Section 1: 10-Q (Q3 2017 10-Q)

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

Commission File Number: 001-37780

Randolph Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts	**81-1844402**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10 Cabot Place Stoughton, Massachusetts	**02072**
(Address of principal executive offices)	**(Zip Code)**

(781) 963-2100
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☒

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange act of 1934.

Emerging growth company ☒

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

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

As of November 7, 2017, there were 5,868,544 shares of the registrant’s common stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

RANDOLPH BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets (Unaudited)
(In thousands)

	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 3,741	$ 4,370
Interest-bearing deposits	4,414	10,479
Total cash and cash equivalents	8,155	14,849
Certificates of deposit	2,940	3,675
Securities available for sale, at fair value	65,141	68,637
Loans held for sale, at fair value	26,541	30,452
Loans, net of allowance for loan losses of $3,545 in 2017 and $3,271 in 2016	372,777	332,991
Federal Home Loan Bank stock, at cost	2,909	2,478
Accrued interest receivable	1,307	1,163
Mortgage servicing rights, net	6,039	8,486
Premises and equipment, net	7,755	6,280
Bank-owned life insurance	7,999	7,884
Other assets	3,949	4,329
Total assets	$ 505,512	$ 481,224
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 59,954	$ 59,646
Interest bearing	298,947	291,533
Total deposits	358,901	351,179
Federal Home Loan Bank advances	56,935	38,667
Mortgagors' escrow accounts	1,311	1,572
Post-employment benefit obligations	2,723	2,886
Other liabilities	2,402	3,618
Total liabilities	422,272	397,922
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Preferred stock, no par value; authorized: 1,000,000 shares; issued: none	—	—
Common stock, $.01 par value; authorized: 15,000,000 shares; issued and outstanding: 5,868,544 shares at September 30, 2017 and 5,868,726 shares at December 31, 2016	59	59
Additional paid-in capital	56,443	56,373
Retained earnings	32,113	32,661
ESOP-Unearned compensation	(4,366)	(4,507)
Accumulated other comprehensive loss, net of tax	(1,009)	(1,284)
Total stockholders' equity	83,240	83,302
Total liabilities and stockholders' equity	$ 505,512	$ 481,224

See accompanying notes to consolidated financial statements.

RANDOLPH BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Operations (Unaudited)
(Dollars in thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans	$ 3,936	$ 3,434	$ 11,049	$ 8,982
Securities-taxable	339	282	1,065	908
Securities-tax exempt	87	90	264	277
Interest-bearing deposits and certificates of deposit	27	70	70	124
Total interest and dividend income	4,389	3,876	12,448	10,291
Interest expense:				
Deposits	406	388	1,123	1,033
Federal Home Loan Bank advances	167	67	335	185
Total interest expense	573	455	1,458	1,218
Net interest income	3,816	3,421	10,990	9,073
Provision (credit) for loan losses	—	(160)	335	(98)
Net interest income after provision (credit) for loan losses	3,816	3,581	10,655	9,171
Non-interest income:				
Customer service fees	359	369	1,109	1,122
Net gain on sales of mortgage loans	2,705	5,401	7,263	7,140
Mortgage servicing fees, net	199	(95)	1,149	74
Gain on sales/calls of securities	—	100	—	162
Increase in cash surrender value of life insurance	38	36	114	140
Gain on life insurance settlement	—	—	—	486
Bargain purchase gain	—	1,451		1,451
Other	270	98	780	173
Total non-interest income	3,571	7,360	10,415	10,748
Non-interest expenses:				
Salaries and employee benefits	4,668	5,348	14,059	9,931
Occupancy and equipment	682	691	1,957	1,448
Data processing	179	209	540	595
Professional fees	348	393	1,019	983
Marketing	277	135	624	307
Foreclosed real estate, net	—	5	—	162
Charitable foundation contribution	—	2,275	—	2,275
Merger and integration costs	7	514	531	664
Other	1,048	1,082	3,036	2,542
Total non-interest expenses	7,209	10,652	21,766	18,907
Income (loss) before income taxes	178	289	(696)	1,012
Income tax expense (benefit)	129	—	(148)	3
Net income (loss)	$ 49	$ 289	$ (548)	$ 1,009
Weighted average common shares outstanding (basic and diluted)	5,429,564	5,403,923	5,427,262	N/A
Earnings (loss) per common share (basic and diluted)	$ 0.01	$ 0.05	$ (0.10)	N/A

See accompanying notes to consolidated financial statements.

RANDOLPH BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ 49	$ 289	$ (548)	$ 1,009
Other comprehensive income (loss):				
Securities available for sale:				
Unrealized holding gains (losses)	(334)	(257)	465	792
Reclassification adjustment for net gains realized in income	—	(100)	—	(162)
Net unrealized gains	(334)	(357)	465	630
Related tax effects	129	—	(151)	—
Net-of-tax amount	(205)	(357)	314	630
Supplemental retirement plan:				
Reclassification adjustments:				
Actuarial losses	10	7	28	25
Prior service credits recognized	(22)	(4)	(67)	(17)
	(12)	3	(39)	8
Related tax effects	—	—	—	—
Net-of-tax amount	(12)	3	(39)	8
Total other comprehensive income (loss)	(217)	(354)	275	638
Comprehensive income (loss)	$ (168)	$ (65)	$ (273)	$ 1,647

See accompanying notes to consolidated financial statements.

RANDOLPH BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
Nine Months Ended September 30, 2017 and 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned Compensation ESOP	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	(Dollars in thousands)						
Balance at December 31, 2015	—	$ —	$ —	$ 32,198	$ —	$ 261	$ 32,459
Net income	—	—	—	1,009	—	—	1,009
Other comprehensive income	—	—	—	—	—	638	638
Issuance of common stock for initial public offering, net of expenses of $2,367	5,686,750	57	54,444	—	—	—	54,501
Issuance of common stock to the Randolph Savings Charitable Foundation	181,976	2	1,818	—	—	—	1,820
Stock purchased by ESOP	—	—	—	—	(4,695)	—	(4,695)
ESOP shares committed to be released	—	—	26	—	94	—	120
Balance at September 30, 2016	5,868,726	$ 59	$ 56,288	$ 33,207	$ (4,601)	$ 899	$ 85,852
Balance at December 31, 2016	5,868,726	$ 59	$ 56,373	$ 32,661	$ (4,507)	$ (1,284)	$ 83,302
Net loss	—	—	—	(548)	—	—	(548)
Other comprehensive income	—	—	—	—	—	275	275
Repurchase of common stock	(182)	—	(3)	—	—	—	(3)
ESOP shares committed to be released	—	—	73	—	141	—	214
Balance at September 30, 2017	5,868,544	$ 59	$ 56,443	$ 32,113	$ (4,366)	$ (1,009)	$ 83,240

See accompanying notes to consolidated financial statements.

RANDOLPH BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	For the Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net income (loss)	$ (548)	$ 1,009
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision (credit) for loan losses	335	(98)
Bargain purchase gain	—	(1,451)
Loans originated for sale	(304,312)	(245,642)
Principal balance of loans sold	308,223	246,079
Net amortization of securities	198	110
Net change in deferred loan costs and fees	(178)	103
Gain on sales/calls of securities	—	(162)
Depreciation and amortization	457	353
Impairment write-downs on foreclosed real estate	—	150
Gain on life insurance settlement, net	—	(486)
Charitable foundation contribution	—	1,820
ESOP expense	214	120
Increase in cash surrender value of life insurance	(114)	(140)
Net (increase) decrease in mortgage servicing rights	2,447	(568)
Other, net	(1,669)	2,832
Net cash provided by operating activities	5,053	4,029
Cash flows from investing activities:		
Redemptions of certificates of deposit	735	1,000
Securities available for sale:		
Sales	—	2,521
Calls/maturities	841	6,970
Purchases	—	(21,745)
Principal payments on mortgage-backed securities	3,256	4,335
Loan originations, net of principal repayments	(17,874)	(10,554)
Loans purchased	(22,068)	(572)
Redemption (purchases) of Federal Home Loan Bank stock	(431)	1,009
Proceeds from sale of building	—	1,231
Proceeds from life insurance settlement	—	2,157
Acquisition of First Eastern, net of cash acquired	—	(10,956)
Purchases of premises and equipment	(1,932)	(674)
Net cash used in investing activities	(37,473)	(25,278)
Cash flows from financing activities:		
Net increase in deposits	7,722	5,057
Net increase (decrease) in short-term Federal Home Loan Bank borrowings	23,191	(7,401)
Proceeds from long-term Federal Home Loan Bank advances	—	9,838
Repayments of long-term Federal Home Loan Bank advances	(4,923)	(13,737)
Net increase (decrease) in mortgagors' escrow accounts	(261)	33
Net proceeds from the issuance of common stock	—	54,501
Acquisition of common stock by ESOP	—	(4,695)
Repurchase of common stock	(3)	—
Net cash provided by financing activities	25,726	43,596
Net change in cash and cash equivalents	(6,694)	22,347
Cash and cash equivalents at beginning of period	14,849	4,646
Cash and cash equivalents at end of period	$ 8,155	$ 26,993
Supplemental cash flow information:		
Interest paid on deposits and borrowed funds	$ 1,462	$ 1,222
Income taxes paid	$ 3	$ 7

See accompanying notes to consolidated financial statements.

1. CONVERSION AND BASIS OF PRESENTATION

Conversion

Randolph Bancorp, a Massachusetts-chartered mutual holding company and the parent company of Randolph Savings Bank (the “Bank”), adopted a plan of conversion (the “Plan of Conversion”) in January 2016 which was subsequently approved by Randolph Bancorp’s Corporators in May 2016. Under the Plan of Conversion, Randolph Bancorp converted from a mutual to a stock holding company in a series of transactions in which Randolph Bancorp, Inc. (“Bancorp”), a recently formed subsidiary of Randolph Bancorp, became the surviving entity.

On July 1, 2016, the mutual-to-stock transaction was completed and Bancorp sold 5,686,750 shares of its common stock, representing the adjusted maximum of the offering range, at $10.00 per share, for gross proceeds of $56,867,500, including the sale of 469,498 shares to the Bank’s newly formed employee stock ownership plan (“ESOP”). The ESOP’s shares were funded by a loan from Bancorp to be repaid over 25 years with interest at the prime rate.

