date was $20.4 million. There were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings as of December 31, 2022.

Potential Problem Loans. We classify certain commercial real estate, enterprise value, commercial, construction and land development, and digital asset loans as "special mention", "substandard", or "doubtful", based on criteria consistent with guidelines provided by our banking regulators. Certain potential problem loans represent loans that are currently performing, but for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in such loans becoming non-performing at some time in the future. Potential problem loans also include non-accrual or modified loans to borrowers experiencing financial difficulty presented above. We expect the levels of non-performing assets and potential problem loans to fluctuate in response to changing economic and market conditions, and the relative sizes of the respective loan portfolios, along with our degree of success in resolving problem assets.

Other potential problem loans are those loans that are currently performing, but possible credit problems of the borrowers could threaten their ability to comply with contractual loan repayment terms. At December 31, 2023, other potential problem loans totaled

$42.8 million, spanning six relationships, primarily in the commercial real estate and enterprise value portfolios. We perform continual credit monitoring on potential problem loans as part of our ongoing due diligence.

Allowance for Credit Losses for Loans. The allowance for credit losses on loans ("ACLL") represents management's estimate of expected credit losses over the expected contractual life of our loan portfolio. Determining the appropriateness of the ACLL is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the ACLL in those future periods.

The following table sets forth activity in our allowance for credit losses for loans for the years indicated.

	Year Ended December 31,		
(Dollars in thousands)	2023	2022	2021
Allowance at beginning of year	$ 28,069	$ 19,496	$ 18,518
Impact of adopting ASC 326	(2,588)	—	—
Provision for credit losses	863	56,428	3,887
Charge offs:			
Commercial real estate	1	—	150
Commercial	169	1,338	216
Enterprise value	4,788	351	2,764
Digital asset	—	46,350	—
Consumer	45	66	315
Total charge-offs	5,003	48,105	3,445
Recoveries:			
Commercial real estate	—	—	56
Commercial	160	131	133
Enterprise value	55	88	271
Residential real estate	5	—	2
Consumer	10	31	74
Total recoveries	230	250	536
Net charge-offs	4,773	47,855	2,909
Allowance at end of year	$ 21,571	$ 28,069	$ 19,496
Non-performing loans at end of year	$ 16,517	$ 26,964	$ 2,675
Total loans outstanding at end of year (1)	$ 1,342,729	$ 1,444,116	$ 1,453,299
Average loans outstanding during the year (1)	$ 1,348,425	$ 1,476,426	$ 1,320,160
Allowance to non-performing loans	130.60%	104.10%	728.82%
Allowance to total loans outstanding at end of the year	1.61%	1.94%	1.34%
Net charge-offs to average loans outstanding during the year	0.35%	3.24%	0.22%

(1) Loans are presented at amortized cost before the allowance for credit losses.

The decrease in the allowance of $6.5 million during 2023 was primarily driven by charge-offs on loans in the enterprise value portfolio which were previously reserved. The Bank also recorded an adjustment related to the adoption of ASC 326. The decrease in the allowance as a percentage of total loans was primarily driven by the reduction in digital asset lending.

The following tables set forth net (recoveries)/charge-offs to average loans outstanding during the year based on loan categories.

	For the Year Ended December 31,								
	2023			2022			2021		
(Dollars in thousands)	Average Balance	Net Charge-offs / (Recoveries)	% of Net Charge-offs/ (Recoveries) to Average Balance	Average Balance	Net Charge-offs	% of Net Charge-offs to Average Balance	Average Balance	Net Charge-offs / (Recoveries)	% of Net Charge-offs/ (Recoveries) to Average Balance
Commercial real estate	$ 436,858	$ 1	— %	$ 416,398	$ —	— %	$ 416,186	$ 94	0.02 %
Commercial	196,066	9	—	290,409	1,207	0.42	328,544	83	0.03
Enterprise value	437,476	4,733	1.08	373,213	263	0.07	251,407	2,493	0.99
Digital assets	20,805	—	—	112,883	46,350	41.06	32,092	—	—
Residential real estate	7,605	(5)	(0.07)	15,078	—	—	27,354	(2)	(0.01)
Construction and land development	88,236	—	—	64,172	—	—	35,305	—	—
Consumer	279	35	12.54	844	35	4.15	3,388	241	7.11
Mortgage warehouse	161,100	—	—	203,429	—	—	225,946	—	—

(1) Includes loans held for sale in 2022 and 2021; there were no loans held for sale in 2023.

Allocation of Allowance for Credit Losses for Loans. The following tables set forth the ACLL allocated by loan category. The ACLL allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2023		2022		2021	
(Dollars in thousands)	Allowance for Credit Losses	% of Loans in Category to Total Loans	Allowance for Credit Losses	% of Loans in Category to Total Loans	Allowance for Credit Losses	% of Loans in Category to Total Loans
Commercial real estate	$ 4,471	34.92 %	$ 5,062	31.41 %	$ 4,889	29.46 %
Commercial	2,493	13.12	3,582	15.02	5,371	16.50
Enterprise value	8,166	32.29	7,712	30.38	6,158	25.17
Digital assets	5,915	0.92	10,493	2.82	2,012	8.35
Residential real estate	75	0.53	43	0.57	38	0.04
Construction and land development	407	5.80	909	5.00	479	2.93
Consumer	2	0.01	55	0.03	168	0.10
Mortgage warehouse	42	12.41	213	14.77	381	17.45
Total allowance for credit losses	$ 21,571	100.00 %	$ 28,069	100.00 %	$ 19,496	100.00 %

More information regarding the Allowance for Credit Losses for Loans can be found in Note 2 – Accounting Policies of the Notes to the Consolidated Financial Statements.

Securities Portfolio

The following table sets forth the composition of our securities portfolio at the dates indicated.

	At December 31,					
	2023		2022		2021	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:						
State and municipal	$ 11,785	$ 11,400	$ 11,894	$ 11,071	$ 12,002	$ 12,591
Asset-backed	8,319	7,535	7,197	6,274	8,141	8,255
Government mortgage-backed	10,405	9,636	12,366	11,255	15,842	15,991
Total	$ 30,509	$ 28,571	$ 31,457	$ 28,600	$ 35,985	$ 36,837

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2023 are summarized in the following table. Certain mortgage-backed securities have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yields are calculated based on amortized cost and no tax-equivalent yield adjustments have been made, as the amount of tax-free interest-earning assets is immaterial.

	One Year or Less		More than One Year to Five		More than Five Years to Ten		More than Ten Years		Total		
(Dollars in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
Securities available-for-sale:											
State and municipal	$ 557	3.00%	$ 299	4.30%	$ 1,727	3.06%	$ 9,202	2.61%	$ 11,785	$11,400	2.73%
Asset-backed securities	—	—%	—	—%	6,218	2.31%	2,101	2.75%	8,319	7,535	2.42%
Government mortgage-backed securities	—	—%	603	1.73%	2,384	2.81%	7,418	2.85%	10,405	9,636	2.78%
Total	$ 557		$ 902		$ 10,329		$ 18,721		$ 30,509	$28,571	

Our portfolio of investment securities are all available for sale, and consist of state and municipal securities, asset-backed securities, and government mortgage-backed securities and are reported at fair value. More information regarding the security classifications can be found in Note 3 – Debt Securities of the Notes to the Consolidated Financial Statements.

Deposits

Total deposits increased $51.6 million, or 4.0%, to $1.33 billion at December 31, 2023 from $1.28 billion at December 31, 2022. The increase in deposits was primarily driven by listing service deposits, which were $136.8 million at December 31, 2023, compared to $7.0 million at December 31, 2022. This increased reliance on listing services and wholesale funding was in response to a decrease in core deposits of $98.4 million, or 9.5%. The Bank intends to re-engage with its retail footprint to enhance core deposit growth and mitigate its usage of wholesale funding.

The following tables set forth the distribution of total deposits by account type at the dates indicated.

	At December 31,					
	2023		2022		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Noninterest-bearing:						
Demand	$ 308,769	23.19%	$ 520,226	40.66%	$ 626,587	42.92%
Interest-bearing:						
NOW	93,812	7.05%	145,533	11.37%	197,884	13.55%
Regular savings	231,593	17.40%	141,802	11.08%	155,267	10.64%
Money market deposits	456,408	34.28%	318,417	24.89%	419,625	28.74%
Certificates of deposit	240,640	18.08%	153,604	12.00%	60,532	4.15%
Total	$ 1,331,222	100.00%	$ 1,279,582	100.00%	$ 1,459,895	100.00%

As of December 31, 2023, $180.0 million of our certificates of deposit were brokered certificates of deposit compared to $120.1 million and $20.2 million at December 31, 2022 and 2021, respectively. As of December 31, 2023 deposits totaling $480.4 million were in excess of the FDIC's $250,000 insurance limit but were insured in full through our participation in the Massachusetts Depositors Insurance Fund ("DIF").

As of December 31, 2023, the aggregate amount of all of our certificates of deposit in amounts greater than or equal to $250,000, which excludes all brokered certificates, was approximately $24.7 million, of which $22.9 million is set to mature in 2024. This shorter duration allows the Bank repricing optionality, to maximize the benefits of any potential easing in the funding environment in 2024. The following table sets forth the maturity of these certificates as of December 31, 2023.

Maturity Period	At December 31, 2023
	(In thousands)
Three months or less	$ 10,538
Over three through six months	4,381
Over six through twelve months	7,997
Over twelve months	1,764
Total	$ 24,680

Borrowings

Borrowings were $104.7 million and $126.8 million at December 31, 2023 and 2022, respectively. At December 31, 2023, advances from the FHLB consisted of overnight advances of $95.0 million and advances with original maturities greater than one year of $9.7 million. The interest rate on the overnight advance was 5.56% at December 31, 2023. The interest rates on FHLB long-term advances ranged from 1.21% to 1.32%, with a weighted average interest rate of 1.28% at December 31, 2023.

Shareholders' Equity

As of December 31, 2023, shareholders' equity was $221.9 million compared to $207.5 million at December 31, 2022, which represents an increase of $14.4 million, or 6.9%. The increase was primarily due to net income of $11.0 million. Shareholders' equity also increased due to stock-based compensation of $1.3 million, employee stock ownership plan shares earned of $785,000, and a one-time cumulative-effect adjustment of $696,000, net of taxes, for the adoption of CECL.

Average Balance Sheets and Related Yields and Rates

The following table sets forth average balance sheets, average yields and costs, and certain other information for the years indicated. No tax-equivalent yield adjustments have been made, as we consider 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 Year Ended December 31,								
	2023			2022			2021		
(Dollars in thousands)	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate	Average Balance	Interest Earned/ Paid	Yield/ Rate
Assets:									
Interest-earning assets:									
Loans (1)(2)	$ 1,348,425	$ 79,469	5.89%	$ 1,476,426	$ 77,253	5.23%	$1,320,222	$ 63,873	4.84%
Short-term investments	188,572	9,879	5.24%	118,726	1,277	1.08%	159,656	208	0.13%
Debt securities available-for-sale	27,576	769	2.79%	32,005	753	2.35%	34,022	708	2.08%
Federal Home Loan Bank stock	2,072	180	8.69%	1,667	44	2.64%	827	14	1.69%
Total interest-earning assets	1,566,645	90,297	5.76%	1,628,824	79,327	4.87%	1,514,727	64,803	4.28%
Non-interest earning assets	105,187			98,049			72,995		
Total assets	$ 1,671,832			$ 1,726,873			$1,587,722		
Interest-bearing liabilities:									
Savings accounts	$ 174,110	3,128	1.80%	$ 152,964	235	0.15%	$ 151,586	196	0.13%
Money market accounts	474,845	16,605	3.50%	341,324	1,968	0.58%	406,392	1,680	0.41%
Now accounts	111,809	767	0.69%	219,743	531	0.24%	162,618	416	0.26%
Certificates of deposit	223,585	10,089	4.51%	74,995	844	1.13%	122,619	793	0.65%
Total interest-bearing deposits	984,349	30,589	3.11%	789,026	3,578	0.45%	843,215	3,085	0.37%
Borrowings									
Short-term borrowings	27,018	1,314	4.86%	11,421	422	3.69%	3	—	—%
Long-term borrowings	13,442	223	1.66%	14,308	297	2.08%	13,500	285	2.11%
Total borrowings	40,460	1,537	3.80%	25,729	719	2.79%	13,503	285	2.11%
Total interest-bearing liabilities	1,024,809	32,126	3.13%	814,755	4,297	0.53%	856,718	3,370	0.39%
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	415,222			661,368			476,743		
Other noninterest-bearing liabilities	16,955			18,881			18,895		
Total liabilities	1,456,986			1,495,004			1,352,356		
Total equity	214,846			231,869			235,366		
Total liabilities and equity	$ 1,671,832			$ 1,726,873			$1,587,722		
Net interest income		$ 58,171			$ 75,030			$ 61,433	
Interest rate spread (3)			2.63%			4.34%			3.88%
Net interest-earning assets (4)	$ 541,836			$ 814,069			$ 658,009		
Net interest margin (5)			3.71%			4.61%			4.06%
Average interest-earning assets to interest-bearing liabilities	152.87%			199.92%			176.81%		

(1) Interest earned/paid on loans also includes $3.7 million, $4.3 million and $5.3 million in loan fee income for the years ended December 31, 2023, 2022, and 2021, respectively.
(2) Includes loans held for sale.
(3) Interest rate spread represents the difference between the weighted average yield on interest-bearing assets and the weighted average rate of interest-bearing liabilities.
(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(5) 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 effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume. There are no out-of-period adjustments excluded from the table below.

