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DELTA REPORT

10-Q

PROVIDENT BANCORP, INC. /

10-Q - JUNE 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1104
CHANGES	369
DELETIONS	429
ADDITIONS	306

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2023 June 30, 2023

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

For the transition period from ______________ to ____________________

Commission File No. 001-39090

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)

N/A

(Former name, former address, and former fiscal year if changed since last report)

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	PVBC	The NASDAQ Stock Market LLC

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO o

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	o	Accelerated Filer	o
Non-accelerated Filer	x	Smaller Reporting Company	x
Emerging Growth Company	o		

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. o

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

As of May 5, 2023 August 4, 2023, there were 17,690,846 17,685,720 shares of the Registrant's common stock, $0.01 par value per share, outstanding.

Provident Bancorp, Inc.

Form 10-Q

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Part I. Financial Information

Item 1. Financial Statements

PROVIDENT BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	At March 31, 2023 (unaudited)	At December 31, 2022	At June 30, 2023 (unaudited)	At December 31, 2022
Assets				
Cash and due from banks	$ 27,669	$ 42,923	$ 32,254	$ 42,923
Short-term investments	216,509	37,706	265,604	37,706
Cash and cash equivalents	244,178	80,629	297,858	80,629
Debt securities available-for-sale (at fair value)	28,744	28,600	27,656	28,600
Federal Home Loan Bank stock, at cost	3,095	4,266	3,309	4,266
Loans, net of allowance for credit losses of $24,812 and $28,069 as of March 31, 2023 and December 31, 2022, respectively	1,323,390	1,416,047		
Loans, net of allowance for credit losses of $23,981, and $28,069 as of June 30, 2023 and December 31, 2022, respectively			1,333,564	1,416,047
Bank owned life insurance	43,881	43,615	44,153	43,615
Premises and equipment, net	13,439	13,580	13,400	13,580
Other repossessed assets	—	6,051	—	6,051
Accrued interest receivable	5,836	6,597	5,007	6,597

Right-of-use assets	3,902	3,942	3,861	3,942
Deferred tax asset, net	15,692	16,793	15,722	16,793
Other assets	19,996	16,261	17,057	16,261
Total assets	$ 1,702,153	$ 1,636,381	$1,761,587	$1,636,381
Liabilities and Shareholders' Equity				
Deposits:				
Noninterest-bearing	$ 460,836	$ 520,226	$ 404,012	$ 520,226
Interest-bearing	943,085	759,356	1,044,074	759,356
Total deposits	1,403,921	1,279,582	1,448,086	1,279,582
Borrowings:				
Short-term borrowings	50,000	108,500	70,000	108,500
Long-term borrowings	18,296	18,329	9,763	18,329
Total borrowings	68,296	126,829	79,763	126,829
Operating lease liabilities	4,255	4,282	4,227	4,282
Other liabilities	14,229	18,146	14,439	18,146
Total liabilities	1,490,701	1,428,839	1,546,515	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;				
17,693,818 and 17,669,698 shares issued and outstanding				
at March 31, 2023, and December 31, 2022, respectively	177	177		
17,684,720 and 17,669,698 shares issued and outstanding				
at June 30, 2023 and December 31, 2022, respectively			177	177
Additional paid-in capital	123,144	122,847	123,444	122,847
Retained earnings	97,432	94,630	100,894	94,630
Accumulated other comprehensive loss	(1,569)	(2,200)	(1,891)	(2,200)
Unearned compensation - ESOP	(7,732)	(7,912)	(7,552)	(7,912)
Total shareholders' equity	211,452	207,542	215,072	207,542
Total liabilities and shareholders' equity	$ 1,702,153	$ 1,636,381	$1,761,587	$1,636,381

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

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Three Months Ended		Six Months Ended	
(Dollars in thousands, except per share data)	March 31, 2023	March 31, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest and dividend income:						
Interest and fees on loans	$ 20,006	$ 18,212	$ 19,652	$ 18,558	$ 39,658	$ 36,770
Interest and dividends on debt securities available-for-sale	238	179	246	194	484	373
Interest on short-term investments	383	59	2,978	400	3,361	459
Total interest and dividend income	20,627	18,450	22,876	19,152	43,503	37,602
Interest expense:						
Interest on deposits	3,901	455	7,670	476	11,571	931
Interest on short-term borrowings	824	—	230	—	1,054	—
Interest on long-term borrowings	86	70	74	71	160	141
Total interest expense	4,811	525	7,974	547	12,785	1,072
Net interest and dividend income	15,816	17,925	14,902	18,605	30,718	36,530
Credit loss expense - loans	2,935	83				
Credit loss benefit - off-balance sheet credit exposures	(1,156)	—				

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Total credit loss expense	1,779	83				
Net interest and dividend income after credit loss expense	14,037	17,842				
Credit loss (benefit) expense - loans			(740)	1,005	2,195	1,088
Credit loss (benefit) expense - off-balance sheet credit exposures			(327)	36	(1,483)	36
Total credit loss (benefit) expense			(1,067)	1,041	712	1,124
Net interest and dividend income after credit loss (benefit) expense			15,969	17,564	30,006	35,406
Noninterest income:						
Customer service fees on deposit accounts	979	581	769	619	1,748	1,200
Service charges and fees - other	451	376	527	452	978	828
Bank owned life insurance income	266	256	272	258	538	514
Gain on loans sold, net	—	97	—	187	—	284
Other income	251	10	134	36	385	46
Total noninterest income	1,947	1,320	1,702	1,552	3,649	2,872
Noninterest expense:						
Salaries and employee benefits	8,544	7,189	8,109	7,322	16,653	14,511
Occupancy expense	421	439	421	398	842	837
Equipment expense	144	138	151	143	295	281
Deposit insurance	278	151	368	154	646	305
Data processing	361	335	374	344	735	679
Marketing expense	83	127	161	70	244	197
Professional fees	1,403	728	919	709	2,322	1,437
Directors' compensation	200	254	164	267	364	521
Software depreciation and implementation	417	294	483	327	900	621
Insurance expense	452	447	450	448	902	895
Service fees	236	208	281	225	517	433
Write down of other assets and receivables	—	395	—	—	—	395
Other	672	706	870	900	1,542	1,606
Total noninterest expense	13,211	11,411	12,751	11,307	25,962	22,718
Income before income tax expense	2,773	7,751	4,920	7,809	7,693	15,560
Income tax expense	670	2,226	1,459	2,190	2,129	4,416
Net income	$ 2,103	$ 5,525	$ 3,461	$ 5,619	$ 5,564	$ 11,144
Earnings per share:						
Basic	$ 0.13	$ 0.33	$ 0.21	$ 0.34	$ 0.34	$ 0.68
Diluted	0.13	$ 0.32	0.21	$ 0.33	$ 0.34	$ 0.66
Weighted Average Shares:						
Basic	16,530,627	16,517,952	16,568,664	16,460,248	16,549,751	16,488,941
Diluted	16,531,266	17,028,057	16,570,017	16,882,933	16,550,666	16,957,186

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

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
(In thousands)						
Net income	$ 2,103	$ 5,525	$3,461	$ 5,619	$5,564	$11,144
Other comprehensive income:						
Unrealized holding gains (losses) arising during the period on debt securities available-for-sale	819	(1,661)				

Unrealized gain (loss)	819	(1,661)				
Unrealized holding (losses) gains arising during the period on debt securities available-for-sale			(419)	(1,340)	400	(3,001)
Unrealized (loss) gain			(419)	(1,340)	400	(3,001)
Income tax effect	(188)	387	97	309	(91)	696
Total other comprehensive income (loss)	631	(1,274)				
Total other comprehensive(loss) income			(322)	(1,031)	309	(2,305)
Comprehensive income	$ 2,734	$ 4,251	$3,139	$ 4,588	$5,873	$ 8,839

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

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	For the three months ended March 31, 2023 and 2022							For the three months ended June 30, 2023 and 2022						
(In thousands, except share data)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation ESOP	Total	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation ESOP	Total
Balance, January 1, 2023	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 principal)														
Balance, March 31, 2023								17,693,818	$ 177	$123,144	$ 97,432	$ (1,569)	$ (7,732)	$211,452
Net income	—	—	—	2,103	—	—	2,103	—	—	—	3,461	—	—	3,461
Dividends forfeited	—	—	—	3	—	—	3	—	—	—	1	—	—	1
Other comprehensive income	—	—	—	—	631	—	631							
Other comprehensive loss								—	—	—	—	(322)	—	(322)
Stock-based compensation expense, net of forfeitures	—	—	319	—	—	—	319	—	—	332	—	—	—	332
Restricted stock award grants, net of forfeitures	16,547	—	—	—	—	—	—	(6,126)	—	—	—	—	—	—
Shares surrendered related to tax withholdings on restricted stock awards	(210)	—	(2)	—	—	—	(2)	(2,972)	—	(21)	—	—	—	(21)
Stock options exercised, net	7,783	—	(27)	—	—	—	(27)							

ESOP shares earned	—	—	7	—	—	180	187	—	—	(11)	—	—	180	169
Balance, March 31, 2023	17,693,818	$ 177	$ 123,144	$ 97,432	$ (1,569)	$ (7,732)	$ 211,452							
Balance, June 30, 2023								17,684,720	$ 177	$123,444	$100,894	$ (1,891)	$ (7,552)	$215,072
Balance, December 31, 2021	17,854,649	$ 179	$ 123,498	$ 118,087	$ 649	$ (8,631)	$ 233,782							
Balance, March 31, 2022								17,796,542	$ 178	$122,504	$122,939	$ (625)	$ (8,451)	$236,545
Net income	—	—	—	5,525	—	—	5,525	—	—	—	5,619	—	—	5,619
Dividends declared ($0.04 per share)	—	—	—	(673)	—	—	(673)	—	—	—	(668)	—	—	(668)
Other comprehensive loss	—	—	—	—	(1,274)	—	(1,274)	—	—	—	—	(1,031)	—	(1,031)
Stock-based compensation expense, net of forfeitures	—	—	445	—	—	—	445	—	—	468	—	—	—	468
Restricted stock award grants, net of forfeitures	20,420	—	—	—	—	—	—	9,500	—	—	—	—	—	—
Repurchase of common stock	(95,229)	(1)	(1,522)	—	—	—	(1,523)	(85,205)	(1)	(1,336)	—	—	—	(1,337)
Shares surrendered related to tax withholdings on restricted stock awards	(202)	—	(4)	—	—	—	(4)	(2,315)	—	(36)	—	—	—	(36)
Stock options exercised, net	16,904	—	(116)	—	—	—	(116)							
ESOP shares earned	—	—	203	—	—	180	383	—	—	170	—	—	179	349
Balance, March 31, 2022	17,796,542	$ 178	$ 122,504	$ 122,939	$ (625)	$ (8,451)	$ 236,545							
Balance, June 30, 2022								17,718,522	$ 177	$121,770	$127,890	$ (1,656)	$ (8,272)	$239,909

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

(Unaudited)

	For the six months ended June 30, 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, 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 principal)	17,669,698	177	122,847	95,326	(2,200)	(7,912)	208,238
Net income	—	—	—	5,564	—	—	5,564
Dividends forfeited	—	—	—	4	—	—	4

Other comprehensive income	—	—	—	—	309	—	309
Stock-based compensation expense, net of forfeitures	—	—	651	—	—	—	651
Restricted stock award grants, net of forfeitures	10,421	—	—	—	—	—	—
Shares surrendered related to tax withholdings on restricted stock awards	(3,182)	—	(23)	—	—	—	(23)
Stock options exercised, net	7,783	—	(27)	—	—	—	(27)
ESOP shares earned	—	—	(4)	—	—	360	356
Balance, June 30, 2023	17,684,720	$ 177	$ 123,444	$ 100,894	$ (1,891)	$ (7,552)	$ 215,072
Balance, December 31, 2021	17,854,649	$ 179	$ 123,498	$ 118,087	$ 649	$ (8,631)	$ 233,782
Net income	—	—	—	11,144	—	—	11,144
Dividends declared ($0.08 per share)	—	—	—	(1,341)	—	—	(1,341)
Other comprehensive loss	—	—	—	—	(2,305)	—	(2,305)
Stock-based compensation expense, net of forfeitures	—	—	913	—	—	—	913
Restricted stock award grants, net of forfeitures	29,920	—	—	—	—	—	—
Repurchase of common stock	(180,434)	(2)	(2,858)	—	—	—	(2,860)
Shares surrendered related to tax withholdings on restricted stock awards	(2,517)	—	(40)	—	—	—	(40)
Stock options exercised, net	16,904	—	(116)	—	—	—	(116)
ESOP shares earned	—	—	373	—	—	359	732
Balance, June 30, 2022	17,718,522	$ 177	$ 121,770	$ 127,890	$ (1,656)	$ (8,272)	$ 239,909

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Cash flows from operating activities:				
Net income	$ 2,103	$ 5,525	$ 5,564	$ 11,144
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of securities premiums, net of accretion	40	57	79	102
ESOP expense	187	383	356	732
Change in deferred loan fees, net	(610)	(1,227)	(990)	(884)
Provision for credit losses	1,779	83	712	1,124
Depreciation and amortization	268	270	541	542
Decrease (increase) in accrued interest receivable	761	(697)	1,590	(62)
Deferred tax expense	664	546	731	1,247
Share-based compensation expense	319	445	651	913
Bank-owned life insurance income	(266)	(256)	(538)	(514)
Principal repayments of operating lease obligations	(27)	(26)	(55)	(52)
Gain on loans sold, net			—	(284)
Gain on sale of other repossessed assets	(166)	—	(166)	—
Write down of other repossessed assets	21	—	21	—
Net increase in other assets	(3,735)	(412)	(796)	(2,591)
Net decrease in other liabilities	(4,404)	(2,384)	(3,867)	(5,345)
Net cash (used in) provided by operating activities	(3,066)	2,307		
Net cash provided by operating activities			3,833	6,072
Cash flows from investing activities:				

Proceeds from pay downs, maturities and calls of debt securities available-for-sale	635	1,379	1,265	2,565
Redemption of Federal Home Loan Bank stock	1,171	—		
Redemption (purchase) of Federal Home Loan Bank stock			957	(2,958)
Loan principal collections net of originations	92,920	(2,482)	83,866	(75,927)
Proceeds from loan sales			—	15,851
Proceeds from other repossessed asset sales	6,196	—	6,196	—
Proceeds from principal repayments on loans held for sale	—	1,338	—	2,560
Additions to premises and equipment	(87)	(34)	(280)	(94)
Write down of other assets and receivables	—	395		
Net cash used in investing activities	100,835	596		
Net cash used in (provided by) investing activities			92,004	(58,003)

PROVIDENT BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Cash flows from financing activities:				
Net (decrease) increase in noninterest-bearing accounts	(59,390)	120,607	(116,214)	48,824
Net increase (decrease) in interest-bearing accounts	183,729	(58,233)	284,718	(68,847)
Net cash dividends forfeited (paid) on common stock	3	(673)	4	(1,341)
Payments from exercise of stock options, net	(27)	(116)	(27)	(116)
Net change in short-term borrowings	(58,500)	—	(38,500)	78,000
Payments made on Federal Home Loan Bank long-term advances	(33)	—		
Repayments of Federal Home Loan Bank long-term advances			(8,566)	—
Shares surrendered related to tax withholdings on restricted stock awards	(2)	(4)	(23)	(40)
Repurchase of common stock	—	(1,523)	—	(2,860)
Net cash provided by financing activities	65,780	60,058	121,392	53,620
Net increase in cash and cash equivalents	163,549	62,961	217,229	1,689
Cash and cash equivalents at beginning of period	80,629	153,115	80,629	153,115
Cash and cash equivalents at end of period	$ 244,178	$ 216,076	$ 297,858	$154,804
Supplemental disclosures:				
Interest paid	$ 3,919	$ 455	$ 11,589	$ 931
Income taxes paid	128	372	136	3,029
Reclassification of loans held for sale to loans held for investment			—	9,599

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

PROVIDENT BANCORP, INC.