The direct costs of stock offering were deducted from the proceeds of the offering and amounted to $2,325,000. In connection with the Plan of Conversion, Bancorp established The Randolph Savings Charitable Foundation, Inc. (the “Foundation”). The Foundation was funded with 181,976 shares of Bancorp’s common stock and $455,000 in cash. Bancorp recognized expense of $2,274,700 in the third quarter of 2016 for this contribution.

The Bancorp and the Bank are required to restrict their net worth by establishing liquidation accounts (collectively, the “liquidation account”) for the benefit of eligible account holders who continue to maintain deposit accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent eligible depositors reduce their qualifying deposits and cannot be increased thereafter with additional deposits. In the event of a complete liquidation of the Bank, each eligible account holder would be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. Neither the Bancorp nor the Bank may declare or pay a cash dividend on its common stock if such dividend would cause its regulatory capital to be reduced below the amount required to maintain the liquidation account.

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Randolph Bancorp, Inc. and its wholly-owned subsidiary, Randolph Savings Bank (together, the “Company”). The Bank has subsidiaries involved in owning investment securities and foreclosed real estate properties and a subsidiary which provides loan closing services. All intercompany accounts and transactions have been eliminated in consolidation.

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (“SEC”). Accordingly, the accompanying interim financial statements do not include all information required under GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. The operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or any other interim period.

For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. This Update provides a revenue recognition framework for any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets unless those contracts are within the scope of other accounting standards. This ASU, as amended by ASU 2015-14, is effective for emerging growth companies in fiscal years beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The timing of the Company’s revenue recognition is not expected to materially change. The Company's revenue relates principally to financial instruments, which are explicitly excluded from the scope of the new guidance. The Company will continue to evaluate any impact as additional guidance is issued and as our internal assessment progresses.

In February 2016, FASB issued ASU 2016-02, *Leases*. This ASU requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to current accounting requirements. For lessors, this ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. This ASU is effective for emerging growth companies in fiscal years beginning after December 15, 2019, including interim periods therein. Earlier adoption is permitted. The Company is currently assessing the impact of the adoption of this ASU on its consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. The ASU sets forth a "current expected credit loss" ("CECL") model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgements used in determining the allowance for loan losses, as well as the credit quality and underwriting standards of an organization's loan portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This ASU is effective for emerging growth companies in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 31, 2018. The Company is currently assessing its data and system needs and is evaluating the impact of the adoption of this ASU on the consolidated financial statements.

In April 2017, the FASB issued ASU 2017-08 *Receivables – Non-refundable Fees and Other Costs*, which shortens the period of amortization of the premium on certain callable debt securities to the earliest call date. Currently, generally accepted accounting principles ("GAAP") excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. This ASU requires that premiums on certain callable debt securities be amortized to the shortest call date. Securities within the scope of this paragraph are those that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. This ASU is effective for emerging growth companies for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The impact of adopting this ASU is dependent on the materiality of callable debt securities at the time of adoption.

3. ACQUISITION

On July 1, 2016, the Company acquired all of the outstanding common stock of First Eastern Bankshares Corporation ("First Eastern") for cash of $14.1 million. The results of operations of First Eastern are included in the Company's consolidated statements of operations beginning on July 1, 2016.

The following table presents selected unaudited pro forma financial information assuming the acquisition was completed on January 1, 2016. The pro forma amounts reflect adjustments related to reversal of benefit of non-recurring merger and integration costs and amortization and accretion of acquisition accounting fair value adjustments. No provision for income taxes is included in the determination of pro forma net income due to the Company's net operating loss carryforward position. The unaudited pro forma financial information does not reflect management's estimate of any revenue enhancement opportunities or anticipated cost savings nor any adjustments related to the stock offering completed on July 1, 2016.

The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the combined financial results of the Company and First Eastern had the acquisition transaction actually been completed at the beginning of the period presented, nor does it indicate future results for any interim or annual period. Pro forma basic and diluted earnings (loss) per share are not presented as such information is not being presented as part of our historical financial statements for the nine months ended September 30, 2016 as shares of the Company's common stock were not outstanding for the entire period.

Unaudited pro forma financial information for the nine months ended September 30, 2016 is as follows (in thousands):

Net Interest Income	$	10,038
Non-interest Income		16,371
Net Income		1,598

Direct acquisition and merger integration costs associated with the First Eastern business combination are being expensed as incurred and are presented separately in the accompanying statements of operations. Costs incurred during the nine months ended September 30, 2016 consist principally of retention bonuses, systems de-conversion costs and legal and consulting fees. Costs incurred during the nine months ended September 30, 2017 consist principally of severance obligations, system conversion costs and consulting fees. As all system conversions were completed as of September 30, 2017, no additional merger integration costs associated with the First Eastern business combination are expected to be incurred.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income (loss). Although certain changes in assets and liabilities are reported as a separate component of stockholders' equity, such items, along with net income (loss), are components of comprehensive income (loss).

The components of accumulated other comprehensive loss, included in total stockholders' equity, are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Securities available for sale:		
Net unrealized loss	$ (233)	$ (698)
Tax effect	(574)	(423)
Net-of-tax amount	(807)	(1,121)
Supplemental retirement plan		
Unrecognized net actuarial loss	(651)	(679)
Unrecognized net prior service credit	506	573
	(145)	(106)
Tax effect	(57)	(57)
Net-of-tax amount	(202)	(163)
Accumulated other comprehensive loss	$ (1,009)	$ (1,284)

5. SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale, including gross unrealized gains and losses, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
September 30, 2017				
Debt securities:				
U.S. Government-sponsored enterprises	$ 3,999	$ 73	$ (8)	$ 4,064
Corporate	3,013	36	(4)	3,045
Municipal	13,466	279	(4)	13,741
Residential mortgage-backed securities:				
U.S. Government-sponsored enterprises	19,334	159	(417)	19,076
Commercial mortgage-backed securities:				
U.S. Government-sponsored enterprises	14,509	48	(369)	14,188
U.S. Government-guaranteed	8,264	25	(76)	8,213
Collateralized mortgage obligations:				
U.S. Government-sponsored enterprises	1,931	30	—	1,961
U.S. Government-guaranteed	313	2	—	315
Total debt securities	64,829	652	(878)	64,603
Mutual fund	545	—	(7)	538
Total securities available for sale	$ 65,374	$ 652	$ (885)	$ 65,141
December 31, 2016				
Debt securities:				
U.S. Government-sponsored enterprises	$ 3,999	$ 92	$ (10)	$ 4,081
Corporate	3,044	54	(18)	3,080
Municipal	13,857	254	(56)	14,055
Residential mortgage-backed securities:				
U.S. Government-sponsored enterprises	21,130	172	(580)	20,722
Commercial mortgage-backed securities:				
U.S. Government-sponsored enterprises	14,676	56	(554)	14,178
U.S. Government-guaranteed	9,589	12	(144)	9,457
Collateralized mortgage obligations:				
U.S. Government-sponsored enterprises	2,127	28	—	2,155
U.S. Government-guaranteed	368	3	—	371
Total debt securities	68,790	671	(1,362)	68,099
Mutual fund	545	—	(7)	538
Total securities available for sale	$ 69,335	$ 671	$ (1,369)	$ 68,637

The amortized cost and fair value of debt securities by contractual maturity at September 30, 2017 are presented below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	$ 3,430	$ 3,440
After 1 year through 5 years	14,792	15,079
After 5 years through 10 years	2,256	2,331
	20,478	20,850
Mortgage-backed securities	44,351	43,753
	$ 64,829	$ 64,603

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2017	(In thousands)			
Debt securities:				
U.S. Government-sponsored enterprises	$ (8)	$ 1,992	$ —	$ —
Corporate	(3)	1,027	(1)	472
Municipal	(2)	1,120	(2)	483
Residential mortgage-backed securities:				
U.S. Government-sponsored enterprises	(417)	13,606	—	—
Commercial mortgage-backed securities:				
U.S. Government-sponsored enterprises	(369)	8,867	—	—
U.S. Government-guaranteed	(76)	3,867	—	—
Total debt securities	(875)	30,479	(3)	955
Mutual Fund	(7)	537	—	—
	$ (882)	$ 31,016	$ (3)	$ 955
December 31, 2016				
Debt securities:				
U.S. Government-sponsored enterprises	$ (10)	$ 1,990	$ —	$ —
Corporate	(14)	519	(4)	996
Municipal	(46)	3,310	(10)	477
Residential mortgage-backed securities:				
U.S. Government-sponsored enterprises	(580)	16,261	—	—
Commercial mortgage-backed securities:				
U.S. Government-sponsored enterprises	(554)	8,766	—	—
U.S. Government-guaranteed	(144)	5,927	—	—
Total debt securities	(1,348)	36,773	(14)	1,473
Mutual Fund	(7)	538	—	—
	$ (1,355)	$ 37,311	$ (14)	$ 1,473

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At September 30, 2017, 29 debt securities had unrealized losses with aggregate depreciation of approximately 2.8% of the Company’s amortized cost basis. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of these investments. Therefore, it is expected that the bonds would not be settled at a price less than the par value of the investment. Because the Company does not intend to sell any debt securities and it is more likely than not that the Company will not be required to sell any debt securities before recovery of its amortized cost basis, it does not consider these investments to be other-than-temporarily impaired at September 30, 2017. When possible, management actively monitors the credit rating of the underlying issuer of the debt security. As of September 30, 2017 management did not identify any securities for which the credit rating had deteriorated since purchase.

6. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan portfolio is as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Mortgage loans on real estate:		
Residential:		
One-to-four family	$ 189,311	$ 179,025
Home equity loans and lines of credit	39,033	35,393
Commercial	96,915	88,394
Construction	23,266	23,629
	348,525	326,441
Commercial and industrial	16,373	2,067
Consumer	10,068	6,578
Total loans	374,966	335,086
Allowance for loan losses	(3,545)	(3,271)
Net deferred loan costs and fees, and purchase premiums	1,356	1,176
	$ 372,777	$ 332,991

During the nine months ended September 30, 2017, the Company purchased $15.4 million in loan participations originated through a super-regional bank. These loans are to local franchisees of a major international fast food retailer and are classified with commercial and industrial loans in the accompanying table. The Company also purchased $5.0 million of refinanced student loans from an on-line lender specializing in the origination and refinancing of such loans.

