Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Nicholas M. Christ
Name of the Holding Company Director and Official

President, CEO and Trustee
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

03/23/2018
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2623430
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2017
Month / Day / Year

549300OTLWFQPOOSC346
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Narragansett Financial Corp.
Legal Title of Holding Company

330 Swansea Mall Drive
(Mailing Address of the Holding Company) Street / P.O. Box

Swansea	MA	02777
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Phillip J. Carnevale	SVP & CFo
Name	Title

508-675-4463
Area Code / Phone Number / Extension

508-675-4343
Area Code / FAX Number

pcarnevale@baycoastbank.com
E-mail Address

www.baycoastbank.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report [ ]
2. a letter justifying this request has been provided separately ... [ ]

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

BayCoast Bank
Legal Title of Subsidiary Holding Company

330 Swansea Mall Drive
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Swansea	MA	02777
City	State	Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

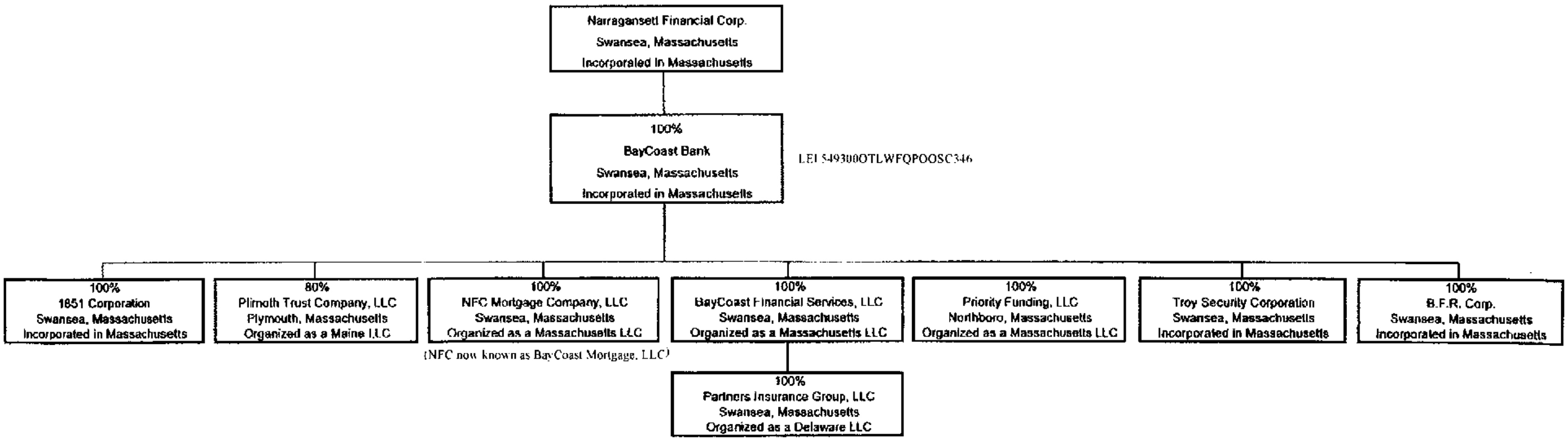
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Report Item 2a.

Narragansett Financial Corp.
Corporate Structure Chart
December 31, 2017



Report Item 2b.
Narragansett Financial Corp

Results: A list of branches for your depository institution: BAYCOAST BANK (ID_RSSD: 771609).
This depository institution is held by NARRAGANSETT FINANCIAL CORP (2623430) of SWANSEA, MA.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	771609	BAYCOAST BANK	330 SWANSEA MALL DRIVE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4861281	DARTMOUTH STREET	714 DARTMOUTH STREET	DARTMOUTH	MA	02748	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	2538370	FAIRHAVEN BRANCH	75 ALDEN ROAD	FAIRHAVEN	MA	02719	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4458627	AIRPORT BRANCH	310 AIRPORT ROAD	FALL RIVER	MA	02720	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	2298780	FALL RIVER BRANCH	1465 PLEASANT STREET	FALL RIVER	MA	02723	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	802307	FALL RIVER BRANCH	335 STAFFORD ROAD	FALL RIVER	MA	02721	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	894405	ROBESON STREET BRANCH	490 ROBESON STREET	FALL RIVER	MA	02720	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	209205	TROY STREET BRANCH	81 TROY STREET	FALL RIVER	MA	02721	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4220244	ASHLEY BOULEVARD BRANCH	1000 ASHLEY BOULEVARD	NEW BEDFORD	MA	02745	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	3390739	NEW BEDFORD BRANCH	23 ELM STREET	NEW BEDFORD	MA	02740	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4612568	DARTMOUTH BRANCH	299 STATE ROAD	NORTH DARTMOUTH	MA	02747	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	772802	NORTH DIGHTON BRANCH	438 SPRING STREET	NORTH DIGHTON	MA	02764	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	2726582	SEEKONK BRANCH	110 TAUNTON AVENUE	SEEKONK	MA	02771	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	832902	SOMERSET BRANCH	921 G A R HIGHWAY, SOMERSET PLAZA, RTE 6	SOMERSET	MA	02725	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4420482	BAYCOAST PLACE BRANCH	330 SWANSEA MALL DRIVE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	897004	SWANSEA BRANCH	554 WILBUR AVENUE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	4420464	WESTPORT MAIN ROAD BRANCH	787 MAIN ROAD	WESTPORT	MA	02790	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
OK		Full Service	3354106	CRANDALL ROAD BRANCH	ONE CRANDALL ROAD	TIVERTON	RI	02878	NEWPORT	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	

Form FR Y-6
Narragansett Financial Corp.
December 31, 2017

Report Item 3: Securities Holders
(1)(2)(3)(a)(b)(c) and (4)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015			Securities holders not listed in 3(1)(a) through 3(1)(3) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-15		
(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
None	N/A	N/A	None	N/A	N/A

Form FR Y-6
Narragansett Financial Corp.
December 31, 2017

Report Item 4: Insiders (Directors and Officers)
(1)(2)(3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name	(2) Principal Occupation if Other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Nicholas M. Christ	See attached organizational charts	President, CEO & Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Maria Aguiar	CPA and Partner, Meyer, Regan & Wilner LLP	Trustee	See attached organizational charts	General Manager, Meyer, Regan & Wilner LLP General Manager, Eastern Advisors, LLC	N/A	N/A	25% interest in Meyer, Regan & Wilner LLP 25% interest in Eastern Advisors, LLC
John Friar , II	City of Fall River Water Department	Trustee	See attached organizational charts	John Friar, Sole Proprietor	N/A	N/A	100% owner John Friar, Sole Proprietor
Kenneth D. Furtado	Chief Executive of software design, development and sales firm	Trustee	See attached organizational charts	President and CEO of Octemion Consultants, Inc. (dba OCI Software) President and CEO of Cedar Ledge Solutions, Inc. Executive Director of Swansea Philanthropic Association, Inc. (dba Swansea Ambulance Corps)	N/A	N/A	100% owner OCI Software 100% owner Cedar Ledge Solutions, Inc.
Richard K. Gunther	Retired Account Vice President, UBS	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
David N Kelley, II	Former owner, D. N. Kelley & Sons	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Steven W. Kenyon	Vice President of Administration and Finance Bristol Community College	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A

Report Item 4: Insiders (Directors and Officers)
(1)(2)(3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name	(2) Principal Occupation if Other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Donald F. LeSage	Retired store manager, Bridgestone Firestone, Inc.	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Ronald J. Lowenstein	Retired Attorney and Former Owner of Law Offices of Ronald J. Lowenstein	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Charles E. Reed, Esq.	Retired attorney, Reed, Boyce, & Travis, PC	Trustee & Clerk	See attached organizational charts	N/A	N/A	N/A	N/A
Christopher J. Rezendes	Strategy advisor to startup investors in companies developing or deploying Internet of Things	Trustee	See attached organizational charts	Founder, President and Owner of INEX Advisors, LLC	N/A	N/A	100% owner INEX Advisors, LLC 100% interest in ZED Wireless Inc. 77.5% interest in TRUERoad Corporation 33.0% interest LooseChange Inc.
Lawrence R. Walsh	Chief Operating Officer, Riverdale Mills Corp	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A

WOLF & COMPANY, P.C.