	Year Ended December 31, 2023 vs. 2022			Year Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
(In thousands)	Rate	Volume	(Decrease)	Rate	Volume	(Decrease)
Interest-earning assets:						
Loans	$ 9,258	$ (7,042)	$ 2,216	$ 5,458	$ 7,922	$ 13,380
Short-term investments	7,467	1,135	8,602	1,136	(67)	1,069
Debt securities available-for-sale	128	(112)	16	89	(44)	45
Federal Home Loan Bank stock	123	13	136	11	19	30
Total interest-earning assets	16,976	(6,006)	10,970	6,694	7,830	14,524
Interest-bearing liabilities:						
Savings accounts	2,856	37	2,893	37	2	39
Money market accounts	13,588	1,049	14,637	588	(300)	288
Now accounts	598	(362)	236	(24)	139	115
Certificates of deposit	5,575	3,670	9,245	437	(386)	51
Total interest-bearing deposits	22,617	4,394	27,011	1,038	(545)	493
Borrowings						
Short-term borrowings	168	724	892	2	420	422
Long-term borrowings	(57)	(17)	(74)	(5)	17	12
Total borrowings	111	707	818	(3)	437	434
Total interest-bearing liabilities	22,728	5,101	27,829	1,035	(108)	927
Change in net interest and dividend income	$ (5,752)	$ (11,107)	$ (16,859)	$ 5,659	$ 7,938	$ 13,597

Comparison of Results of Operations for the Years Ended December 31, 2023 and 2022

General. Net income for the year ended December 31, 2023 was $11.0 million, which represents a $32.5 million increase over the previous year. Interest and dividend income increased $11.0 million due to improved yields on our interest-earning assets but was more than offset by an increase of $27.8 million in interest expense. The decrease in credit loss expense of $57.1 million decrease for the year ended December 31, 2023 compared to the year ended December 31, 2022 was primarily driven by decreases in net charge-offs which were approximately $4.8 million for the year ended December 31, 2023 compared to $47.9 million for the year ended December 31, 2022.

Net Interest and Dividend Income. Net interest and dividend income was $58.2 million for the year ended December 31, 2023, a decrease of $16.9 million, or 22.5%, compared to the year ended December 31, 2022. This decrease included an increase in interest and dividend income of $11.0 million, or 13.8%, to $90.3 million for the year ended December 31, 2023, compared to $79.3 million for the year ended December 31, 2022. This was more than offset by an increase of $27.8 million, or 647.6% in interest expense to $32.1 million for the year ended December 31, 2023, compared to $4.3 million for the year ended December 31, 2022.

Interest and Dividend Income. Interest and dividend income increased $11.0 million, or 13.8%, to $90.3 million for the year ended December 31, 2023, from $79.3 million for the year ended December 31, 2022. The increase in interest and dividend income was primarily driven by the higher interest rate environment, which resulted in an increase in interest on short-term investments of $8.6 million, or 673.6%, and an increase in interest and fees on loans of $2.2 million, or 2.9%. The yield on short-term investments increased 385.19% to 5.24% for the year ended December 31, 2023, compared to 1.08% for the year ended December 21, 2022. The yield on loans increased 12.6% to 5.89% for the year ended December 31, 2023, compared to 5.23% for the year ended December 31, 2022. The increases in yields were partially offset by a decrease in the average balance of loans.

Interest Expense. Interest expense increased $27.8 million, or 647.6%, to $32.1 million for the year ended December 31, 2023, from $4.3 million for the year ended December 31, 2022. This increase was primarily due to increases in the cost and average balances of interest-bearing deposits. The cost of interest-bearing deposits increased 591.1% to 3.11% for the year ended December 31, 2023, compared to 0.45% for the year ended December 31, 2022. This increase was due to both the rising interest rate environment and a larger concentration of our portfolio in higher yield deposit products. The cost of borrowings increased 36.2% to 3.80% for the year ended December 31, 2023, compared to 2.79% for the year ended December 31, 2022.

Provision for Credit Losses. A credit loss benefit of $678,000 was recognized for the year ended December 31, 2023, based on the new expected loss model, compared to an expense of $56.4 million for the year ended December 31, 2022, which was based on the incurred loss model. The credit loss benefit recognized for the year ended December 31, 2023, was driven by a decrease in the reserve on unfunded commitments of $1.6 million. This decrease was the result of the early 2023 exiting of relationships that maintained $7.1 million in digital asset lines of credit. This benefit was offset by general loan provisions of $863,000. The provision of $56.4 million for the year ended December 31, 2022 were primarily related to the write-down of loans secured by cryptocurrency mining rigs. Net charge offs for the year ended December 31, 2023 totaled approximately $4.8 million and were predominantly related to our enterprise value portfolio, compared to net charge offs for the year ended December 31, 2022 which totaled approximately $47.9 million and were predominantly related to loans secured by cryptocurrency mining rigs.

Noninterest Income. Noninterest income information is as follows.

	Years Ended December 31,		Change	
(Dollars in thousands)	2023	2022	Amount	Percent
Customer service fees on deposit accounts	$ 3,658	$ 2,931	$ 727	24.8 %
Service charges and fees - other	1,825	1,770	55	3.1 %
Bank owned life insurance	1,120	1,046	74	7.1 %
Gains on loans sold, net	—	272	(272)	(100.0) %
Other income	458	130	328	252.3 %
Total noninterest income	$ 7,061	$ 6,149	$ 912	14.8 %

The increase in noninterest income was primarily due to implementation and activity fees related to our BaaS products of $1.2 million for the year ended December 31, 2023, compared to $278,000 for the year ended December 31, 2022.

Noninterest Expense. Noninterest expense information is as follows.

	Years Ended December 31,		Change	
(Dollars in thousands)	2023	2022	Amount	Percent
Salaries and employee benefits	$ 31,266	$ 31,737	$ (471)	(1.5) %
Occupancy expense	1,692	1,702	(10)	(0.6) %
Equipment expense	599	582	17	2.9 %
Deposit insurance	1,514	1,023	491	48.0 %
Data processing	1,545	1,374	171	12.4 %
Marketing expense	640	412	228	55.3 %
Professional fees	4,843	4,695	148	3.2 %
Directors' compensation	677	1,026	(349)	(34.0) %
Software depreciation and implementation	2,005	1,450	555	38.3 %
Insurance expense	1,804	1,791	13	0.7 %
Service fees	1,154	931	223	24.0 %
Other	3,394	5,286	(1,892)	(35.8) %
Total noninterest expense	$ 51,133	$ 52,009	$ (876)	(1.7) %

The decrease in noninterest expense was primarily due to decreases in salaries and employee benefits, directors' compensation and other, partially offset by increases in deposit insurance and software depreciation and implementation. Salaries and employee benefits decreased primarily due to an expense during the fourth quarter of 2022 related to an agreement between the Bank and the Company and their former President and Chief Executive Officer entered into upon his separation from employment. Directors' compensation decreased due to fewer directors in 2023 when compared to 2022. The decrease in other expenses was primarily due to expenses incurred in 2022 related to a write down of a Small Business Administration ("SBA") receivable in the first quarter of 2022, and elevated loan servicing expenses relating to loans secured by cryptocurrency mining rigs for the year ended December 31, 2022. Deposit insurance increased primarily due to an increase in the FDIC's insurance assessment rate schedules. Software depreciation and implementation expenses increased due to the implementation of new software to support business processes and product improvements.

Income Tax Provision. We recorded an income tax expense of $3.8 million for the year ended December 31, 2023, reflecting an effective tax rate of 25.9%, compared to a benefit of $5.8 million for the year ended December 31, 2022, reflecting an effective tax rate of (21.2%). The tax benefit for the year ended December 31, 2022 was related to the net loss that was recorded for that period.

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. Our assets, consisting primarily of loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and reduce the exposure of our net interest income to changes in market interest rates. We have established a management-level Asset/Liability Management Committee, which takes initial responsibility for developing an asset/liability management process and related procedures, establishing and monitoring reporting systems and developing asset/liability strategies. On at least a quarterly basis, the Asset/Liability Management Committee reviews asset/liability management with the Investment Asset/Liability Committee that has been established by the Board of Directors. This committee also reviews any changes in strategies as well as the performance of any specific asset/liability management actions that have been implemented previously. On a quarterly basis, an outside consulting firm provides us with detailed information and analysis as to asset/liability management, including our interest rate risk profile. Ultimate responsibility for effective asset/liability management rests with our Board of Directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk: originating loans with adjustable interest rates; promoting core deposit products; and adjusting the interest rates and maturities of funding sources, as necessary. In addition, we no longer originate single-family residential real estate loans, which often have longer terms and fixed rates. By following these strategies, we believe that we are better positioned to react to changes in market interest rates.

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 currently then calculate what the net interest income would be for the same period under the assumption that interest rates increase 100, 200, and 300 basis points from current market rates and under the assumption that interest rates decrease 100, 200, and 300 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 BankProv, calculated on a bank-only basis, that would result from changes in market interest rates over twelve-month periods beginning December 31, 2023 and 2022.

	At December 31,			
	2023		2022	
(Dollars in thousands)	Estimated Net Interest Income Over Next 12 Months	Change	Estimated Net Interest Income Over Next 12 Months	Change
Changes in Interest Rates (Basis Points)				
300	$ 47,002	(6.90)%	$ 56,084	(0.40)%
200	48,184	(4.50)	56,176	(0.20)
100	49,345	(2.20)	56,259	—
0	50,472	—	56,286	—
(100)	51,457	2.00	53,345	(5.20)
(200)	52,023	3.10	50,216	(10.80)
(300)	52,187	3.40	46,983	(16.50)

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, and 300 basis points from current market rates, and under the assumption that interest rates decrease 100, 200, and 300 basis points from current market rates.

The following table presents the estimated changes in EVE of BankProv, calculated on a bank-only basis, that would result from changes in market interest rates as of December 31, 2023 and 2022.

	At December 31,			
	2023		2022	
(Dollars in thousands)	Economic Value of Equity	Change	Economic Value of Equity	Change
Changes in Interest Rates (Basis Points)				
300	$ 255,339	(7.60)%	$ 290,408	(5.10)%
200	261,705	(5.30)	294,054	(3.90)
100	270,493	(2.20)	301,169	(1.60)
0	276,438	—	305,978	—
(100)	277,376	0.30	300,072	(1.90)
(200)	272,729	(1.30)	288,368	(5.80)
(300)	260,766	(5.70)	267,139	(12.70)

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, borrowings, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan 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 December 31, 2023, cash and cash equivalents totaled $220.3 million. Debt securities classified as available-for-sale, which provide additional sources of liquidity, totaled $28.6 million at December 31, 2023. Warehouse loans that have a short-term duration also provide additional sources of liquidity. The balance that meets the definition of a liquid assets totaled $131.7 million as of December 31, 2023.

At December 31, 2023, we had a borrowing capacity of $126.3 million with the Federal Home Loan Bank of Boston, of which $95.0 million in overnight advances and $9.7 million in advances with original maturities greater than one year were outstanding. At December 31, 2023, we also had an available line of credit with the Federal Reserve Bank of Boston's borrower-in-custody program of $282.4 million.

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

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. At December 31, 2023 and 2022, we had $8.6 million and $6.1 million in loan commitments outstanding, respectively. In addition to commitments to originate loans, at December 31, 2023 and 2022, we had $178.2 million and $347.7 million in unadvanced funds to borrowers, respectively. We also had $1.7 million in outstanding letters of credit at December 31, 2023 and 2022.

A significant decrease in deposits could result in the Company having to seek other sources of funds, including brokered certificates of deposit, listing service deposits, Federal Home Loan Bank of Boston advances, and borrowings through the borrower-in-custody program with the Federal Reserve Bank of Boston. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay. We believe, however, based on past experience that a significant portion of our deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Company maintains access to multiple sources of liquidity. If funding costs are elevated for an extended period of time, it could have an adverse effect on the Company's net interest margin. If an extended recession causes large numbers of the Company's deposit customers to withdraw their funds, the Company might become more reliant on volatile or more expensive sources of funding.

BankProv is subject to various regulatory capital requirements administered by Massachusetts Commissioner of Banks and the FDIC. At December 31, 2023, BankProv exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines. See Note 12 – Regulatory Matters of the Notes to the Consolidated Financial Statements for additional information.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements that are applicable to Provident Bancorp, Inc., see Note 2 of the Notes to the Consolidated Financial Statements.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data included in this Annual Report have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, including supplemental data, of Provident Bancorp, Inc. begin on page F-1 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 Senior Vice President, Finance, 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 December 31, 2023. Based on that evaluation, the Company's management, including the President and Chief Executive Officer and the Senior Vice President, Finance, concluded that the Company's disclosure controls and procedures were effective.

Management's Report Regarding Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such terms are defined in Rule 13a-15(f) of the Exchange Act of 1934. Our system of internal controls is designed to provide reasonable assurance that the financial statements that we provide to the public are fairly presented.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, (ii) provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Accordingly, absolute assurance cannot be provided that the effectiveness of the internal control systems may not become inadequate in future periods because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) was utilized. Based on this assessment, management believes that, as of December 31, 2023, the Company's internal control over financial reporting is effective at the reasonable assurance level.