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited financial statements of Provident Bancorp, Inc., (the “Company”) were prepared in accordance with the instructions for Form 10-Q and with Regulation S-X and do not include information or footnotes necessary for a complete presentation of the financial condition, results of operations, and cash flows in conformity with U.S.

generally accepted accounting principles (“GAAP”). However, in the opinion of management, all adjustments (consisting only of normal and recurring adjustments) necessary for a fair presentation of the financial statements have been included. The results of operations for the three-month period three- and six-month periods ended March 31, 2023 June 30, 2023 are not necessarily indicative of the results that may be expected for future periods, including the entire fiscal year. Certain amounts in 2022 have been reclassified to be consistent with the 2023 consolidated financial statement presentation, which had no effect on the net income reported in the consolidated statements of income. These financial statements should be read in conjunction with the annual financial statements and notes thereto included in the annual report on Form 10-K the Company filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2023.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiary BankProv (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. All significant inter-company balances and transactions have been eliminated in consolidation.

(2) Corporate Structure

The Company is a Maryland corporation whose primary purpose is to act as the holding company for the Bank. The Bank, headquartered in Amesbury, Massachusetts, operates its business from seven banking offices located in Amesbury and Newburyport, Massachusetts and Portsmouth, Exeter, Bedford, and Seabrook, New Hampshire. The Bank also has loan production offices in Boston, Massachusetts and 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 also a commercial bank for corporate clients, specializing in offering adaptive and technology-first banking solutions to niche markets.

(3) Risks and Uncertainties

Digital Asset Lending

The Company’s digital asset loan segment includes loans to digital asset customers, which can be secured by a security interest in the digital assets, cash, a security in the purchased mining equipment or a combination of these. As of March 31, 2023 June 30, 2023, we had $27.0 million a total of $16.8 million in outstanding loans, all to one digital asset customers, customer, and all of which $26.6 million were was on non-accrual and were was individually analyzed for reserves, which totaled $7.2 million. Of the $26.6 million on nonaccrual, one The $16.8 million loan relationship totaling $20.9 million was modified to provide a term extension during the quarter ended June 30, 2023, and is currently performing in accordance with the process of being modified and another loan relationship totaling $5.7 million was past due and in the process of being collected as of March 31, 2023. terms.

The estimates and assumptions that went into the valuation of the collateral on individually analyzed loans secured by cryptocurrency mining rigs were based on market data and sales recorded by the Company during the quarter ended March 31, 2023 as of June 30, 2023. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The Bitcoin markets as well as the markets for cryptocurrency mining rigs are highly volatile and speculative and subject to a variety of risks, including market and liquidity risks. Changes in market driven factors, among others, could have a material impact on the values reported at March 31, 2023 June 30, 2023.

In the event of further deterioration in the value of the collateral of individually analyzed loans to digital asset customers the Company could recognize additional increases in credit loss expense and the allowance for credit losses. In addition, the Company may also see increases in loan workout expenses related to the portfolio of loans to digital asset customers.

Current Banking Environment

Industry events transpiring prior to the Company’ filing date, including the failures of certain large financial institutions 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;
- As of March 31, 2023 June 30, 2023, the Federal Deposit Insurance Fund (“FDIC”) insured 54% 52.6% of our customers’ deposits and the remaining 46% 47.4% were insured through the Deposits Depositors Insurance Fund (“DIF”). ;
- We have access to multiple funding sources and sufficient capacity to borrow, if needed. As needed, as of March 31, 2023, June 30, 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 an additional $249.6 million $239.2 million;
- Our securities portfolio represented only 1.7% 1.6% of total assets, as of March 31, 2023, June 30, 2023 and the accumulated other comprehensive loss on the portfolio was $1.6 million $1.9 million, or 0.7% 0.9% of stockholders’ 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.

Notwithstanding Based on our full ability to borrow, cash position and low deposit insurance coverage and our efforts outflows there is no expected reliance on security sales to other wise effectively manage our liquidity, deposit portfolio retention and other related matters, our financial condition, results of operation and stock price may be adversely affected by future negative events within the banking sector and adverse customer or investor responses to such events. meet operational needs.

(4) 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 lost ("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 refinancings and restructurings for borrower 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 Financial Accounting Standards Board ("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 is 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 includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is 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's cross-functional working group continues to implement its plan to transition from LIBOR consistent with industry timelines. The Company has selected the Secured Overnight Financing Rate ("SOFR") as its primary alternative to LIBOR and may also use used alternative reference rates, based on the individual needs of its customers and the type of credit being extended. The cross-functional working group has identified LIBOR-indexed products and is evaluating fallback language to facilitate the transition. extended, when necessary. Legacy LIBOR-based loans will be transitioned to an alternative reference rate on or before June 30, 2023. The adoption of ASU 2020-04 is did not expected to result in a material impact the Company's Consolidated Financial Statements.

(5) Debt Securities

Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are valued at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

The following table summarizes the amortized cost, allowance for credit losses, and fair value of debt securities available-for-sale at March 31, 2023 June 30, 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2023										
June 30, 2023										
State and municipal securities	$ 11,867	$ 7	$ 614	$ —	$ 11,260	$ 11,840	$ 2	$ 646	$ —	$11,196
Asset-backed securities	7,084	—	569	—	6,515	6,945	—	825	—	6,120
Government mortgage-backed securities	11,831	—	862	—	10,969	11,328	—	988	—	10,340
Total debt securities available-for-sale	$ 30,782	$ 7	$ 2,045	$ —	$ 28,744	$ 30,113	$ 2	$ 2,459	$ —	$27,656

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

(In thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
State and municipal securities	$ 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

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.

There were no realized gains or losses on sales and calls of securities during the three six months ended March 31, 2023 June 30, 2023 or March 31, 2022 June 30, 2022.

Securities with carrying amounts of $9.5 million $8.9 million and $9.8 million were pledged to secure available borrowings with the Federal Home Loan Bank at March 31, 2023 June 30, 2023 and December 31, 2022, respectively.

The scheduled maturities of debt securities at March 31, 2023 June 30, 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		Available-for-Sale	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one year through five years	$ 866	$ 853	$ 863	$ 844
Due after five years through ten years	870	875	1,468	1,464

Due after ten years	10,131	9,532	9,509	8,888
Government mortgage-backed securities	11,831	10,969	11,328	10,340
Asset-backed securities	7,084	6,515	6,945	6,120
	$ 30,782	$ 28,744	$ 30,113	$27,656

A debt security is placed on non-accrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Interest accrued by 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 three six months ended March 31, 2023 and 2022. June 30, 2023 or June 30, 2022.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or longer are as follows at March 31, 2023 June 30, 2023 and December 31, 2022:

	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2023												
June 30, 2023												
Temporarily impaired securities:												
State and municipal securities	$ 7,391	$ 119	$ 2,431	$ 495	$ 9,822	$ 614	$ 1,978	$ 14	$ 7,785	$ 632	$ 9,763	$ 646
Asset-backed securities	—	—	6,515	569	6,515	569	—	—	6,120	825	6,120	825
Government mortgage-backed securities	3,210	71	7,759	791	10,969	862	—	—	10,340	988	10,340	988
Total temporarily impaired debt securities	$ 10,601	$ 190	$ 16,705	$ 1,855	$ 27,306	$ 2,045	$ 1,978	$ 14	$24,245	$ 2,445	$26,223	$ 2,459
December 31, 2022												
Temporarily impaired securities:												
State and municipal	$ 8,174	$ 183	$ 2,297	$ 642	$ 10,471	$ 825	$ 8,174	$ 183	$ 2,297	$ 642	$10,471	$ 825
Asset-backed securities	2,322	182	3,951	741	6,273	923	2,322	182	3,951	741	6,273	923
Government mortgage-backed securities	7,428	474	3,827	637	11,255	1,111	7,428	474	3,827	637	11,255	1,111
Total temporarily impaired debt securities	$ 17,924	$ 839	$ 10,075	$ 2,020	$ 27,999	$ 2,859	$17,924	$ 839	$10,075	$ 2,020	$27,999	$ 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 March 31, 2023 June 30, 2023, prior to this recovery.

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The Company's ability and intent to hold these securities until recovery is supported by the Company' Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

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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 March 31, 2023: June 30, 2023:

State and municipal securities: At March 31, 2023 June 30, 2023, 15 of the 19 securities in the Company's portfolio of state and municipal securities were in unrealized loss positions. Aggregate unrealized losses represented 5.9% 5.5% of the amortized cost of state and municipal securities in unrealized loss positions. securities. The Company continually monitors the state and municipal securities sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels 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 March 31, 2023 June 30, 2023, all four of the securities in the Company's portfolio of asset-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 8.0% 11.9% of the amortized cost of asset-backed securities in unrealized loss positions. securities. 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 are were no material underlying credit downgrades during the quarter. All securities are performing.

Government mortgage-backed securities: At March 31, 2023 June 30, 2023, all 33 of the securities in the Company's portfolio of government mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 7.3% 8.7% of the amortized cost of government mortgage-backed securities in unrealized loss positions. securities. 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 are were no material underlying credit downgrades during the quarter. All securities are performing.

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 $168,000 $176,000 at March 31, 2023 June 30, 2023 and is excluded from the estimate of credit losses.

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(6) Loans and Allowance for Credit Losses for Loans

Loans:

A summary of loans is as follows:

	At March 31, 2023	At December 31, 2022	At June 30, 2023	At December 31, 2022
(In thousands)	Amount	Amount	Amount	Amount
Commercial real estate	$ 447,461	$ 453,592	$ 438,029	$ 453,592
Commercial	194,335	216,931	187,965	216,931
Enterprise value	437,570	438,745	436,574	438,745
Digital asset (1)	26,981	40,781	16,768	40,781
Residential real estate	7,661	8,165	7,490	8,165
Construction and land development	84,800	72,267	96,757	72,267
Consumer	281	391	207	391
Mortgage warehouse	149,113	213,244	173,755	213,244
	1,348,202	1,444,116	1,357,545	1,444,116
Allowance for credit losses - loans	(24,812)	(28,069)	(23,981)	(28,069)
Net loans	$ 1,323,390	$ 1,416,047	$1,333,564	$1,416,047

(1) Includes $20.9 million $16.8 million and $26.5 million in loans secured by cryptocurrency mining rigs at March 31, 2023 June 30, 2023 and December 31, 2022, respectively.

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 $5.7 million $4.8 million and $6.6 million $6.4 million at March 31, 2023 June 30, 2023 and December 31, 2022, respectively, and was reported as 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.

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.

Allowance for Credit Losses for 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 allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments:

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 affect on the credit quality of this segment.

Digital asset: Loans in this segment are made to businesses in the digital asset space and are generally secured by digital asset mining equipment or by the United States dollar ("USD") 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 in this segment.

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

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 closure. 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.

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

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% require the purchase of private mortgage insurance.

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 level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, gross domestic product 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 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.