The following table summarizes the changes in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2017 and 2016:

	Residential 1-4 Family	Second Mortgages and HELOC	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Total
				(In thousands)			
Three Months Ended September 30, 2017							
Allowance at June 30, 2017	$ 820	$ 338	$ 1,536	$ 389	$ 276	$ 198	$3,557
Provision (credit) for loan losses	15	6	42	(50)	(15)	2	—
Loans charged-off	—	—	—	—	—	(25)	(25)
Recoveries	7	—	—	—	—	6	13
Balance at September 30, 2017	$ 842	$ 344	$ 1,578	$ 339	$ 261	$ 181	$3,545
Three Months Ended September 30, 2016							
Allowance at June 30, 2016	$ 1,046	$ 444	$ 1,520	$ 135	$ 36	$ 78	$3,259
Provision (credit) for loan losses	12	(15)	(166)	9	3	(3)	(160)
Loans charged-off	—	—	—	—	—	(6)	(6)
Recoveries	2	—	—	—	—	1	3
Balance at September 30, 2016	$ 1,060	$ 429	$ 1,354	$ 144	$ 39	$ 70	$3,096
Nine Months Ended September 30, 2017							
Allowance at December 31, 2016	$ 1,018	$ 436	$ 1,410	$ 225	$ 37	$ 145	$3,271
Provision (credit) for loan losses	(195)	(92)	168	114	189	151	335
Loans charged-off	—	—	—	—	—	(134)	(134)
Recoveries	19	—	—	—	35	19	73
Balance at September 30, 2017	$ 842	$ 344	$ 1,578	$ 339	$ 261	$ 181	$3,545
Nine Months Ended September 30, 2016							
Allowance at December 31, 2015	$ 1,076	$ 512	$ 1,402	$ 159	$ 37	$ 53	$3,239
Provision (credit) for loan losses	(20)	(83)	(48)	(15)	2	66	(98)
Loans charged-off	—	—	—	—	—	(66)	(66)
Recoveries	4	—	—	—	—	17	21
Balance at September 30, 2016	$ 1,060	$ 429	$ 1,354	$ 144	$ 39	$ 70	$3,096

Additional information pertaining to the allowance for loan losses at September 30, 2017 and December 31, 2016 is as follows:

	Residential 1-4 Family	Second Mortgages and HELOC	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Total
				(In thousands)			
September 30, 2017							
Allowance for impaired loans	$ 172	$ 1	$ 2	$ —	$ —	$ —	$ 175
Allowance for non-impaired loans	670	343	1,576	339	261	181	3,370
Total allowance for loan losses	$ 842	$ 344	$ 1,578	$ 339	$ 261	$ 181	$ 3,545
Impaired loans	$ 5,156	$ 276	$ 734	$ —	$ —	$ —	$ 6,166
Non-impaired loans	184,155	38,757	96,181	23,266	16,373	10,068	368,800
Total loans	$ 189,311	$ 39,033	$ 96,915	$ 23,266	$ 16,373	$ 10,068	$374,966
December 31, 2016							
Allowance for impaired loans	$ 190	$ 2	$ 8	$ —	$ —	$ —	$ 200
Allowance for non-impaired loans	828	434	1,402	225	37	145	3,071
Total allowance for loan losses	$ 1,018	$ 436	$ 1,410	$ 225	$ 37	$ 145	$ 3,271
Impaired loans	$ 4,506	$ 276	$ 832	$ —	$ —	$ —	$ 5,614
Non-impaired loans	174,519	35,117	87,562	23,629	2,067	6,578	329,472
Total loans	$ 179,025	$ 35,393	$ 88,394	$ 23,629	$ 2,067	$ 6,578	$335,086

The following is a summary of past due and non-accrual loans at September 30, 2017 and December 31, 2016:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Non-accrual Loans
			(In thousands)		
September 30, 2017					
Residential one-to-four family	$ 732	$ —	$ —	$ 732	$ 1,906
Home equity loans and lines of credit	68	107	—	175	276
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	—	—	—	—	—
Total	$ 800	$ 107	$ —	$ 907	$ 2,182
December 31, 2016					
Residential one-to-four family	$ 1,168	$ 201	$ —	$ 1,369	$ 1,945
Home equity loans and lines of credit	258	—	—	258	276
Commercial real estate	400	—	—	400	—
Construction	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	59	—	—	59	—
Total	$ 1,885	$ 201	$ -	$ 2,086	$ 2,221

At September 30, 2017 and December 31, 2016, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans at September 30, 2017 and December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
September 30, 2017			
Impaired loans without a valuation allowance:			
Residential one-to-four family	$ 2,631	$ 2,576	
Home equity loans and lines of credit	247	247	
Commercial real estate	608	608	
Total	3,486	3,431	
Impaired loans with a valuation allowance:			
Residential one-to-four family	2,600	2,580	$ 172
Home equity loans and lines of credit	30	29	1
Commercial real estate	126	126	2
Total	2,756	2,735	175
Total impaired loans	$ 6,242	$ 6,166	$ 175
December 31, 2016			
Impaired loans without a valuation allowance:			
Residential one-to-four family	$ 1,922	$ 1,877	
Home equity loans and lines of credit	246	246	
Commercial real estate	270	270	
Total	2,438	2,393	
Impaired loans with a valuation allowance:			
Residential one-to-four family	2,648	2,629	$ 190
Home equity loans and lines of credit	31	30	2
Commercial real estate	562	562	8
Total	3,241	3,221	200
Total impaired loans	$ 5,679	$ 5,614	$ 200

Additional information pertaining to impaired loans follows:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
		(In thousands)	
Nine Months Ended September 30, 2017			
Residential one-to-four family	$ 4,896	$ 143	$ 62
Home equity loans and lines of credit	276	1	1
Commercial real estate	732	23	—
Total	$ 5,904	$ 167	$ 63
Nine Months Ended September 30, 2016			
Residential one-to-four family	$ 5,165	$ 130	$ 49
Home equity loans and lines of credit	253	1	1
Commercial real estate	1,193	42	2
Commercial and industrial	5	1	1
Total	$ 6,616	$ 174	$ 53
Three Months Ended September 30, 2017			
Residential one-to-four family	$ 5,124	$ 44	$ 16
Home equity loans and lines of credit	276	—	—
Commercial real estate	621	5	—
Total	$ 6,021	$ 49	$ 16
Three Months Ended September 30, 2016			
Residential one-to-four family	$ 5,613	$ 45	$ 23
Home equity loans and lines of credit	276	—	-
Commercial real estate	971	12	1
Total	$ 6,860	$ 57	$ 24

No additional funds are committed to be advanced in connection with impaired loans.

Troubled Debt Restructurings

The Company periodically grants concessions to borrowers experiencing financial difficulties.

At September 30, 2017, the Company had 20 residential real estate loans and 2 commercial real estate loans aggregating $4,382,000 and $185,000, respectively, which were subject to troubled debt restructuring agreements.

At September 30, 2016, the Company had 24 residential real estate loans and 4 commercial real estate loans aggregating $5,367,000 and $683,000, respectively, which were subject to troubled debt restructuring agreements.

As of September 30, 2017 and 2016, $4,567,000 and $6,050,000, respectively, in troubled debt restructurings were performing in accordance with the terms of the modified loan agreements. Included in such amounts are $1,139,000 and $1,714,000, respectively, that are being accounted for as non-accrual loans.

For the nine months ended September 30, 2017 and 2016, the Company did not enter into any loan modifications meeting the criteria of a troubled debt restructuring.

Management performs a discounted cash flow calculation to determine the amount of valuation reserve required on each of the troubled debt restructurings. Any reserve required is recorded as part of the allowance for loan losses. During the three and nine months ended September 30, 2017 and 2016, there were no material changes to the allowance for loan losses as a result of loan modifications made which were considered a troubled debt restructuring.

During the three and nine months ended September 30, 2017 and 2016, there were no troubled debt restructurings that defaulted (over 30 days past due) within twelve months of the restructure date.

Credit Quality Information

The Company utilizes an eight-grade internal loan rating system for commercial real estate, construction and commercial loans, as follows:

Loans rated 1 – 3B are considered "pass" rated loans with low to average risk.

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

Loans rated 5 are considered "substandard" and are 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 are considered "doubtful" and 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 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 commercial and industrial loans. Annually, the Company engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the Company's loans by risk rating at the dates indicated:

	September 30, 2017			December 31, 2016		
	Commercial Real Estate	Construction	Commercial and Industrial	Commercial Real Estate	Construction	Commercial and Industrial
	(In thousands)					
Loans rated 1 - 3B (Pass rated)	$ 96,713	$ 23,266	$ 16,373	$ 88,186	$ 23,286	$ 2,067
Loans rated 4	—	—	—	—	343	—
Loans rated 5	202	—	—	208	—	—
	$ 96,915	$ 23,266	$ 16,373	$ 88,394	$ 23,629	$ 2,067

Residential mortgages, home equity loans and lines of credit, and consumer loans are monitored for credit quality based primarily on their payment status. When one of these loans becomes more than 90 days delinquent it is assigned an internal loan rating. At September 30, 2017, $717,000 in residential mortgages and $29,000 in home equity loans were rated as substandard and $2,312,000 in residential mortgages and $370,000 in home equity loans were rated as special mention. At December 31, 2016, $890,000 in residential mortgages were rated as substandard and $1,471,000 in residential mortgages and $400,000 in home equity loans were rated as special mention.

7. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of residential mortgage loans serviced for others were $754,939,000 and $1,046,551,000 at September 30, 2017 and December 31, 2016, respectively.

The following table summarizes the activity relating to mortgage servicing rights for the nine months ended September 30, 2017 and 2016 (in thousands):

	September 30, 2017		September 30, 2016	
Mortgage servicing rights:				
Balance at beginning of year	$	8,910	$	2,601
Additions through originations		1,486		1,676
Additions through First Eastern acquisition		—		6,216
Sales		(3,126)		—
Amortization		(941)		(644)
Balance at end of period	$	6,329	$	9,849
Valuation allowance:				
Balance at beginning of year	$	424	$	34
Provision (credit)		(134)		464
Balance at end of period	$	290	$	498
Amortized cost, net	$	6,039	$	9,351
Fair value	$	6,051	$	9,360

During the three months ended September 30, 2017, the Company increased the valuation allowance for its mortgage servicing rights by $97,000. For the nine months ended September 30, 2017, the Company has reduced the valuation allowance for its mortgage servicing rights by $134,000 due to an increase in fair value caused by lower expected loan prepayments.