The Annual Report on Form 10-K does not include an attestation report on the Company's internal control over financial reporting from the Company's independent registered public accounting firm due to the Company's status as a smaller reporting company.

Remediation of Previously Identified Material Weakness

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's Audit Committee, and subsequently the Board of Directors, reviewed, with the assistance of outside legal counsel who were independent of the underlying matters, the facts and circumstances relating to the Company's digital asset lending practices. In connection with this review, certain deficiencies in the Company's internal controls were identified, which, in management's opinion, when evaluated collectively, amounted to a material weakness in the Company's internal control over financial reporting initially reported as of September 30, 2022. This material weakness in the control environment stemmed from "tone at the top" issues that contributed to a control environment that was insufficiently tailored to monitoring of risks as it relates to the digital asset lending program. This material weakness was a result of weaknesses in the following:

- The precision of the design and maintenance of effective controls to sufficiently address risks pertaining to internal conflicts of interest related to the digital asset lending program; and,
- effective avenues of communication regarding certain relevant information to the Board of Directors of the Company, related to the digital asset lending program.

Remediation Efforts

Management has completed their efforts to remediate deficiencies that contributed to the material weakness initially identified as of September 30, 2022.

The following represents management's remediation plan and status:

1) The Company revised its three-year strategic plan as approved by its Board of Directors. The revised plan included the ceasing of any new loans secured by digital assets or cryptocurrency mining rigs. The Company effectively deployed this strategic plan with respect to loans secured by digital assets or cryptocurrency mining rigs as it did not originate any such new loans throughout 2023.

   The Company continues to monitor the remaining loan in the digital asset lending program, including communicating certain relevant information to the Board of Directors of the Company.

2) The Company developed and implemented an appropriate onboarding and ongoing monitoring process to identify and sufficiently address the related risks associated with internal conflicts of interest specific to the digital asset lending program.

3) The company designed and implemented enhanced procedures to identify and sufficiently address the annual review and disclosure to the Board of identified internal conflicts of interest as they relate to officers of the Company, and the timely disclosure to the Board of identified potential internal conflicts related to officers of the Company specific to the digital asset lending program.

The Company's remediation steps outlined above strengthened its internal control over financial reporting. As a result, management concluded that it had remediated the material weakness as of December 31, 2023.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts with respect to the material weakness as described above, there were no changes in the Company's internal control over financial reporting during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

During the three months ended December 31, 2023, none of our directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmation defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement".

ITEM 9C. DISLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the captions "Proposal 1—Election of Directors," "Information About Executive Officers," "Delinquent Section 16(a) Reports," "Corporate Governance—Code of Ethics for Senior Officers," "Nominating and Corporate Governance Committee Procedures—Procedures to be Followed by Stockholders," "Corporate Governance—Committees of the Board of Directors" and "—Audit Committee" is incorporated herein by reference.

A copy of the Code of Ethics is available to shareholders on the "Governance" portion of the Investor Relations' section on the Company's website at www.bankprov.com.

ITEM 11. EXECUTIVE COMPENSATION

The information in the Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the caption "Executive Compensation," "Director Compensation," and "Corporate Governance—Committees of the Board of Directors—Compensation Committee" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information in the Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the caption "Stock Ownership" is incorporated herein by reference.

Equity Compensation Plan Information

Th following table sets forth information regarding outstanding options and shares under equity compensation plans at December 31, 2023:

	Equity Compensation Plan Information		
	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Share-based Compensation Plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	1,188,763	$ 10.99	422,578
Equity compensation plans not approved by security holders	—	—	—
Total	1,188,763	$ 10.99	422,578

(1) Reflects weighted average price of stock options only

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the captions "Transactions with Certain Related Persons" and "Proposal 1 — Election of Directors" is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the Company's definitive Proxy Statement for the 2024 Annual Meeting of Stockholders under the captions "Proposal 2—Ratification of Independent Registered Public Accounting Firm—Audit Fees" and "—Pre-Approval of Services by the Independent Registered Public Accounting Firm" is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following documents are filed as part of this Form 10-K.

(i) Report of Independent Registered Public Accounting Firm

(ii) Consolidated Balance Sheets

(iii) Consolidated Statements of Operations

(iv) Consolidated Statements of Comprehensive (Loss) Income

(v) Consolidated Statements of Changes in Shareholders' Equity

(vi) Consolidated Statements of Cash Flows

(vii) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

3.1	Articles of Organization of Provident Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 of Provident Bancorp, Inc. (file no. 333-232018), initially filed with the Securities and Exchange Commission on June 7, 2019)
3.2	Bylaws of Provident Bancorp, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (file no. 333-232018), initially filed with the Securities and Exchange Commission on June 7, 2019)
3.3	Amendment to Bylaws of Provident Bancorp, Inc. (incorporated by reference to the Company's Current Report on Form 8-K (file no. 001-39090), filed with the Securities and Exchange Commission on March 29, 2021)
3.4	Amendment to Bylaws of Provident Bancorp, Inc. (incorporated by reference to the Company's Current Report on Form 8-K (file no. 001-39090), filed with the Securities and Exchange Commission on January 26, 2024)
4.1	Form of Common Stock Certificate of Provident Bancorp, Inc. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-1 (file no. 333-232018), initially filed with the Securities and Exchange Commission on June 7, 2019)
4.2	Description of registrant's securities (incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K of Provident Bancorp, Inc. for the year ended December 31, 2019, filed on March 13, 2020)
10.1	The Provident Bank Executive Annual Incentive Plan† (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 (file no. 333-202716), initially filed with the Securities and Exchange Commission on March 13, 2015)
10.2	The Provident Bank 2005 Amended and Restated Long-Term Incentive Plan† (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 of Provident Bancorp, Inc. (file no. 333-202716), initially filed with the Securities and Exchange Commission on March 13, 2015)
10.3	Provident Bancorp, Inc. 2016 Equity Incentive Plan† (incorporated by reference to Appendix A to the definitive proxy statement for the Special Meeting of Shareholders of Provident Bancorp, Inc. (File No. 001-37504), filed on August 9, 2016)
10.4	Form of Incentive Stock Option Award Agreement† (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 (File No. 333-214702), filed with the Securities and Exchange Commission on November 18, 2016)
10.5	Form of Non-Statutory Incentive Stock Option Award Agreement† (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 (File No. 333-214702), filed with the Securities and Exchange Commission on November 18, 2016)
10.6	Form of Restricted Stock Award Agreement† (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-8 (File No. 333-214702), filed with the Securities and Exchange Commission on November 18, 2016)
10.7	Provident Bancorp, Inc. 2020 Equity Incentive Plan (incorporated by reference to Appendix A to the proxy statement for the Special Meeting of Shareholders of Provident Bancorp, Inc. (file no. 001-39090), filed on October 19, 2020)
10.8	Form of Incentive Stock Option Award Agreement† (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 (File No. 333-250886), filed with the Securities and Exchange Commission on November 23, 2020)
10.9	Form of Non-Qualified Stock Options Award Agreement† (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 (File No. 333-250886), filed with the Securities and Exchange Commission on November 23, 2020)

10.10	Form of Restricted Stock Award Agreement† (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-8 (File No. 333-250886), filed with the Securities and Exchange Commission on November 23, 2020)
10.11	Employment Agreement with Joseph B. Reilly† (incorporated by reference to Exhibit 10.1to the Current Report on Form 8-K of Provident Bancorp, Inc. (File No. 001-37504), filed by the Company on February 21, 2023)
10.12	Amended and Restated Employment Agreement with Carol L. Houle† (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Provident Bancorp, Inc. (File No. 001-37514), filed by the Company on February 21, 2023)
10.13	Amended and Restated Employment Agreement with Joseph Mancini† (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Provident Bancorp, Inc. (File No. 001-37504), filed by the Company on February 21, 2023)
10.14	Standstill Agreement by and among Provident Bancorp, Inc., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P., Stilwell Value LLC, Joseph Stilwell and Dennis Pollack (incorporated by reference to Exhibit 10 to the Current Report on Form 8-K of Provident Bancorp, Inc. (File No. 001-37504), filed by the Company on October 31, 2023)
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 of Provident Bancorp, Inc. (file no. 333-232018), initially filed with the Securities and Exchange Commission on June 7, 2019)
23.1	Consent of Independent Registered Public Accounting Firm (Crowe LLP)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from Provident Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2023, filed on March 28, 2024, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive (Loss) Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

† Compensatory arrangements.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

PROVIDENT BANCORP, INC.

Date: March 28, 2024

/s/ Joseph B. Reilly
Joseph B. Reilly
President and Chief Executive Officer

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

Signatures	Title	Date
/s/ Joseph B. Reilly Joseph B. Reilly	President, Chief Executive Officer, and Director (Principal Executive Officer)	March 28, 2024
/s/ Kenneth R. Fisher Kenneth R. Fisher	Senior Vice President, Finance (Acting Principal Financial and Accounting Officer)	March 28, 2024
/s/ Julienne R. Cassarino Julienne R. Cassarino	Director	March 28, 2024
/s/ Kathleen Chase Curran Kathleen Chase Curran	Director	March 28, 2024
/s/ Frank G. Cousins, Jr. Frank G. Cousins, Jr.	Director	March 28, 2024
/s/ James A. DeLeo James A. DeLeo	Director	March 28, 2024
/s/ Lisa B. DeStefano Lisa B. DeStefano	Director	March 28, 2024
/s/ Laurie H. Knapp Laurie H. Knapp	Director	March 28, 2024
/s/ Barbara A. Piette Barbara A. Piette	Director	March 28, 2024
/s/ Dennis S. Pollack Dennis S. Pollack	Director	March 28, 2024
/s/ Arthur W. Sullivan Arthur W. Sullivan	Director	March 28, 2024

PROVIDENT BANCORP, INC. AND SUBSIDIARY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Provident Bancorp, Inc. and Subsidiary
Amesbury, Massachusetts

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Provident Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codifications No. 326, Financial Instruments – Credit Losses (Topic 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Allowance for Credit Losses for Loans – Qualitative Factors

As described in Notes 2 and 4, the allowance for credit losses for loans ("ACLL") is an accounting estimate of expected credit losses over the contractual life of financial assets carried at amortized cost. The Company has identified the ACLL as a critical accounting estimate.

Management employs a process and methodology to estimate the ACLL that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors involves pooling loans into portfolio segments for loans that share similar risk characteristics.

For all pooled loans except for Mortgage Warehouse, the Company utilizes a discounted cash flow ("DCF") methodology to estimate credit losses over the expected life of the loan. The Mortgage Warehouse portfolio utilizes a remaining life methodology. These quantitative factors are also supplemented by certain qualitative factors reflecting management's view of how losses may vary from those represented by quantitative rates. Qualitative factors considered by management include changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices; changes in the experience, depth, and ability of lending management; changes in the quality of the organization's loan review system; the existence and effect of any concentrations of credit and changes in the levels of such concentrations; and the effect of other external factors (i.e. legal and regulatory requirements) on the level of estimated credit losses. In addition, the mortgage warehouse pool includes a qualitative factor for changes in international, national, regional, and local conditions as the ACLL model for this loan pool does not apply an economic regression model in the calculation of the historical loss rate. Changes in these assumptions could have a material effect on the Company's financial results.

We considered auditing the qualitative factors to be a critical audit matter due to the significant judgment by management to determine the qualitative factors, which led to a high degree of auditor judgment, subjectivity and effort to evaluate the qualitative factors.
The primary procedures we performed to address this critical audit matter included:

- Substantively testing management's process to estimate the allowance for credit losses for loans qualitative factors calculation, including:
    - Evaluating the reasonableness of management's methodology for developing the qualitative factors.
    - Evaluating the relevance and reliability of the internal and external data utilized in the determination of the qualitative factors.
    - Testing the mathematical accuracy of the allowance for credit losses for loans calculation, including qualitative factors.
    - Evaluating the reasonableness of management's judgments and subjective measurements used in the qualitative factor calculation.

/s/ Crowe LLP

We have served as the Company's auditor since 2020.