The following table presents the activity in the allowance for credit losses for loans by portfolio segment for the three and six months ended March 31, 2023 June 30, 2023 and 2022:

	For the three months ended March 31,									For the three months ended June 30,					
(In thousands)	Commercial Real Estate	Commercial	Enterprise value	Digital asset	Residential Real Estate	Construction and Land Development	Consumer	Mortgage Warehouse	Total	Commercial Real Estate	Commercial	Enterprise value	Digital asset	Residential Real Estate	Construction and Land DevelopmentCon
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)						
Balance at March 31, 2023										$ 4,249	$ 2,615	$ 10,161	$7,219	$ 57	$ 470 $
Charge-offs	—	(41)	(3,560)	—	—	—	(16)	—	(3,617)	—	(126)	—	—	—	—
Recoveries	—	10	—	—	—	—	3	—	13	—	—	45	—	—	—
Provision (credit)	(68)	(225)	6,279	(3,117)	(4)	74	12	(16)	2,935	(180)	(112)	(512)	—	(2)	51
Balance at March 31, 2023	$ 4,249	$ 2,615	$ 10,161	$ 7,219	$ 57	$ 470	$ 3	$ 38	$24,812						
Balance at June 30, 2023										$ 4,069	$ 2,377	$ 9,694	$7,219	$ 55	$ 521 $
Balance at December 31, 2021	$ 4,889	$ 5,371	$ 6,158	$ 2,012	$ 38	$ 479	$ 168	$ 381	$19,496						
Balance at March 31, 2022										$ 4,935	$ 5,380	$ 6,076	$1,868	$ 14	$ 565 $
Charge-offs	—	—	(351)	—	—	—	(28)	—	(379)	—	(1,338)	—	—	—	—
Recoveries	—	—	88	—	—	—	8	—	96	—	5	—	—	—	—
Provision (credit)	46	9	181	(144)	(24)	86	(25)	(46)	83	(133)	189	407	502	—	173
Balance at March 31, 2022	$ 4,935	$ 5,380	$ 6,076	$ 1,868	$ 14	$ 565	$ 123	$ 335	$19,296						

Balance at June 30, 2022	$ 4,802	$ 4,236	$ 6,483	$2,370	$ 14	$ 738 $

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(In thousands)	Commercial Real Estate	Commercial	Enterprise value	Digital asset	Residential Real Estate	Construction and Land Development	Consumer	Mortgage Warehouse	Total
	For the six months ended June 30,								
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	—	(167)	(3,560)	—	—	—	(29)	—	(3,756)
Recoveries	—	10	45	—	—	—	6	—	61
Provision (credit)	(248)	(337)	5,767	(3,117)	(6)	125	21	(10)	2,195
Balance at June 30, 2023	$ 4,069	$ 2,377	$ 9,694	$ 7,219	$ 55	$ 521	$ 2	$ 44	$ 23,981
Balance at December 31, 2021	$ 4,889	$ 5,371	$ 6,158	$ 2,012	$ 38	$ 479	$ 168	$ 381	$ 19,496
Charge-offs	—	(1,338)	(351)	—	—	—	(35)	—	(1,724)
Recoveries	—	6	87	—	—	—	19	—	112
Provision (credit)	(87)	197	589	358	(24)	259	(63)	(141)	1,088
Balance at June 30, 2022	$ 4,802	$ 4,236	$ 6,483	$ 2,370	$ 14	$ 738	$ 89	$ 240	$ 18,972

The following table presents loan delinquencies by portfolio segment at March 31, 2023 June 30, 2023 and December 31, 2022:

(In thousands)	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	30 - 59 Days	60 - 89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total Loans
March 31, 2023												
June 30, 2023												
Commercial real estate	$ 55	$ 114	$ 1	$ 170	$ 447,291	$ 447,461	$ —	$ —	$ 1	$ 1	$ 438,028	$ 438,029
Commercial	670	60	133	863	193,472	194,335	—	—	32	32	187,933	187,965
Enterprise value	—	—	92	92	437,478	437,570	—	—	92	92	436,482	436,574
Digital asset	5,687	19,899	—	25,586	1,395	26,981	—	—	—	—	16,768	16,768
Residential real estate	75	70	73	218	7,443	7,661	117	2	213	332	7,158	7,490
Construction and land development	—	—	—	—	84,800	84,800	—	—	—	—	96,757	96,757
Consumer	—	—	—	—	281	281	—	1	—	1	206	207
Mortgage warehouse	—	—	—	—	149,113	149,113	—	—	—	—	173,755	173,755
Total	$ 6,487	$ 20,143	$ 299	$ 26,929	$ 1,321,273	$ 1,348,202	$117	$ 3	$338	$458	$1,357,087	$1,357,545
December 31, 2022												
Commercial real estate	$ 240	$ —	$ 1	$ 241	$ 453,351	$ 453,592	$240	$ —	$ 1	$241	$ 453,351	$ 453,592
Commercial	—	—	41	41	216,890	216,931	—	—	41	41	216,890	216,931
Enterprise value	—	—	92	92	438,653	438,745	—	—	92	92	438,653	438,745
Digital asset	—	—	—	—	40,781	40,781	—	—	—	—	40,781	40,781
Residential real estate	—	—	73	73	8,092	8,165	—	—	73	73	8,092	8,165
Construction and land development	—	—	—	—	72,267	72,267	—	—	—	—	72,267	72,267
Consumer	—	9	—	9	382	391	—	9	—	9	382	391
Mortgage warehouse	—	—	—	—	213,244	213,244	—	—	—	—	213,244	213,244
Total	$ 240	$ 9	$ 207	$ 456	$ 1,443,660	$ 1,444,116	$240	$ 9	$207	$456	$1,443,660	$1,444,116

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The following table presents the amortized cost basis of loans on non-accrual status and loans past due over 89 days but still accruing as of March 31, 2023 June 30, 2023 and December 31, 2022:

(In thousands)	Non-accrual With No Allowance for Credit Loss	Non-accrual Loans	90 Days or More Past Due and Accruing	Non-accrual With No Allowance for Credit Loss	Non-accrual Loans	90 Days or More Past Due and Accruing
March 31, 2023						
June 30, 2023						
Commercial real estate	$ 55	$ 55	$ —	$ 160	$ 160	$ —
Commercial	193	193	—	70	70	—
Enterprise value	93	4,397	—	92	4,310	—
Digital asset	6,703	26,602	—	—	16,768	—
Residential real estate	(71)	224	—	—	361	—
Construction and land development	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—
Total	$ 6,973	$ 31,471	$ —	$ 322	$21,669	$ —
December 31, 2022						
Commercial real estate	$ 56	$ 56	$ —	$ 56	$ 56	$ —
Commercial	101	101	—	101	101	—
Enterprise value	92	92	—	92	92	—
Digital asset	—	26,488	—	—	26,488	—
Residential real estate	(70)	227	—	(70)	227	—
Construction and land development	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—
Total	$ 179	$ 26,964	$ —	$ 179	$26,964	$ —

The Company did not recognize interest income on nonaccrual non-accrual loans during the three six months ended March 31, 2023 June 30, 2023.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2023 June 30, 2023:

(In thousands)	Commercial Real Estate	Business Assets	Cryptocurrency Mining Rigs and Other (1)	Cash	Commercial Real Estate	Business Assets	Cryptocurrency Mining Rigs and Other (1)	Cash
Commercial real estate	$ 19,858	$ —	$ —	$ —	$ 19,849	$ —	$ —	$ —
Commercial	60	102	—	—	37	1	—	—
Enterprise value	—	4,304	—	92	—	4,218	—	92
Digital asset	—	—	20,915	5,687	—	—	16,768	—
Residential real estate	—	—	—	—	—	—	—	—
Construction and land development	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—	—	—
	$ 19,918	$ 4,406	$ 20,915	$ 5,779	$ 19,886	$ 4,219	$ 16,768	$ 92

(1) Other collateral includes the USD value of Bitcoin held in control accounts as well as cash accounts held at the Bank.

Occasionally, the Company modifies loans to borrowers in experiencing financial distress difficulty by providing the following modifications: principal forgiveness, other-than-insignificant payment delays, term extensions, an other-than-insignificant payment delay or an interest rate reduction. reductions, or a combination of 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 a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The following table presents the amortized cost basis of loans at March 31, 2023 June 30, 2023 that were both experiencing financial difficulty and modified during the quarter six months ended March 31, 2023 June 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in experiencing financial distress difficulty as compared to the amortized cost basis of each class of financing receivable is also presented below.

(Dollars in thousands)	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination	Total Class of Financing Receivable	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 %
March 31, 2023													
June 30, 2023													
Commercial							$ —	$ —	$ —	$ —	$ 21	$ 21	0.01 %
Enterprise value	$ —	$ 3,506	$ —	$ —	$ —	0.8 %	—	21,023	—	—	—	21,023	4.82
	$ —	$ 3,506	$ —	$ —	$ —	0.8 %							
Digital asset							—	—	16,580	—	—	16,580	98.88
Total							$ —	$ 21,023	$ 16,580	$ —	$ 21	$ 37,624	2.77 %

The modifications noted in the table above extend the interest only periods on the related loans for an additional ten months. This is in addition to a modification that was done in December 2022 which originally extended the interest only periods for three months. There are no related term extensions resulting from these modifications. The Company has committed to lend an additional amounts totaling $50,000 to the borrowers included in the previous table based on fund availability through an existing line of credit. credit to a borrower experiencing financial difficulty whose loans had been modified during the six months ended June 30, 2023.

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the six months ended June 30, 2023:

	Weighted-Average Payment Delay	Weighted-Average Term Extension	Weighted-Average Term Extension and Interest Rate Reduction	
	Months	Months	Months	Percentage
June 30, 2023				
Commercial	—	—	4	3.25%
Enterprise value	5	—	—	— %
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 March 31, 2023 June 30, 2023, there were no past due balances or subsequent defaults related to loans modified during the first quarter of 2023. six months ended June 30, 2023.

Prior to the Company's adoption of ASU 2022-02 on January 1, 2023 (see Note 4 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 modifications of the terms of the debt such as 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. Restructuring of a loan in lieu of aggressively enforcing the collection of the loan could benefit the Company by increasing the ultimate probability of collection.

There were no new TDRs entered into during the three six months ended March 31, 2022 June 30, 2022. The total recorded investment in TDRs was $22.3 million $20.6 million at March 31, 2022 June 30, 2022 and as of that date there were no material commitments to lend additional funds to borrowers whose loans had been restructured.

Credit Quality Information

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

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

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

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

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

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

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

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 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	$ 18,014	$ 54,463	$ 73,090	$ 31,353	$ 62,710	$ 138,942	$ 19,420	$ —	$ 397,992
Special mention	—	—	—	—	3,133	9,764	—	—	12,897
Substandard	—	—	—	1,048	4,518	21,573	—	—	27,139
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	1	—	—	—	—	—	1
Total commercial real estate	18,014	54,463	73,091	32,401	70,361	170,279	19,420	—	438,029
Commercial real estate									
Current period gross write offs	—	—	—	—	—	—	—	—	—
Commercial									
Pass	3,173	12,389	54,060	15,151	17,563	29,048	42,689	—	174,073
Special mention	—	—	—	—	11	9,955	1,295	—	11,261
Substandard	—	—	205	—	1,959	239	225	—	2,628
Doubtful	—	—	—	—	1	—	—	—	1
Loss	—	—	—	—	—	2	—	—	2
Total commercial	3,173	12,389	54,265	15,151	19,534	39,244	44,209	—	187,965
Commercial									
Current period gross write offs	—	—	—	—	101	66	—	—	167

	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	$ 6,430	$ 59,642	$ 75,152	$ 31,974	$ 62,480	$ 146,850	$ 19,231	$ —	$ 401,759
Special mention	—	—	—	—	3,767	14,717	—	—	18,484
Substandard	—	—	—	1,047	4,559	21,612	—	—	27,218
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial real estate	6,430	59,642	75,152	33,021	70,806	183,179	19,231	—	447,461
Commercial real estate									
Current period gross write offs	—	—	—	—	—	—	—	—	—
Commercial									
Pass	2,078	11,236	59,521	15,853	22,127	31,732	38,356	149	181,052

Special mention	—	—	—	—	41	10,293	14	—	10,348
Substandard	—	—	205	—	2,101	300	225	—	2,831
Doubtful	—	—	—	—	102	—	—	—	102
Loss	—	—	—	—	—	2	—	—	2
Total commercial	2,078	11,236	59,726	15,853	24,371	42,327	38,595	149	194,335
Commercial									
Current period gross write offs	—	—	—	—	—	41	—	—	41
Enterprise Value									
Pass	18,013 35,659	139,360 118,822	138,175 132,858	57,646 54,563	26,789 29,175	8,544 7,716	20,666 15,886	—	409,193 394,679
Special mention	—	938 12,658	1,679 6,473	5,088 4,827	2,967 2,763	3,065 1,662	8,240 9,201	—	21,977 37,584
Substandard	—	—	—	—	—	5,039 3,438	1,269 780	—	6,308 4,218
Doubtful	—	—	—	—	—	92	—	—	92
Loss	—	—	—	2	— 1	(2)	—	—	— 1
Total enterprise value	18,013 35,659	140,298 131,480	139,854 139,331	62,736 59,392	29,756 31,939	16,738 12,906	30,175 25,867	—	437,570 436,574
Enterprise value									
Current period gross write offs	—	3,560	—	—	—	—	—	—	3,560
Digital Asset									
Pass	—	—	—	—	—	—	499 —	—	499 —
Special mention	—	—	—	—	—	—	(120) —	—	(120) —
Substandard	—	19,899 16,580	1,016 188	—	—	—	5,687 —	—	26,602 16,768
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total digital asset	—	19,899 16,580	1,016 188	—	—	—	6,066 —	—	26,981 16,768
Digital asset									

Current period gross write offs	—	—	—	—	—	—	—	—	—	
Residential Real Estate										
Pass	—	—	—	5 —	200 193	3,592 3,868	3,198 2,716	442 347	7,437 7,124	
Substandard	—	—	—	— 5	—	224 291	70	—	—224 366	
Total residential real estate	—	—	—	5	200 193	3,816 4,159	3,198 2,786	442 347	7,661 7,490	
Residential real estate										
Current period gross write offs	—	—	—	—	—	—	—	—	—	
Construction and Land Development										
Pass	— 12	41,637 44,761	40,689 49,394	—	—	1,545 1,539	929 1,051	—	84,800 96,757	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Loss	—	—	—	—	—	—	—	—	—	
Total construction and land development	— 12	41,637 44,761	40,689 49,394	—	—	1,545 1,539	929 1,051	—	84,800 96,757	
Construction and land development										
Current period gross write offs	—	—	—	—	—	—	—	—	—	
Consumer										
Not formally rated	—	—	—	—	—	178	103 119	—	281 88	—207

Total consumer	—	—	—	—	—	178	103 119	—	281 88	—207
Consumer										
Current period gross write offs	—	—	—	—	— 12	16 17	—	—	16 29	
Mortgage Warehouse										
Pass	—	—	—	—	—	—	149,113 173,755	—	149,113 173,755	
Special mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Loss	—	—	—	—	—	—	—	—	—	
Total mortgage warehouse	—	—	—	—	—	—	149,113 173,755	—	149,113 173,755	

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Mortgage warehouse									
Current period gross write offs	—	—	—	—	—	—	—	—	—

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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

(7) Deposits

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

(In thousands)	At March 31, 2023	December 31, 2022	At June 30, 2023	At December 31, 2022
Noninterest-bearing:				
Demand (1)	$ 460,836	$ 520,226	$ 404,012	$ 520,226
Interest-bearing:				
NOW	122,721	145,533	111,701	145,533
Regular savings	158,470	141,802	159,940	141,802
Money market deposits	451,427	318,417	530,964	318,417
Certificates of deposit:				
Certificate accounts of $250,000 or more	17,659	11,449	20,869	11,449
Certificate accounts less than $250,000	192,808	142,155	220,600	142,155
Total interest-bearing (2)	943,085	759,356	1,044,074	759,356
Total deposits (1)(2)(3)	$ 1,403,921	$ 1,279,582		
Total deposits (3)			$1,448,086	$1,279,582

(1) Includes $161.7 million Noninterest-bearing deposits included $37.8 million and $45.3 million $20.8 million in Banking as a Service ("BaaS") and digital assets deposits, at March 31, 2023 respectively, as of June 30, 2023. Noninterest-bearing deposits included $25.3 million and $55.2 million in BaaS and digital assets deposits, respectively, as

of December 31, 2022, respectively..