On July 31, 2017, the Company sold the servicing rights to a portfolio of $379.0 million of residential mortgage loans and completed the transfer of servicing responsibilities in September 2017. A gain of $68,000 was recognized and is included in other non-interest income in the accompanying statement of operations. Under the terms of the purchase and sale agreement, the Company has received $2.7 million, or 80% of the selling price as of September 30, 2017. Included in other assets at September 30, 2017 is $595,000 due from the purchaser which is scheduled for payment prior to the close of 2017.

8. INCOME TAXES

During the nine months ended September 30, 2017 and 2016, the Company recorded a deferred income tax benefit of $151,000 and $0, respectively, and current state tax expense of $3,000 in each period. The deferred income tax benefit for the 2017 period resulted from, and was limited to, an offsetting tax provision attributable to other comprehensive income, specifically, appreciation in the fair value of available-for-sale securities.

A deferred tax provision of $129,000 was recognized for the three months ended September 30, 2017, while no tax provision or benefit was recognized for the three months ended September 30, 2016. The tax provision for the current quarter resulted from a limitation in the year-to-date tax benefit included in results of operations. This tax benefit is fully offset by a tax provision attributable to other comprehensive income relating to appreciation in the fair value of available-for-sale securities.

Since 2014, the Company has maintained a valuation allowance for all of its deferred tax assets based on a determination that it was more likely than not that such assets would not be realized. This determination was based on the Company’s net operating loss (“NOL”) carryforward position, its current period operating results exclusive of non-recurring items and its expectations for the upcoming year. In performing subsequent assessments, management has concluded that no significant changes in the key factors affecting the realizability of the deferred tax asset has occurred and that a valuation allowance for all deferred tax assets should be maintained.

9. ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Loan Commitments

Mortgage loan commitments qualify as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans will subsequently be sold in the secondary market.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to an increase in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of derivative loan commitments was $39,959,000 and $32,904,000 at September 30, 2017 and December 31, 2016, respectively. The fair value of such commitments was an asset of $552,000 and $617,000 as of September 30, 2017 and December 31, 2016, respectively, and is included in other assets in the consolidated balance sheets.

Forward Loan Sale Commitments

The Company utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g. on the same day the lender commits to lend funds to a potential borrower). The Company does not account for best efforts contracts as derivative instruments, as such contracts do not require payment of a pair-off fee if the underlying mortgage loan does not close.

The Company expects that these forward loan sale commitments will experience inverse changes in fair value to the change in fair value of derivative loan commitments. The notional amount of mandatory delivery forward loan sale commitments was $18,807,000 and $18,197,000 at September 30, 2017 and December 31, 2016, respectively. The fair value of certain of these commitments was an asset of $35,000 and $65,000 at September 30, 2017 and December 31, 2016, respectively, and is included in other assets in the consolidated balance sheets while the fair value of other such commitments was a liability of $19,000 and $47,000 at September 30, 2017 and December 31, 2016, respectively, and is included in other liabilities in the consolidated balance sheets.

10. EMPLOYEE STOCK OWNERSHIP PLAN

In connection with our mutual-to-stock conversion and stock offering, the Company established an employee stock ownership plan ("ESOP) which acquired 469,498 shares of the Company's common stock equaling 8% of the shares issued, including shares issued to the Foundation. The ESOP is a tax-qualified retirement plan providing employees the opportunity to own Company stock. Company contributions to the ESOP are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares to be allocated annually is 18,780 through 2040.

Shares are committed to be released on a monthly basis and allocated as of December 31 each year. During the three and nine month periods ended September 30, 2017, 4,695 shares and 14,085 shares, respectively, were committed to be released, resulting in compensation expense, based on the fair value of the Company's stock, of $69,000 and $214,000, respectively. During the three and nine month periods ended September 30, 2016, 9,390 shares were committed to be released resulting in compensation expense of $120,200. The fair value of the 436,633 unallocated shares at September 30, 2017 was $6,684,900.

11. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share represents net income (loss) divided by the weighted average of common shares outstanding during the period. Unallocated ESOP shares are not considered to be outstanding for purposes of computing earnings (loss) per share. There were no potentially dilutive common stock equivalents outstanding at September 30, 2017.

The cost of shares issued to the ESOP, but not yet allocated or committed to be released to participants, is shown as a reduction of stockholders' equity. During the three and nine months ended September 30, 2017, the weighted average number of outstanding shares totaled 5,868,544 and 5,868,660, respectively. The average of unallocated and uncommitted ESOP shares for the three and nine months periods ended September 30, 2017 totaled 438,980 and 441,398, respectively, resulting in a total of 5,429,564 and 5,427,262 shares, respectively, being used to compute basic and diluted earnings (loss) per share. During the three months ended September 30, 2016, there were 5,868,726 shares outstanding while the average of unallocated ESOP shares totaled 464,803 resulting in a total of 5,403,923 shares being used to compute basic and diluted earnings per share. As shares were not outstanding during the first six months of 2016 earnings per share is not presented for the nine months ended September 30, 2016.

12. SHARE REPURCHASE PROGRAM

On September 15, 2017, the Company announced a stock repurchase program under which the Company may repurchase up to 586,854 shares, or 10% of its shares currently outstanding. Repurchases under this program may be made in open market or in privately negotiated transactions and pursuant to any trading plan that may be adopted in accordance with the SEC's Rule 10b5-1. No shares have been repurchased as part of this program as of September 30, 2017.

13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of fair value

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

Effective July 1, 2016, the Company elected the fair value option pursuant to Accounting Standards Codification ("ASC") 825, "Financial Instruments" for its residential mortgage loans being held for sale in the secondary market. ASC 825 allows for the irrevocable option to elect fair value accounting for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis that may otherwise not be required to be measured at fair value under other accounting standards. The Company elected the fair value option to better match changes in fair values of the loans with changes in the fair value of the forward loan sale commitments which are used to economically hedge them against changes in interest rates between the time an interest rate lock agreement is entered into with the borrower and the time the completed loan is sold. The aggregate fair value of loans held for sale, the contractual balance of loans held for sale and the gain on loans held for sale totaled $26.5 million, $25.9 million and $591,000, respectively, at September 30, 2017. The aggregate fair value of loans held for sale, the contractual balance of loans held for sale and the gain on loans held for sale totaled $30.5 million, $29.7 million and $768,000, respectively, at December 31, 2016. The change in fair value of loans held for sale reported as a component of net gains on sale of mortgage loans was $(112,000) and $911,000 for the three months ended September 30, 2017 and 2016, respectively, and $(177,000) for the nine months ended September 30, 2017.

The following methods and assumptions were used by the Company in estimating fair value disclosures:

<u>Cash and cash equivalents</u> – The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

<u>Certificates of deposit</u> – Certificates of deposit are carried at cost. These assets are measured at fair value in level 2 based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

<u>Securities</u> – All fair value measurements are obtained from a third-party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 (none at September 30, 2017 and December 31, 2016) are based on quoted market prices in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

<u>Federal Home Loan Bank of Boston ("FHLBB") stock</u> – It is not practical to determine the fair value of FHLBB stock due to restrictions on its transferability.

<u>Loans held for sale</u> – Fair values are based on commitments in effect from investors or prevailing market prices and include the servicing value of the loans.

Loans – For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Mortgage servicing rights – Fair value is based on a valuation model that calculates the present value of estimated future net servicing income, using various assumptions related to fees, discount rates and prepayment speeds.

Deposit liabilities – The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate term certificates are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities.

FHLBB advances - The fair values of the Company's FHLBB advances are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest - The carrying amounts of accrued interest approximate fair value.

On-balance-sheet derivatives - Fair values of forward loan sale commitments and derivative loan commitments are based on fair values of the underlying mortgage loans based on current market prices for similar assets in the secondary market. For derivative loan commitments, fair values also include the value of servicing, deferred origination fees/costs and the probability of such commitments being exercised.

Off-balance sheet credit-related instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair values of these instruments are not material.

Assets and liabilities measured at fair value on a recurring basis

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
September 30, 2017				
Assets:				
Securities available for sale:				
Debt securities	$ —	$ 64,603	$ —	$ 64,603
Mutual fund	—	538	—	538
Loans held for sale	—	26,541	—	26,541
Derivative loan commitments	—	552	—	552
Forward loan sale commitments	—	35	—	35
Liabilities:				
Forward loan sale commitments	—	19	—	19
December 31, 2016				
Assets:				
Securities available for sale:				
Debt securities	$ —	$ 68,099	$ —	$ 68,099
Mutual fund	—	538	—	538
Loans held for sale	—	30,452	—	30,452
Derivative loan commitments	—	617	—	617
Forward loan sale commitments	—	65	—	65
Liabilities:				
Forward loan sale commitments	—	47	—	47

Assets measured at fair value 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 U.S. generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of September 30, 2017 and December 31, 2016.

	September 30, 2017		
	Level 1	**Level 2**	**Level 3**
		(In thousands)	
Collateral dependent impaired loans	$ —	$ —	$ 1,369
Mortgage servicing rights	—	6,039	—
	$ —	$ 6,039	$ 1,369

	December 31, 2016		
	Level 1	**Level 2**	**Level 3**
		(In thousands)	
Collateral dependent impaired loans	$ —	$ —	$ 518
Mortgage servicing rights	—	8,486	—
	$ —	$ 8,486	$ 518

The fair value of properties associated with collateral dependent impaired loans are based on recent appraisals for which no discounts were applied.

The Company recorded a partial reversal of the valuation allowance for its mortgage servicing rights of $134,000 during the nine months ended September 30, 2017, due to an increase in fair value caused by lower expected loan prepayments.

There were no liabilities measured at fair value on a non-recurring basis at September 30, 2017 and December 31, 2016.

Summary of fair values of financial instruments

The estimated fair values, and related carrying amounts, of the Company's financial instruments are presented below. Certain financial instruments and all non-financial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Company. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include mortgagors' escrow accounts and accrued interest payable.