Boston, Massachusetts
March 28, 2024

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

(Dollars in thousands)		At December 31, 2023		At December 31, 2022
Assets				
Cash and due from banks	$	22,200	$	42,923
Short-term investments		198,132		37,706
Cash and cash equivalents		220,332		80,629
Debt securities available-for-sale (at fair value)		28,571		28,600
Federal Home Loan Bank stock, at cost		4,056		4,266
Loans, net of allowance for credit losses of $21,571 and $28,069 as of December 31, 2023 and December 31, 2022, respectively		1,321,158		1,416,047
Bank owned life insurance		44,735		43,615
Premises and equipment, net		12,986		13,580
Other repossessed assets		—		6,051
Accrued interest receivable		6,090		6,597
Right-of-use assets		3,780		3,942
Deferred tax asset, net		14,461		16,793
Other assets		14,140		16,261
Total assets	$	1,670,309	$	1,636,381
Liabilities and Shareholders' Equity				
Deposits:				
Noninterest-bearing	$	308,769	$	520,226
Interest-bearing		1,022,453		759,356
Total deposits		1,331,222		1,279,582
Borrowings:				
Short-term borrowings		95,000		108,500
Long-term borrowings		9,697		18,329
Total borrowings		104,697		126,829
Operating lease liabilities		4,171		4,282
Other liabilities		8,317		18,146
Total liabilities		1,448,407		1,428,839
Shareholders' equity:				
Preferred stock; authorized 50,000 shares: no shares issued and outstanding		—		—
Common stock, $0.01 par value, 100,000,000 shares authorized; 17,677,479 and 17,669,698 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively		177		177
Additional paid-in capital		124,129		122,847
Retained earnings		106,285		94,630
Accumulated other comprehensive loss		(1,496)		(2,200)
Unearned compensation - ESOP		(7,193)		(7,912)
Total shareholders' equity		221,902		207,542
Total liabilities and shareholders' equity	$	1,670,309	$	1,636,381

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

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2023 and 2022

	Year Ended	
(Dollars in thousands, except per share data)	December 31, 2023	December 31, 2022
Interest and dividend income:		
Interest and fees on loans	$ 79,469	$ 77,253
Interest and dividends on debt securities available-for-sale	949	797
Interest on short-term investments	9,879	1,277
Total interest and dividend income	90,297	79,327
Interest expense:		
Interest on deposits	30,589	3,578
Interest on short-term borrowings	1,314	422
Interest on long-term borrowings	223	297
Total interest expense	32,126	4,297
Net interest and dividend income	58,171	75,030
Credit loss (benefit) expense - loans	863	56,409
Credit loss (benefit) expense - off-balance sheet credit exposures	(1,541)	19
Total credit loss (benefit) expense	(678)	56,428
Net interest and dividend income after credit loss (benefit) expense	58,849	18,602
Noninterest income:		
Customer service fees on deposit accounts	3,658	2,931
Service charges and fees - other	1,825	1,770
Bank owned life insurance income	1,120	1,046
Gain on loans sold, net	—	272
Other income	458	130
Total noninterest income	7,061	6,149
Noninterest expense:		
Salaries and employee benefits	31,266	31,737
Occupancy expense	1,692	1,702
Equipment expense	599	582
Deposit insurance	1,514	1,023
Data processing	1,545	1,374
Marketing expense	640	412
Professional fees	4,843	4,695
Directors' compensation	677	1,026
Software depreciation and implementation	2,005	1,450
Insurance expense	1,804	1,791
Service fees	1,154	931
Other	3,394	5,286
Total noninterest expense	51,133	52,009
Income (loss) before income tax expense (benefit)	14,777	(27,258)
Income tax expense (benefit)	3,823	(5,790)
Net income (loss)	$ 10,954	$ (21,468)
Earnings (Loss) per share:		
Basic	$ 0.66	$ (1.30)
Diluted	$ 0.66	$ (1.30)
Weighted Average Shares:		
Basic	16,586,180	16,482,623
Diluted	16,594,685	16,482,623

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

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2023 and 2022

(In thousands)	2023	2022
Net income (loss)	$ 10,954	$ (21,468)
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period on debt securities available-for-sale	919	(3,709)
Unrealized gain (loss)	919	(3,709)
Income tax effect	(215)	860
Total comprehensive income (loss)	704	(2,849)
Comprehensive income (loss)	$ 11,658	$ (24,317)

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

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022

(In thousands, except share data)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unearned Compensation ESOP	Total
Balance, December 31, 2021	17,854,649	179	123,498	118,087	649	(8,631)	233,782
Net loss	—	—	—	(21,468)	—	—	(21,468)
Dividends declared ($0.12 per share) net of forfeitures	—	—	—	(1,989)	—	—	(1,989)
Other comprehensive loss	—	—	—	—	(2,849)	—	(2,849)
Stock-based compensation expense, net of forfeitures	—	—	1,854	—	—	—	1,854
Restricted stock award grants net of forfeitures	(9,673)	—	—	—	—	—	—
Repurchase of common stock	(180,434)	(2)	(2,858)	—	—	—	(2,860)
Stock options exercised, net	17,904	—	(108)	—	—	—	(108)
Shares surrendered related to tax withholdings on restricted stock awards	(12,748)	—	(113)	—	—	—	(113)
ESOP shares earned	—	—	574	—	—	719	1,293
Balance, December 31, 2022	17,669,698	177	122,847	94,630	(2,200)	(7,912)	207,542
Cumulative effect of change in accounting principle **(Note 4)**	—	—	—	696	—	—	696
Balance at January 1, 2023 (as adjusted for change in accounting principle)	17,669,698	177	122,847	95,326	(2,200)	(7,912)	208,238
Net income	—	—	—	10,954	—	—	10,954
Dividends forfeited	—	—	—	5	—	—	5
Other comprehensive income	—	—	—	—	704	—	704
Stock-based compensation expense, net of forfeitures	—	—	1,308	—	—	—	1,308
Restricted stock award grants, net of forfeitures	7,421	—	—	—	—	—	—
Stock options exercised, net	8,783	—	(18)	—	—	—	(18)
Shares surrendered related to tax withholdings on restricted stock awards	(8,423)	—	(74)	—	—	—	(74)
ESOP shares earned	—	—	66	—	—	719	785
Balance, December 31, 2023	17,677,479	$ 177	$ 124,129	$ 106,285	$ (1,496)	$ (7,193)	$ 221,902

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

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

(In thousands)	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 10,954	$ (21,468)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of securities, net of accretion	158	186
ESOP expense	785	1,293
Change in deferred loan fees, net	(1,259)	1,700
(Benefit) provision for credit losses	(678)	56,428
Depreciation and amortization	1,095	1,100
Net (Gain) loss on other repossessed assets	(145)	26
Decrease (increase) in accrued interest receivable	507	(894)
Deferred tax expense (benefit)	1,868	(5,976)
Share-based compensation expense	1,308	1,854
Bank-owned life insurance income	(1,120)	(1,046)
Principal repayments of operating lease liabilities	(111)	(105)
Gain on loans sold, net	—	(272)
Net decrease (increase) in other assets	2,121	(11,348)
Net (decrease) increase in other liabilities	(9,931)	427
Net cash provided by operating activities	5,552	21,905
Cash flows from investing activities:		
Purchase of available-for-sale securities	(1,817)	—
Proceeds from pay downs, maturities and calls of debt securities available-for-sale	2,607	4,342
Redemption (purchase) of Federal Home Loan Bank stock	210	(3,481)
Loan principal collections net of originations	97,873	(61,104)
Proceeds from loan sales	—	30,839
Proceeds from other repossessed asset sales	6,196	3,777
Proceeds from principal repayments on loans held for sale	—	2,560
Additions to premises and equipment	(339)	(262)
Write down of other repossessed assets	—	597
Write down of other assets and receivables	—	395
Net cash provided by (used in) investing activities	104,730	(22,337)

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

PROVIDENT BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2023 and 2022

(In thousands)	2023	2022
Cash flows from financing activities:		
Net decrease in noninterest-bearing accounts	(211,457)	(106,361)
Net increase (decrease) in interest-bearing accounts	263,097	(73,952)
Net cash dividends forfeited (paid) on common stock	5	(1,989)
Payments from exercise of stock options, net	(18)	(108)
Net change in short-term borrowings	(13,500)	108,500
Proceeds from Federal Home Loan Bank long-term advances	—	4,840
Repayments of Federal Home Loan Bank long-term advances	(8,632)	(11)
Shares surrendered related to tax withholdings on restricted stock awards	(74)	(113)
Repurchase of common stock	—	(2,860)
Net cash provided by (used in) financing activities	29,421	(72,054)
Net increase (decrease) in cash and cash equivalents	139,703	(72,486)
Cash and cash equivalents at beginning of year	80,629	153,115
Cash and cash equivalents at end of year	$ 220,332	$ 80,629
Supplemental disclosures:		
Interest paid	$ 31,988	$ 4,278
Income taxes paid	163	5,156
Reclassification of loans held for sale to loans held for investment	—	9,599
Loans transferred to other repossessed assets	—	10,451

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

NOTE 1 — NATURE OF OPERATIONS

Provident Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in 2019 whose primary purpose is to act as the holding company for BankProv (the "Bank"). The Bank, headquartered in Amesbury, Massachusetts, operates its business from its main office in Amesbury, Massachusetts, as well as two branch offices in the Northeastern Massachusetts area, three branch offices in Southeastern New Hampshire and one branch located in Bedford, New Hampshire. The Bank also has a loan production office in Ponte Vedra, Florida. The Bank's primary deposit products are checking, savings, and term certificate accounts and its primary lending products are commercial real estate, commercial, and mortgage warehouse loans. BankProv is a Massachusetts-chartered stock savings bank that offers both traditional and technology-driven banking solutions to its consumer and commercial customers.

The Bank's primary lending and deposit-gathering area encompasses the Seacoast Region of Northeastern Massachusetts and Southeastern New Hampshire. However, we also receive deposits from business customers who are located nationwide in addition to our enterprise value and mortgage warehouse loans which are offered nationwide. We attract deposits from the general public and use those funds to originate primarily commercial real estate and commercial business loans, and to invest in securities. The Company believes that it does not have any significant loan concentrations or investment securities in any one industry or with any customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

NOTE 2 — ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting.

Use of Estimates

To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Basis of Presentation

The consolidated financial statements include the accounts of Provident Bancorp, Inc., its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiaries, Provident Security Corporation, 5 Market Street Security Corporation, and Prov 1, LLC. Provident Security Corporation and 5 Market Street Security Corporation were established to buy, sell, and hold investments for their own account. Prov 1, LLC was established to engage in any lawful act or activity for which limited liability companies may be organized. A certificate of cancellation was executed for Prov 1, LLC in 2023. All material intercompany balances and transactions have been eliminated in consolidation.

Reclassification

Certain amounts in the prior year have been reclassified to be consistent with the current year's consolidated financial statement presentation. The reclassifications had no effect on the net income reported in the consolidated statements of operations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits with other financial institutions with maturities fewer than 90 days. Net cash flows are reported for customer loan and deposit transactions and interest-bearing deposits in other financial institutions.

Debt Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Debt securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent or if full collection of interest or principal becomes uncertain. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There were no debt securities on non-accrual status and therefore there was no accrued interest related to debt securities reversed against interest income for the year ended December 31, 2023 or December 31, 2022.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of Boston (the "FHLB"), the Bank is required to invest in $100 par value stock of the FHLB. The FHLB capital structure mandates that members own stock as determined by their Total Stock Investment Requirement, which is the sum of a member's Membership Stock Investment Requirement and Activity-Based Stock Investment Requirement. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses for loans. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred loan fees and costs. Accrued interest receivable totaled $5.9 million and $6.4 million at December 31, 2023 and December 31, 2022, respectively, and was included in accrued interest receivable on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. Interest income is accrued on unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using either the level-yield or straight-line method without anticipating prepayments.

Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on non-accrual status, unless secured by sufficient cash or other assets immediately convertible to cash. Residential real estate loans are generally placed on non-accrual status when reaching 90 days past due. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on non-accrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Occasionally, the Company modifies loans to borrowers experiencing financial difficulty by providing the following modifications: principal forgiveness, other-than-insignificant payment delays, term extensions, interest rate reductions, or a combination of these modifications. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses on loans.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

Allowance for Credit Losses

Allowance for Credit Losses - Loans

The allowance for credit losses for loans ("ACLL") is a valuation account that is deducted from the amortized cost basis of the loans to present the net amount expected to be collected. Loans are charged-off against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance and do not exceed the aggregate of amounts previously charged-off.

The Company employs a process and methodology to estimate the ACLL that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors involves pooling loans into portfolio segments for loans that share similar risk characters.

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 can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, can have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

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, can have an effect on the credit quality in this segment.

Enterprise value: Loans in this segment are made to small- and medium-size businesses in a senior secure position and are generally secured by the enterprise value of the business. The enterprise value consists of the going concern value of the business and takes into account the value of business assets (both tangible and intangible). Repayment is expected from the cash flows of the business. Economic and industry specific conditions can have an effect on the credit quality of this segment.

Digital asset: We no longer originate digital asset loans. Loans in this segment were made to businesses in the digital asset space and are generally secured by digital asset mining equipment or by the United States dollar value of digital currency assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, resultant decreased consumer spending as well as decreases in the value of digital currency can have an effect on the credit quality of this segment.

Residential real estate: 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. We no longer originate residential real estate loans, and previously we did not typically originate loans with a loan-to-value ratio greater than 80% or grant subprime loans. Loans with loan to value ratios greater than 80% required the purchase of private mortgage insurance.

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, the accuracy of estimates of the value of the property upon completion, time to sell at an adequate price, and market conditions.

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

Mortgage warehouse: Loans in this segment are primarily facility lines to non-bank mortgage origination companies. The underlying collateral of these loans are residential real estate loans. Loans are originated by the mortgage companies for sale into secondary markets, which is typically within 15 days of the loan closing, with the exception of construction loans which generally take longer to pay off due to the nature of the loan. The primary source of repayment is the cash flow upon the sale of the loans. The credit risk associated with this type of lending is the risk that the mortgage companies are unable to sell the loans.

Management estimates the ACLL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as portfolio mix, delinquency levels, or term as well as for changes in economic conditions, such as changes in unemployment rates, property values, gross domestic product (“GDP”), home pricing index (“HPI”), or other relevant factors. Incorporated in the estimate for the ACLL is consideration of qualitative factors, which include the following for all loan pools:

- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices.
- Changes in the experience, depth, and ability of lending management.
- Changes in the quality of the organization’s loan review system.
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations.
- The effect of other external factors (i.e., legal and regulatory requirements) on the level of estimated credit losses.