Independent Auditors' Report

To the Audit Committee of
Narragansett Financial Corp.

We have audited Narragansett Financial Corp.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report.*

Auditors' Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Narragansett Financial Corp.'s internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) and to the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, Narragansett Financial Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the December 31, 2017 consolidated financial statements of Narragansett Financial Corp. and subsidiary (parent company of BayCoast Bank), and our report dated March 22, 2018 expressed an unmodified opinion.

Report on Other Legal and Regulatory Requirements

We were not engaged to, and we have not performed any procedures with respect to management's assertion regarding compliance with laws and regulations included in the accompanying *Management's Report*. Accordingly, we do not express any opinion, or any other form of assurance, on management's assertion regarding compliance with designated laws and regulations.

Wolf & Company, P.C.

Boston, Massachusetts
March 22, 2018

Narragansett Financial Corp.

Management's Report

In this management report, the following subsidiary institution of the Narragansett Financial Corp. and Subsidiary (the "Company") that is subject to Part 363 is included in the statement of management's responsibilities; the report on management's assessment of compliance with designated laws and regulations; and the report on management's assessment of internal control over financial reporting: BayCoast Bank.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management of the Company is responsible for preparing the Company's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies ("Form FR Y-9C") and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income ("Call Report"); and for complying with the Federal and state laws and regulations pertaining to insider loans and dividend restrictions.

MANAGEMENT'S ASSESSMENT OF COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management of the Company has assessed the Company's compliance with the Federal and Massachusetts laws and regulations pertaining to insider loans and dividend restrictions during the fiscal year ended December 31, 2017. Based upon its assessment, management has concluded that the Company complied with the Federal and Massachusetts laws and regulations pertaining to insider loans and dividend restrictions during the fiscal year ended December 31, 2017.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e. Form FR Y-9C and the Call Report. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and for regulatory reporting, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Form FR Y-9C and Call Report instructions as of December 31, 2017 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013).*

Based upon its assessment, management has concluded that, as of December 31, 2017, the Company's internal control over the preparation of regulatory financial reporting, including controls over the preparation of regulatory financial statements in accordance with FR Y-9C and Call Report instructions is effective based on the criteria established in *Internal Control - Integrated Framework (2013).*

Management's assessment of the effectiveness of internal control over financial reporting, including controls over preparation of regulatory financial statements in accordance with the instructions for Form Y-9C and the Call Report, as of December 31, 2017, has been audited by Wolf & Company, P.C., an independent public accounting firm, as stated in their report dated March 22, 2018.

Narragansett Financial Corp. and Subsidiary

Nicholas M. Christ

President & Chief Executive Officer

James E. Wallace

Chief Operating Officer

Phillip Carnevale

Chief Financial Officer

Narragansett Financial Corp.

Audit Committee Communication

December 31, 2017

Audit Committee Date: March 26, 2018

Presented by: John Doherty, CPA, Member of the Firm
Richard Fay, CPA, Senior Audit Manager

Required Communications

Purpose

This communication is intended to inform the Audit Committee of Narragansett Financial Corp. (the "Company") about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Audit Committee. This communication should be read in conjunction with the Company's December 31, 2017 consolidated financial statements.

Opinions

We rendered unmodified opinions on the December 31, 2017 consolidated financial statements of the Company and the Company's internal control over financial reporting ("ICFR") as of December 31, 2017.

Auditor Responsibilities

- We conducted our integrated audit in accordance with auditing standards generally accepted in the United States of America.

- Our integrated audit was designed to obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatements.

- Our integrated audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements.

- Our integrated audit included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

- Our integrated audit included obtaining an understanding of ICFR, evaluating the design effectiveness of ICFR, and testing operating effectiveness of those controls in order for us to express an opinion on the effectiveness of the Company's internal control over financial reporting.

Required Communications (Continued)

Accounting Policies, Principles and Technical Updates

The primary responsibility for establishing the Company's accounting policies and practices, applied in its consolidated financial statements, rests with management. The Company's significant accounting policies and practices are included in Note 1 to the consolidated financial statements. We believe that management's disclosures regarding such policies and practices are adequate.

During the year ended December 31, 2017, the Company adopted the following Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"):

ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* Adoption of this ASU shortened the amortization period for callable debt securities held at a premium to the first call date. There were no material impacts on the consolidated financial statements as a result of adoption.

ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* Adoption of this ASU allows for a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings to eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Act"). As permitted, the Company recorded a $22,000 decrease in retained earnings and corresponding increase in AOCI as of December 31, 2017.

See Note 1 to the consolidated financial statements for a summary of ASUs that have been issued but are not yet effective and may have a significant effect on future financial reporting.

Management Judgments and Accounting Estimates

We have concluded that management's judgments and accounting estimates in the 2017 consolidated financial statements are reasonable. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit.

Management Judgments and Accounting Estimates (concluded)

Significant judgments and accounting estimates reflected in the Company's 2017 consolidated financial statements include:

Allowance for loan losses

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. There were no significant changes to the Company's allowance methodology during 2017 or 2016.

Overall coverage of the allowance to total loans at December 31, 2017 and 2016 was 0.66% and 0.77%, respectively. At December 31, 2017, and 2016, the unallocated portion of the allowance was $68,000 and $308,000, respectively, while the specific reserve on impaired loans was $354,000 and $778,000, respectively.

Deferred tax assets

Deferred taxes are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. If, in the judgment of management, a portion of such deferred tax assets will not be realized, a valuation allowance is established. Management assesses the realizability of deferred tax assets by assessing whether it is more likely than not that the temporary differences giving rise to deferred tax assets will reverse in a period in which there is sufficient taxable income to realize the related income tax benefit. No valuation allowance was recorded at December 31, 2017 or 2016.

Post-retirement benefit obligations

Post-retirement benefit obligations rely on assumptions including discount rates, rates of compensation increase, expected rate of return on plan assets, mortality, and retirement and termination dates of participants. Assumptions are recommended by actuaries and benefit consultants and reviewed for reasonableness by management. At December 31, 2017 and 2016, the discount rate used to calculate the defined benefit pension plan obligation was 3.75% and 4.25%, respectively.

We have performed tests of these estimates to satisfy ourselves as to their reasonableness in relation to the consolidated financial statements taken as a whole, including disclosure.

Required Communications (Continued)

Financial Statement Presentation

The Company's presentation of the consolidated financial statements and the related disclosures is in conformity with U.S. generally accepted accounting principles. We will discuss with you items as they relate to the quality of accounting principles and the neutrality, consistency, or clarity of the disclosures in the consolidated financial statements. Neutrality refers to disclosures designed to inform rather than influence the reader.

Significant Unusual Transactions

During the year ended December 31, 2017, the Company recorded the following significant unusual transactions, which are reflected in the consolidated financial statements:

- As a result of the Tax Cuts and Jobs Act, enacted on December 22, 2017, the Company revalued its net deferred tax asset resulting in a reduction in the value of the net deferred tax asset of $731,000, which was recorded as additional provision for income taxes in the Company's consolidated statement of net income in 2017. See Note 11 for additional information.