	September 30, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(In thousands)		
Financial assets:					
Certificates of deposit	$ 2,940	$ 2,949	$ —	$ 2,949	$ —
Securities available for sale	65,141	65,141	—	65,141	—
Loans held for sale	26,541	26,541	—	26,541	—
Loans, net	372,777	373,871	—	—	373,871
Derivative assets	587	587	—	587	—
Financial liabilities:					
Deposits	$ 358,901	$ 358,509	$ —	$ 358,509	$ —
FHLBB advances	56,935	56,847	—	56,847	—
Derivative liabilities	19	19	—	19	—

	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(In thousands)		
Financial assets:					
Certificates of deposit	$ 3,675	$ 3,687	$ —	$ 3,687	$ —
Securities available for sale	68,637	68,637	—	68,637	—
Loans held for sale	30,452	30,452	—	30,452	—
Loans, net	332,991	331,132	—	—	331,132
Derivative assets	682	682	—	682	—
Financial liabilities:					
Deposits	$ 351,179	350,979	$ —	$ 350,979	$ —
FHLBB advances	38,667	38,531	—	38,531	—
Derivative liabilities	47	47	—	47	—

14. COMMITMENTS AND CONTINGENCIES

Loan commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of market, credit and interest rate risk which are not recognized in the consolidated financial statements.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.
The following financial instruments were outstanding, at the dates indicated, whose contract amounts represent credit risk:

	September 30, 2017	December 31, 2016
	(In thousands)	
Commitments to originate loans	$ 50,875	$ 35,682
Unused lines and letters of credit	38,430	37,045
Unadvanced funds on construction loans	7,978	9,321
Overdraft lines of credit	9,087	9,189

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The majority of these financial instruments are collateralized by real estate.

At September 30, 2017, we had $50.9 million in loan commitments outstanding, including $40.0 million related to loans to be sold in the secondary mortgage market and for which the Company had $18.8 million in forward loan sale commitments from investors.

Lease commitments

During the nine months ended September 30, 2017, the Company entered into a non-cancelable lease related to a new lending center in Andover, MA. This lease has an initial lease term of five years, with an option to extend for an additional period of five years. The Company expects to take occupancy of this new facility in November 2017.

In addition, the Company entered into a non-cancelable lease with a five-year initial lease term and two five-year renewal options for a new branch office in Braintree, MA. This branch is expected to open in the first quarter of 2018, at which time customers of our North Randolph, MA branch will be transferred to this new branch location.

The aggregate future minimum rent commitment associated with these leases was $2.5 million as of September 30, 2017.

Other contingencies

We are not currently a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

15. SUBSEQUENT EVENT

At the annual meeting held in August 2017, the Company's shareholders approved the 2017 Stock Option and Incentive Plan (the "Plan"). The maximum number of shares issuable under the Plan is 821,621 consisting of up to 586,872 shares issuable pursuant to the exercise of stock options and 234,749 shares issuable as restricted stock awards or restricted stock units.

In October 2017, the Governance Committee of the Board of Directors approved initial grants of stock options and restricted stock awards to both management and directors. This initial award consisted of a total of 340,387 stock options and 192,491 shares of restricted stock. The Company's closing stock price on the date of grant was $14.66, which was used in setting the exercise price for the stock options. The restricted shares do not require any cash consideration from the awardee. Based on the closing stock price noted above, the unearned compensation associated with the restricted shares is $2.8 million. The Company has not yet determined the fair value of the grant of stock options. The fair value of stock options will be determined during the fourth quarter using the Black-Scholes model.

Stock options granted become exercisable and restricted stock awarded vest at a rate of 20% annually with accelerated vesting in the event of death, disability or, in certain cases, retirement.

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

This section is intended to help investors understand the financial performance of Randolph Bancorp, Inc. and its subsidiary through a discussion of the factors affecting its financial condition at September 30, 2017 and December 31, 2016, and its results of operations for the three and nine month periods ended September 30, 2017 and 2016. This section should be read in conjunction with the consolidated financial statements of Randolph Bancorp, Inc. and notes thereto that appear elsewhere in this Quarterly Report. For the purpose of this Quarterly Report, the terms the "Company" "we," "our," and "us" refer to Randolph Bancorp, Inc. and its subsidiary unless the context indicates another meaning.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on certain current assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of the words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target" and similar expressions. These statements include, among others, statements regarding our strategy, goals and expectations; evaluations of future interest rate trends and liquidity; expectations as to growth in assets, deposits and results of operations, future operations, market position and financial position; and prospects, plans and objectives of management. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond our control.

Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. Our actual results could differ materially from those projected in the forward-looking statements as a result of, among others, factors referenced herein under the section captioned "Risk Factors"; adverse conditions in the capital and debt markets and the impact of such conditions on our business activities; changes in interest rates; competitive pressures from other financial institutions; the effects of weakness in general economic conditions on a national basis or in the local markets in which we operate, including changes that adversely affect borrowers' ability to service and repay our loans; changes in the value of securities in our investment portfolio; changes in loan default and charge-off rates; fluctuations in real estate values; the adequacy of loan loss reserves; decreases in deposit levels necessitating increased borrowing to fund loans and investments; operational risks including, but not limited to, cybersecurity and natural disasters; changes in government regulation; changes in accounting standards and practices; the risk that intangible assets recorded in our financial statements will become impaired; demand for loans in our market area; our ability to attract and maintain deposits; risks related to the implementation of acquisitions, dispositions, and restructurings; the risk that we may not be successful in the implementation of our business strategy; and changes in assumptions used in making such forward-looking statements. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Overview

Our results of operations depend primarily on net interest income and gains on the sale of mortgage loans. Net interest income is the difference between the interest income we earn on our interest-earning assets and the interest we pay on interest-bearing liabilities. Our interest-earning assets consist primarily of residential mortgage loans, commercial real estate loans, commercial and industrial loans, home equity loans and lines of credit, construction loans, consumer loans and investment securities. Interest-bearing liabilities consist primarily of deposit accounts and borrowings from the Federal Home Loan Bank of Boston ("FHLBB"). Gains on the sale of mortgage loans result from the sale of such loans in the secondary mortgage market. The amount of these gains is dependent on the volume of our loan originations.

Completion of Stock Offering and Acquisition of First Eastern Bankshares Corporation

On July 1, 2016, the Company completed its mutual-to-stock conversion and stock offering receiving net proceeds of $49.8 million. Immediately thereafter, we consummated the acquisition of First Eastern Bankshares Corporation and its wholly-owned subsidiary First Federal Savings Bank of Boston (together, "First Eastern") at a cost of $14.1 million.

First Eastern's primary business was the origination and sale of residential mortgage loans in the secondary market and offering a variety of insured deposit accounts and using such deposits as well as borrowings to originate portfolio loans, primarily residential mortgage and construction loans, to its customers. As a result of the acquisition, our footprint expanded to include a branch office in downtown Boston, five loan production offices and a lending center in Massachusetts and one loan production office in New Hampshire.

See Notes 1 and 3 to the accompanying consolidated financial statements for additional information related to these transactions.

Critical Accounting Policies

Certain of our accounting policies are important to the presentation of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Our significant accounting policies are discussed in Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we have elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our consolidated financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

Comparison of Financial Condition at September 30, 2017 and December 31, 2016

Total Assets. Total assets increased $24.3 million to $505.5 million at September 30, 2017 from $481.2 million at December 31, 2016. Growth was concentrated in our loan portfolio, which increased by $39.8 million. The overall asset growth was funded primarily by an increase in deposits of $7.7 million and FHLBB advances of $18.3 million.

Investment Securities. Investment securities, all of which are classified as available for sale, decreased $3.5 million to $65.1 million at September 30, 2017 from $68.6 million at December 31, 2016. At September 30, 2017, investment securities represented 12.9% of total assets compared to 14.3% at December 31, 2016. This decrease is a consequence of our strategic shift to investing a higher proportion of interest-earning assets in loans.

Loans Held for Sale. We are actively involved in the secondary mortgage market and designate a significant majority of our residential first mortgage loan production for sale. At September 30, 2017, loans held for sale, which consist of closed residential first mortgage loans which intend to sell to investors, totaled $26.5 million compared to $30.5 million at December 31, 2016. This decrease of $3.9 million is indicative of the lower volume of origination activity in the current year.

Net Loans. Net loans increased $39.8 million, or 11.9%, to $372.8 million at September 30, 2017 from $333.0 million at December 31, 2016. This net growth occurred in both real estate secured loans ($22.0 million) and non-real estate secured loans ($17.8 million). Growth in real estate loans occurred primarily in the residential portfolio, which increased $10.3 million, and in the commercial real estate portfolio, which increased $8.5 million due, in both instances, to organic growth. The growth in commercial real estate lending reflects continuing strong local market conditions aided by the favorable interest rate environment that prevailed throughout the period. The growth in non-real estate secured loans occurred in commercial and industrial loans, which increased $14.3 million, and in consumer loans, which increased $3.5 million due, in both instances, to loan purchases from third parties. During the first nine months of 2017, the Company purchased $15.4 million in loan participations originated through a super-regional bank. These commercial and industrial loans are with local franchisees of a major international fast food retailer. In addition, the Company purchased $6.7 million in consumer loans during this period, including $5.0 million of refinanced student loans from an online lender specializing in the origination and refinancing of such loans.

Mortgage Servicing Rights. Mortgage servicing rights ("MSRs") decreased $2.5 million to $6.0 million at September 30, 2017 from $8.5 million at December 31, 2016. This decrease was primarily due to the sale in July 2017 of the rights to service $379.0 million in loans. This sale was completed consistent with our strategic goal of managing the size of the loan servicing portfolio due to regulatory capital considerations. The decrease caused by the sale of MSRs was partially offset by new originations, net of amortization, of $545,000 during the first nine months of 2017 and a $134,000 partial reversal of the valuation allowance. This reversal resulted from an increase in the fair value of MSRs due to slower projected loan prepayment speeds. We serviced $754.9 million in loans for others at September 30, 2017.

Deposits. Deposits increased $7.7 million, or 2.2%, to $358.9 million at September 30, 2017 from $351.2 million at December 31, 2016. This increase was adversely affected by the loss of $4.2 million in custodial account balances resulting from the transfer of $575.0 million of serviced loans during 2017 (including loans sold in December 2016). The resulting net increase of $11.9 million, or 3.5%, included an increase of $9.3 million in core deposit accounts, of which $4.6 million was in non-interest-bearing accounts, and $2.6 million in term certificates.

FHLBB Advances. FHLBB advances increased $18.3 million to $56.9 million at September 30, 2017 from $38.7 million at December 31, 2016 to help fund loan growth. This increase consisted entirely of overnight advances.

Stockholders' Equity. Stockholders' equity was $83.2 million at September 30, 2017 compared to $83.3 million at December 31, 2016 as the net loss for the first nine months of 2017 of $548,000 substantially offset appreciation in the fair value of available-for-sale securities and equity adjustments associated with the employee stock ownership plan. The appreciation in the fair value of investment securities was caused by lower long-term interest rates during the first nine months of 2017.