(2) Includes $58.1 million Interest-bearing deposits included $197.9 million and $57.5 million $4.4 million in BaaS and digital asset assets deposits, at March 31, 2023 and respectively, as of June 30, 2023. As of December 31, 2022, respectively. there were no interest-bearing BaaS deposits, and $22.2 million interest-bearing digital assets deposits.

(3) Of total deposits as of March 31, 2023 June 30, 2023 and December 31, 2022, the Federal Deposit Insurance Corporation ("FDIC") insured approximately 54% 53% and 55%, respectively, and the remaining 46% 47% and 45%, respectively, were insured through the Depositors Insurance Fund ("DIF"), respectively. . The DIF is a private, industry-sponsored insurance fund that insures all deposits above FDIC limits at member banks.

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(8) Borrowings

Advances consist of funds borrowed from the Federal Home Loan Bank (the "FHLB"). Maturities of advances from the FHLB as of March 31, 2023 June 30, 2023 are summarized as follows:

(In thousands)		
Fiscal Year-End		
2023	$ 58,599	$70,066
2024	134	134
2025	5,136	5,136
2026	138	138
2027	139	139
Thereafter	4,150	4,150
Total	$ 68,296	$79,763

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 March 31, 2023 June 30, 2023, borrowings from the FHLB consisted of short-term borrowings, with original maturities of less than one year, totaling $50.0 million $70.0 million and long-term borrowings, with original maturities more than one year, totaling $18.3 million $9.8 million. The interest rate on FHLB short-term borrowings was 4.95% 5.27% at March 31, 2023 June 30, 2023. The interest rates on FHLB long-term advances ranged from 1.21% to 3.01% 1.32%, with a weighted average interest rate of 1.91% 1.28% at March 31, 2023June 30, 2023.

(9) 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:

(In thousands)	Amount	Amount
Net balance of other repossessed assets at December 31, 2022	$ 6,051	$ 6,051
Direct write-downs	(21)	(21)
Sales of other repossessed assets	(6,030)	(6,030)
Net balance of other repossessed assets at March 31, 2023	$ —	
Net balance of other repossessed assets at June 30, 2023		$ —

Activity in the valuation allowance was as follows:

	Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022	2023	2022
Beginning balance	$ 597	$ —	$ —	$ —	$ 597	$ —
Reductions from sales of other repossessed assets	(597)	—	—	—	(597)	—
Ending balance	$ —	$ —	$ —	$ —	$ —	$ —

For There were no other repossessed assets outstanding for the three months ended March 31, 2023 June 30, 2023 and June 30, 2022, and therefore there were no related gains or expenses recognized during those periods. For the six months ended June 30, 2023 the Company recognized $166,000 in net gain on sales of other repossessed assets and $115,000 in operating expenses. There were no other repossessed assets outstanding during the three six months ended March 31, 2022 June 30, 2022 and therefore there were no related gains or expenses recognized during that period.

(10) 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 March 31, 2023 June 30, 2023 and December 31, 2022:

	Fair Value Measurements at Reporting Date Using				Fair Value Measurements at Reporting Date Using			
			Significant Other Observable Inputs	Significant Unobservable Inputs			Significant Other Observable Inputs	Significant Unobservable Inputs
(In thousands)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
March 31, 2023								
June 30, 2023								
State and municipal securities	$ 11,260	$ —	$ 11,260	$ —	$11,196	$ —	$ 11,196	$ —
Asset-backed securities	6,515	—	6,515	—	6,120	—	6,120	—
Government mortgage-backed securities	10,969	—	10,969	—	10,340	—	10,340	—
Totals	$ 28,744	$ —	$ 28,744	$ —	$27,656	$ —	$ 27,656	$ —
December 31, 2022								
State and municipal securities	$ 11,071	$ —	$ 11,071	$ —	$11,071	$ —	$ 11,071	$ —
Asset-backed securities	6,274	—	6,274	—	6,274	—	6,274	—
Government mortgage-backed securities	11,255	—	11,255	—	11,255	—	11,255	—
Totals	$ 28,600	$ —	$ 28,600	$ —	$28,600	$ —	$ 28,600	$ —

Fair Values of Assets Measured on a Non-Recurring 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 allowance for loan losses. 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 March 31, 2023 June 30, 2023 and December 31, 2022:

	Fair Value Measurements at Reporting Date Using:				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	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
March 31, 2023								
June 30, 2023								
Loans								
Commercial	$ 102	$ —	$ —	$ 102				
Enterprise value	1,535	—	—	1,535	$ 1,835	$ —	$ —	$ 1,835
Digital asset	13,695	—	—	13,695	9,549	—	—	9,549
Totals	$ 15,332	$ —	$ —	$ 15,332	$11,384	$ —	$ —	$ 11,384
December 31, 2022								
Loans								
Commercial	$ 16,817	$ —	$ —	$ 16,817	$16,817	$ —	$ —	$ 16,817
Other repossessed assets	6,051	—	—	6,051	6,051	—	—	6,051
Totals	$ 22,868	$ —	$ —	$ 22,868	$22,868	$ —	$ —	$ 22,868

The following is a summary of the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis at March 31, 2023 June 30, 2023 and December 31, 2022:

(In thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Fair Value	Valuation Technique	Unobservable Input	Range
March 31, 2023								
June 30, 2023								
Loans								
Commercial	$ 102	Business or collateral valuation	Comparable company or collateral evaluations	0% - 10%				
Enterprise value	1,535	Business or collateral valuation	Comparable company or collateral evaluations	0% - 5%	$ 1,835	Business or collateral valuation	Comparable company or collateral evaluations	0% - 7%
Digital asset	13,695	Asset valuation	Comparable asset evaluations	0% - 2%	9,549	Asset valuation	Comparable asset evaluations	0% - 1%
December 31, 2022								
Loans								
Commercial	$ 16,817	Business or collateral valuation	Comparable company or collateral evaluations	0% - 10%	$16,817	Business or collateral valuation	Comparable company or collateral evaluations	0% - 10%
Other repossessed assets	6,051	Asset valuation	Comparable asset evaluations	0% - 3%	6,051	Asset valuation	Comparable asset evaluations	0% - 3%

At March 31, 2023 June 30, 2023, the carrying amount contractual balance of loans measured at fair value on a nonrecurring basis was $1.3 million, net of charge-offs of $1.2 million for the commercial segment, $6.2 million, net of reserves of $2.9 million $2.5 million and charge-offs of $1.7 million for the enterprise value segment, and $21.1 million $18.1 million, net of reserves of $7.2 million and interest paid to principal of $1.3 million for the digital asset segment. At December 31, 2022, the carrying amount contractual balance of commercial loans measured at fair value on a nonrecurring basis was $28.7 million, net of reserves of $10.1 million and charge-offs of $1.8 million.

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 March 31, 2023 June 30, 2023 and December 31, 2022:

(In thousands)	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
March 31, 2023										
June 30, 2023										
Financial assets:										
Cash and cash equivalents	$ 244,178	$ 244,178	$ —	$ —	$ 244,178	$ 297,858	$297,858	$ —	$ —	$ 297,858
Available-for-sale debt securities	28,744	—	28,744	—	28,744	27,656	—	27,656	—	27,656
Federal Home Loan Bank of Boston stock	3,095	N/A	N/A	N/A	N/A	3,309	N/A	N/A	N/A	N/A
Loans, net	1,323,390	—	—	1,239,517	1,239,517	1,333,564	—	—	1,232,255	1,232,255
Accrued interest receivable	5,836	—	5,836	—	5,836	5,007	—	5,007	—	5,007
Financial liabilities:										
Deposits	1,403,921	—	1,404,682	—	1,404,682	1,448,086	—	1,448,873	—	1,448,873
Borrowings	68,296	—	68,016	—	68,016	79,763	—	79,513	—	79,513
December 31, 2022										
Financial assets:										
Cash and cash equivalents	$ 80,629	$ 80,629	$ —	$ —	$ 80,629	$ 80,629	$ 80,629	$ —	$ —	$ 80,629
Available-for-sale debt securities	28,600	—	28,600	—	28,600	28,600	—	28,600	—	28,600
Federal Home Loan Bank of Boston stock	4,266	N/A	N/A	N/A	N/A	4,266	N/A	N/A	N/A	N/A
Loans, net	1,416,047	—	—	1,341,633	1,341,633	1,416,047	—	—	1,341,633	1,341,633
Accrued interest receivable	6,597	—	6,597	—	6,597	6,597	—	6,597	—	6,597
Other repossessed assets	6,051	—	—	6,051	6,051	6,051	—	—	6,051	6,051
Financial liabilities:										
Deposits	1,279,582	—	1,279,665	—	1,279,665	1,279,582	—	1,279,665	—	1,279,665
Borrowings	126,829	—	124,590	—	124,590	126,829	—	124,590	—	124,590

(11) Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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 March 31, 2023 June 30, 2023 and December 31, 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 asset above the amount necessary to meet its minimum risk-based capital requirements. At March 31, 2023 June 30, 2023, the Bank exceeded the regulatory requirement for the capital conservation buffer.

Federal banking agencies regulations establish 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 March 31, 2023 June 30, 2023, the Bank has not opted into the CBLR framework.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2023												
June 30, 2023												
Total Capital (to Risk Weighted Assets)	$ 206,477	13.52 %	$ 122,152	≥ 8.0 %	$ 152,690	≥ 10.0 %	$207,287	13.32 %	$124,452	≥8.0 %	$155,565	≥10.0 %
Tier 1 Capital (to Risk Weighted Assets)	187,312	12.27	91,614	≥ 6.0	122,152	≥ 8.0	187,781	12.07	93,339	≥6.0	124,452	≥ 8.0
Common Equity Tier 1 Capital (to Risk Weighted Assets)	187,312	12.27	68,711	≥ 4.5	99,249	≥ 6.5	187,781	12.07	70,004	≥4.5	101,117	≥ 6.5
Tier 1 Capital (to Average Assets)	187,312	11.83	63,346	≥ 4.0	79,182	≥ 5.0	187,781	10.95	68,622	≥4.0	85,777	≥ 5.0
December 31, 2022												
Total Capital (to Risk Weighted Assets)	$ 204,354	12.62 %	$ 129,492	≥ 8.0 %	$ 161,865	≥ 10.0 %	$204,354	12.62 %	$129,492	≥8.0 %	$161,865	≥10.0 %
Tier 1 Capital (to Risk Weighted Assets)	184,025	11.37	97,119	≥ 6.0	129,492	≥ 8.0	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	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	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; and
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 by the Bank 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 three six months ended March 31, 2023 June 30, 2023, the Bank reported net income of $2.1 million, netted against $5.5 million. For the years ended December 31, 2022 and 2021, the Bank reported a net loss of $21.5 million the Bank reported for the year ended December 31, 2022 and the net income of $16.1 million for the year ended December 31, 2021, resulted in insufficient available retained earnings to pay dividends, and as such no respectively. No dividends were paid during the three six months ended March 31, 2023 June 30, 2023.

The Company may, at times, repurchase its own shares in the open market. Such transactions are subject to the Federal Reserve Board's notice provisions for stock repurchases. 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 Federal Reserve Bank of Boston, and in compliance with applicable state and federal regulations. As of March 31, 2023 June 30, 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 three six months ended March 31, 2023 June 30, 2023.

(12) Employee Stock Ownership Plan

The Bank established an employee stock ownership plan (the "ESOP") to provide eligible employees the opportunity to own Company stock. The plan is a tax-qualified plan for the benefit of all 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 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:

	March 31, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Allocated	551,530	461,772	551,530	461,772
Committed to be released	22,439	89,758	44,879	89,758
Unallocated	964,899	987,338	942,459	987,338
Total	1,538,868	1,538,868	1,538,868	1,538,868

The fair value of unallocated shares was approximately $6.6 $7.8 million at March 31, 2023 June 30, 2023.

Total compensation expense recognized in connection with the ESOP for the three months ended March 31, 2023 June 30, 2023 and 2022 was $187,000 $169,000 and $383,000, $349,000, respectively. Total compensation expense recognized for the six months ended June 30, 2023 and 2022 was $356,000 and $732,000, respectively.