- The Company acquired Priority Funding, LLC for $15.0 million. The goodwill reflects $11.0 million in cash paid and $4.0 million to record a contingent liability related to the deferred purchase price pending certain performance obligations that the Company believes will be achieved.

- The Company owned 8,000 shares of Northeast Retirement Stock, Inc. ("NRS"), which it recorded using the cost method of accounting. During 2017, Community Bank Systems, Inc. ("CBU") acquired NRS in which the Company received $319 in cash and 14.876 shares of CBU common stock for each share of NRS it owned. As a result of the acquisition, the Company recorded an $11.3 million gain related to the transaction reflected in gain on redemption of cost method investment in the consolidated statements of net income. Additionally, the Company recorded a deferred gain of $1.3 million for amounts being held for the benefit of the Company that are available for future claims against NRS until final settlement anticipated in 2018.

Required Communications (Continued)

Significant Unusual Transactions (concluded)

- The Company issued $25.0 million in subordinated debt in a private placement offering. Under the applicable rules of the Federal Reserve Bank, the debt qualified as Tier 2 capital for the Company subject to certain restrictions. Issuance costs of $734,000 were recorded as a discount to the debt and are being amortized into interest on borrowings over the life of the debt.

We did not identify any other significant unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Other Information in Documents Containing the Audited Consolidated Financial Statements

We are not aware of any documents that contain the audited consolidated financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited consolidated financial statements of the Company.

Audit Adjustments and Uncorrected Misstatements

For purposes of this communication, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We accumulated one uncorrected misstatement as of December 31, 2017 representing an underaccrual of incentive compensation by $179,000 (pre-tax). Uncorrected misstatements as of December 31, 2016 that reversed during 2017 would have the effect of decreasing salaries and employee benefits expense in the amount of $229,000 (pre-tax) and increasing income tax expense in the amount of $268,000. We also identified an uncorrected reclassification to increase cash and due from banks and other liabilities $5.8 million which represents the Priority Funding restricted cash accounts and loss and prepayment contingencies associated with the individual loan sale agreements with correspondent banks.

These uncorrected misstatements were discussed with management, and were determined by management, to be immaterial to the consolidated financial statements taken as a whole. Therefore these adjustments were not made to the consolidated financial statements.

Required Communications (Continued)

Independence

Independence is crucial to the performance of the audit services, and our professional standards require that we communicate at least annually regarding all relationships between our Firm and the Company that may be reasonably thought to bear on our independence.

All officers and employees are provided access to Wolf & Company's policies and procedures relating to independence and conflicts of interest. We publish a list of clients with publicly traded securities, in which investment by officers and employees of the Firm is forbidden. Annually, we obtain written affidavits from officers and employees about their adherence to these policies.

As of the date of this communication, Wolf & Company, P.C. is independent with respect to the Company in compliance with the Public Company Accounting Oversight Board's Rule 3520, *Auditor Independence*, and with the applicable rules and regulations of the Securities and Exchange Commission under the federal securities laws.

We would like to remind you that our independence would be impaired if Wolf & Company, P.C. provided tax services to a person in a financial reporting oversight role, other than outside directors, at the Company, or to an immediate family member (spouse, spouse equivalent or dependent) of such person.

We also want to take this opportunity to remind you that our independence would be impaired if the Company were to hire, in a financial reporting oversight role, any officer or employee of our Firm who was a member of the audit engagement team during the current or immediately preceding audit period.

Services Provided and Related Fees

Services provided and related fees for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Audit-related fees	$ 121,000	$ 118,000
Tax preparation	35,400	34,800
Plimoth Trust extended trust services	13,500	11,500
Information technology (WolfPAC)	36,300	28,100
Due diligence – Priority Funding, LLC	12,000	-

Required Communications (Concluded)

Other Required Communications

There were no:

- Disagreements with management
- Difficulties in dealing with management relating to the performance of the audit
- Consultations by management with other accountants about accounting or auditing matters that we are aware of
- Significant issues discussed with management that were a condition to our retention
- Alternative treatments discussed with management within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period
- Significant changes to the planned audit strategy or significant risks initially identified and communicated to the Audit Committee in our audit scope letter

A copy of management's representation letters, the only written communication between our Firm and management of the Company, are attached to this communication.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Narragansett Financial Corp.

This communication is intended solely for the information and use of the Audit Committee, Board of Trustees, regulatory authorities and management, and is not intended to be and should not be used by anyone other than these specified parties.

Management Representation Letter

Narragansett Financial Corp.

March 22, 2018

Wolf & Company, PC.
99 High Street
Boston, MA 02110

This representation letter is provided in connection with your audits of the consolidated financial statements of Narragansett Financial Corp. and subsidiary (the "Company") which comprise the consolidated balance sheets as of December 31, 2017 and 2016 and the related consolidated statements of net income, comprehensive income, retained earnings and cash flows, and the related notes to the consolidated financial statements for the years then ended, we confirm that we are responsible for the fair presentation in the consolidated financial statements of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

In connection with your audit of internal control over financial reporting for Narragansett Financial Corp. and subsidiary as of December 31, 2017, we confirm that we are responsible for establishing and maintaining effective internal control over financial reporting.

We confirm to the best of our knowledge and belief, as of date of this letter, the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated March 27, 2017 for the preparation and fair presentation of the financial statements referred to above in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. As of and for the year ended December 31, 2017, we believe that the effect of the uncorrected misstatements are immaterial to the consolidated financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. There was one uncorrected misstatements at December 31, 2017, related to a $179,000 underaccrual of incentive compensation expense. There was also an uncorrected reclassification to increase cash and due from banks and other liabilities $5.8 million which represents the Priority Funding restricted cash accounts and loss and prepayment contingencies associated with the individual loan sale agreements with correspondent banks.

8. There are no known pending or threatened litigation, claims or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the consolidated financial statements in accordance with U.S. GAAP. We have made you aware of all litigation for which we have consulted a lawyer.

9. The following have been properly recorded and/or disclosed in the consolidated financial statements:

   a. Guarantees, whether written or oral, under which the institution is contingently liable.

   b. Arrangements with other financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

   c. Lines of credit or similar arrangements.

   d. Agreements to repurchase assets previously sold.

   e. Security agreements in effect under the Uniform Commercial Code.

   f. All other liens or encumbrances on assets and all other pledges of assets.

   g. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.

   h. Investments in debt and equity securities, including their classification as available for sale.

   i. All liabilities that are subordinated to any other actual or possible liabilities of the Company.

   j. All leases and material amounts of rental obligations under long-term leases.

   k. All significant estimates and material concentrations known to management that are to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

   l. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

   m. All current and deferred assets and liabilities related to income taxes. Additionally, we have evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Tax Topic of the FASB Accounting Standards Codification.

   n. Loans being held for sale.

   o. Concentrations of credit risk.

   p. Financial instruments with off-balance-sheet market or credit risk.

Information Provided

10. We have made available to you:

   a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

b. Additional information that you have requested from us for the purpose of the audit.

c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

e. Reports and correspondence between the Bank and regulatory examiners during the period under audit and all supervisory memoranda or agreements, if any, with any federal or state regulatory authority.

11. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

12. We have no knowledge of allegations of fraud or suspected fraud affecting the entity's consolidated financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the consolidated financial statements.

13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's consolidated financial statements received in communications from employees, former employees, analysts, regulators, or others.

14. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.

15. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

16. We have performed an evaluation and made our assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize, and report financial data.

18. We did not use your procedures performed during the audits of internal control over financial reporting or the financial statements as part of the basis for our assessment of the effectiveness of internal control over financial reporting.

19. The Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

20. Our evaluation of the design and operation of internal control over financial reporting did not result in any deficiencies, including any which would constitute significant deficiencies or material weaknesses.

21. There were, subsequent to December 31, 2017, no changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by us with regard to significant deficiencies and material weaknesses.

22. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

23. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

    a. The Company has no significant amounts of idle property and equipment.

    b. The Company has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.

    c. We consider the decline in fair value of debt or equity securities classified as available for sale to be temporary.

    d. Provision has been made to reduce all assets that have permanently declined in value to their realizable values.

    e. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

24. We are responsible for making the accounting estimates included in the consolidated financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

    a. To maintain an adequate allowance for loan losses.

    b. To reduce deferred tax assets to amounts that are more likely than not to be realized.

    c. For pension and profit sharing obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2017.

    d. To reduce foreclosed assets to fair value less estimated costs to sell.

    e. To adjust securities available for sale to fair value.

    f. For environmental cleanup obligations.

    g. To reduce loans held for sale to the lower of cost or fair value.

25. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

c. Development or construction arrangements which the Company has entered into, acquired participation, or renegotiated previous agreements resulting in arrangements in which the Company as lender, participates in expected residual profit through *(a)* sharing in the profit on sale of real estate projects; *(b)* a higher than normal interest rate; or *(c)* sharing in gross rents or net cash flows from the project.

d. Material recourse agreements on loans previously sold.

e. Regulatory examinations currently in progress or for which we have not received examination reports, except for the December 2017 FDIC Safety and Soundness examination, of which preliminary results were made available and there were no issues brought to our attention that would impact the consolidated financial statements as of December 31, 2017.

f. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any commitments to extend credit.

g. Obligations under any loan recourse provisions and the Company has complied with the technical default requirements of all agreements for loans and participations sold to others.

26. The company has satisfactory title to all owned assets.

27. We have complied with all aspects of contractual agreements that would have a material effect on the consolidated financial statements in the event of noncompliance.

28. We agree with the findings of specialists in evaluating the defined benefit pension liability and fair value of the MSRs and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

29. We agree with the findings of appraisers used and have adequately considered the qualifications of the appraisers in determining the amounts and disclosures in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to appraisers regarding the values or amounts derived to attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of these appraisers.

30. In considering the disclosures that should be made about risks and uncertainties, we have concluded that the following risk disclosures are required:

a. Determination of the allowance for loan losses

b. Determination of other–than-temporary impairment of securities

c. Realizability of deferred tax assets

d. Valuation of post-retirement benefit obligations

31. We have evaluated all of our debt securities for which there has been a decline in fair value below the amortized cost. In that regard:

a. We do not have the intent to sell any of the securities that are in an unrealized loss position.

b. We have forecasted recovery of these debt securities and our liquidity and have concluded that it is not more-likely-than-not that we will have to sell the securities prior to forecasted recovery.

c. We have evaluated these debt securities to determine whether we expect to recover the amortized cost basis of the securities. We have concluded in all cases that we will recover the amortized cost basis of the securities and recorded the entire unrealized loss in other comprehensive income.

32. No action has been taken, nor is any action contemplated, that would cause any portion of the accumulated bad debt deduction to be subjected to income tax.

33. As of December 31, 2017, the most recent notification from the Federal Depositors Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's category.

34. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter have been recognized or disclosed in the consolidated financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require recognition or disclosure in, the consolidated financial statements. We further represent that as of the date of this letter, the consolidated financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America and all approvals necessary for issuance of the financial statements had been obtained.

35. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Sincerely yours,

Nicholas M. Christ
President & CEO

James F. Wallace
EVP & COO

Phillip Carnevale
SVP & CFO

Narragansett Financial Corp. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

Table of Contents

WOLF
& COMPANY, P.C.

Independent Auditors' Report

To the Audit Committee of Narragansett Financial Corp.:

Report on the Financial Statements

We have audited the consolidated balance sheets of Narragansett Financial Corp. and subsidiary, as of December 31, 2017 and 2016, and the related consolidated statements of net income, comprehensive income (loss), changes in retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Narragansett Financial Corp. and subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, Narragansett Financial Corp.'s internal control over financial reporting as of December 31, 2017, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report, dated March 22, 2018, expressed an unmodified opinion.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including consolidating financial statements, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Wolf + Company, P.C.

Boston, Massachusetts
March 22, 2018

Narragansett Financial Corp. and Subsidiary

Consolidated Balance Sheets

December 31, 2017 and 2016

Assets

	2017	2016
	(In thousands)	
Cash and cash equivalents	$ 21,510	$ 20,867
Securities available for sale, at fair value	184,190	206,731
Federal Home Loan Bank stock, at cost	8,585	8,151
Loans held for sale	15,047	35,588
Loans, net	1,132,308	920,781
Bank-owned life insurance	25,090	19,001
Premises and equipment, net	31,259	31,276
Accrued interest receivable	3,997	3,186
Net deferred tax asset	2,318	4,573
Goodwill and other intangible assets	20,637	5,319
Other assets	14,430	11,860
	$1,459,371	$1,267,333

Liabilities and Retained Earnings

	2017	2016
Deposits	$1,118,724	$ 991,501
Federal Home Loan Bank advances	157,337	137,640
Subordinated debt	43,650	19,267
Other liabilities	25,382	15,534
Total liabilities	1,345,093	1,163,942
Commitments and contingencies (Notes 5 and 12)		
Retained earnings	115,366	105,588
Accumulated other comprehensive loss	(1,369)	(2,297)
Total retained earnings of Narragansett Financial Corp. and Subsidiary	113,997	103,291
Non-controlling interest in subsidiary	281	100
	114,278	103,391
	$1,459,371	$1,267,333

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Net Income

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Interest and dividend income:		
Interest and fees on loans	$ 43,592	$ 39,241
Interest on debt securities	3,378	2,490
Dividend income	1,481	1,220
Interest on cash equivalents	33	22
Total interest and dividend income	48,484	42,973
Interest expense:		
Interest on deposits	4,092	3,638
Interest on Federal Home Loan Bank advances	3,623	2,703
Interest on subordinated debt	1,536	614
Total interest expense	9,251	6,955
Net interest income	39,233	36,018
Provision for loan losses	880	750
Net interest income, after provision for loan losses	38,353	35,268
Other income:		
Customer service fees	5,072	3,864
Trust department fees	4,081	3,493
Insurance and brokerage commissions	5,047	4,730
Gain on securities available for sale, net	710	1,451
Gain on redemption of cost method investment	11,297	-
Gain on sales of loans, net	3,953	5,141
BOLI income	589	510
Miscellaneous	221	393
Total other income	30,970	19,582
Operating expenses:		
Salaries and employee benefits	32,512	29,273
Occupancy and equipment	7,772	7,426
Professional fees	1,979	1,232
Data processing	2,340	2,054
Advertising costs	918	880
Deposit insurance	695	794
Amortization of intangible assets	409	389
Other general and administrative	6,573	5,934
Total operating expenses	53,198	47,982
Income before income taxes	16,125	6,868
Provision for income taxes	6,344	1,969
Net income	9,781	4,899
Net income (loss) attributed to non-controlling interest in subsidiary	(19)	57
Net income attributed to Narragansett Financial Corp. and Subsidiary	$ 9,800	$ 4,842

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Net income	$ 9,781	$ 4,899
Other comprehensive income:		
Securities available for sale:		
Unrealized holding gains	4,727	4,494
Reclassification adjustment for gains realized in income [1]	(710)	(1,451)
Net unrealized gains	4,017	3,043
Related tax effects	(1,610)	(1,218)
Net-of-tax amount	2,407	1,825
Defined benefit pension plans:		
Gains (losses) arising during the period	(2,700)	354
Reclassification adjustment for losses recognized in net periodic benefit cost [2]	611	675
Net defined benefit pension plan gains (losses)	(2,089)	1,029
Related tax effects	588	(411)
Net-of-tax amount	(1,501)	618
Total other comprehensive income	906	2,443
Comprehensive income	$ 10,687	$ 7,342

[1] Amounts are reclassified out of accumulated other comprehensive loss and are included in gain on securities available for sale, net on the consolidated statements of net income. Income tax expense associated with these gains for the years ended December 31, 2017 and 2016 was $284,000 and $580,000, respectively.