On September 15, 2017, the Company announced a stock repurchase program under which the Company may repurchase up to 586,854 shares, or 10% of its shares currently outstanding. Repurchases under this program may be made in open market or in privately negotiated transactions and pursuant to any trading plan that may be adopted in accordance with the SEC's Rule 10b5-1. No shares have been repurchased as part of this program as of September 30, 2017.

Comparison of Operating Results for the Three Months Ended September 30, 2017 and 2016

General. The Company recorded net income of $49,000 for the three months ended September 30, 2017 compared to net income of $289,000 for the three months ended September 30, 2016. Operating results for both periods were affected by merger and integration costs related to the acquisition of First Eastern and amounted to $7,000 and $514,000 for the three months ended September 30, 2017 and 2016, respectively. In addition, the operating results for the three months ended September 30, 2016 included a bargain purchase gain as a result of the acquisition of First Eastern of $1.5 million and expense of $2.3 million for a contribution to a charitable foundation formed in connection with the Company's mutual-to-stock conversion. These non-core items and their financial impact are summarized in the table presented on page 34 under the caption "Non- GAAP Measures."

Analysis of Net Interest Income

Net interest income represents the difference between income we earn on our interest-earning assets and the expense we pay on interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned on such assets and paid on such liabilities.

Average Balances and Yields. The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of acquisition accounting adjustments as well as deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Three Months Ended September 30,					
	2017			2016		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-earning assets:						
Loans (1)	$ 398,499	$ 3,936	3.95%	$ 356,940	$ 3,434	3.85%
Investment securities(2) (3)	69,153	472	2.73%	59,731	418	2.80%
Interest-earning deposits	9,221	27	1.17%	40,362	70	0.69%
Total interest-earning assets	476,873	4,435	3.72%	457,033	3,922	3.43%
Noninterest-earning assets	28,058			30,655		
Total assets	$ 504,931			$ 487,688		
Interest-bearing liabilities:						
Savings accounts	103,938	42	0.16%	105,594	30	0.11%
NOW accounts	46,098	57	0.49%	40,141	58	0.58%
Money market accounts	57,272	76	0.53%	46,142	45	0.39%
Term certificates	91,226	231	1.01%	102,190	255	1.00%
Total interest-bearing deposits	298,534	406	0.54%	294,067	388	0.53%
FHLBB advances	53,610	167	1.25%	41,627	67	0.64%
Total interest-bearing liabilities	352,144	573	0.65%	335,694	455	0.54%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	62,210			61,969		
Other noninterest-bearing liabilities	6,084			4,317		
Total liabilities	420,438			401,980		
Total stockholders' equity	84,493			85,708		
Total liabilities and stockholders' equity	$ 504,931			$ 487,688		
Net interest income		$ 3,862			$ 3,467	
Interest rate spread(4)			3.07%			2.89%
Net interest-earning assets(5)	$ 124,729			$ 121,339		
Net interest margin(6)			3.24%			3.03%
Ratio of interest-earning assets to interest-bearing liabilities	135.42%			136.15%		

(1) Includes nonaccruing loan balances and interest received on such loans as well as loans held for sale.

(2) Includes carrying value of securities classified as available-for-sale, FHLBB stock and investment in the Depositors Insurance Fund.

(3) Includes tax equivalent adjustments for municipal securities, based on a 34% effective tax rate, of $45,000 and $46,000 for the three months ended September 30, 2017 and 2016.

(4) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(6) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis. The following table presents the effects of changing rates and volumes on our net interest income, presented on a tax equivalent basis, for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016		
	Increase (Decrease) Due to Changes in		Total Increase
(In thousands)	Volume	Rate	(Decrease)
Interest-earning assets:			
Loans	$ 408	$ 94	$ 502
Investment securities	65	(11)	54
Interest-earning deposits	(74)	31	(43)
Total interest-earning assets	399	114	513
Interest-bearing liabilities:			
Savings accounts	—	12	12
NOW accounts	(16)	15	(1)
Money market accounts	12	19	31
Term certificates	(28)	4	(24)
Total interest-bearing deposits	(32)	50	18
FHLBB advances	24	76	100
Total interest-bearing liabilities	(8)	126	118
Change in net interest income	$ 407	$ (12)	$ 395

Interest and Dividend Income. Interest and dividend income, inclusive of tax equivalent adjustments on municipal securities, increased $513,000, or 13.1%, to $4.4 million for the three months ended September 30, 2017 compared to $3.9 million for the three months ended September 30, 2016. This increase was due to the growth in the loan portfolio in the current year. Following completion of the initial public offering ("IPO") in July 2016, the Company gradually deployed $49.8 million of IPO proceeds by growing its loan portfolio. The yield on interest-earning assets increased 29 basis points to 3.72% in the 2017 quarter from 3.43% in the same quarter of the prior year due principally to the higher proportion of loans to total interest-earning assets and a 10 basis points increase in the yield on loans.

Interest Expense. Interest expense increased $118,000, or 25.9%, to $573,000 for the three months ended September 30, 2017 compared to $455,000 for the three months ended September 30, 2016. This increase principally reflects growth in the average balance of FHLBB advances of $12.0 million and a 11 basis points increase to 0.65% in cost of funds. The increase in cost of funds was due to a 1 basis point increase in the cost of interest-bearing deposits caused by selective increases in the rates paid on certain deposit products in response to market conditions and a 61 basis points increase in the cost of FHLBB advances caused by Federal Reserve Board actions to increase the federal funds rate by 50 basis points between periods.

Net Interest Income. Net interest income increased $395,000, or 11.4%, to $3.9 million for the three months ended September 30, 2017 compared to $3.5 million for the three months ended September 30, 2016. This improvement resulted principally from loan growth which was funded by IPO proceeds. The net interest margin increased in the third quarter of 2017 to 3.24% from 3.03% in the third quarter of 2016 due to an increase of $19.8 million in interest-earning assets as well as an increase in the portion of interest-earning assets invested in the loan portfolio during the past year. The Company's loan-to-deposit ratio was 103.9% at September 30, 2017 compared to 94.8% at September 30, 2016.

Provision for Loan Losses. Based on the application of our loan loss methodology, no provision for loan losses was recorded for the three months ended September 30, 2017 compared to a credit provision of $160,000 for the three months ended September 30, 2016. Classified and nonaccrual loan balances were stable during the current quarter with regional and local economic data, including housing prices, continuing their positive trend of the past several years. The allowance for loan losses was at 0.94% of total loans at September 30, 2017 compared to 0.98% at December 31, 2016, and was 162.5% of non-performing loans at September 30, 2017 compared to 147.2% at December 31, 2016.

Net Gain on Sales of Mortgage Loans. The net gain on sales of mortgage loans decreased $2.7 million, or 49.9%, to $2.7 million for the three months ended September 30, 2017 compared to $5.4 million for the three months ended September 30, 2016. During the three months ended September 30, 2017 and 2016, we sold $108.4 million and $187.1 million, respectively, of residential mortgage loans. Loan originations in 2017 continue to be adversely affected by a lower volume of loan refinancing activity than we experienced in the prior year and a shortage of homes being marketed for sale. Through September 30, 2017, 74% of our loan originations funded home purchases and 26% funded the refinancing of loans. For all of 2016, loan refinancing activity accounted for 45% of total originations.

Other Non-interest Income. Non-interest income, excluding the net gain on the sales of mortgage loans, decreased $1.1 million to $866,000 for the three months ended September 30, 2017 compared to $2.0 million during the same quarter of the prior year. During the third quarter of 2016, we recognized a bargain purchase gain of $1.5 million resulting from the acquisition of First Eastern. Exclusive of this non-recurring item, other non-interest income would have increased $358,000, principally due to an increase of $425,000 in loan servicing income. The improvement in loan servicing income in the 2017 period was primarily due to an increase in the valuation allowance for MSRs of $416,000 in 2016 caused by a reduction in the fair value of MSRs.

Non-interest Expenses. Non-interest expenses decreased $3.4 million and amounted to $7.2 million for the three months ended September 30, 2017 compared to $10.7 million for the same period in 2016. Included in both periods are merger and integration costs associated with the First Eastern acquisition, which amounted to $7,000 and $514,000 for the three months ended September 30, 2017 and 2016, respectively. Also included in non-interest expenses for the three months ended September 30, 2016 was $2.3 million for the funding of a new charitable foundation formed at the time of the Company’s mutual-to-stock conversion in July 2016. Exclusive of these costs, the decrease in non-interest expenses would have been $661,000, which was primarily due to lower salaries and employee benefits in the 2017 period.

Salaries and employee benefits decreased $680,000, or 12.7%, in the third quarter of 2017 compared to the same quarter in the prior year. This decrease is primarily due to lower commission expense associated with the 35% decrease in residential mortgage loan originations in 2017 and lower incentive compensation costs. Professional fees decreased $45,000, or 11.5%, due to fewer consulting projects in the current year. Partially offsetting these expense reductions was an increase of $142,000, or 105.2% in marketing costs. This increase was due to the greater use of advertising in 2017.

We incurred merger and integration costs directly attributable to the First Eastern acquisition of $7,000 and $514,000 during the three months ended September 30, 2017 and 2016, respectively. Costs incurred in the 2017 period were primarily for professional fees and were reduced by a reversal of forfeited severance benefits. Costs incurred in the 2016 period were primarily for employee retention bonuses and system de-conversion costs. The final phase of merger integration involving conversion of the loan servicing system was completed during the third quarter of 2017.

Income Tax Expense. A deferred tax provision of $129,000 was recognized for the three months ended September 30, 2017, while no tax provision or benefit was recognized for the three months ended September 30, 2016. The tax provision for the current quarter resulted from a limitation in the year-to-date tax benefit included in results of operations. This tax benefit is fully offset by a tax provision attributable to other comprehensive income relating to appreciation in the fair value of available-for-sale securities. The Company continues to maintain a full valuation allowance for its net deferred tax assets.

Comparison of Operating Results for the Nine Months Ended September 30, 2017 and 2016

General. Operating results for the nine months ended September 30, 2016 include First Eastern only since the date of acquisition of July 1, 2016, while operating results for the nine months ended September 30, 2017 include First Eastern for the entire period. Separate operating results for First Eastern for the nine months ended September 30, 2017 are not available due to a conversion of systems that occurred in the fourth quarter of 2016.