(13) Earnings Per Common Share

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

	Three Months Ended		Three Months Ended		Six Months Ended	
(Dollars in thousands, except per share dollar amounts)	March 31, 2023	March 31, 2022	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net Income attributable to common shareholders	$ 2,103	$ 5,525	$ 3,461	$ 5,619	$ 5,564	$ 11,144
Average number of common shares issued	17,686,055	17,856,516	17,688,826	17,765,817	17,687,448	17,810,916
Less:						
average unallocated ESOP shares	(972,380)	(1,062,137)	(949,941)	(1,039,698)	(961,098)	(1,050,855)
average unvested restricted stock	(183,048)	(276,427)	(170,221)	(265,871)	(176,599)	(271,120)
Average number of common shares outstanding to calculate basic earnings per common share	16,530,627	16,517,952	16,568,664	16,460,248	16,549,751	16,488,941
Effect of dilutive unvested restricted stock and stock option awards	639	510,105	1,353	422,685	915	468,245
Average number of common shares outstanding to calculate diluted earnings per common share	16,531,266	17,028,057	16,570,017	16,882,933	16,550,666	16,957,186
Earnings per common share:						
Basic	$ 0.13	$ 0.33	$ 0.21	$ 0.34	$ 0.34	$ 0.68
Diluted	$ 0.13	$ 0.32	$ 0.21	$ 0.33	$ 0.34	$ 0.66

Stock options for 1,486,071 1,235,342 and 171,267 198,627 shares of common stock were not considered in computing diluted earnings per common share for the three months ended March 31, 2023 June 30, 2023 and 2022, respectively, because they were anti-dilutive, meaning the exercise price for such options were higher than the average price for the Company for such period. For the six months ended June 30, 2023 and 2022, 1,360,013, and 185,022 shares, respectively, were not considered in computing diluted earnings per common share because they were antidilutive.

(14) Share-Based Compensation

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", and 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 three to five 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 in directors' compensation within non-interest expense.

Stock Options

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

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

A summary of the status of the Company's stock option grants for the three months ended March 31, 2023 June 30, 2023 is presented below:

	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value	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			1,467,876	$ 11.00		
Granted	158,100	9.55			158,100	9.55		
Forfeited	(32,400)	16.52			(47,700)	14.56		
Expired	(117,740)	11.98			(150,448)	11.67		
Exercised	(225,565)	8.61			(225,565)	8.61		
Outstanding at March 31, 2023	1,250,271	$ 11.01	6.73	$ —				
Outstanding and expected to vest at March 31, 2023	1,250,271	$ 11.01	6.73	$ —				
Vested and Exercisable at March 31, 2023	644,305	$ 10.20	5.09	$ —				
Outstanding at June 30, 2023					1,202,263	$ 10.37	6.55	$ —
Outstanding and expected to vest at June 30, 2023					1,202,263	$ 10.37	6.55	$ —
Vested and Exercisable at June 30, 2023					637,027	$ 11.03	5.02	$ —
Unrecognized compensation cost	$ 2,193,000				$1,977,000			
Weighted average remaining recognition period (years)	3.53							
Weighted average remaining recognition period (years)					3.33			

For the three months ended March 31, 2023 June 30, 2023 and 2022, expense for the stock options was $155,000 $164,000 and $208,000, $218,000, respectively. For the six months ended June 30, 2023 and 2022, total expense for the stock options was $320,000 and $426,000, respectively. No stock options were exercised during the three months ended June 30, 2023 or 2022. The intrinsic value of options exercised was $97,000 and $425,000 for the three six months ended March 31, 2023 June 30, 2023 and 2022, respectively. The tax benefit from option exercises was $27,000 and $101,000 for the three six months ended March 31, 2023 June 30, 2023 and 2022, respectively.

Restricted Stock

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

The following table presents the activity in restricted stock awards under the Equity Plans for the three months ended March 31, 2023 June 30, 2023:

	Unvested Restricted Stock Awards	Weighted Average Grant Date Price	Unvested Restricted Stock Awards	Weighted Average Grant Date Price
Unvested restricted stock awards at December 31, 2022	192,748	$ 13.16	192,748	$ 13.16
Granted	29,515	9.55	29,515	9.55
Forfeited	(12,968)	16.52	(19,094)	14.56
Vested	(4,894)	16.57	(15,594)	15.59
Unvested restricted stock awards at March 31, 2023	204,401	$ 12.35		
Unvested restricted stock awards at June 30, 2023			187,575	$ 12.25
Unrecognized compensation cost	$ 2,187,000		$1,956,000	
Weighted average remaining recognition period (years)	3.35		3.15	

For the three months ended March 31, 2023 June 30, 2023 and 2022, expense for the restricted stock awards was $164,000 $168,000 and $237,000, $250,000, respectively. For the six months ended June 30, 2023 and 2022, total expense for the restricted stock awards was $331,000 and $487,000, respectively. The tax benefit from restricted awards was $51,000 $50,000 and $66,000 $69,000 for the three months ended March 31, 2023 June 30, 2023 and 2022, respectively. The tax benefit from restricted awards was $101,000 and $135,000 for the six months ended June 30, 2023 and 2022, respectively. The total fair value of shares vested during the three months ended March 31, 2023 June 30, 2023 and 2022 was $44,000 $77,000 and $15,000, $168,000, respectively. The total fair value of shares vested during the six months ended June 30, 2023 and 2022 was $121,000 and $183,000, respectively.

(15) Leases

The Company recognized right-of-use assets (“ROU”) totaling $3.9 million at March 31, 2023 June 30, 2023 and December 31, 2022, and operating lease liabilities totaling $4.2 million and $4.3 million at March 31, 2023 June 30, 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 are 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 the leases on a straight-line basis over the lease term. For the three six months ended March 31, 2023 June 30, 2023 and 2022, rent expense for the operating leases totaled $79,000. $157,000.

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

	March 31, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Weighted-average discount rate	3.60%	3.59%	3.61%	3.59%
Range of lease expiration dates	1 - 12.5 years	1 - 13 years	1 - 12 years	1 - 13 years
Range of lease renewal options	0 - 20 years	5 - 20 years	0 - 20 years	5 - 20 years
Weighted-average remaining lease term	26.2 years	26.4 years	26.1 years	26.4 years

The following table presents the undiscounted annual lease payments under the terms of the Company’s operating leases at March 31, 2023 June 30, 2023 and December 31, 2022, including a reconciliation to the present value of operating lease liabilities recognized in the Consolidated Balance Sheets:

Fiscal Year-End	March 31, 2023	December 31, 2022	June 30, 2023	December 31, 2022
(In thousands)				
2023	$ 199	$ 264	$ 132	$ 264
2024	270	270	270	270
2025	280	280	280	280

2026	291	291	291	291
2027	293	293	294	293
Thereafter	5,740	5,740	5,740	5,740
Total lease payments	7,073	7,138	7,007	7,138
Less imputed interest	(2,818)	(2,856)	(2,780)	(2,856)
Total lease liabilities	$ 4,255	$ 4,282	$ 4,227	$ 4,282

The lease liabilities recognized include certain lease extensions as it is expected that the Company will use substantially all lease renewal options.

(16) 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.

(17) Qualified Affordable Housing Project Investments

The Bank invests in qualified affordable housing projects. At March 31, 2023 June 30, 2023 and December 31, 2022, the balance of the investment for qualified affordable housing projects was $6.6 million $6.5 million and $7.3 million, respectively. These balances are reflected in the other assets line on the Consolidated Balance Sheets. Under the proportional amortization method, the Company recognized amortization expense of $1.2 million $179,000 and tax credits of $1.5 million $219,000 for the three months ended March 31, 2023 June 30, 2023, respectively. The Company did not recognize any amortization expense or tax credits for the three months ended March 31, 2022 June 30, 2022. The Company recognized amortization expense of $1.4 million and tax credits of $1.7 million for the six months ended June 30, 2023, respectively. The Company did not recognize any amortization expense or tax credits for the six months ended June 30, 2022.

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

Management's discussion and analysis of financial condition and results of operations at March 31, 2023 June 30, 2023 and December 31, 2022 and for the three and six months ended March 31, 2023 June 30, 2023 and 2022 is intended to assist in understanding our financial condition and results of operations. Operating results for the three-month period three- and six- month periods ended March 31, 2023 June 30, 2023 may not be indicative of results for all of 2022 2023 or any other period. The information contained in this section should be read in conjunction with the Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part 1, Item 1 of this report.

Forward-Looking Statements

This document may contain certain forward-looking statements, such as statements of the Company's or the Bank's plans, objectives, expectations, estimates and intentions. Forward-looking statements may be identified by the use of words such as "expects," "subject," "believes," "will," "intends," "may," "will be," "would" or similar expressions. Readers should not place undue reliance on any forward-looking statements, which reflect management's analysis of factors only as of the date of which they are given. These statements are subject to change based on various important factors (some of which are beyond the Company's or the Bank's control) and actual results may differ materially. Accordingly, readers should not place any undue reliance on any forward-looking statements (which reflect management's analysis of factors only as of the date of which they are given). These factors include: general economic conditions; the impact of a pandemic on our operations and financial results and those of our customers; global and national war and terrorism; trends in interest rates; inflation; potential recessionary conditions; levels of unemployment; legislative, regulatory and accounting changes; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the FRB; deposit flows; our ability to access cost-effective funding; changes in liquidity, including the size and composition of our deposit portfolio and the percentage of uninsured deposits in the portfolio; changes in consumer spending, borrowing and saving habits; a default by the U.S. government on its debt obligations; competition; real estate values in the market area; loan demand; the adequacy of our allowance for credit losses; changes in the quality of our loan and securities portfolios; the ability of our borrowers to repay their loans; an unexpected adverse financial, regulatory or bankruptcy event experienced by our cryptocurrency, digital asset or financial technology ("fintech") customers; our ability to retain key employees; failures or breaches of our IT systems, including cyber attacks; the failure to maintain current technologies; and the ability of the Company or the Bank to effectively manage its growth and results of regulatory examinations, among other factors.

The foregoing list of important factors is not exclusive. Readers should carefully review the factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including Annual and Quarterly Reports on Forms 10-K and 10-Q, and Current Reports on Form 8-K.

Except as required by applicable law and regulation, the Company does not undertake — and specifically disclaims any obligation — to update any forward-looking statements after the date of this quarterly report.

Critical Accounting Policies

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

Allowance for Credit Losses. The allowance for credit losses represents management's estimate of expected losses over the life of the loan portfolio. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. See Note 4 of the Notes to the Unaudited Consolidated Financial Statements for additional information.

Income Taxes. The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of our assets and liabilities at

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enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. A tax valuation allowance is established, as needed, to reduce net deferred tax assets to the amount expected to be realized.

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

Balance Sheet Analysis

Recent Developments. Results for the quarter ended June 30, 2023 reflect the Bank's restructured management team and revised focus on its business plan, operations and risk tolerance in light of the events and the losses that occurred in late 2022. Concerted efforts have been made to revise the Bank's business practices and strategies so as to better monitor and manage the risk position, capital position, liquidity, growth of the Bank's BaaS operations and overall asset growth. In this regard, the Bank has re-established internal metrics and limitations in these areas to better manage and monitor the Bank's overall risk position, including generally managing overall asset growth to 5% per year, and adopting more comprehensive capital management policies and procedures.

Assets. Total assets were $1.70 $1.76 billion at March 31, 2023 June 30, 2023, representing an increase of $65.8 $125.2 million, or 4.0% 7.7%, from $1.64 billion at December 31, 2022. The increase resulted primarily from an increase in cash and cash equivalents partially offset by decreases in net loans and other repossessed assets.

Cash and Cash Equivalents. Cash and cash equivalents increased $163.5 million $217.3 million, or 202.8% 269.4%, to $244.2 million $297.9 million at March 31, 2023 June 30, 2023 from $80.6 million at December 31, 2022, primarily due to increased deposit balances especially with regard to specialty deposits, and a decrease in net loans. The Bank deems select specialty deposits that are expected to be short-term as volatile. The Bank held $171.3 million of these deposits as of June 30, 2023 as cash in short-term investments. No volatile deposits were held as of December 31, 2022.

Loans. At March 31, 2023 June 30, 2023, net loans were $1.32 $1.33 billion, or 77.7% 75.7% of total assets, compared to $1.42 billion, or 86.5% of total assets, at December 31, 2022. The decrease was primarily driven by decreases in mortgage warehouse loans of $64.1 million $39.5 million, or 30.1% 18.5%, commercial loans of $22.6 million $29.0 million, or 10.4% 13.4%, and digital asset loans of $13.8 million $24.0 million, or 33.8% 58.9%. The decrease in our mortgage warehouse loan portfolio was primarily due to decreased usage of the mortgage warehouse lines. The decrease in our commercial loan portfolio was primarily related to payoffs in our traditional in-market loan portfolio. The Bank continues its Bank's continued efforts to wind-down reduce its digital asset lending portfolio. Digital asset loans were $27.0 million as of March 31, 2023 compared to $40.8 million as of December 31, 2022, which represents portfolio resulted in a decrease of $13.8 million $24.0 million, or 33.8% 58.9%. The decrease in the digital asset loan portfolio was primarily driven by paydowns on outstanding lines of credit as well as the payoff of a $4.8 million loan secured by cryptocurrency mining rigs during the first quarter of 2023 and the payoff of a $5.7 million line of credit during the second quarter of 2023. The decrease in net loans was partially offset by an increase in the construction and land development portfolio of $25.0 million, or 33.9%.

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

	At March 31, 2023		At December 31, 2022		At June 30, 2023		At December 31, 2022	
(In thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate	$ 447,461	33.19%	$ 453,592	31.41%	$ 438,029	32.26%	$ 453,592	31.41%
Commercial	194,335	14.41%	216,931	15.02%	187,965	13.85%	216,931	15.02%
Enterprise value	437,570	32.46%	438,745	30.38%	436,574	32.15%	438,745	30.38%
Digital asset (1)	26,981	2.00%	40,781	2.82%	16,768	1.24%	40,781	2.82%
Residential real estate	7,661	0.57%	8,165	0.57%	7,490	0.55%	8,165	0.57%
Construction and land development	84,800	6.29%	72,267	5.00%	96,757	7.13%	72,267	5.00%
Consumer	281	0.02%	391	0.03%	207	0.02%	391	0.03%
Mortgage warehouse	149,113	11.06%	213,244	14.77%	173,755	12.80%	213,244	14.77%
	1,348,202	100.00%	1,444,116	100.00%	1,357,545	100.00%	1,444,116	100.00%

Allowance for credit losses - loans	(24,812)	(28,069)	(23,981)	(28,069)
Net loans	$ 1,323,390	$ 1,416,047	$1,333,564	$1,416,047

(1) Includes $20.9 million $16.8 million and $26.5 million in loans secured by cryptocurrency mining rigs at March 31, 2023 June 30, 2023 and December 31, 2022, respectively. The remaining balance consists balances consist of a cash secured loan. digital asset lines of credit.