[2] Amounts are reclassified out of accumulated other comprehensive loss and are included in salaries and employee benefits expense on the consolidated statements of net income. Income tax benefit associated with these expenses for the years ended December 31, 2017 and 2016 was $244,000 and $270,000, respectively.

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Changes in Retained Earnings

Years Ended December 31, 2017 and 2016

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Retained Earnings
		(In thousands)		
Balance at December 31, 2015	$100,746	$ (4,740)	$ 43	$ 96,049
Comprehensive income	4,842	2,443	57	7,342
Balance at December 31, 2016	$105,588	$ (2,297)	$ 100	$103,391
Adoption of ASU 2018-02 (Note 11)	(22)	22	-	-
Comprehensive income	9,800	906	(19)	10,687
Contribution from non-controlling interest	-	-	200	200
Balance at December 31, 2017	$115,366	$ (1,369)	$ 281	$114,278

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 9,781	$ 4,899
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of securities available for sale	900	767
Gain on securities available for sale, net	(710)	(1,451)
Gain on restricted investment	(11,297)	-
Gain on sales of portfolio loans	(281)	(1,508)
Amortization of loans and deposits from acquisition accounting, net	118	119
Provision for loan losses	880	750
Net change in loans held for sale	20,541	(12,936)
Mortgage servicing rights capitalized	(688)	(1,203)
Depreciation and amortization of premises and equipment, intangible assets and mortgage servicing rights	3,899	3,877
Increase in cash surrender value of life insurance	(589)	(510)
Deferred tax provision	1,233	2,655
Net change in:		
Accrued interest receivable	(811)	(681)
Other assets and other liabilities	(8,119)	(5,962)
Net cash provided by (used in) operating activities	14,857	(11,184)
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	68,602	95,119
Proceeds from calls/maturities of, and principal payments on, securities available for sale	59,666	13,761
Purchase of securities available for sale	(95,198)	(182,309)
Purchase of FHLB stock	(3,303)	(3,574)
Redemption of FHLB stock	2,869	1,019
Purchase of bank-owned life insurance	(5,500)	-
Proceeds from sale of foreclosed real estate	330	286
Proceeds from sales of portfolio loans	47,535	76,792
Proceeds from redemption of cost method investment	5,984	-
Net cash used in acquisitions	(4,102)	-
Loan originations and purchases, net of amortization and payoffs	(259,811)	(120,563)
Additions to premises and equipment	(2,976)	(5,365)
Proceeds from the disposal of premises and equipment	187	298
Net cash used in investing activities	(185,717)	(124,536)

(continued)

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from financing activities:		
Net increase in deposits	127,223	65,489
Net change in Federal Home Loan Bank advances with maturities of three months or less	3,150	-
Proceeds from Federal Home Loan Bank advances with maturities in excess of three months	35,100	62,000
Repayment of Federal Home Loan Bank advances with maturities in excess of three months	(18,553)	(4,356)
Issuance of subordinated debt, net of issuance costs	24,383	19,267
Contribution from non-controlling interest	200	-
Net cash provided by financing activities	171,503	142,400
Net change in cash and cash equivalents	643	6,680
Cash and cash equivalents at beginning of year	20,867	14,187
Cash and cash equivalents at end of year	$ 21,510	$ 20,867
Supplemental cash flow information:		
Interest paid on deposits	$ 4,072	$ 3,629
Interest paid on borrowings and subordinated debt	5,058	2,681
Income taxes paid (refunded), net	3,841	(716)
Transfer from loans to foreclosed real estate	32	376
Securities available for sale received upon redemption of cost method investment	6,702	-
Deferred gain on redemption of cost method investment	1,268	-
In connection with the acquisition of Priority Funding:		
Fair value of assets acquired, excluding cash	16,260	-
Fair value of liabilities assumed	12,803	-

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Narragansett Financial Corp. (the "Company") and its wholly-owned subsidiary, BayCoast Bank (the "Bank"), and the Bank's subsidiaries. The Bank provides a variety of financial services to individuals and businesses through its offices in southeastern Massachusetts and Rhode Island. Its primary deposit products are checking, savings, money market and term certificates, and its primary lending products are residential, commercial and multi-family mortgages and commercial loans.

The Bank's wholly-owned subsidiaries include BayCoast Financial Services ("BFS"), which sells non-deposit investment products to individuals and entities; Troy Security Corporation and B.F.R. Corp., which buy, hold, and sell securities on their own behalf; 1851 Corporation, which holds investments and real estate property; Partners Insurance Group, LLC ("Partners"), a wholly-owned subsidiary of BFS, which provides insurance products to consumers and businesses; BayCoast Mortgage Company, LLC ("BCMC") which originates and sells conforming and jumbo residential mortgages; and Priority Funding, LLC ("Priority Funding") which primarily originates and sells manufactured home loans.

Plimoth Trust Company, LLC, d/b/a Plimoth Investment Advisors ("Plimoth") is an 80%-owned subsidiary of the Bank to provide investment management and trust services. Plimoth acts as a fiduciary and provides portfolio and/or trust services to its clients. The remaining 20% of Plimoth is owned by an unrelated third party and is reported as a non-controlling interest in the accompanying consolidated balance sheets.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, post-retirement benefit obligations and the realizability of deferred tax assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant group concentrations of credit and other risks

Most of the Company's activities are with customers located in southeastern Massachusetts and Rhode Island. Note 4 includes the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

Fair value hierarchy

The Company groups its assets that are measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include assets whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of the reporting period, if applicable.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

Cash equivalents

Cash and cash equivalents include balances due from banks and short-term investments, which consist of interest-bearing deposits and federal funds sold, which mature overnight or on demand and are carried at cost. The Company normally maintains balances on deposit with other financial institutions in excess of federally insured limits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities

Securities available for sale are reflected at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income/loss.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Effective in 2017, premiums on callable bonds are amortized through the earliest call date. Gains and losses on the sale of securities are recorded on the trade date and for debt and equity securities determined using the specific identification method and for mutual funds using the average cost method.

Each reporting period, the Company evaluates all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other than temporary ("OTTI").

OTTI is required to be recognized (1) if the Company intends to sell the security; (2) if it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses.

Federal Home Loan Bank stock

The Company, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB of Boston. Based on the redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2017, no impairment has been recognized.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair values are based on commitments in effect from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and premiums on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on all loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual earlier if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

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

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the Company's loan segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2017 and 2016. The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent without private mortgage insurance, and does not generally grant loans that would be classified as sub-prime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

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

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

Home equity lines of credit ("HELOC") and second mortgages – Loans in this segment are collateralized by residential real estate and payment is dependent on the credit quality of the individual borrower. The Company has first and second liens on property securing these loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (continued)

General component (concluded)

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

Consumer – Loans in this segment include loans secured with collateral and unsecured loans with repayment dependent on the credit quality of the individual borrower. At December 31, 2017, $32,765,000 and $18,000,000 of purchased consumer loans were for manufactured housing loans and student loans, respectively.