In addition to the above, the mortgage warehouse pool includes a qualitative factor for changes in international, national, regional, and local conditions as the ACLL model for this loan pool does not apply an economic regression model in the calculation of the historical loss rate. The determination of qualitative factors involves significant judgment.

The allowance for unfunded commitments is maintained at a level by the Company to be sufficient to absorb expected lifetime losses related to unfunded credit facilities (including unfunded loan commitments and letters of credit).

The Company measures the ACLL using the following methods:

Portfolio Segment	Measurement Method	Loss Driver
Commercial real estate	Discounted cash flow	National unemployment rate, national GDP
Commercial	Discounted cash flow	National unemployment rate, national GDP
Enterprise value	Discounted cash flow	National unemployment rate, national GDP
Digital asset	Discounted cash flow	National unemployment rate, national GDP
Residential real estate	Discounted cash flow	National unemployment rate, national HPI
Construction and land development	Discounted cash flow	National unemployment rate, national GDP
Consumer	Discounted cash flow	National unemployment rate, national GDP
Mortgage warehouse	Remaining life method	Not applicable

When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

When the remaining life method is used to determine the allowance for credit losses, a calculated loss rate is applied to the pool of loans based on the remaining life expectation of the pool. The remaining life expectation is based on management's reasonable expectation at the reporting date.

Loans that do not share risk characteristics, whether or not they are performing in accordance with their loan terms, are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. The Company will individually evaluate a loan 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 making this determination include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Insignificant payment delays and payment shortfalls generally are not considered reason enough to individually analyze a loan. 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. When management determines that a loan should be individually analyzed, expected credit losses are based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

Allowance for Credit Losses – Available-For-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through a provision for credit losses charged to earnings. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $192,000 at December 31, 2023 and is excluded from the estimate of credit losses.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies are reflected in noninterest income on the consolidated statements of operations and are not subject to income taxes.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation on building and leasehold improvements is calculated primarily using the straight-line method with useful lives of seven to 40 years. Furniture and fixtures are depreciated using the straight-line method with useful lives of one to 15 years. Computer equipment is also depreciated using the straight-line method with useful lives ranging from one to five years.

Other Real Estate Owned and Repossessed Assets

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

Qualified Affordable Housing Project Investments

The Bank invests in qualified affordable housing projects. At December 31, 2023 and 2022, the balance of the investment for qualified affordable housing projects was $6.1 million and $7.3 million, respectively. These balances are reflected in the other assets line on the Consolidated Balance Sheets. Amortization expense was $717,000 and $1.0 million and net tax benefits were $880,000 and $1.3 million related to the years ending December 31, 2023, and December 31, 2022, respectively.

Revenue Recognition

Revenue from contracts with customers in the scope of Accounting Standards Codification (“ASC”) (“Topic 606”) is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue from contracts with customers when it satisfies its performance obligations.

The Company’s performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements.

The Company recognizes revenue that is transactional in nature and such revenue is earned at a point in time. Revenue that is recognized at a point in time includes card interchange fees (fee income related to debit card transactions), ATM fees, wire transfer fees, overdraft charge fees, and stop-payment and returned check fees. Additionally, revenue is collected from loan fees, such as letters of credit, line renewal fees and application fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer’s transaction.

Leases

The Company determines if an arrangement is a lease at inception. Lease right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are generally accounted for separately.

Earnings (Loss) per Share

Basic earnings (loss) per common share is net income (loss) divided by the weighted average number of common shares outstanding during the period. BankProv Employee Stock Ownership Plan (the “ESOP”) shares are considered outstanding for this calculation unless unallocated. Diluted earnings (loss) per common share is computed in a manner similar to that of basic earnings (loss) 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 are not deemed outstanding for earnings (loss) per share calculations. Earning, losses, and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements, if applicable.

Employee Stock Ownership Plan

Compensation expense for the ESOP is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair value of the shares during the period. The Company recognizes compensation expense ratably over the year based upon the Company’s estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of shareholders’ equity on the consolidated balance sheets. The difference between the average fair value and the cost of the shares by the ESOP is recorded as an adjustment to additional paid-in-capital.

Stock-Based Compensation Plans

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the award. The Company's accounting policy is to recognize forfeitures as they occur.

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 the Company's 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.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination.

For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on debt securities available-for-sale which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to fund loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been legally isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Recent Accounting Pronouncements

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance-sheet ("OBS") credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Accounting Standards Codification ("ASC") 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and OBS credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company reported a net increase to retained earnings of $696,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment included a $2.6 million increase to retained earnings to adjust the allowance for credit losses on loans based on the new methodology offset by a decrease to retained earnings of $1.6 million to adjust the allowance for credit losses on OBS credit exposures based on the new methodology and a $249,000 decrease to retained earnings to account for the net tax impact of these adjustments.

The following table illustrates the impact of ASC 326:

	January 1, 2023		
(In thousands)	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Commercial real estate	$ 4,317	$ 5,062	$ (745)
Commercial	2,871	3,582	(711)
Enterprise value	7,442	7,712	(270)
Digital asset	10,336	10,493	(157)
Residential real estate	61	43	18
Construction and land development	396	909	(513)
Consumer	4	55	(51)
Mortgage warehouse	54	213	(159)
Allowance for credit loss on loans	25,481	28,069	(2,588)
Liabilities:			
Allowance for credit losses on off balance sheet credit exposures	1,864	221	1,643

Also on January 1, 2023, the Company adopted ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02")*, which eliminates the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310-40 and amends guidance on "vintage disclosures" to required disclosures of current-period gross write-offs by year of origination. The ASC also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan modifications for borrowers experiencing financial difficulty.

The Company adopted ASU 2022-02, using the modified retrospective approach, with no material impact to the financial statements. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2022-02 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

In March 2020, the FASB issued *ASU No. 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04")*, to ease the potential burden in accounting for recognizing the effects of reference rate reform on financial reporting. Such challenges include the accounting and operational implications for contract modifications and hedge accounting. The provisions in ASU 2020-04 provide optional expedients and exceptions for applying GAAP to loan and lease agreements, contracts, hedging relationships, and other transactions affected by reference rate reform. These provisions apply to contract modifications that reference LIBOR or another reference rate expected to be discounted because of reference rate reform. Qualifying modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification would be considered "minor" so that any existing unamortized deferred loan origination fees and costs would carry forward and continue to be amortized. Qualifying modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for hedge accounting.

ASU 2020-04 was effective as of March 12, 2020 through December 31, 2022, with adoption permitted as of any date from the beginning of an interim period that included or was subsequent to March 12, 2020, or prospectively from a date within an interim period that included or was subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected, the amendments must be applied prospectively for all eligible contract modifications. The Company selected the Secured Overnight Financing Rate ("SOFR") as its primary alternative to LIBOR and also used alternative reference rates, based on the individual needs of its customers and the type of credit being extended, when necessary. Legacy LIBOR-based loans transitioned to an alternative reference rate on or before June 30, 2023. The adoption of ASU 2020-04 did not result in a material impact to the Company's Consolidated Financial Statements.

In December 2023, the FASB issued *ASU No. 2023-09, Income Taxes (Topic 740) – Improvements to Income Tax Disclosures (“ASU 2023-09")*, to enhance the transparency and decision usefulness of income tax disclosures. ASU 2023-09 requires annual disclosure of specific categories in the rate reconciliation table and separate disclosure for reconciling items that exceed a quantitative threshold. ASU 2023-09 also requires annual disclosure of the amount of income taxes paid disaggregated by federal, state, and foreign taxes, and separately, the amount of income taxes paid disaggregated by individual taxing jurisdictions in which income taxes paid exceed a quantitative threshold. ASU 2023-09 is effective for the Company for fiscal years beginning after December 15, 2024 with early adoption permitted. The Company will update its income tax disclosures upon adoption.

NOTE 3 — DEBT SECURITIES

The following table summarizes the amortized cost, allowance for credit losses, and fair value of debt securities available-for-sale at December 31, 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
December 31, 2023					
State and municipal	$ 11,785	$ 14	$ 399	$ —	$ 11,400
Asset-backed securities	8,319	—	784	—	7,535
Government mortgage-backed securities	10,405	—	769	—	9,636
Total debt securities available-for-sale	$ 30,509	$ 14	$ 1,952	—	$ 28,571

The following table summarizes the amortized cost and fair value of debt securities available-for-sale at December 31, 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
State and municipal	$ 11,894	$ 2	$ 825	$ 11,071
Asset-backed securities	7,197	—	923	6,274
Government mortgage-backed securities	12,366	—	1,111	11,255
Total debt securities available-for-sale	$ 31,457	$ 2	$ 2,859	$ 28,600

There were no realized gains or losses on sales and calls of securities during the year ended December 31, 2023 or 2022.

The scheduled maturities of debt securities at December 31, 2023 are summarized in the table below. Actual maturities of asset and mortgage-backed securities may differ from contractual maturities because the assets and mortgages underlying the securities may be repaid without any penalties. Because asset- and mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value
Due in one year	$ 557	$ 547
Due after one year through five years	299	300
Due after five years through ten years	1,727	1,734
Due after ten years	9,202	8,819
Government mortgage-backed securities	10,405	9,636
Asset-backed securities	8,319	7,535
	$ 30,509	$ 28,571

At December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with carrying amounts of $8.1 million and $9.8 million were pledged to secure available borrowings with the Federal Home Loan Bank at December 31, 2023 and 2022, respectively.

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by major security type and length in a continuous loss position:

	Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Temporarily impaired securities:						
State and municipal	$ —	$ —	$ 7,269	$ 399	$ 7,269	$ 399
Asset-backed securities	1,802	16	5,733	768	7,535	784
Government mortgage-backed securities	—	—	9,574	769	9,574	769
Total temporarily impaired debt securities	$ 1,802	$ 16	$ 22,576	$ 1,936	$ 24,378	$ 1,952
December 31, 2022						
Temporarily impaired securities:						
State and municipal	$ 8,174	$ 183	$ 2,297	$ 642	$ 10,471	$ 825
Asset-backed securities	2,322	182	3,951	741	6,274	923
Government mortgage-backed securities	7,428	474	3,827	637	11,255	1,111
Total temporarily impaired debt securities	$ 17,924	$ 839	$ 10,075	$ 2,020	$ 28,000	$ 2,859

The Company expects to recover its amortized cost basis on all debt securities. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell these securities in an unrealized loss position as of December 31, 2023, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position were not other-than-temporarily impaired at December 31, 2023:

State and municipal securities: At December 31, 2023, 10 of the 19 securities in the Company's portfolio of state and municipal securities were in unrealized loss positions. Aggregate unrealized losses represented 3.4% of the amortized cost of state and municipal securities in unrealized loss positions. The Company continually monitors the state and municipal securities sector of the market and periodically evaluates the appropriate level of exposure to the market. At this time, the Company believes the securities in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying downgrades during the quarter. All securities are performing.

Asset-backed securities: At December 31, 2023, all five of the securities in the Company's portfolio of asset-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 9.4% of the amortized cost of asset-backed securities in unrealized loss positions. The U.S. Small Business Administration ("SBA") guarantees the contractual cash flows of all of the Company's asset-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

Government mortgage-backed securities: At December 31, 2023, 31 of the 32 securities in the Company's portfolio of government mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 7.4% of the amortized cost of government mortgage-backed securities in unrealized loss positions. The Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Government National Mortgage Association ("GNMA") guarantee the contractual cash flows of all of the Company's mortgage-backed securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES FOR LOANS

A summary of loans is as follows:

(In thousands)	December 31, 2023	December 31, 2022
Commercial real estate	$ 468,928	$ 453,592
Commercial	176,124	216,931
Enterprise value	433,633	438,745
Digital asset (1)	12,289	40,781
Residential real estate	7,169	8,165
Construction and land development	77,851	72,267
Consumer	168	391
Mortgage warehouse	166,567	213,244
	1,342,729	1,444,116
Allowance for credit losses - loans	(21,571)	(28,069)
Net loans	$ 1,321,158	$ 1,416,047

(1) Includes $12.3 million and $26.5 million in loans secured by cryptocurrency mining rigs at December 31, 2023 and 2022, respectively.

The following table presents the activity in the allowance for credit losses for loans by portfolio segment for the year ended December 31, 2023 and 2022:

(In thousands)	Commercial Real Estate	Commercial	Enterprise Value	Digital asset	Residential Real Estate	Construction and Land Development	Consumer	Mortgage Warehouse	Total
Balance at December 31, 2022	$ 5,062	$ 3,582	$ 7,712	$ 10,493	$ 43	$ 909	$ 55	$ 213	$ 28,069
Impact of adopting ASC 326	(745)	(711)	(270)	(157)	18	(513)	(51)	(159)	(2,588)
Charge-offs	(1)	(169)	(4,788)	—	—	—	(45)	—	(5,003)
Recoveries	—	160	55	—	5	—	10	—	230
Provision (credit)	155	(369)	5,457	(4,421)	9	11	33	(12)	863
Balance at December 31, 2023	$ 4,471	$ 2,493	$ 8,166	$ 5,915	$ 75	$ 407	$ 2	$ 42	$ 21,571
Balance at December 31, 2021	$ 4,889	$ 5,371	$ 6,158	$ 2,012	$ 38	$ 479	$ 168	$ 381	$ 19,496
Charge-offs	—	(1,338)	(351)	(46,350)	—	—	(66)	—	(48,105)
Recoveries	—	131	88	—	—	—	31	—	250
Provision (credit)	173	(582)	1,817	54,831	5	430	(78)	(168)	56,428
Balance at December 31, 2022	$ 5,062	$ 3,582	$ 7,712	$ 10,493	$ 43	$ 909	$ 55	$ 213	$ 28,069

At December 31, 2023 and 2022, loans with an aggregate principal balance of $458.7 million and $365.7 million, respectively, were pledged to secure possible borrowings from the Federal Reserve Bank of Boston (the "FRB"), and loans with an aggregate principal balance of $190.5 million and $172.1 million, respectively, were pledged to secure possible borrowings from the FHLB.