The Company incurred a net loss of $548,000 for the nine months ended September 30, 2017 compared to net income of $1.0 million for the nine months ended September 30, 2016. Operating results for both periods were affected by merger and integration costs related to the acquisition of First Eastern and amounted to $531,000 and $664,000 for the nine months ended September 30, 2017 and 2016, respectively. In addition, the operating results for the nine months ended September 30, 2016 included a bargain purchase gain as a result of the acquisition of First Eastern of $1.5 million, expense of $2.3 million for a contribution to a charitable foundation formed in connection with the Company's mutual-to-stock conversion and an insurance settlement gain of $486,000 These non-core items and their financial impact are summarized in the table presented on page 34 under the caption "Non- GAAP Measures."

Analysis of Net Interest Income

Net interest income represents the difference between income we earn on our interest-earning assets and the expense we pay on interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned on such assets and paid on such liabilities.

Average Balances and Yields. The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. 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 expense.

	For the Nine Months Ended September 30,					
	2017			2016		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-earning assets:						
Loans[1]	$ 379,910	$ 11,049	3.88%	$ 315,753	$ 8,982	3.79%
Investment securities[2] [3]	69,831	1,465	2.80%	60,566	1,328	2.92%
Interest-earning deposits	8,469	70	1.10%	22,635	124	0.73%
Total interest-earning assets	458,210	12,584	3.66%	398,954	10,434	3.49%
Noninterest-earning assets	29,796			30,058		
Total assets	$ 488,006			$ 429,012		
Interest-bearing liabilities:						
Savings accounts	104,125	122	0.16%	99,321	111	0.15%
NOW accounts	46,660	161	0.46%	52,393	132	0.34%
Money market accounts	54,860	188	0.46%	42,793	128	0.40%
Term certificates	89,990	652	0.97%	92,854	662	0.95%
Total interest-bearing deposits	295,635	1,123	0.51%	287,361	1,033	0.48%
FHLBB advances	39,124	335	1.14%	33,887	185	0.73%
Total interest-bearing liabilities	334,759	1,458	0.58%	321,248	1,218	0.51%
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	62,785			46,576		
Other noninterest-bearing liabilities	6,211			5,894		
Total liabilities	403,755			373,718		
Total stockholders' equity	84,251			55,294		
Total liabilities and stockholders' equity	$ 488,006			$ 429,012		
Net interest income		$ 11,126			$ 9,216	
Interest rate spread[4]			3.08%			2.98%
Net interest-earning assets[5]	$ 123,451			$ 77,706		
Net interest margin[6]			3.24%			3.08%
Ratio of interest-earning assets to interest-bearing liabilities	136.88%			124.19%		

(1) Includes nonaccruing loan balances and interest received on such loans as well as loans held for sale.

(2) Includes carrying value of securities classified as available-for-sale, FHLBB stock and investment in the Depositors Insurance Fund.

(3) Includes tax equivalent adjustments for municipal securities, based on a 34% effective tax rate, of $136,000 and $143,000 for the nine months ended September 30, 2017 and 2016.

(4) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(6) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis. The following table presents the effects of changing rates and volumes on our net interest income, presented on a tax equivalent basis, for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016		
	Increase (Decrease) Due to Changes in		Total Increase (Decrease)
(In thousands)	Volume	Rate	
Interest-earning assets:			
Loans	$ 1,867	$ 200	$ 2,067
Investment securities	156	(19)	137
Interest-earning deposits	(99)	45	(54)
Total interest-earning assets	1,924	226	2,150
Interest-bearing liabilities:			
Savings accounts	6	5	11
NOW accounts	(17)	46	29
Money market accounts	40	20	60
Term certificates	(21)	11	(10)
Total interest-bearing deposits	8	82	90
FHLBB advances	32	118	150
Total interest-bearing liabilities	40	200	240
Change in net interest income	$ 1,884	$ 26	$ 1,910

Interest and Dividend Income. Interest and dividend income, inclusive of tax equivalent adjustments on municipal securities, increased $2.2 million, or 20.6%, to $12.6 million for the nine months ended September 30, 2017 compared to $10.4 million for the nine months ended September 30, 2016. This increase was due to the both the investment of IPO proceeds of $49.8 million and the acquisition of First Eastern, which contributed to an increase in average interest-earning assets of $59.3 million between periods. The yield on interest-earning assets increased 17 basis points to 3.66% in the first nine months of 2017 from 3.49% in the prior year period due principally to the higher proportion of loans to total interest-earning assets and a 9 basis points increase in the yield on loans.

Interest Expense. Interest expense increased $240,000, or 19.7%, to $1.5 million for the nine months ended September 30, 2017 compared to $1.2 million for the nine months ended September 30, 2016. This increase principally reflects growth in the average balance of interest-bearing deposits of $8.3 million and a 7 basis points increase to 0.58% in cost of funds. The increase in cost of funds was due to a 3 basis points increase in the cost of interest-bearing deposits caused by selective increases in the rates paid on certain deposit products in response to market conditions and a 41 basis points increase in the cost of FHLBB advances caused by Federal Reserve Board actions to increase the federal funds rate by 50 basis points between periods.

Net Interest Income. Net interest income increased $1.9 million, or 20.7%, to $11.1 million for the nine months ended September 30, 2017 compared to $9.2 million for the nine months ended September 30, 2016. This improvement resulted principally from loan growth which was funded by IPO proceeds, and a $16.2 million increase in the average balance of noninterest-bearing deposits. The net interest margin increased in the first nine months of 2017 to 3.24% from 3.08% in the prior year period due primarily to an increase in the ratio of interest-earning assets to interest-bearing liabilities to 136.9% in the 2017 period compared to 124.2% in the 2016 period. This improvement was caused by the receipt of the IPO proceeds and the increase in the average balance of noninterest-bearing deposits between periods.

Provision for Loan Losses. Based on the application of our loan loss methodology, we recorded a provision for loan losses of $335,000 for the nine months ended September 30, 2017 compared to a credit provision of $98,000 for the nine months ended September 30, 2016. Classified and nonaccrual loan balances were stable during the first nine months of 2017 with regional and local economic data, including housing prices, continuing their positive trend of the past several years. The provision in the 2017 period primarily reflected portfolio growth in both real estate and non-real estate secured loans. The allowance for loan losses was at 0.94% of total loans at September 30, 2017 compared to 0.98% at December 31, 2016, and was 162.5% of non-performing loans at September 30, 2017 compared to 147.2% at December 31, 2016.

Net Gain on Sales of Mortgage Loans. The net gain on sales of mortgage loans increased $123,000 to $7.3 million for the nine months ended September 30, 2017 compared to $7.1 million in the nine months ended September 30, 2016. During the first nine months of 2017, we sold $308.2 million of residential mortgage loans compared to $246.1 million of such loans in the nine months ended September 30, 2016. These increases are due to the acquisition of First Eastern. Loan originations in 2017 continue to be adversely affected by a lower volume of loan refinancing activity than we experienced in the prior year and a shortage of homes being marketed for sale. Through September 30, 2017, 74% of our loan originations funded home purchases and 26% funded the refinancing of loans. For all of 2016, loan refinancing activity accounted for 45% of total originations.

Other Non-interest Income. Non-interest income, excluding the net gain on the sales of mortgage loans, decreased $456,000 to $3.2 million for the nine months ended September 30, 2017 compared to $3.6 million during the same period of the prior year. During the first nine months of 2016, we recognized a bargain purchase gain of $1.5 million as a result of the acquisition of First Eastern and a gain of $486,000 on a life insurance settlement. Exclusive of these non-recurring items, other non-interest income would have increased in the 2017 period by $1.5 million principally due to an increase of $1.1 million in mortgage servicing income and $327,000 in fees generated by a subsidiary acquired in the acquisition of First Eastern which provides loan closing services. The First Eastern acquisition resulted in a near tripling of serviced loans leading to this increase. Significantly contributing to the increase in loan servicing income were adjustments to the valuation allowance for MSRs due to changes in their fair value. In the 2016 period, an increase in the valuation allowance of $464,000 was recorded while in the 2017 period a reduction in the valuation allowance of $134,000 was recorded resulting in a net increase in mortgage servicing income between periods of $598,000. The partial reversal of the valuation allowance for MSRs in 2017 was due to slower expected loan prepayment speeds.

Non-interest Expenses. Non-interest expenses increased $2.9 million and amounted to $21.8 million for the nine months ended September 30, 2017 compared to $18.9 million for the nine months ended September 30, 2016. Included in both periods are merger and integration costs associated with the First Eastern acquisition, which amounted to $531,000 and $664,000 for the nine months ended September 30, 2017 and 2016, respectively. Also included in non-interest expenses for the nine months ended September 30, 2016 was $2.3 million for the funding of a new charitable foundation formed at the time of the Company's mutual-to-stock conversion in July 2016. Exclusive of these costs, the increase in non-interest expenses would have been $5.3 million. This increase is due in large part to the acquisition of First Eastern. Most expense categories experienced increases resulting from this transaction, the most significant of which was salaries and employee benefits.

Salaries and employee benefits increased $4.1 million, or 41.6%, and amounted to $14.1 million for the nine months ended September 30, 2017 compared to $9.9 million for the same period in the prior year. As a result of the acquisition of First Eastern in July 2016, the Company doubled the number of employees leading to this increase. Partially offsetting this increase are lower incentive compensation costs. Marketing costs increased $317,000, or 103.3%, in the 2017 period compared to the prior year due to increased advertising, including internet advertising, and costs associated with rebranding of the Bank.

Occupancy and equipment expenses increased $509,000, or 35.2%, in the first nine months of 2017 compared to the same period in the prior year. This increase is due to additional rent expense and related property costs associated with First Eastern's lending center and loan production offices.

Data processing expenses decreased $55,000, or 9.2%, in the first nine months of 2017 compared to the same period in the prior year. This decrease is due to revised pricing from the Company's core data processor that went into effect in March 2016, partially offset by additional costs associated with First Eastern. All of First Eastern's data processing systems have been converted to the Company's systems as of September 30, 2017.

During the nine months ended September 30, 2016, the Company recognized a $150,000 write-down in the carrying value of a commercial building on which it had foreclosed. This building, which was the only foreclosed real estate owned by the Company during the past three years, was sold in the fourth quarter of 2016.

We incurred merger and integration costs directly attributable to the First Eastern acquisition of $531,000 and $664,000 during the nine months ended September 30, 2017 and 2016, respectively. Costs incurred in the 2017 period were for severance payments, system conversion costs and consulting fees. Costs incurred in the 2016 period were primarily for legal fees, integration consulting services, employee retention bonuses and system de-conversion costs.