Other Repossessed Assets. Other repossessed assets decreased $6.1 million due to the sale of repossessed cryptocurrency mining rigs. There were no other repossessed assets at March 31, 2023 June 30, 2023.

Deposits. Total deposits increased $124.3 $168.5 million, or 9.7% 13.2%, to $1.40 billion $1.44 billion at March 31, 2023 June 30, 2023 from $1.28 billion at December 31, 2022. This increase included an increase in interest-bearing deposits of $183.7 million $284.7 million, or 24.2% 37.5%, offset by a decrease in noninterest-bearing deposits of $59.4 million $116.0 million, or 11.4% 22.3%. The increase in interest-bearing deposits and the decrease in noninterest-bearing deposits is primarily driven by the rising rate environment and customers seeking returns on their deposits. To retain customers, the Bank has increased deposit rates on certain products and seen a shift between noninterest-bearing and interest-bearing deposit accounts as a result.

Interest-bearing deposits increased primarily due to an increase in money market deposits, which increased $133.0 million, $212.5million, or 41.8% and 66.8%, an increase in certificates of deposit of $56.9 million $87.9 million, or 37.0% 57.2%, and an increase in regular savings deposits of $181.1 million, or 12.8%. The increase in money market deposits was primarily driven by an increase in deposits from BaaS customers. The increase in certificates of deposit was primarily driven by increased utilization of brokered certificates of deposit, which increased $40.3 million $70.3 million, or 33.6% 58.6%, and were $160.4 million $190.4 million at March 31, 2023 June 30, 2023, compared to $120.1 million at December 31, 2022. Regular savings deposits increased, $16.7 million, or 11.8%, primarily due to the Bank obtaining deposits on the a national exchange.

Included in the increase in total deposits was an increase of $117.0 million $158.1 million in specialty deposits, which were $219.8 million $260.9 million as of March 31, 2023 June 30, 2023 compared to $102.8 million as of December 31, 2022. Specialty deposits span various product types, including demand, money market and savings deposits, and consist of deposits from BaaS and digital asset customers. BaaS deposits totaled $161.7 million $235.6 million as of March 31, 2023 June 30, 2023 which represents a $116.4 million $190.4 million increase from December 31, 2022. Of the balance as of March 31, 2023 June 30, 2023, the Bank has deemed $91.9 million $171.3 million as volatile, which the Bank defines as deposits that are expected to be short-term. These volatile deposits are paired with short-term assets, such held as cash to mitigate the risk associated with the possibility of withdrawal. Included in short-term investments. BaaS deposits

was $51.6 million included $106.6 million as of March 31, 2023 June 30, 2023 related to BaaS customers whose business model focuses on digital assets. assets, which represents an increase of $86.0 million from $20.6 million as of December 31, 2022. Non-BaaS digital asset deposits totaled $58.1 million $25.3 million as of March 31, 2023 June 30, 2023, which represents represented a $621,000 increase $32.2 million decrease from $57.5 million as of December 31, 2022.

The following table is a summary of deposit balances by account type at the dates indicated:

(In thousands)	At March 31, 2023	At December 31, 2022	At June 30, 2023	At December 31, 2022
Noninterest-bearing:				
Demand (1)	$ 460,836	$ 520,226	$ 404,012	$ 520,226
Interest-bearing:				
NOW	122,721	145,533	111,701	145,533
Regular savings	158,470	141,802	159,940	141,802
Money market deposits	451,427	318,417	530,964	318,417
Certificates of deposit:				
Certificate accounts of $250,000 or more	17,659	11,449	20,869	11,449
Certificate accounts less than $250,000	192,808	142,155	220,600	142,155
Total interest-bearing (2)	943,085	759,356	1,044,074	759,356
Total deposits (1)(2)(3)	$ 1,403,921	$ 1,279,582		
Total deposits (3)			$1,448,086	$1,279,582

(1) Includes $161.7 million Noninterest-bearing deposits included $37.8 million and $45.3 million $20.8 million in Banking as a Service ("BaaS") and digital assets deposits, respectively, as of June 30, 2023. Noninterest-bearing deposits included $25.3 million and $55.2 million in BaaS and digital assets deposits, respectively, as of December 31, 2022. Includes $25.3 million and $57.5 million in digital asset deposits at March 31, 2023 June 30, 2023 and December 31, 2022, respectively.

(2) Includes $58.1 million Interest-bearing deposits included $197.9 million and $57.5 million $4.4 million in BaaS and digital asset assets deposits, at March 31, 2023 and respectively, as of June 30, 2023. As of December 31, 2022, respectively. there were no interest-bearing BaaS deposits, and $22.2 million interest-bearing digital assets deposits.

(3) Of total deposits as of March 31, 2023 June 30, 2023 and December 31, 2022, the FDIC Federal Deposit Insurance Corporation (“FDIC”) insured approximately 56% 53% and 55%, respectively, and the remaining 44% 47% and 45%, respectively, were insured through the Depositors Insurance Fund (“DIF”). The DIF respectively. is a private, industry-sponsored insurance fund that insures all deposits above FDIC limits at member banks.

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Borrowings. Borrowings decreased $58.5 million $47.0 million, or 46.2% 37.1%, to $68.3 million $79.8 million at March 31, 2023 June 30, 2023, from $126.8 million at December 31, 2022. The decrease was due to primarily driven by a decrease in overnight borrowings.

Shareholders’ Equity. Total As of June 30, 2023, shareholders’ equity increased $3.9 million, was $215.1 million compared to $207.5 million at December 31, 2022, which represented an increase of $7.5 million, or 1.9%, to $211.5 million at March 31, 2023, from $207.5 million at December 31, 2022 3.6%. The increase was primarily due to net income of $2.1 million $5.6 million. Also contributing to the increase was a one-time, cumulative-effect adjustment for the adoption of CECL which increased retained earnings by $696,000. Shareholders’ equity also increased due to other comprehensive income of $631,000, stock-based compensation expense of $319,000, and $651,000, employee stock ownership plan shares earned of $187,000. $356,000, and other comprehensive income of $309,000.

Asset Quality.

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

(Dollars in thousands)	At March 31, 2023	At December 31, 2022	At June 30, 2023	At December 31, 2022
Non-accrual loans:				
Commercial real estate	$ 55	$ 56	$ 160	$ 56
Commercial	193	101	70	101
Enterprise value	4,397	92	4,310	92
Digital asset	26,602	26,488	16,768	26,488
Residential real estate	224	227	361	227
Construction and land development	—	—	—	—
Consumer	—	—	—	—
Mortgage warehouse	—	—	—	—
Total non-accrual loans	31,471	26,964	21,669	26,964
Accruing loans past due 90 days or more	—	—	—	—
Other repossessed assets	—	6,051	—	6,051
Total non-performing assets	$ 31,471	$ 33,015	$ 21,669	$ 33,015
Total loans (1)	$ 1,348,202	$ 1,444,116	$1,357,545	$1,444,116
Total assets	$ 1,702,153	$ 1,636,381	$1,761,587	$1,636,381
Total non-performing loans to total loans (1)	2.33%	1.87%	1.60%	1.87%
Total non-performing assets to total assets	1.85%	2.02%	1.23%	2.02%

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(1) Loans are presented at amortized cost.

The increase in the non-accrual enterprise value loan balances for the three-month six-month period ended March 31, 2023 June 30, 2023 was primarily related to the downgrade of one $4.3 million enterprise value loan relationship. relationship during the quarter ended March 31, 2023. The decrease in the non-accrual digital asset balances balance at March 31, 2023 June 30, 2023, were was primarily related to paydowns in our portfolio of loans secured by cryptocurrency mining rigs. The amortized cost of loans secured by cryptocurrency mining rigs, totaled $20.9 million, which were on non-accrual status with reserves as of March 31, 2023. Also included in the non-accrual digital asset balance at March 31, 2023, is a $5.7 million cash-secured loan relationship the collateral for which is subject to judivial proceedings in which the Bank is asserting its legal rights well as a secured party. payoff of a $4.8 million loan relationship.

Repayment of non-performing loans is largely dependent on the return of such loans to performing status or the liquidation of the underlying collateral. The Company pursues the resolution of all non-performing loans through collections, restructures, voluntary liquidation of collateral by the borrower and, where necessary, legal action. When attempts to work with a customer to return a loan to performing status, including restructuring the loan, are unsuccessful, the Company will initiate appropriate legal action seeking to acquire property by deed in lieu of foreclosure or through foreclosure, or to liquidate business assets.

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

Three Months Ended	Six Months Ended

(Dollars in thousands)	March 31, 2023	March 31, 2022	June 30, 2023	June 30, 2022
Allowance at beginning of period	$ 28,069	$ 19,496	$ 28,069	$ 19,496
Impact of adopting ASC 326	(2,588)	—	(2,588)	—
Credit loss expense - loans	2,935	83	2,195	1,088
Charge-offs:				
Commercial real estate	—	—	—	—
Commercial	41	—	167	1,338
Enterprise value	3,560	351	3,560	351
Digital asset	—	—	—	—
Residential real estate	—	—	—	—
Construction and land development	—	—	—	—
Consumer	16	28	29	35
Mortgage warehouse	—	—	—	—
Total charge-offs	3,617	379	3,756	1,724
Recoveries:				
Commercial real estate	—	—	—	—
Commercial	10	—	10	6
Enterprise value	—	88	45	87
Digital asset	—	—	—	—
Residential real estate	—	—	—	—
Construction and land development	—	—	—	—
Consumer	3	8	6	19
Mortgage warehouse	—	—	—	—
Total recoveries	13	96	61	112
Net charge-offs	3,604	283	3,695	1,612
Allowance at end of period	$ 24,812	$ 19,296	$ 23,981	$ 18,972
Non-performing loans at end of period	$ 31,471	$ 1,881	$ 21,669	$ 608
Total loans outstanding at end of period (1)	1,348,202	1,456,725	1,357,545	1,533,217
Average loans outstanding during the period (1)	1,391,941	1,469,268	1,369,172	1,467,122
Allowance to non-performing loans	78.84%	1,025.84%	110.67%	3,120.39%
Allowance to total loans outstanding at end of period	1.84%	1.32%	1.77%	1.24%
Net charge-offs to average loans outstanding during the period (annualized)	1.04%	0.08%	0.54%	0.22%

(1) Loans are presented at amortized cost.

A credit loss expense for loans of $2.9 million $712,000 was recognized for the three six months ended March 31, 2023 June 30, 2023, compared to $83,000 a credit loss expense of $1.1 million for the same period in 2022. six months ended June 30, 2022. The increased provision credit loss expense for the six months ended June 30, 2023 was primarily driven by the need to replenish the allowance due to increased net charge-offs. charge-offs that occurred during the quarter ended March 31, 2023 in the enterprise value portfolio. The increased charge-offs also resulted expense was partially offset by improvements in an increase the near-term Gross Domestic Product ("GDP") and unemployment rate forecasts, as well as a reduction of the loan balances in the commercial real estate, commercial, and enterprise value loan portfolios, which have a higher credit risk compared to the general reserves based on the Company's allowance for credit loss methodology. Bank's other loan portfolios.

Net charge-offs increased $3.3 million $2.1 million, to $3.6 million $3.7 million for the three six months ended March 31, 2023 June 30, 2023 from $283,000 $1.6 million for the three six months ended March 31, 2022 June 30, 2022, due primarily to the $3.6 million in charge-offs related to the enterprise value loan portfolio.

Results of Operations for the Three Months Ended March 31, 2023 June 30, 2023 and 2022

General. Net income for the quarter ended March 31, 2023 June 30, 2023 was $2.1 million $3.5 million compared to $5.5 million of net income $5.6 million for the quarter ended March 31, 2022 June 30, 2022, which represents represented a decrease of $3.4 million $2.1 million, or 61.9% 38.4%. The decrease in net income was primarily driven by a

decrease an increase in net interest expense and noninterest expense, partially offset by an increase in interest and dividend income and increases in noninterest and credit loss expense partially offset by a decrease in income tax the credit loss expense.

Interest and Dividend Income. Interest and dividend income increased $2.2 $3.7 million, or 11.8% 19.4%, to $20.6 $22.9 million for the quarter ended March 31, 2023 June 30, 2023 from $18.5 $19.2 million for the quarter ended March 31, 2022. This increase was June 30, 2022 primarily attributable due to an increase rising interest rates. The rising interest rates resulted in interest and fees earned on loans, which increased $1.8 million, or 9.9%, to $20.0 million short-term investments of $3.0 million for the quarter ended March 31, 2023 from $18.2 million June 30, 2023, compared to $400,000 for the quarter ended March 31, 2022. The increase in June 30, 2022 and interest income on loans was primarily due to an increase in the average yield earned on loans of 79 basis points to 5.75% $19.7 million for the quarter ended March 31, 2023 from 4.96% June 30, 2023, compared to $18.6 million for the quarter ended March 31, 2022 June 30, 2022. The increase was partially offset by the $118.3 million, caused by rising interest rates and or 8.1%, reduction in the origination average balance of higher-yielding loans. loans to $1.35 billion for the quarter ended June 30, 2023 from $1.47 billion for the quarter ended June 30, 2022.

Interest Expense. Interest expense increased $4.3 million, or 816.4%, $7.4 million to $4.8 million $8.0 million for the quarter ended March 31, 2023 June 30, 2023 from $525,000 $547,000 for the quarter ended March 31, 2022 June 30, 2022. The increase was primarily due to rising interest rates and a larger proportion of higher-cost certificates of deposit in the portfolio which resulted in an increase in the cost of interest-bearing deposits of 180 280 basis points to 2.03% 3.04% for the quarter ended March 31, 2023 June 30, 2023 compared to 0.23% 0.24% for the quarter ended March 31, 2022 June 30, 2022. The increase in interest expense was partially offset also driven by a decrease an increase in the average balance of interest-bearing deposits of $31.4 million $201.1 million, or 3.9% 24.9%, to $1.01 billion for the quarter ended June 30, 2023, compared to $807.7 million for the quarter ended June 30, 2022.