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit analyses, residential real estate loans, commercial, commercial real estate and multi-family and construction loans are evaluated for impairment on a loan-by-loan basis. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (concluded)

Allocated component (concluded)

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Unallocated component

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

Loan servicing

Capitalized mortgage servicing rights are reported in other assets and are amortized into other income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights compared to amortized cost. Impairment is determined by stratifying rights by predominate risk characteristics, such as interest rates and terms. Impairment, if material, is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount of the stratum. Changes in the valuation allowance are reported in other income. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income, using certain prepayment assumptions that may not be observable in the market place.

Foreclosed real estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in other general and administrative expense. Gains and losses on sales are included in miscellaneous income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

Land is carried at cost. Buildings, equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the expected terms of the leases or estimated useful lives of the assets if shorter. Expected terms include lease option periods to the extent that the exercise of such option is reasonably assured.

Bank-owned life insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received in excess of cash surrender value, are reflected in other income on the consolidated statements of net income and are not subject to income taxes.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

During the normal course of business, the Company may transfer a portion of a loan. In order to be eligible for sales treatment, the transferred portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives

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. Loan commitments that are derivatives, if material, are recognized at fair value on the consolidated balance sheets in other assets and other liabilities with changes in their fair values recorded in other income. At December 31, 2017 and 2016, the fair values of derivative loan commitments and related forward sale commitments were not material.

Goodwill and other intangible assets

The assets (including identifiable intangible assets) and liabilities acquired in a business combination are recorded at fair value at the date of acquisition. Goodwill is recognized for the excess of the acquisition cost (or the fair value of the entity acquired) over the fair value of the net assets acquired and is not subsequently amortized. Management assesses the recoverability of goodwill at least on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded through operations.

Other intangible assets represent the long-term value of customer relationships acquired and are being amortized over their estimated lives on a straight-line basis. The Company periodically evaluates the realizability of other intangible assets based on the value of the underlying customer relationships. If that value is less than the carrying amount of the intangible assets and is considered permanent, the Company would recognize an impairment loss.

Insurance commissions

Most commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later, net of return commissions related to policy cancellations. In addition, the Company may receive additional performance commissions based on achieving certain sales and loss experience measures. Such commissions are recognized when determinable, which is generally when such commissions are received or when the Company receives data from the insurance companies that allows the reasonable estimation of these amounts.

Pension plan

The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension plan (concluded)

The Company accounts for its defined benefit pension plan using an actuarial model that allocates pension costs over the service period of employees in the plan. The Company accounts for the over-funded or under-funded status of its defined benefit plan as an asset or liability in its consolidated balance sheets and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income or loss.

Income taxes

The Company, the Bank and all subsidiaries file state and consolidated federal income tax returns based on an October 31 year-end. Effective November 1, 2017, the Company has changed their tax year-end to December 31. As a result, the Company will file a two-month tax return for the period ended December 31, 2017.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. Accordingly, changes resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017 have been recognized in the consolidated financial statements as of and for the year ended December 31, 2017 (See Note 11). A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company does not have any uncertain tax positions at December 31, 2017 and 2016 which require accrual or disclosure.

The Company records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2017 and 2016.

Trust assets

Trust assets held in a fiduciary or agency capacity are not included in the Company's consolidated financial statements.

Advertising costs

Advertising costs are expensed as incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income/loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the retained earnings section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income/loss.

The components of accumulated other comprehensive income/loss, included in retained earnings, are as follows:

	December 31,	
	2017	2016
	(In thousands)	
Securities available for sale:		
Net unrealized gain	$ 9,068	$ 5,051
Tax effect	(2,555)	(2,017)
Net-of-tax amount	6,513	3,034
Defined benefit pension plans:		
Unrecognized actuarial loss	(10,965)	(8,876)
Tax effect	3,083	3,545
Net-of-tax amount	(7,882)	(5,331)
	$ (1,369)	$ (2,297)

An actuarial loss of $782,000, included in accumulated other comprehensive loss at December 31, 2017, is expected to be recognized as a component of net periodic pension cost for the year ending December 31, 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments – Overall, (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to generally accepted accounting principles include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The impact of the change in marketable equity securities will depend on market conditions, but if applied during the year ended December 31, 2017 the $3,898,000 (pre-tax) net unrealized gain on marketable equity securities would have been reflected in net income instead of other comprehensive income.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This Update requires companies that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The amendments are effective for years beginning after December 15, 2019 with early adoption permitted. The Company is currently evaluating the impact to the consolidated financial statements of adopting this Update, but does not expect adoption to have a significant impact on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments —Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The amendments in this Update are effective for the Company for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact this Update will have on its consolidated financial statements and expects significant changes to the allowance for loan losses methodology upon adoption. No financial impacts have been determined.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements (continued)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide cash flow statement classification guidance for certain areas where diversification existed in practice. The amendments are effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted, including adoption in an interim period. The Company is currently evaluating the impact this Update will have on its consolidated financial statements, but does not expect the adoption to have a significant impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this Update simplify the goodwill impairment model by eliminating the second step of the model. The resulting impairment test will compare the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds the reporting unit's fair value, an impairment charge would be recognized for the difference, but should not exceed the carrying amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment to determine if the quantitative impairment test is necessary. The amendments should be applied on a prospective basis. The amendments are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management does not currently expect this Update to have a significant impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Early adoption is specifically permitted by the ASU. The Company has adopted this update during the year ended December 31, 2017 with no material impacts on the consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent accounting pronouncements (concluded)

In August, 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this Update refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early adoption, including adoption in an interim period, is permitted. The Company is currently evaluating the impact this Update will have on its consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2017 and 2016, these reserve balances amounted to $1,860,000 and $1,268,000, respectively.

At both December 31, 2017 and 2016, the Company has also pledged $500,000 in cash held at a correspondent bank to the State of Maine to establish the Plimoth Trust Company, LLC.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

3. SECURITIES AVAILABLE FOR SALE

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2017				
Debt securities:				
U.S. Government bonds	$ 37,965	$ -	$ (216)	$ 37,749
State and municipal bonds	70,664	15	(127)	70,552
Corporate bonds:				
Financial services	22,088	295	(43)	22,340
Consumer products	4,513	2	(3)	4,512
Energy	2,042	10	(5)	2,047
Other	4,560	-	(4)	4,556
Total debt securities	141,832	322	(398)	141,756
Equity securities:				
Financial services	6,159	2,017	(148)	8,028
Mutual funds	4,677	940	-	5,617
Communications	3,562	1,071	(18)	4,615
Consumer products	7,446	1,809	(73)	9,182
Industrial	3,035	1,105	(67)	4,073
Technology	4,436	1,779	(40)	6,175
Other	3,975	792	(23)	4,744
Total equity securities	33,290	9,513	(369)	42,434
Total securities available for sale	$ 175,122	$ 9,835	$ (767)	$ 184,190

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

SECURITIES AVAILABLE FOR SALE (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2016				
Debt securities:				
U.S. Government bonds	$ 52,979	$ 19	$ (132)	$ 52,866
State and municipal bonds	59,182	38	(87)	59,133
Corporate bonds:				
Financial services	28,843	40	(71)	28,812
Consumer products	10,470	11	(13)	10,468
Energy	5,140	1	(18)	5,123
Other	18,028	44	(27)	18,045
Total debt securities	174,642	153	(348)	174,447
Equity securities:				
Financial services	4,388	1,760	(2)	6,146
Mutual funds	3,635	423	(66)	3,992
Communications	2,886	640	(31)	3,495
Consumer products	2,801	541	(14)	3,328
Industrial	6,774	732	(148)	7,358
Technology	3,335	896	(5)	4,226
Other	3,219	610	(90)	3,739
Total equity securities	27,038	5,602	(356)	32,284
Total securities available for sale	$ 201,680	$ 5,755	$ (704)	$ 206,731

Securities with an amortized cost of $25,975,000 and $22,987,000 and a fair value of $25,828,000 and $22,996,000 at December 31, 2017 and 2016, respectively, were pledged to secure public funds and other such purposes as required by law.