The following table presents loan delinquencies by portfolio segment at December 31, 2023 and 2022:

(In thousands)	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total Loans
December 31, 2023						
Commercial real estate	$ 18,226	$ —	$ —	$ 18,226	$ 450,702	$ 468,928
Commercial	5	100	1,813	1,918	174,206	176,124
Enterprise value	3,348	—	—	3,348	430,285	433,633
Digital asset	—	—	—	—	12,289	12,289
Residential real estate	—	—	236	236	6,933	7,169
Construction and land development	—	—	—	—	77,851	77,851
Consumer	2	3	4	9	159	168
Mortgage warehouse	—	—	—	—	166,567	166,567
Total	$ 21,581	$ 103	$ 2,053	$ 23,737	$ 1,318,992	$ 1,342,729
December 31, 2022						
Commercial real estate	$ 240	$ —	$ 1	$ 241	$ 453,351	$ 453,592
Commercial	—	—	41	41	216,890	216,931
Enterprise value	—	—	92	92	438,653	438,745
Digital asset	—	—	—	—	40,781	40,781
Residential real estate	—	—	73	73	8,092	8,165
Construction and land development	—	—	—	—	72,267	72,267
Consumer	—	9	—	9	382	391
Mortgage warehouse	—	—	—	—	213,244	213,244
Total	$ 240	$ 9	$ 207	$ 456	$ 1,443,660	$ 1,444,116

The following table presents the amortized cost basis of loans on non-accrual and loans past due over 89 days but still accruing as of December 31, 2023 and 2022:

(In thousands)	Non-accrual With No Allowance for Credit Loss	Non-accrual Loans	90 Days or More Past Due and Accruing
December 31, 2023			
Commercial	$ 1,857	$ 1,857	$ —
Enterprise value	—	1,991	—
Digital asset	—	12,289	—
Residential real estate	—	376	—
Consumer	—	4	—
Total	$ 1,857	$ 16,517	$ —
December 31, 2022			
Commercial real estate	$ 56	$ 56	$ —
Commercial	101	101	—
Enterprise value	92	92	—
Digital asset	—	26,488	—
Residential real estate	(70)	227	—
Total	$ 179	$ 26,964	$ —

The Company did not recognize interest income on non-accrual loans during the year ended December 31, 2023, and 2022, respectively.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

(In thousands)	Commercial Real Estate	Business Assets	Cryptocurrency Mining Rigs and Other (1)
Commercial real estate	$ 19,693	$ —	$ —
Commercial	—	1,652	—
Enterprise value	—	1,991	—
Digital asset	—	—	12,289
	$ 19,693	$ 3,643	$ 12,289

(1) Other collateral includes the United States dollar value of Bitcoin held in control accounts, an interest in a joint venture partnership, as well as cash accounts held at the Bank.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers experiencing financial difficulty as compared to the amortized cost basis of each class of financing receivable is also presented below.

(Dollars in thousands)	Principal Forgiveness	Other-Than-Insignificant Payment Delay	Term Extension	Interest Rate Reduction	Term Extension and Interest Rate Reduction	Total Class of Financing Receivable $	Total Class of Financing Receivable %
December 31, 2023							
Commercial	$ —	$ —	$ —	$ —	$ 17	$ 17	0.01 %
Enterprise value	—	17,586	—	—	—	17,586	4.06
Digital asset	—	—	12,289	—	—	12,289	100.00
Total	$ —	$ 17,586	$ 12,289	$ —	$ 17	$ 29,892	2.23 %

The Company has not committed to lend any additional funds to borrowers experiencing financial difficulty whose loans had been modified during the year ended December 31, 2023.

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Weighted-Average Payment Delay	Weighted-Average Term Extension	Weighted-Average Term Extension and Interest Rate Reduction	
	Months	Months	Months	Percentage
December 31, 2023				
Commercial	—	—	4	3.25 %
Enterprise value	4	—	—	— %
Digital asset	—	3	—	— %

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, there were no past due balances or subsequent defaults related to loans modified during the year ended December 31, 2023.

Prior to the Company's adoption of ASU 2022-02 on January 1, 2023 (see Note 2 for additional information), loans were considered TDRs when the Company granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions could include deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt could be bifurcated with separate terms for each tranche of the restructured debt.

There were no new TDRs entered into during the year ended December 31, 2022. The total recorded investment in TDRs was $20.4 million at December 31, 2022, of which $20.0 million were commercial real estate loans, $154,000 were residential loans, $115,000 were commercial loans and $92,000 were enterprise value loans. There were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings as of December 31, 2022.

Credit Quality Information

The Company utilizes a seven grade internal loan rating system for commercial real estate, commercial, enterprise value, digital asset, construction and land development, and mortgage warehouse 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, commercial, enterprise value, digital asset, and construction and land development loans.

On an annual basis, or more often if needed, the Company completes a credit recertification on all mortgage warehouse originators.

For residential real estate loans, the Company initially assesses credit quality based upon the borrower's ability to pay and rates such loans as pass. Ongoing monitoring is based upon the borrower's payment activity.

Consumer loans are not formally rated.

Based on the most recent analysis performed, the risk category of loans by class of loans and their corresponding gross write offs for the year ended December 31, 2023 is as follows:

	Term Loans at Amortized Cost by Origination Year								
(In thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost	Revolving Loans Converted to Term Loans	Total
Commercial Real Estate									
Pass	$ 35,966	$ 50,608	$ 107,593	$ 30,236	$ 59,578	$ 132,219	$ 19,617	$ —	$ 435,817
Special mention	—	—	—	—	2,898	3,373	—	—	6,271
Substandard	—	—	—	1,048	4,436	21,356	—	—	26,840
Total commercial real estate	35,966	50,608	107,593	31,284	66,912	156,948	19,617	—	468,928
Commercial real estate									
Current period gross write offs	—	—	1	—	—	—	—	—	1
Commercial									
Pass	6,398	14,000	48,922	13,233	16,491	22,483	37,920	28	159,475
Special mention	—	—	—	—	—	9,932	2,674	—	12,606
Substandard	—	—	205	—	1,815	1,798	225	—	4,043
Total commercial	6,398	14,000	49,127	13,233	18,306	34,213	40,819	28	176,124
Commercial									
Current period gross write offs	—	—	—	—	102	67	—	—	169
Enterprise Value									
Pass	85,412	97,942	119,126	48,427	23,186	3,346	16,026	—	393,465
Special mention	—	11,768	4,838	2,424	753	3,001	1,619	—	24,403
Substandard	1,991	790	1,464	1,870	1,595	—	8,055	—	15,765
Total enterprise value	87,403	110,500	125,428	52,721	25,534	6,347	25,700	—	433,633
Enterprise value									
Current period gross write offs	—	3,561	—	2	—	1,225	—	—	4,788
Digital Asset									
Substandard	—	12,289	—	—	—	—	—	—	12,289
Total digital asset	—	12,289	—	—	—	—	—	—	12,289
Digital asset									
Current period gross write offs	—	—	—	—	—	—	—	—	—
Residential Real Estate									
Pass	—	—	—	5	179	3,183	2,579	871	6,817
Substandard	—	—	—	—	—	284	68	—	352
Total residential real estate	—	—	—	5	179	3,467	2,647	871	7,169
Residential real estate									
Current period gross write offs	—	—	—	—	—	—	—	—	—

Construction and Land Development									
Pass	3,701	54,925	17,015	—	—	1,429	781	—	77,851
Total construction and land development	3,701	54,925	17,015	—	—	1,429	781	—	77,851
Construction and land development									
Current period gross write offs	—	—	—	—	—	—	—	—	—
Consumer									
Not formally rated	—	—	—	—	—	121	45	2	168
Total consumer	—	—	—	—	—	121	45	2	168
Consumer									
Current period gross write offs	30	—	—	—	—	15	—	—	45
Mortgage Warehouse									
Pass	—	—	—	—	—	—	166,567	—	166,567
Total mortgage warehouse	—	—	—	—	—	—	166,567	—	166,567
Mortgage warehouse									
Current period gross write offs	—	—	—	—	—	—	—	—	—

The following table presents the Company's loans by risk rating and portfolio segment at December 31, 2022:

(In thousands)	Commercial Real Estate	Commercial	Enterprise Value	Digital Asset	Residential Real Estate	Construction and Land Development	Consumer	Mortgage Warehouse	Total
December 31, 2022									
Grade:									
Pass	$ 399,455	$ 202,895	$ 408,616	$ 4,724	$ 7,938	$ 72,267	$ —	$ 213,244	$ 1,309,139
Special mention	26,995	11,015	20,091	9,569	—	—	—	—	67,670
Substandard	27,141	2,854	9,946	26,488	227	—	—	—	66,656
Doubtful	—	165	92	—	—	—	—	—	257
Loss	1	2	—	—	—	—	—	—	3
Not formally rated	—	—	—	—	—	—	391	—	391
Total	$ 453,592	$ 216,931	$ 438,745	$ 40,781	$ 8,165	$ 72,267	$ 391	$ 213,244	$ 1,444,116

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $17.3 million and $20.6 million at December 31, 2023 and 2022, respectively.

Certain directors and executive officers of the Company and companies in which they have significant ownership interests were customers of the Bank during 2023. The following is a summary of the loans to such persons and their companies at December 31, 2023 and 2022:

(In thousands)		
Beginning balance, January 1, 2022	$	18,586
Advances		12,105
Principal payments		(12,434)
Loans transferred/sold		(25)
Ending balance, December 31, 2022	$	18,232
Beginning balance, January 1, 2023	$	18,232
Advances		—
Principal payments		(35)
Loans from retired directors		(2,369)
Ending balance, December 31, 2023	$	15,828

NOTE 5 — PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2023 and 2022:

(In thousands)		December 31, 2023		December 31, 2022
Land	$	2,424	$	2,424
Buildings		13,874		13,851
Furniture and equipment		5,530		5,241
Leasehold improvements		3,552		3,526
		25,380		25,042
Accumulated depreciation and amortization		(12,394)		(11,462)
Premises and equipment, net	$	12,986	$	13,580

Depreciation and amortization expense was $932,000 and $940,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 6 — DEPOSITS

The following is a summary of deposit balances by type at December 31, 2023 and 2022:

(Dollars in thousands)		At December 31, 2023		At December 31, 2022
Noninterest-bearing:				
Demand	$	308,769	$	520,226
Interest-bearing:				
NOW		93,812		145,533
Regular savings		231,593		141,802
Money market deposits		456,408		318,417
Certificates of deposit:				
Certificate accounts of $250,000 or more		24,680		11,449
Certificate accounts less than $250,000		215,960		142,155
Total interest-bearing		1,022,453		759,356
Total deposits	$	1,331,222	$	1,279,582

At December 31, 2023 and 2022, the aggregate amount of brokered certificates of deposit was $180.0 million and $120.1 million, respectively. Brokered certificates of deposit are not included in the totals for certificates of deposit in denominations over $250,000 listed above.

At December 31, 2023, the scheduled maturities for certificate accounts for each of the following five years are as follows:

(In thousands)		
2024	$	233,263
2025		7,002
2026		133
2027		171
2028		71
Total	$	240,640

Deposits from related parties held by the Company at December 31, 2023 and 2022 amounted to $1.4 million and $11.9 million, respectively.

NOTE 7 — OTHER REPOSSESSED ASSETS

During 2022, the Company repossessed cryptocurrency mining rigs in exchange for the forgiveness of a loan relationship. The repossessed cryptocurrency mining rigs were reported as other repossessed assets at their fair value less costs to sell. These other repossessed assets were subsequently accounted for at lower of cost or fair value less estimated costs to sell. The estimates and assumptions that went into the valuation of the repossessed cryptocurrency mining rigs held as repossessed assets, were based on market data and sales reported by the company.

Activity related to other repossessed assets, which consists of cryptocurrency mining rigs, was as follows:

	2023		2022	
(In thousands)	Amount		Amount	
Balance at January 1,	$	6,051	$	—
Loans transferred to other repossessed assets		—		10,451
Net gain (loss) on sale of other repossessed assets		145		(26)
Sales of other repossessed assets		(6,196)		(3,777)
		—		6,648
Valuation allowance/provisions charged to expense		—		(597)
Net balance of other repossessed assets at December 31,	$	—	$	6,051

Activity in the valuation allowance was as follows:

	Year Ended December 31,			
(In thousands)	2023		2022	
Beginning balance	$	597	$	—
Provisions charged to expense		—		597
Reductions from sales of other repossessed assets		(597)		—
Ending balance	$	—	$	597

NOTE 8 — BORROWINGS

At December 31, 2023 and 2022, advances consist of funds borrowed from the FHLB and the FRB borrower-in-custody ("BIC") program. Maturities of advances from the FHLB and FRB for years ending after December 31, 2023 and 2022 are summarized as follows:

(In thousands)	2023
2024	$ 95,134
2025	5,136
2026	138
2027	139
2028	141
Thereafter	4,009
Total	$ 104,697

(In thousands)	2022
2023	$ 117,132
2024	134
2025	5,136
2026	138
2027	139
Thereafter	4,150
Total	$ 126,829

Borrowings from the FHLB are secured by qualified collateral, consisting primarily of certain commercial real estate loans, qualified mortgage-backed government securities and certain loans with mortgages secured by one- to four-family properties. At December 31, 2023, borrowings from the FHLB consisted of overnight advances of $95.0 million and advances with original maturities more than one year of $9.7 million. The interest rate on the overnight advance was 5.56% at December 31, 2023. The interest rates on FHLB long-term advances ranged from 1.21% to 1.32%, with a weighted average interest rate of 1.28% at December 31, 2023. At December 31, 2023, the Company had the ability to borrow $126.3 million from the FHLB, of which $104.7 was outstanding as of that date.