Net Interest and Dividend Income. Net interest and dividend income decreased by $2.1 $3.7 million, or 11.8% 19.9%, to $15.8 $14.9 million for the quarter ended March 31, 2023 June 30, 2023 from $17.9 $18.6 million for the quarter ended March 31, 2022 June 30, 2022. The decrease in net interest and dividend income was primarily the result of an increase in the average balance of interest-bearing liabilities of $43.0 million $221.3 million, or 5.3% 26.9% and a decrease in the average balance of interest-earning assets of $178.6 million $105.1 million, or 10.9% 6.1%, coupled with a decrease in net interest margin of four 64 basis points to 4.32% 3.69%.

Credit loss benefit/expense. Credit A credit loss expense benefit of $1.8 million $1.1 million was recognized for the quarter ended March 31, 2023 June 30, 2023, compared to $83,000 a credit loss expense of $1.0 million for the quarter ended March 31, 2022, which represents an increase of $1.7 million June 30, 2022. The increased provision was credit loss benefit derived from loans is primarily driven by the need to replenish the allowance due to net charge-offs improvements in the near-term GDP and unemployment rate forecasts. Reduced balances in the commercial real estate, commercial, and enterprise value loan portfolios, which totaled $3.6 million have higher credit risks compared to the Bank's other loan portfolios such as mortgage warehouse and construction and land development also contributed to the benefit. In addition, updated valuations increased collateral values for individually analyzed loans in the enterprise value portfolio, causing a decrease in the reserve for the quarter ended March 31, 2023 June 30, 2023. The increase in the expense caused by net charge-offs was offset by a credit loss benefit for unfunded commitments derived from off-balance sheet credit exposure is primarily due to a decrease in the balance funding of unfunded commitments during the first quarter of 2023 primarily resulting from construction and land development loans as well as the closure of a $36.0 million digital asset line and the freeze unutilized lines of the availability on an outstanding $35.0 million digital asset line due to non-compliance. credit.

Noninterest Income. Noninterest income increased $627,000, or 47.5%, to $1.9 million was $1.7 million for the quarter ended March 31, 2023 June 30, 2023, which represents an increase of $150,000, or 9.7%, compared to $1.3 million for the quarter ended March 31, 2022 June 30, 2022. The increase was primarily due to increases in customer service fees on deposit accounts and other income. income, partially offset by a decrease in the gain on loans sold. Customer service fees on deposit accounts increased $398,000, $150,000, or 68.5% 24.2%, which was primarily attributable to implementation and activity fees charged to BaaS and digital asset customers as well as fees generated from cash vault services of $238,000 for our customers who operate Bitcoin ATMs. the quarter ended June 30, 2023, compared to $46,000 for the quarter ended June 30, 2022. Other income increased $241,000 $98,000, or 272.2%, primarily due to gains insurance proceeds from replacement of damaged equipment. Gain on sales on other repossessed assets and a semi-annual commission related loans sold decreased $187,000, or 100%, primarily due to a sold loan. the sale of residential mortgage loans in June 2022.

Noninterest Expense. Noninterest expense increased $1.8 million, or 15.8%, to $13.2 million was $12.8 million for the quarter ended March 31, 2023 June 30, 2023, which represents an increase of $1.4 million, or 12.8%, compared to $11.4 million for the quarter ended March 31, 2022 June 30, 2022. The increase in noninterest expense was primarily due to increases in salaries and employee benefits, deposit insurance expense, professional fees, and professional fees. software depreciation and implementation expenses. The increase of $1.4 million, $787,000, or 18.8% 10.7%, in salary and employee benefits compared to the quarter ended June 30, 2022 was primarily due to an increase in staff to support strategic initiatives within our deposit products and services. Deposit insurance expense increased $214,000, or 139.0%, primarily due to an increase in the development and implementation of new technologies and products. FDIC's insurance assessment rate schedules. Professional fees increased $675,000, $210,000, or 92.7% 29.6%, primarily due to increased legal fees and audit and compliance costs related costs. Software depreciation and implementation expenses increased $156,000, or 47.7%, primarily due to ongoing services pertaining to software licenses needed for the events that led to the losses recorded during 2022. increased number of staff.

Income Tax Benefit. We recorded income tax expense of $670,000 $1.5 million for the quarter ended March 31, 2023 June 30, 2023, reflecting an effective tax rate of 24.2% 29.7%, compared to $2.2 million for the quarter ended March 31, 2022 June 30, 2022, reflecting an effective tax rate of 28.7% 28.0%. The lower effective tax rate reflected lower pre-tax income and net tax credits from investments in qualified affordable housing projects.

Average Balance Sheet and Related Yields and Rates

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

	For the Three Months Ended						For the Three Months Ended June 30,					
	March 31, 2023			March 31, 2022			2023			2022		
	Average	Interest Earned/	Yield/	Average	Interest Earned/	Yield/	Average	Interest Earned/	Yield/	Average	Interest Earned/	Yield/

(Dollars in thousands)	Balance	Paid	Rate (6)	Balance	Paid	Rate (6)	Balance	Paid	Rate (6)	Balance	Paid	Rate (6)
Assets:												
Interest-earning assets:												
Loans (1)(2)	$ 1,391,941	$ 20,006	5.75%	$ 1,469,268	$ 18,212	4.96%	$1,346,654	$19,652	5.84%	$1,465,000	$18,558	5.07%
Short-term investments	40,931	383	3.74%	136,954	59	0.17%	236,367	2,978	5.04%	219,555	400	0.73%
Debt securities available-for-sale	28,727	193	2.69%	35,820	175	1.95%	28,278	197	2.79%	32,687	190	2.33%
Federal Home Loan Bank stock	2,639	45	6.82%	785	4	2.04%	2,254	49	8.70%	1,388	4	1.15%
Total interest-earning assets	1,464,238	20,627	5.63%	1,642,827	18,450	4.49%	1,613,553	22,876	5.67%	1,718,630	19,152	4.46%
Non-interest earning assets	117,178			85,542			99,685			88,932		
Total assets	$ 1,581,416			$ 1,728,369			$1,713,238			$1,807,562		
Liabilities and shareholders' equity:												
Interest-bearing liabilities:												
Savings accounts	$ 142,457	$ 111	0.31%	$ 153,480	$ 40	0.10%	$ 149,625	$ 408	1.09%	$ 152,932	$ 51	0.13%
Money market accounts	313,077	1,913	2.44%	392,874	250	0.25%	513,348	4,550	3.55%	331,998	211	0.25%
NOW accounts	127,124	146	0.46%	192,564	83	0.17%	115,869	202	0.70%	264,038	135	0.20%
Certificates of deposit	185,470	1,731	3.73%	60,627	82	0.54%	230,023	2,510	4.36%	58,781	79	0.54%
Total interest-bearing deposits	768,128	3,901	2.03%	799,545	455	0.23%	1,008,865	7,670	3.04%	807,749	476	0.24%
Borrowings												
Short-term borrowings	69,647	824	4.73%	—	—	—%	18,352	230	5.01%	857	—	—%
Long-term borrowings	18,307	86	1.88%	13,500	70	2.07%	16,148	74	1.83%	13,500	71	2.10%
Total borrowings	87,954	910	4.14%	13,500	70	2.07%	34,500	304	3.52%	14,357	71	1.98%
Total interest-bearing liabilities	856,082	4,811	2.25%	813,045	525	0.26%	1,043,365	7,974	3.06%	822,106	547	0.27%
Noninterest-bearing liabilities:												
Noninterest-bearing deposits	495,067			657,784			437,167			726,623		
Other noninterest-bearing liabilities	20,469			21,064			19,380			19,568		
Total liabilities	1,371,618			1,491,893			1,499,912			1,568,297		
Total equity	209,798			236,476			213,326			239,265		
Total liabilities and equity	$ 1,581,416			$ 1,728,369			$1,713,238			$1,807,562		
Net interest income		$ 15,816			$ 17,925			$14,902			$18,605	
Interest rate spread (3)			3.38%			4.23%			2.61%			4.19%
Net interest-earning assets (4)	$ 608,156			$ 829,782			$ 570,188			$ 896,524		
Net interest margin (5)			4.32%			4.36%			3.69%			4.33%
Average interest-earning assets to interest-bearing liabilities	171.04%			202.06%			154.65%			209.05%		

(1) Interest earned/paid on loans includes mortgage warehouse loan origination fee income of $262,000 $213,000 and $342,000 $239,000 for the quarters ended March 31, 2023 June 30, 2023 and March 31, 2022 June 30, 2022, respectively.

(2) Includes loans held for sale at March 31, 2022. sale.

(3) Net interest rate spread represents the difference between the weighted average yield on interest-bearing assets and the weighted average 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.

(6) Annualized.

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Rate/Volume Analysis

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

	For the Three Months Ended March 31, 2023 Compared to the Three Months Ended March 31, 2022			For the Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
(In thousands)	Rate	Volume		Rate	Volume	
Interest-earning assets:						
Loans	$ 2,790	$ (996)	$ 1,794	$ 2,672	$ (1,578)	$ 1,094
Short-term investments	393	(69)	324	2,545	33	2,578
Debt securities available-for-sale	57	(39)	18	35	(28)	7
Federal Home Loan Bank stock	20	21	41	41	4	45
Total interest-earning assets	3,260	(1,083)	2,177	5,293	(1,569)	3,724
Interest-bearing liabilities:						
Savings accounts	74	(3)	71	358	(1)	357
Money market accounts	1,724	(61)	1,663	4,163	176	4,339
NOW accounts	99	(36)	63	177	(110)	67
Certificates of deposit	1,222	427	1,649	1,725	706	2,431
Total interest-bearing deposits	3,119	327	3,446	6,423	771	7,194
Borrowings						
Short-term borrowings	—	824	824	—	230	230
Long-term borrowings	(7)	23	16	(10)	13	3
Total borrowings	(7)	847	840	(10)	243	233
Total interest-bearing liabilities	3,112	1,174	4,286	6,413	1,014	7,427
Change in net interest income	$ 148	$ (2,257)	$ (2,109)	$ (1,120)	$ (2,583)	$ (3,703)

Results of Operations for the Six Months Ended June 30, 2023 and 2022

General. Net income for the six months ended June 30, 2023 was $5.6 million compared to $11.1 million for the six months ended June 30, 2022, which represented a decrease of $5.5 million, or 50.1%. The decrease in net income was primarily driven by an increase in interest expense and noninterest expense, partially offset by an increase in interest and dividend income.

Interest and Dividend Income. Interest and dividend income increased $5.9 million, or 15.7%, to $43.5 million for the six months ended June 30, 2023, from $37.6 million for the six months ended June 30, 2022. This increase was due to an increase in interest on short-term investments and an increase in interest income on loans. Interest on short-term investments increased $2.9 million to $3.4 million for the six months ended June 30, 2023, from $500,000 for the six months ended June 30, 2022. The increase in interest on short-term investments was due to an increase in the average yield to 4.83% from 0.51% for the six months ended June 30, 2023 and 2022, respectively. Interest and fees on loans increased $2.9 million to $39.7 million for the six months ended June 30, 2023, from $36.8 million for the six months ended June 30, 2022. Interest and fees on loans increased due to an increase in the average yield on loans to 5.79% for the six months ended June 30, 2023 from 5.01% for the six months ended June 30, 2022.

Interest Expense. Interest expense increased $11.7 million to $12.8 million for the six months ended June 30, 2023, from $1.1 million for the six months ended June 30, 2022. The increase was primarily due to rising interest rates and a larger proportion of higher-cost certificates of deposit in the portfolio which resulted in an increase in the cost of interest-bearing deposits of 237 basis points to 2.60% for the six months ended June 30, 2023, compared to 0.23% for the six months ended June 30, 2022. The increase in interest expense was also driven by an increase in the average balance of interest-bearing deposits of $85.5 million, or 10.6%, to $889.2 million for the six months ended June 30, 2023, compared to $803.7 million for the six ended June 30, 2022.

Net Interest and Dividend Income. Net interest and dividend income decreased by $5.8 million, or 15.9%, to $30.7 million for the six months ended June 30, 2023 from $36.5 million for the quarter ended June 30, 2022. The decrease in net interest and dividend income was primarily the result of an increase in the average balance of interest-bearing liabilities of $132.6 million, or 16.2% and a decrease in the average balance of interest-earning assets of $141.6 million, or 8.4%, coupled with a decrease in net interest margin of 36 basis points to 3.99%.

Credit loss expense. A credit loss expense of $712,000 was recognized for the six months ended June 30, 2023, compared to a credit loss expense of $1.1 million for the six months ended June 30, 2022, which represents a decrease of $412,000, or 36.7%. The credit loss expense derived from loans for the six months ended June 30, 2023 was driven by the need to replenish the allowance due to $3.6 million of net charge-offs that occurred during the quarter ended March 31, 2023 in the enterprise value portfolio. The expense was partially offset by improvements in the near-term GDP and unemployment rate forecasts, as well as a reduction of the loan balances in the commercial real estate, commercial, and enterprise value loan portfolios, which have a higher credit risk compared to the Bank's other loan portfolios. Also, updated valuations during the quarter ended June 30, 2023 increased collateral values for individually analyzed loans in the enterprise value portfolio partially offset the credit loss expense for the six months ended June 30, 2023. The credit loss benefit derived from off-balance sheet credit exposure was due to a decrease in the balance of unfunded commitments during the first quarter of 2023 primarily resulting from the closure of two digital asset lines totaling $71.0 million. The $1.1 million provision for the six months ended June 30, 2022 was based on the incurred loss model, and was primarily the result of loan portfolio growth.