Other non-interest expenses increased $494,000, or 19.4%, in the first nine months of 2017 compared to the period in the prior year. This increase is primarily due to the acquisition of First Eastern and public company related costs.

Income Tax Expense (Benefit). A deferred tax benefit of $151,000 was recognized for the nine months ended September 30, 2017, while no benefit for income taxes was recognized for the nine months ended September 30, 2016. The deferred tax benefit resulted from, and was limited to, an offsetting tax provision attributable to other comprehensive income relating to appreciation in the fair value of available-for-sale securities. The Company continues to maintain a full valuation allowance for its net deferred tax assets.

Non-GAAP Measures

Management assesses the Company's financial performance for purposes of making day-to-day and strategic decisions, it does so based upon the performance of its core banking business which is derived from the combination of net interest income and non-interest income reduced by the provision for loan losses and non-interest expenses and the impact of income taxes, if any, all as adjusted for any non-core items. The Company's financial reporting is determined in accordance with GAAP, which sometimes includes items that management believes are unrelated to its core banking business and are not expected to have a material financial impact on operating results in future periods, such as merger and integration costs, life insurance settlements and other items. Management computes the Company's non-GAAP operating earnings, non-interest income as a percentage of total income and the efficiency ratio on an operating basis, which excludes these items, in order to measure the performance of the Company's core banking business.

Non-GAAP measures should not be viewed as a substitute for operating results determined in accordance with GAAP. An item that management determines to be non-core and excludes when computing these non-core measures can be of substantial importance to the Company's results for any particular reporting period. The Company's non-GAAP performance measures are not necessarily comparable to such measures that may be used by other companies.

The following table summarizes the impact of non-core items recorded for the reporting periods indicated below and reconciles them in accordance with GAAP:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Income (loss) before income taxes - GAAP basis	$ 178	$ 289	$ (696)	$ 1,012
Non-interest income adjustments:				
Bargain purchase gain	—	(1,451)	—	(1,451)
Gain on life insurance settlement	—	—	—	(486)
Non-interest expense adjustments:				
Charitable foundation contribution		2,275		2,275
Merger and integration costs	7	514	531	664
Related tax effects	(73)	—	64	(3)
Net income (loss) - Non-GAAP basis	$ 112	$ 1,627	$ (101)	$ 2,011

Asset Quality

Nonperforming Assets. The following table provides information with respect to our nonperforming assets, including troubled debt restructurings, at the dates indicated. We did not have any accruing loans past due 90 days or more at the dates presented.

	September 30, 2017	December 31, 2016
	(In thousands)	
Nonaccrual loans:		
Real estate loans:		
One- to four-family residential	$ 1,906	$ 1,945
Commercial	—	—
Home equity loans and lines of credit	276	276
Construction	—	—
Commercial and industrial loans	—	—
Consumer loans	—	—
Total nonaccrual loans	2,182	2,221
Other real estate owned	—	—
Total nonperforming assets	2,182	2,221
Performing troubled debt restructurings	3,435	3,433
Total nonperforming assets and performing troubled debt restructurings	$ 5,617	$ 5,654
Total nonperforming loans to total loans(1)	0.58%	0.66%
Total nonperforming assets and performing troubled debt restructurings to total assets	1.11%	1.17%

(1) Total loans exclude loans held for sale and net deferred loan costs and fees.

Interest income that would have been recorded for the nine months ended September 30, 2017 had nonaccruing loans been current according to their original terms amounted to $69,000. Income related to nonaccrual loans included in interest income for the nine months ended September 30, 2017 amounted to $62,000.

Classified Loans. The following table shows the aggregate amounts of our regulatory classified loans at the dates indicated.

	September 30, 2017	December 31, 2016
	(In thousands)	
Classified assets:		
Substandard	$ 948	$ 1,098
Doubtful	—	—
Loss	—	—
Total classified assets	$ 948	$ 1,098
Special mention	$ 2,682	$ 2,214

Other than as disclosed in the above tables, there are no other loans where management has information indicating that there is serious doubt about the ability of the borrowers to comply with the present loan repayment terms.

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

	September 30, 2017			December 31, 2016		
(In thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
Real estate loans:						
One- to four-family residential	$ 1,112	$ —	$ —	$ 1,168	$ 201	$ 46
Commercial	—	—	—	400	—	—
Home equity loans and lines of credit	68	107	247	258	30	247
Construction	—	—	—	—	—	—
Commercial and industrial loans	—	—	—	—	—	—
Consumer loans	—	—	—	59	—	—
Total	$ 1,180	$ 107	$ 247	$ 1,885	$ 231	$ 293

Allowance for Loan Losses. The following table sets the breakdown for loan losses by loan category at the dates indicated.

	September 30, 2017			December 31, 2016		
(Dollars in thousands)	Amount	% of Allowance Amount to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance Amount to Total Allowance	% of Loans in Category to Total Loans
Real estate loans:						
One- to four-family residential	$ 842	23.75%	50.49%	$ 1,018	31.12%	53.43%
Commercial	1,578	44.51%	25.85%	1,410	43.11%	26.38%
Home equity loans and lines of credit	344	9.71%	10.41%	436	13.33%	10.56%
Construction	339	9.56%	6.20%	225	6.88%	7.05%
Commercial and industrial loans	261	7.36%	4.37%	37	1.13%	0.62%
Consumer loans	181	5.11%	2.68%	145	4.43%	1.96%
Total	$ 3,545	100.00%	100.00%	$ 3,271	100.00%	100.00%

The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands)	
Allowance at beginning of period	$ 3,271	$ 3,239
Provision (credit) for loan losses	335	(98)
Charge offs:		
Real estate loans:		
One- to four-family residential	—	—
Commercial	—	—
Home equity loans and lines of credit	—	—
Construction	—	—
Commercial and industrial loans	—	—
Consumer loans	(134)	(66)
Total charge-offs	(134)	(66)
Recoveries:		
Real estate loans:		
One- to four-family residential	19	4
Commercial	—	—
Home equity loans and lines of credit	—	—
Construction	—	—
Commercial and industrial loans	35	—
Consumer loans	19	17
Total recoveries	73	21
Net charge-offs	(61)	(45)
Allowance at end of period	$ 3,545	$ 3,096
Total loans outstanding(1)	$ 376,322	$ 330,615
Average loans outstanding	$ 379,910	$ 315,753
Allowance for loan losses as a percent of total loans outstanding(1)	0.94%	0.94%
Net loans charged off as a percent of average loans outstanding(2)	0.02%	0.02%
Allowance for loan losses to nonperforming loans	162.54%	130.30%

(1) Total loans exclude loans held for sale but include net deferred loan costs and fees.
(2) Annualized.

Liquidity and Capital Resources

At September 30, 2017, we had $56.9 million of FHLBB advances outstanding. At that date, we had the ability to borrow up to an additional $86.3 million from the FHLBB and $3.5 million under a line of credit with a correspondent bank.

Our most liquid assets are cash and cash equivalents. The level of these assets is dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2017, cash and cash equivalents totaled $8.2 million.

Financing activities consist primarily of activity in deposit accounts and borrowings. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. We experienced a net increase in deposits of $7.7 million for the nine months ended September 30, 2017.

At September 30, 2017, we had $50.9 million in loan commitments outstanding, including $40.0 million related to loans to be sold in the secondary mortgage market and for which the Company had $18.8 million in forward loan sale commitments from investors. In addition to commitments to originate loans, we had $38.4 million in unused lines of credit to borrowers and letters of credit and $7.9 million in undisbursed construction loans. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Certificates of deposit that are scheduled to mature in less than one year from September 30, 2017 totaled $49.5 million. Management expects, based on historical experience, that a substantial portion of the maturing certificates of deposit will be renewed.

We are subject to various regulatory capital requirements, including a risk-based capital measure. At September 30, 2017, our Tier 1 capital to average assets ratio was 17.23%. We exceeded all regulatory capital requirements and were considered “well capitalized” under regulatory guidelines.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is not required to disclose quantitative and qualitative information about market risk as it qualifies as a smaller reporting company.

Item 4. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of September 30, 2017. Based on that evaluation, the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company’s disclosure controls and procedures were effective.

During the quarter ended September 30, 2017, there have been no changes in the Company’s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any material pending litigation.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission under the heading “Risk Factors.” The Company’s evaluation of its risk factors has not changed materially since those discussed in the Annual Report on Form 10-K.

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

(c) On September 15 2017, the Company announced a stock repurchase program under which the Company may repurchase up to 586,854 shares, or 10% of its shares currently outstanding. Repurchases under this program may be made in open market or in privately negotiated transactions and pursuant to any trading plan that may be adopted in accordance with the SEC’s Rule 10b5-1. No shares have been repurchased as part of this program as of September 30, 2017.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits listed in the Exhibit Index (following the signatures section of this report) are included in, or incorporated by reference into, this Quarterly Report on Form 10-Q.

10.1	Randolph Bancorp, Inc. 2017 Stock Option and Incentive Plan (incorporated by refence to Exhibit 10.1 to the Current Report on the Form 8-K filed with the Securities and Exchange Commission on August 23, 2017).
31.1	Certification of Chief Executive Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
31.2	Certification of Chief Financial Officer Required by Rule 13a-14(a) and Rule 15d-14(a) of the Exchange Act
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Randolph Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 were formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2017 and 2016, (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2017 and 2016, Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 and (v) Notes to Unaudited Consolidated Financial Statements.

SIGNATURE

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.

Randolph Bancorp, Inc.

Date: November 7, 2017	By: /s/ James P. McDonough James P. McDonough President and Chief Executive Officer *(Principal Executive Officer)*
Date: November 7, 2017	By: /s/ Michael K. Devlin Michael K. Devlin Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO
EXCHANGE ACT RULE 13a-14(a) AND RULE 15d-14(a)

I, James P. McDonough, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Randolph 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

(b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; 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 (or persons performing the equivalent functions):

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

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

Date: November 7, 2017

By: /s/ James P. McDonough
James P. McDonough
President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO
EXCHANGE ACT RULE 13a-14(a) AND RULE 15d-14(a)

I, Michael K. Devlin, certify that:

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

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

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

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

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

(b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

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

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

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

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

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

Date: November 7, 2017

By: /s/ Michael K. Devlin
Michael K. Devlin
Executive Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Randolph Bancorp, Inc. (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, that to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2017

By: /s/ James P. McDonough
James P. McDonough
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2017

By: /s/ Michael K. Devlin
Michael K. Devlin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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