At December 31, 2022, borrowings from the FHLB consisted of short-term borrowings, with original maturities of less than one year, totaling $89.0 million and long-term borrowings, with original maturities more than one year, totaling $18.3 million. The interest rate on FHLB short-term borrowings was 4.38% at December 31, 2022. The interest rates on FHLB long-term advances ranged from 1.21% to 3.01%, with a weighted average interest rate of 1.91% at December 31, 2022. At December 31, 2022, the Company had the ability to borrow $118.2 million from the FHLB.

Borrowings from the FRB BIC program are secured by a Uniform Commercial Code financing statement on qualified collateral, consisting of certain commercial loans. There were no outstanding FRB borrowings at December 31, 2023, and as of that date the Company had the ability to borrow $282.4 million. At December 31, 2022, FRB borrowings consisted of overnight borrowings totaling $19.5 million and had an interest rate of 4.50%. At December 31, 2022, the Company had the ability to borrow $153.3 million from the FRB.

NOTE 9 — INCOME TAXES

The components of income tax expense are as follows for the years ended December 31, 2023 and 2022:

(In thousands)	2023	2022
Current tax (benefit) expense:		
Federal	$ 1,755	$ 267
State	200	(81)
	1,955	186
Deferred tax benefit:		
Federal	652	(4,785)
State	602	(1,191)
Rate Change	614	—
	1,868	(5,976)
Income tax expense	$ 3,823	$ (5,790)

The following is a summary of the differences between the statutory federal income tax rate and the effective tax rates for the years ended December 31, 2023 and 2022:

	2023	2022
Federal income tax at statutory rate	21.0 %	(21.0) %
Increase (decrease) in tax resulting from:		
State tax, net of federal tax benefit	5.2	(3.7)
Tax exempt income and dividends received deduction	(0.5)	(0.3)
Stock compensation	1.2	(0.3)
Bank owned life insurance	(1.6)	0.8
State rate change	4.1	(0.6)
Federal credits	(3.3)	—
Other	(0.2)	3.9
Effective tax rate	25.9 %	(21.2) %

The following is a summary of the Company's gross deferred tax assets and gross deferred tax liabilities at December 31, 2023 and 2022:

(In thousands)	2023	2022
Deferred tax assets:		
Allowance for credit losses - loans	$ 5,638	$ 7,646
Net operating loss carryforward	3,558	3,785
Employee benefit plans and share-based compensation plans	1,059	2,238
Deferred loan fees, net	1,190	1,583
Write down of other assets and receivables	105	109
Depreciation	84	82
Reserve for unfunded commitments	85	60
Net unrealized gain on securities	442	657
General business credit carryover	1,282	—
Other	1,097	701
Gross deferred tax assets	14,540	16,861
Deferred tax liabilities:		
Depreciation	—	—
Prepaid expenses	(79)	(68)
Net unrealized holding gain on securities	—	—
Gross deferred tax liabilities	(79)	(68)
Net deferred tax asset	$ 14,461	$ 16,793

The Company reduces the deferred tax asset by a valuation allowance if, based on the weight of the available evidence, it is not "more likely than not" that some portion or all of the deferred tax assets will be realized. The Company assesses the realizability of its deferred tax assets by assessing the likelihood of the Company generating federal and state income tax, as applicable, in future periods in amounts sufficient to offset the deferred tax charges in the periods they are expected to reverse. Based on this assessment, management concluded that a valuation allowance was not required as of December 31, 2023 or 2022.

At December 31, 2023, the Company had federal net operating loss carryforwards of approximately $14.8 million, which do not expire. The Company also had state net operating loss carryforwards of approximately $8.9 million, of which approximately $2.0 million do not expire, and the remaining $6.9 million expire at various dates from 2027 to 2042.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2023 and 2022, there was no material uncertain tax positions related to federal and state income tax matters. The Company is generally not subject to examination by the Internal Revenue Service and state taxing authorities under applicable statutes of limitations for years prior to 2020.

NOTE 10 — EMPLOYEE BENEFITS & STOCK-BASED COMPENSATION PLANS

401(k) Plan

The Company sponsors a 401(k) plan. All employees are eligible to join the 401(k) plan. A Safe Harbor Plan was adopted by the Company effective January 1, 2007. Under the Safe Harbor Plan, the Company matches 100% of employee contributions up to 6% of compensation. In addition, the Company may make a discretionary contribution to the 401(k) plan determined on an annual basis. Employees may contribute a percentage of their annual compensation, on a pre-tax or after-tax basis, as defined under the 401(k) Plan, up to 100% of eligible compensation subject to the maximum amount allowable under the provisions of the Internal Revenue Code ("IRC"). Prior to March 1, 2021, participants could contribute up to 75% of eligible compensation subject to the maximum amount allowable under the provisions of the IRC. The expense recognized under the 401(k) plan was $1.2 million and $1.1 million for the years ended December 31, 2023 and 2022, respectively, and is included in salaries and employee benefits expense.

Supplemental Executive Retirement Plans

The Company has Supplemental Executive Retirement Agreements with certain executive officers. These agreements are designed to supplement the benefits available through the Company's retirement plan. The liability for the retirement benefits amounted to $802,000 and $8.5 million at December 31, 2023 and 2022, respectively, and is included in other liabilities. The expense recognized for these benefits was $123,000 and $1.8 million for the years ended December 31, 2023 and 2022, respectively, and is included in salaries and employee benefits expense.

Employee Stock Ownership Plan

The Bank established an ESOP to provide eligible employees the opportunity to own Company stock. The plan is a tax-qualified plan for the benefit of all eligible Bank employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax law limits. The ESOP acquired 1,538,868 shares between the initial and second-step stock offerings with the proceeds of a loan totaling $11.8 million. The loan is payable annually over 15 years at a rate per annum equal to 5.00%. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid. The number of shares committed to be released per year through 2033 is 89,758.

Shares held by the ESOP include the following:

	December 31, 2023	December 31, 2022
Allocated	551,530	461,772
Committed to be allocated	89,758	89,758
Unallocated	897,580	987,338
Total	1,538,868	1,538,868

The fair value of unallocated shares was approximately $9.0 million at December 31, 2023.

Total compensation expense recognized for the years ended December 31, 2023 and 2022 was $786,000 and $1.3 million, respectively.

Stock-Based Compensation Plan

The shareholders of the Company approved the Provident Bancorp, Inc. 2020 Equity Incentive Plan (the "2020 Equity Plan") on November 23, 2020, which is in addition to the Provident Bancorp, Inc. 2016 Equity Incentive Plan (the "2016 Equity Plan," collectively with the 2020 Equity Plan, the "Equity Plans"). Under the Equity Plans 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 Plans, with 902,344 and 1,021,239 shares reserved for options under the 2016 Equity Plan and 2020 Equity Plan, respectively. The exercise price of each option equals the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The total number of shares reserved for restricted stock or restricted units is 360,935 and 408,495 under the 2016 Equity Plan and 2020 Equity Plan, respectively. The value of restricted stock grants is based on the market price of the stock on grant date. Options and awards vest ratably over 3 to 5 years. The Company has elected to recognize forfeitures of awards as they occur.

Expense related to options and restricted stock granted to directors is recognized as directors' fees 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:

- Expected volatility is based on historical volatility of the Company's common stock price.
- 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 dividend yield assumption is based on the Company's expectation of dividend payouts.
- 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.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	2023	2022
Vesting period (years)	5	5
Expiration date (years)	10	10
Expected volatility	36.56%	33.47%
Expected life (years)	7.5	7.5
Expected dividend yield	1.67%	1.01%
Risk free interest rate	3.45%	2.63%
Fair value per option	$3.58	$5.82

A summary of the status of the Company's stock option grants for the year ended December 31, 2023 is presented in the table below:

	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	1,467,876	$ 11.00		
Granted	158,100	9.55		
Forfeited	(55,200)	14.62		
Expired	(155,448)	11.78		
Exercised	(226,565)	8.61		
Outstanding at December 31, 2023	1,188,763	$ 10.99	6.12	$ 488,000
Outstanding and expected to vest at December 31, 2023	1,188,763	$ 10.99	6.12	$ 488,000
Vested and Exercisable at December 31, 2023	684,789	$ 10.41	4.77	$ 426,000
Unrecognized compensation cost	$ 1,665,000			
Weighted average remaining recognition period (years)	2.98			

Total expense for the stock options was $645,000 and $864,000 for the years ended December 31, 2023 and 2022, respectively. The intrinsic value of options exercised was $98,000 and $431,000 million for the years ended December 31, 2023 and 2022, respectively. The tax benefit from option exercises was $27,000 and $103,000 for the years ended December 31, 2023 and 2022, respectively.

Restricted Stock

Shares issued upon the granting of restricted stock may come from 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 Plans. The fair market value of shares awarded, based on the market prices at the date of grant, is recognized as compensation expense over the applicable vesting period.

The following table presents the activity in restricted stock awards under the Equity Plans for the year ended December 31, 2023:

	Number of Shares	Weighted Average Grant Price
Unvested restricted stock awards at December 31, 2022	192,748	$ 13.16
Granted	29,515	9.55
Forfeited	(22,094)	14.62
Vested	(54,248)	12.75
Unvested restricted stock awards at December 31, 2023	145,921	$ 12.37
Unrecognized compensation cost	$ 1,579,000	
Weighted average remaining recognition period (years)	2.71	

Total expense for the restricted stock awards was $663,000 and $990,000 for the years ended December 31, 2023 and 2022, respectively. The tax benefit from restricted awards was $194,000 and $277,000 for the years ended December 31, 2023 and 2022, respectively. The total fair value of shares vested during the years ended December 31, 2023 and 2022 was $500,000 and $662,000, respectively.

NOTE 11 — EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share represents income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed in a manner similar to that of basic earnings (loss) 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 are not deemed outstanding for earnings (loss) per share calculations.

(Dollars in thousands, except per share dollar amounts)	December 31, 2023	December 31, 2022
Net Income (Loss) attributable to common shareholders	$ 10,954	$ (21,468)
Average number of common shares issued	17,684,844	17,765,372
Less:		
Average unallocated ESOP shares	(938,526)	(1,028,283)
Average unvested restricted stock	(160,139)	(254,466)
Average number of common shares outstanding to calculate basic earnings per common share	16,586,180	16,482,623
Effect of dilutive unvested restricted stock and stock option awards	8,505	—
Average number of common shares outstanding to calculate diluted earnings per common share	16,594,685	16,482,623
Earnings (Loss) per common share:		
Basic	$ 0.66	$ (1.30)
Diluted	$ 0.66	$ (1.30)

Stock options for 906,552 shares of common stock were not considered in computing diluted earnings per common share for the year ended December 31, 2023 because they were anti-dilutive, meaning the exercise price for such options were higher than the average price for the Company for such period. Diluted earnings per share for the year ended December 31, 2022 was equal to the basic earnings per share due to the Company's net loss position.

NOTE 12 — REGULATORY MATTERS

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.

The Bank is subject to capital regulations that require a 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. 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%. As of December 31, 2023 and 2022, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

Applicable regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. At December 31, 2023, the Bank exceeded the regulatory requirement for the capital conservation buffer.

Federal banking agencies have established a community bank leverage ratio ("CBLR") framework for community banking organizations having total consolidated assets of less than $10 billion, having a leverage ratio of greater than 9%, and satisfying other criteria, such as limitations on the amount of off-balance sheet exposures and on trading assets and liabilities. A community banking organization that qualifies for and elects to use the CBLR framework and that maintains a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies' generally applicable capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for federal law. As of December 31, 2023, the Bank has not opted into the CBLR framework.

The Bank's actual capital amounts and ratios at December 31, 2023 and 2022 are summarized as follows:

	Actual Capital		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total Capital (to Risk Weighted Assets)	$ 212,992	14.02 %	$ 121,525	≥ 8.0 %	$ 151,907	≥ 10.0 %
Tier 1 Capital (to Risk Weighted	193,968	12.77	91,144	> 6.0	121,525	> 8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	193,968	12.77	68,358	≥ 4.5	98,739	≥ 6.5
Tier 1 Capital (to Average Assets)	193,968	11.59	66,924	≥ 4.0	83,655	≥ 5.0
December 31, 2022						
Total Capital (to Risk Weighted Assets)	$ 204,354	12.62 %	$ 129,492	≥ 8.0 %	$ 161,865	≥ 10.0 %
Tier 1 Capital (to Risk Weighted	184,025	11.37	97,119	≥ 6.0	129,492	≥ 8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	184,025	11.37	72,839	≥ 4.5	105,212	≥ 6.5
Tier 1 Capital (to Average Assets)	184,025	11.17	65,916	≥ 4.0	82,395	≥ 5.0

Liquidation Accounts

Upon the completion of the Company's initial stock offering in 2015 and the second-step offering in 2019, liquidation accounts were established for the benefit of certain depositors of the Bank in amounts equal to:

1. The product of (i) the percentage of the stock issued in the initial stock offering in 2015 to persons other than Provident Bancorp, the top tier mutual holding company ("MHC") of the Company and (ii) the net worth of the mid-tier holding company as of the date of the latest balance sheet contained in the prospectus utilized in connection with the offering.
2. The MHC's ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the 2019 prospectus plus the MHC's net assets (excluding its ownership of the Company).