Noninterest Income. Noninterest income increased $777,000, or 27.1%, to $3.6 million for the six months ended June 30, 2023, from $2.9 million for the six months ended June 30, 2022. The increase was due to increases in customer service fees on deposit accounts and other income, partially offset by a decrease in gain on loans sold. Customer service fees increased $548,000 due to fees generated from cash vault services for our customers who operate Bitcoin ATMs and implementation and activity fees charges to BaaS customers. During the quarter ended June 30, 2023, management suspended Bitcoin ATM deposit services while they continue to evaluate the services offered. Implementation and activity fees charged to BaaS customers for the six months ended June 30, 2023 were $483,000, compared to $79,000 for the six months ended June 30, 2022. Other income increased $339,000 due to insurance proceeds from the replacement of damaged equipment. Gain on loans sold decreased $284,000 primarily due to the sale of residential mortgage loans in June 2022.

Noninterest Expense. Noninterest expense was $26.0 million for the six months ended June 30, 2023, which represents an increase of $3.3 million, or 14.3%, from 22.7 million for the six months ended June 30, 2022. The increase was due to salaries and employee benefits, professional fees, deposit insurance expense, software depreciation and implementation expense, partially offset by a decrease in write downs of other assets and receivables. Salaries and employee benefits increased $2.1 million, or 14.8%, primarily due to an increase in staff to support strategic initiatives within our deposit products and services. Professional fees increased $885,000, or 61.6%, due to increased legal, audit, and compliance costs which were elevated for the first quarter of 2023 due to services pertaining to the events that led to losses recorded during 2022. Deposit insurance increased $341,000, or 111.8%, primarily due to an increase in the FDIC's insurance assessment rate schedules. Software depreciation and implementation expenses increased $279,000, or 44.9%, primarily due to software licenses needed for the increased staff. In 2022, there was a write down of an SBA receivable in the first quarter after the Company evaluated the collectability and determined that $395,000 was uncollectible.

Income Tax Benefit. We recorded income tax expense of $2.1 million for the six months ended June 30, 2023, reflecting an effective tax rate of 27.7%, compared to $4.4 million for the six months ended June 30, 2022, reflecting an effective tax rate of 28.4%.

Average Balance Sheet and Related Yields and Rates

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

	For the Six Months Ended June 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest Earned/ Paid	Yield/ Rate (6)	Average Balance	Interest Earned/ Paid	Yield/ Rate (6)
Assets:						
Interest-earning assets:						
Loans (1)(2)	$ 1,369,172	$ 39,658	5.79%	$ 1,467,122	$ 36,770	5.01%
Short-term investments	139,189	3,361	4.83%	178,483	459	0.51%
Debt securities available-for-sale	28,501	389	2.73%	34,245	365	2.13%
Federal Home Loan Bank stock	2,445	95	7.77%	1,088	8	1.47%
Total interest-earning assets	1,539,307	43,503	5.65%	1,680,938	37,602	4.47%
Non-interest earning assets	108,385			87,247		
Total assets	$ 1,647,692			$ 1,768,185		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						

Savings accounts	$ 146,061	$ 519	0.71%	$ 153,205	$ 91	0.12%
Money market accounts	413,765	6,463	3.12%	362,268	460	0.25%
NOW accounts	121,466	348	0.57%	228,498	218	0.19%
Certificates of deposit	207,870	4,241	4.08%	59,699	162	0.54%
Total interest-bearing deposits	889,162	11,571	2.60%	803,670	931	0.23%
Borrowings						
Short-term borrowings	43,857	1,054	4.81%	431	—	—%
Long-term borrowings	17,222	160	1.86%	13,500	141	2.09%
Total borrowings	61,079	1,214	3.98%	13,931	141	2.02%
Total interest-bearing liabilities	950,241	12,785	2.69%	817,601	1,072	0.26%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	465,958			692,394		
Other noninterest-bearing liabilities	19,921			20,312		
Total liabilities	1,436,120			1,530,307		
Total equity	211,572			237,878		
Total liabilities and equity	$ 1,647,692			$ 1,768,185		
Net interest income		$ 30,718			$ 36,530	
Interest rate spread (3)			2.96%			4.21%
Net interest-earning assets (4)	$ 589,066			$ 863,337		
Net interest margin (5)			3.99%			4.35%
Average interest-earning assets to interest-bearing liabilities	161.99%			205.59%		

Rate/Volume Analysis

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

	For the Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022		
	Increase (Decrease) Due to		Total Increase (Decrease)
(In thousands)	Rate	Volume	
Interest-earning assets:			
Loans	$ 5,458	$ (2,570)	$ 2,888
Short-term investments	3,025	(123)	2,902
Investment securities	92	(68)	24
Federal Home Loan Bank stock	67	20	87
Total interest-earning assets	8,642	(2,741)	5,901
Interest-bearing liabilities:			
Savings accounts	432	(4)	428
Money Market accounts	5,928	75	6,003
NOW accounts	271	(141)	130
Certificates of deposit	2,954	1,125	4,079
Total interest-bearing deposits	9,585	1,055	10,640
Borrowings			
Short-term borrowings	—	1,054	1,054
Long-term borrowings	(17)	36	19

Total borrowings	(17)	1,090	1,073
Total interest-bearing liabilities	9,568	2,145	11,713
Change in net interest income	$ (926)	$ (4,886)	$ (5,812)

Management of Market Risk

Net Interest Income Simulation. We analyze our sensitivity to changes in interest rates through a net interest income simulation model. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period in the current interest rate environment. We then calculate what the net interest income would be for the same period under the assumption that interest rates increase 100, 200, 300 and 400 300 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.

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The following table presents the estimated changes in net interest income of the Company that would result from changes in market interest rates over twelve-month periods beginning March 31, June 30, 2023. :

(Dollars in thousands)	At March 31, 2023 Estimated Net Interest Income Over Next 12 Months	At March 31, 2023 Change	At June 30, 2023 Estimated Net Interest Income Over Next 12 Months	At June 30, 2023 Change
Changes in Interest Rates (Basis Points)				
300	$ 58,628	4.10%	$ 47,586	(1.60)%
200	57,871	2.80%	47,885	(1.00)%
100	57,105	1.40%	48,163	(0.40)%
0	56,310	—	48,376	—
(100)	52,620	(6.60)%	48,274	(0.20)%
(200)	48,697	(13.50)%	47,598	(1.60)%
(300)	44,650	(20.70)%	46,357	(4.20)%

Economic Value of Equity Simulation. We also analyze the sensitivity of our financial condition to changes in interest rates through an economic value of equity ("EVE") model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. The EVE ratio represents the dollar amount of our EVE divided by the present value of our total assets for a given interest rate scenario. EVE attempts to quantify our economic value using a discounted cash flow methodology while the EVE ratio reflects that value as a form of capital ratio. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 300 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 the Company that would result from changes in market interest rates as of March 31, June 30, 2023. :

(Dollars in thousands)	At March 31, 2023 Economic Value of Equity	At March 31, 2023 Change	At June 30, 2023 Economic Value of Equity	At June 30, 2023 Change
Changes in Interest Rates (Basis Points)				
300	278,682	(0.60)%	$237,226	(6.98)%
200	278,090	(0.80)%	241,743	(5.21)%
100	280,701	0.12%	249,129	(2.31)%
0	280,370	—	255,022	—
(100)	270,120	(3.66)%	256,541	0.60%
(200)	255,513	(8.87)%	253,447	(0.62)%
(300)	228,226	(18.60)%	241,344	(5.36)%

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.

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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, mortgage prepayments and sales of securities 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 generally invested in interest-earnings deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2023 June 30, 2023, cash and cash equivalents totaled $244.2 $297.9 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $28.7 $27.7 million at March 31, 2023 June 30, 2023. Mortgage warehouse loans that have a short-term duration also provide additional sources of liquidity. The balance of mortgage warehouse loans that meets the definition of liquid assets totaled $115.5 $139.7 million as of March 31, 2023 June 30, 2023.

At March 31, 2023 June 30, 2023, we had the ability to borrow $108.7 $139.7 million from the Federal Home Loan Bank of Boston. On that date, we had $68.3 $79.8 million in advances outstanding. At March 31, 2023 June 30, 2023, we also had an available line of credit with the Federal Reserve Bank of Boston's borrower-in-custody program of $181.3 million, none of which was outstanding as of that date.

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

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 March 31, 2023 June 30, 2023 and December 31, 2022, we had $7.2 million $215,000 and $6.1 million in loan commitments outstanding, respectively. In addition to commitments to originate loans, at March 31, 2023 June 30, 2023 and December 31, 2022, we had $246.4 $210.5 million and $347.7 million in unadvanced funds to borrowers, respectively. We also had $1.6 million $1.2 million and $1.7 million in outstanding letters of credit at March 31, 2023 June 30, 2023 and December 31, 2022, respectively.

A significant decrease in deposits could result in the Company having to seek other sources of funds, including brokered certificates of deposit, deposits obtained from national exchanges, and 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.

The Bank is subject to various regulatory capital requirements administered by the Massachusetts Commissioner of Banks and the Federal Deposit Insurance Corporation. FDIC. At March 31, 2023 June 30, 2023, BankProv exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines. See Note 11 of the Notes to the Unaudited Consolidated Financial Statements for additional information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Management Market Risk".

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including (i) the Co-President and Co-Chief Executive Officer and (ii) the Co-President and Co-Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2023 June 30, 2023. Based on that evaluation, the Company's management, including (i) the Co-President and Co-Chief Executive Officer and (ii) the Co-President and Co-Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting as described in Management's Report Regarding Internal

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Control Over Financial Reporting in “Item 9A. Controls and Procedures” in its Annual Report on Form 10-K for the year ended December 31, 2022.

In addition, other than the measures described below taken in response to the material weakness, no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Remediation

The Company has commenced the implementation of the remediation measures with respect to the material weakness outlined in its Annual Report on Form 10-K for the year ended December 31, 2022. As part of its remediation efforts, the Company has begun the planning process as well as obtaining board approval. Although Management feels the remediation plan is sufficiently designed to address the material weakness, it cannot determine when all of its remediation plans will be fully completed or provide assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts. The material weakness will be considered fully remediated once the enhanced controls operate for a sufficient period of time and Management has concluded, through testing, that these controls are designed and operating effectively.

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 quarter ended March 31, 2023 June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings
Not applicable.

Item 1A. Risk Factors
In addition There have been no material changes in risk factors applicable to the other information contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously Company from those disclosed in our “Risk Factors” in Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the Securities and Exchange Commission. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any Item 1A of the information contained in this Company’s Quarterly Report on Form form 10-Q constitutes forward-looking statements, for the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Our financial condition, results of operation and stock price may be negatively impacted by unrelated bank failures and negative depositor confidence in depository institutions.

Recently, certain large financial institutions with extremely high concentrations of uninsured customer deposits were closed and resolved by state and federal regulatory authorities. These bank 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 their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. Notwithstanding our full deposit insurance coverage and our efforts to otherwise effectively manage our liquidity, deposit portfolio retention and other related matters, our financial condition, results of operation and stock price may be adversely affected by future negative events within the banking sector and adverse customer or investor responses to such events.

Material adverse changes to our deposit portfolio could adversely affect our financial condition and results of operation, and result in regulatory limits being placed upon us.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest-earning assets. While we emphasize the generation of low-cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk/return tradeoff. Accordingly, as a part of our liquidity management, we maintain a number of

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secondary funding sources in addition to deposits and repayments and maturities of loans and investments. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources.

If we are ever required to rely more heavily on more expensive funding sources to support our liquidity requirements, our revenues may not increase proportionately to cover our increased costs. In this case, our operating margins and profitability would be adversely affected.Any decline in our present primary or secondary funding sources could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our financial condition, results of operations, business strategy and stock price.

three months ended March 31, 2023.

Item 2. Unregistered Sales of Equity Securities, and Use of Proceeds, and Issuer Purchases of Equity Securities

(a) Not applicable.

(b) Not applicable.

(c) 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-current outstanding shares. The repurchase program has no expiration date. The Company did not repurchase common stock under the repurchase program during the first second quarter of 2023. At March 31, 2023 June 30, 2023, the Company had 254,521 shares of its common stock available for purchase under this program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Articles of Incorporation of Provident Bancorp, Inc. (1)
3.2	Bylaws of Provident Bancorp, Inc. (1)
3.3	Amendment to Bylaws (2)
31.1	Certification of Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Co-Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial statements from the Provident Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 June 30, 2023, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Changes in Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Unaudited Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as iXBRL and contained in exhibit 101).

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (file no. 333-232018), initially filed with the Securities and Exchange Commission on June 7, 2019.

(2) 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROVIDENT BANCORP, INC.

Date: May 15, 2023 August 10, 2023

/s/ Joseph B. Reilly

Joseph B. Reilly

Co-President and Co-Chief Executive Officer

Date: May 15, 2023 August 10, 2023

/s/ Carol L. Houle

Carol L. Houle

Exhibit 31.1Certification of Co-Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002I, Joseph B. Reilly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023 August 10, 2023	/s/ Joseph B. Reilly
	Joseph B. Reilly
	Co-President and Co-Chief Executive Officer

Exhibit 31.2Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002I, Carol L. Houle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2023 August 10, 2023

/s/ Carol L. Houle

Carol L. Houle
Co-President and Co-Chief Executive Officer, and Chief Financial Officer

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Exhibit 32Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Joseph B. Reilly, Co-President and Co-Chief Executive Officer of Provident Bancorp, Inc. (the "Company"), and Carol L. Houle, Co-President and Co-Chief Executive Officer, and Chief Financial Officer of the Company, each certify in his or her capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended March 31, 2023 June 30, 2023 (the "Report") and that to the best of their knowledge:

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

Date: May 15, 2023 August 10, 2023	/s/ Joseph B. Reilly
	Joseph B. Reilly
	Co-President and Co-Chief Executive Officer

Date: May 15, 2023 August 10, 2023	/s/ Carol L. Houle
	Carol L. Houle
	Co-President and Co-Chief Executive Officer, and
	Chief Financial Officer

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