The Company and the Bank are not permitted to pay dividends on their capital stock if the shareholders' equity of the Company, or the shareholder's equity of the Bank, would be reduced below the amount of the respective liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation accounts.

Other Restrictions

The Company's principal source of funds for dividend payments is dividends received from the Bank. Federal and state banking regulations restrict the amount of dividends that may be paid in a year, without prior approval of regulatory agencies, to the amount by which net income of the Bank for the year plus the retained net income of the previous two years exceeds any net loss reported in those respective periods. For the year ended December 31, 2023, the Bank reported net income of $10.7 million. For the years ended December 31, 2022 and 2021, the Bank reported a net loss of $21.5 million and net income of $16.1 million, respectively. There were no dividends paid during the year ended December 31, 2023.

The Company may, at times, repurchase its own shares in the open market. Such transactions are subject to the notice provisions for stock repurchases of the Board of Governors of the Federal Reserve System. In March 2021, the Company announced its plan to repurchase 1,400,000 shares of its common stock. The repurchase program was adopted following the receipt of non-objection from the FRB, and in compliance with applicable state and federal regulations. As of December 31 2023, the Company had repurchased 1,145,479 shares of its outstanding common stock under this program, however, the Company did not repurchase any shares of its outstanding common stock under this program during the year ended December 31, 2023.

NOTE 13 — LEASES

The Company has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease upon inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's balance sheet.

Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company's leases do not provide an implicit rate; therefore, the Company used its incremental collateralized borrowing rates commensurate with the underlying lease terms to determine present value of operating lease liabilities. The Company's lease terms may include lease extension and termination options when it is reasonably certain that the Company will exercise the option. The Company recognized ROU assets totaling $3.8 million and $3.9 million and operating lease liabilities totaling $4.2 million and $4.3 million at December 31, 2023 and December 31, 2022, respectively. The lease liabilities recognized by the Company represent two leased branch locations and one loan production office.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Variable lease components, such as fair market value adjustments, are expensed as incurred and not included in ROU assets and operating lease liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term**.** For the year ended December 31, 2023 and 2022, rent expense for the operating leases totaled $315,000.

The following table presents information regarding the Company's operating leases:

	December 31, 2023	December 31, 2022
Weighted-average discount rate	3.62%	3.59%
Range of lease expiration dates	1 - 12 years	1 - 13 years
Range of lease renewal options	0 - 20 years	5 - 20 years
Weighted-average remaining lease term	25.8 years	26.4 years

The following table presents the undiscounted annual lease payments under the terms of the Company's operating leases at December 31, 2023, including a reconciliation to the present value of operating lease liabilities recognized in the unaudited Consolidated Balance Sheets:

(In thousands)	
2024	$ 270
2025	280
2026	291
2027	293
2028	208
Years thereafter	5,533
Total lease payments	6,875
Less imputed interest	(2,704)
Total lease liabilities	$ 4,171

NOTE 14 — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in real property, accounts receivable, inventory, property, plant and equipment and income producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company’s outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer’s underlying line of credit. If the customer’s line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

Notional amounts of financial instruments with off-balance sheet credit risk are as follows at December 31, 2023 and 2022:

(In thousands)	2023	2022
Commitments to originate loans	$ 8,601	$ 6,087
Letters of credit	1,691	1,686
Unadvanced portions of loans	178,235	347,674
	$ 188,527	$ 355,447

NOTE 15 — 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 debt securities available-for-sale 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 December 31, 2023 and 2022:

		Fair Value Measurements at Reporting Date Using		
(In thousands)	Total	Quoted Prices in Active Markets Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2023				
State and municipal	$ 11,400	$ —	$ 11,400	$ —
Asset-backed securities	7,535	—	7,535	—
Government mortgage-backed securities	9,636	—	9,636	—
Totals	$ 28,571	$ —	$ 28,571	$ —
December 31, 2022				
State and municipal	$ 11,071	$ —	$ 11,071	$ —
Asset-backed securities	6,274	—	6,274	—
Government mortgage-backed securities	11,255	—	11,255	—
Totals	$ 28,600	$ —	$ 28,600	$ —

Fair Values of Assets Measured on a Nonrecurring Basis

The Company may also be required, from time to time, to measure certain other assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

Certain loans were adjusted to fair value, less cost to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the ACLL. Fair value was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties.

Other repossessed assets, which consists of repossessed cryptocurrency mining rigs, were accounted for at fair value. Future adjustments, if any, will be recorded directly as an adjustment to current earnings. Fair value was measured using the appraised values of the cryptocurrency mining rigs and adjusted as necessary by management based on unobservable inputs.

The following summarizes assets measured at fair value on a nonrecurring basis at December 31, 2023 and 2022:

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2023				
Loans				
Enterprise value	$ 891	$ —	$ —	$ 891
Digital asset	6,373	—	—	6,373
Totals	$ 7,264	$ —	$ —	$ 7,264
December 31, 2022				
Loans				
Commercial	$ 165	$ —	$ —	$ 165
Enterprise value	91	—	—	91
Digital asset	16,390	—	—	16,390
Other repossessed assets	6,051	—	—	6,051
Totals	$ 22,697	$ —	$ —	$ 22,697

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 December 31, 2023 and 2022:

(In thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2023				
Loans				
Enterprise value	$ 891	Business or collateral valuation	Comparable company or collateral evaluations	0% - 26%
Digital asset	6,373	Asset valuation	Comparable asset evaluations	0% - 25%
December 31, 2022				
Loans				
Commercial	$ 165	Business or collateral valuation	Comparable company or collateral evaluations	0% - 10%
Enterprise value	91	Business or collateral valuation	Comparable company or collateral evaluations	0% - 10%
Digital asset	16,390	Asset valuation	Comparable asset evaluations	0% - 10%
Other repossessed assets	6,051	Asset valuation	Comparable asset evaluations	0% - 3%

At December 31, 2023, the contractual balance of loans measured at fair value on a nonrecurring basis was $2.0 million, net of reserves of $1.1 million and interest paid to principal of $12,000 for the enterprise value segment and $14.4 million, net of reserves of $5.9 million and interest paid to principal of $2.1 million for the digital asset segment. At December 31, 2022, the contractual balance of loans measured at fair value on a nonrecurring basis was $483,000 net of charge-offs of $319,000 for the commercial segment, $1.6 million net of charge-offs of $1.5 million and interest paid to principal of $23,000 for the enterprise value segment, and $26.7 million net of specific reserves of $10.1 million for the digital asset segment.

During 2022, the Company repossessed cryptocurrency mining rigs in exchange for the forgiveness of a loan relationship. The repossessed cryptocurrency mining rigs were reported as other repossessed assets and are accounted for at the lower of cost or fair value less estimated costs to sell. At December 31, 2022, other repossessed assets were $6.1 million.

Fair Values 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 December 31, 2023 and 2022:

(In thousands)	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
December 31, 2023					
Financial assets:					
Cash and cash equivalents	$ 220,332	$ 220,332	$ —	$ —	$ 220,332
Available-for-sale debt securities	28,571	—	28,571	—	28,571
Federal Home Loan Bank of Boston stock	4,056	N/A	N/A	N/A	N/A
Loans, net	1,321,158	—	—	1,279,421	1,279,421
Accrued interest receivable	6,090	—	6,090	—	6,090
Financial liabilities:					
Deposits	1,331,222	—	1,331,701	—	1,331,701
Borrowings	104,697	—	104,765	—	104,765
December 31, 2022					
Financial assets:					
Cash and cash equivalents	$ 80,629	$ 80,629	$ —	$ —	$ 80,629
Available-for-sale debt securities	28,600	—	28,600	—	28,600
Federal Home Loan Bank of Boston stock	4,266	N/A	N/A	N/A	N/A
Loans, net	1,416,047	—	—	1,341,633	1,341,633
Accrued interest receivable	6,597	—	6,597	—	6,597
Other repossessed assets	6,051		—	6,051	6,051
Financial liabilities:					
Deposits	1,279,582	—	1,279,665	—	1,279,665
Borrowings	126,829	—	124,590	—	124,590

The carrying amounts of financial instruments shown above are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

NOTE 16 — CONDENSED FINANCIAL STATEMENTS OF PARENT ONLY

Financial information pertaining only to Provident Bancorp, Inc. is as follows:

Provident Bancorp, Inc. - Parent Only Balance Sheet

(In thousands)	2023	2022
Assets		
Cash and due from banks	$ 18,149	$ 17,415
Investment in common stock of BankProv	196,029	181,824
Other assets	7,993	8,588
Total assets	$ 222,171	$ 207,827
Liabilities and Shareholders' Equity		
Other liabilities	$ 269	$ 285
Shareholders' equity	221,902	207,542
Total liabilities and shareholders' equity	$ 222,171	$ 207,827

Provident Bancorp, Inc. - Parent Only Income Statement *(In thousands)*	Years Ended December 31, 2023	2022
Total income	$ 418	$ 160
Operating expenses	90	128
Income before income taxes and equity in undistributed net income (loss) of BankProv	328	32
Applicable income tax provision	86	8
Income before equity in income of subsidiaries	242	24
Income (loss) equity in undistributed net income of BankProv	10,712	(21,492)
Net income (loss)	$ 10,954	$ (21,468)

Provident Bancorp, Inc. - Parent Only Statement of Cash Flows *(In thousands)*	Twelve Months Ended December 31, 2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 10,954	$ (21,468)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Equity) loss in undistributed earnings of subsidiaries	(10,712)	21,492
Deferred tax benefit	5	2
Decrease in other assets	590	625
(Decrease) increase in other liabilities	(16)	87
Net cash provided by operating activities	821	738
Cash flows from financing activities:		
Cash dividends forfeited (paid) on common stock	5	(1,989)
Proceeds from exercise of stock options, net	(18)	(108)
Shares surrendered related to tax withholdings on restricted stock awards	(74)	(113)
Purchase of common stock	—	(2,860)
Net cash used in financing activities	(87)	(5,070)
Net decrease in cash and cash equivalents	734	(4,332)
Cash and cash equivalents at beginning of year	17,415	21,747
Cash and cash equivalents at end of year	$ 18,149	$ 17,415

NOTE 17 – RISKS AND UNCERTAINTIES

Current Banking Environment

Industry events have led to a greater focus by institutions, investors and regulators on liquidity positions of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management.

The Company believes it is well insulated from the fallout resulting from the market turmoil due to the following considerations:

- The Bank's deposit and loan portfolios were and continue to be well-diversified;
- The Company is a member of the Depositors Insurance Fund, a private industry-sponsored insurance fund that insures all deposits above Federal Deposit Insurance Corporation limits;
- We have access to multiple funding sources and sufficient capacity to borrow, if needed. As of December 31, 2023 between the Federal Home Loan Bank of Boston and the Federal Reserve Bank of Boston's borrower-in-custody program, we had the ability to borrow $408.7 million, of which $104.7 million was outstanding as of that date;
- Our securities portfolio represented only 1.7% of total assets as of December 31, 2023 and the accumulated other comprehensive loss on the portfolio was $1.5 million, or 0.7% of shareholders' equity as of that date. Management believes that the unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Based on our ability to borrow, cash position and low deposit outflows there is no expected reliance on security sales to meet operational needs.

PREMIER BUSINESS BANKING

strengthening the communities we serve.

We're more than just a bank. We're your partner.

We are committed to strengthening the economic development of the regions we serve by working closely with businesses to provide future-ready banking solutions and high-touch services tailored to meet all their banking needs.

- Fully Insured Deposits
- Cash Management Services
- Commercial Lending Solutions
- Banking-as-a-Service

Executive Officers

Joe Reilly, Chief Executive Officer, BankProv
Ken Fisher, Chief Financial Officer, BankProv
Dave Gagnon, EVP, Chief Credit Officer, BankProv
Janine Jakubauskas, EVP, Chief Risk Officer, BankProv
Joe Kenney, EVP, Chief Lending Officer, BankProv
Anne Lapointe, EVP, Chief of Staff, BankProv
Joe Mancini, EVP, Chief Operating Officer, BankProv

Amber Barbere, SVP, Human Resources, BankProv
Leanne Corning, SVP, Client Experience, BankProv

Directors

Laurie Knapp, Chairman
Julienne Cassarino
Katie Chase
Frank Cousins
Jim DeLeo
Lisa DeStefano
Jay Gould
Nate Gravel (Bank only)
Barbara Piette
Dennis Pollack
Joe Reilly
Arthur Sullivan

Headquarters

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Stock Information

The voting common stock of Provident Bancorp, Inc. is traded on the NASDAQ Global Select Market under the symbol "PVBC."

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PROVIDENT BANCORP INC.

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