SECURITIES AVAILABLE FOR SALE (continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2017 is as follows. Expected maturities will differ from contractual maturities on certain securities because of call or prepayment provisions.

	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	$ 71,745	$ 71,563
After 1 year through 5 years	33,978	33,796
After 5 years through 10 years	16,283	16,571
Over 10 years	19,826	19,826
	$ 141,832	$ 141,756

For the years ended December 31, 2017 and 2016, proceeds from sales of securities available for sale amounted to $68,602,000 and $95,119,000, respectively. Gross realized gains amounted to $1,540,000 and $2,414,000, respectively, and gross realized losses amounted to $830,000 and $865,000, respectively.

On February 3, 2017, the Company received cash proceeds and stock shares from its investment in Northeast Retirement Services, Inc. ("NRS) as a result of Community Bank System, Inc ("CBU") acquiring NRS. Prior to the acquisition, NRS stock was recorded as a cost method investment by the Company. CBU shares acquired are recorded as available for sale securities. The Company recorded a gain of $11,297,000, net of $4,512,000 of related income tax effects, on the acquisition date which is the fair value of cash and stock received. An additional $1,268,000, which was recorded as a deferred gain on the acquisition date, is held in escrow for the benefit of the Company, until final settlement which is expected in 2018. The amount held in escrow represents $665,000 of stock shares and $603,000 of cash.

SECURITIES AVAILABLE FOR SALE (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016, 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
	(In thousands)			
December 31, 2017				
Debt securities:				
U.S. Government bonds	$ 136	$ 22,823	$ 80	$ 14,926
State and municipal	94	45,609	33	2,527
Corporate:				
Financial services	43	7,977	-	-
Consumer products	3	3,509	-	-
Energy	5	1,046	-	-
Other	4	3,042	-	-
Total debt securities	285	84,006	113	17,453
Equity securities:				
Financial services	148	1,598	-	-
Communications	18	123	-	-
Consumer products	73	887	-	-
Industrial	67	493	-	-
Technology	40	868	-	-
Other	23	1,308	-	-
Total equity securities	369	5,277	-	-
Total securities available for sale	$ 654	$ 89,283	$ 113	$ 17,453

SECURITIES AVAILABLE FOR SALE (continued)

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2016				
Debt securities:				
U.S. Government bonds	$ 132	$ 41,857	$ -	$ -
State and municipal	85	29,761	2	327
Corporate:				
Financial services	71	15,115	-	-
Consumer products	13	7,155	-	-
Energy	18	4,120	-	-
Other	27	9,350	-	-
Total debt securities	346	107,358	2	327
Equity securities:				
Financial services	2	197	-	-
Mutual funds	6	345	60	345
Communications	31	512	-	-
Industrial	-	-	14	153
Consumer products	139	2,448	9	50
Technology	5	98	-	-
Other	13	214	77	859
Total equity securities	196	3,814	160	1,407
Total securities available for sale	$ 542	$ 111,172	$ 162	$ 1,734

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. For the years ended December 31, 2017 and 2016, the Company recorded write-downs of $36,000 and $98,000, respectively, on marketable equity securities that were deemed to be other-than-temporarily impaired.

At December 31, 2017, 75 debt securities have unrealized losses with aggregate depreciation of less than 1% from the Company's amortized cost basis, all of which is deemed to be temporary.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	2017	2016
	(In thousands)	
Mortgage loans on real estate:		
Residential	$ 354,628	$ 315,729
Commercial and multi-family	412,174	341,818
Construction	89,133	55,430
HELOC and second mortgages	65,250	54,486
	921,185	767,463
Commercial loans	134,336	107,012
Consumer loans	78,868	49,663
Total loans	1,134,389	924,138
Allowance for loan losses	(7,448)	(7,136)
Net deferred loan costs	5,367	3,779
Loans, net	$ 1,132,308	$ 920,781

Residential loans are subject to a blanket lien securing FHLB borrowings. See Note 9.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2017 and 2016, and allocation of the allowance to loan segments at December 31, 2017 and 2016, follows:

	Residential Real Estate	Commercial & Multi-family Real Estate	Construction	HELOC & Second Mortgages	Commercial	Consumer	Unallocated	Total
				(In thousands)				
Balance at December 31, 2015	$ 1,227	$ 3,060	$ 510	$ 152	$ 1,072	$ 94	$ 248	$ 6,363
Provision for loan losses	(32)	1,090	(158)	31	(291)	50	60	750
Loans charged-off	(125)	-	-	-	-	(24)	-	(149)
Recoveries	38	1	-	3	124	6	-	172
Balance at December 31, 2016	1,108	4,151	352	186	905	126	308	7,136
Provision (credit) for loan losses	(144)	802	175	7	223	57	(240)	880
Loans charged-off	(3)	(579)	-	-	-	(84)	-	(666)
Recoveries	29	19	-	11	8	31	-	98
Balance at December 31, 2017	$ 990	$ 4,393	$ 527	$ 204	$ 1,136	$ 130	$ 68	$ 7,448
December 31, 2017								
Allowance related to impaired loans	$ 200	$ 153	$ -	$ 1	$ -	$ -	$ -	$ 354
Allowance related to non-impaired loans	790	4,240	527	203	1,136	130	68	7,094
Total allowance for loan losses	$ 990	$ 4,393	$ 527	$ 204	$ 1,136	$ 130	$ 68	$ 7,448
Impaired loans	$ 4,214	$ 7,920	$ -	$ 251	$ 1,092	$ -	$ -	$ 13,477
Non-impaired loans	350,414	404,254	89,133	64,999	133,244	78,868	-	1,120,912
Total loans	$ 354,628	$ 412,174	$ 89,133	$ 65,250	$ 134,336	$ 78,868	$ -	$ 1,134,389
December 31, 2016								
Allowance related to impaired loans	$ 131	$ 645	$ -	$ 2	$ -	$ -	$ -	$ 778
Allowance related to non-impaired loans	977	3,506	352	184	905	126	308	6,358
Total allowance for loan losses	$ 1,108	$ 4,151	$ 352	$ 186	$ 905	$ 126	$ 308	$ 7,136
Impaired loans	$ 4,313	$ 6,565	$ 190	$ 243	$ 613	$ -	$ -	$ 11,924
Non-impaired loans	311,416	335,253	55,240	54,243	106,399	49,663	-	912,214
Total loans	$ 315,729	$ 341,818	$ 55,430	$ 54,486	$ 107,012	$ 49,663	$ -	$ 924,138

LOANS (continued)

The following is a summary of information pertaining to impaired loans:

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Mortgage loans on real estate:			
Residential	$ 1,877	$ 1,964	
Commercial and multi-family	6,301	6,668	
HELOC and second mortgages	215	240	
Commercial	1,092	1,094	
	9,485	9,966	
Impaired loans with a valuation allowance:			
Mortgage loans on real estate:			
Residential	2,337	2,376	200
Commercial and multi-family	1,619	1,638	153
HELOC and second mortgages	36	36	1
	3,992	4,050	354
Total	$ 13,477	$ 14,016	$ 354

	Year Ended December 31, 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Mortgage loans on real estate:			
Residential	$ 4,062	$ 196	$ 77
Commercial and multi-family	7,277	422	174
Construction	58	-	-
HELOC and second mortgages	1,252	25	3
Commercial	1,007	58	31
Total	$ 13,656	$ 701	$ 285

LOANS (continued)

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Mortgage loans on real estate:			
Residential	$ 2,438	$ 3,598	
Commercial and multi-family	1,525	1,975	
Construction	190	688	
HELOC and second mortgages	202	374	
Commercial	613	1,785	
	4,968	8,420	
Impaired loans with a valuation allowance:			
Mortgage loans on real estate:			
Residential	1,875	1,918	131
Commercial and multi-family	5,040	5,138	645
HELOC and second mortgages	41	41	2
	6,956	7,097	778
Total	$ 11,924	$ 15,517	$ 778

	Year Ended December 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Mortgage loans on real estate:			
Residential	$ 4,738	$ 208	$ 69
Commercial and multi-family	5,735	302	66
Construction	268	2	-
HELOC and second mortgages	282	7	2
Commercial	1,713	78	-
Total	$ 12,736	$ 597	$ 137

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

LOANS (continued)

The Company has no commitments to advance additional funds in connection with impaired loans at December 31, 2017.

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

	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Mortgage loans on real estate:						
Residential	$ 445	$ 301	$ 1,149	$ 1,895	$ -	$ 1,592
Commercial and multi-family	-	-	168	168	-	3,422
HELOC and second mortgages	8	-	104	112	-	104
Commercial	-	-	-	-	-	553
Consumer	169	34	22	225	-	73
Total	$ 622	$ 335	$ 1,443	$ 2,400	$ -	$ 5,744

	December 31, 2016					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Mortgage loans on real estate:						
Residential	$ 489	$ 48	$ 1,560	$ 2,097	$ -	$ 2,254
Commercial and multi-family	174	522	1,267	1,963	-	2,159
Construction	-	-	190	190	-	190
HELOC and second mortgages	71	-	107	178	-	118
Consumer	102	-	-	102	-	-
Total	$ 836	$ 570	$ 3,124	$ 4,530	$ -	$ 4,721

Troubled debt restructures were not significant in 2017 and 2016.

Credit Quality Information

The Company utilizes a ten-grade internal loan rating system for commercial and multi-family real estate, construction and commercial loans as follows:

Loans rated 1 – 6 are considered "pass" rated loans with low to average risk.

Loans rated 7 are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 8 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 (concluded)

Credit Quality Information (concluded)

Loans rated 9 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 10 are considered uncollectible and of such little value that their continuance as a loan is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on substantially all commercial and multi-family real estate, construction and commercial 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.

On a monthly basis, the Company reviews the residential real estate, HELOC, second mortgage, and consumer portfolios for credit quality primarily through the use of delinquency reports.

The following table presents the Company's loans by risk rating at December 31, 2017 and 2016.

	Commercial and Multi-family Real Estate	Commercial	Construction
		(In thousands)	
December 31, 2017			
Loans rated 1 - 6	$ 398,513	$ 131,747	$ 89,133
Loans rated 7	10,239	1,984	-
Loans rated 8	3,422	605	-
Loans rated 9	-	-	-
Loans rated 10	-	-	-
	$ 412,174	$ 134,336	$ 89,133
December 31, 2016			
Loans rated 1 - 6	$ 327,535	$ 104,489	$ 55,240
Loans rated 7	11,875	2,028	-
Loans rated 8	2,408	495	190
Loans rated 9	-	-	-
Loans rated 10	-	-	-
	$ 341,818	$ 107,012	$ 55,430

5. LOAN SERVICING

Residential mortgage loans sold and serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of residential mortgage loans serviced for others totaled $367,362,000 and $343,267,000 at December 31, 2017 and 2016, respectively. Certain of these loans were sold with recourse provisions. At December 31, 2017 and 2016, the related maximum contingent recourse liability amounted to $89,000, which is not recorded in the consolidated financial statements.

The Company has transferred a portion of its originated commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, and remits payments to participating lenders. At December 31, 2017 and 2016, the Company was servicing loans for participants aggregating $21,491,000 and $14,867,000, respectively.

The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The balance of capitalized servicing rights, included in other assets at December 31, 2017 and 2016, was $2,629,000 and $2,626,000, respectively, and the fair value of these rights amounted to $2,792,000 and $2,878,000, respectively. The fair value of servicing rights was determined using a discount rate of 13.3% and 12.0% at December 31, 2017 and 2016, respectively, and annual prepayment speeds ranging from 7.4% to 26.3% as of December 31, 2017 and from 7.4% to 18.5% as of December 31, 2016. Mortgage servicing rights capitalized during the years ended December 31, 2017 and 2016 amounted to $688,000 and $1,203,000, respectively. Mortgage servicing rights amortization, included in miscellaneous income, during the years ended December 31, 2017 and 2016 amounted to $684,000 and $612,000, respectively.

For the years ended December 31, 2017 and 2016, contractually specified servicing fees included in miscellaneous income amounted to $865,000 and $758,000, respectively.

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31,	
	2017	2016
	(In thousands)	
Premises:		
Land	$ 4,863	$ 4,863
Buildings	24,534	23,157
Leasehold improvements	8,424	9,723
Construction in progress	745	831
Equipment	11,364	11,512
	49,930	50,086
Less accumulated depreciation and amortization	(18,671)	(18,810)
	$ 31,259	$ 31,276

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 amounted to $2,806,000 and $2,876,000, respectively.

At December 31, 2017, construction in progress represents costs primarily incurred for construction at a branch location, renovations at two leased locations and for the installation of solar panels at one location. These projects are expected to be completed and placed in service in 2018. At December 31, 2017, there were no significant outstanding commitments related to these projects.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying value of goodwill for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	(In thousands)	
Balance at beginning of year	$ 4,494	$ 4,522
Increase in goodwill due to acquisitions	15,082	-
Current period adjustments	-	(28)
Balance at end of year	$ 19,576	$ 4,494

On September 22, 2017, the Bank acquired Priority Funding, LLC ("Priority Funding"), for $15,000,000. $4,000,000 of the purchase price is deferred and will be paid over a 3-year period assuming Priority Funding achieves certain annual operating results, as defined in the agreement between the Bank and Priority Funding.

Priority Funding originates, and subsequently sells, loans to consumers collateralized by mobile and manufactured homes. Priority Funding conducts business in twelve states, including all six New England states, while maintaining their corporate headquarters in Northborough, Massachusetts. This transaction widens the breadth of products the Bank can offer to current and prospective customers and further diversifies its other income.

The results of Priority Funding's operations are included in the Company's consolidated statement of net income from the date of acquisition. The Bank determined that the book value and fair value of Priority Funding's assets and liabilities were the same as of the date of acquisition based on management's estimates using currently available information. This determination resulted in 100% of the purchase price, $15,000,000, being allocated to, and defined as, goodwill. Prior to the end of the one year measurement period, if information becomes available which would indicate adjustments are required, such adjustments will be included in the purchase price allocation in the reporting period in which the adjustment amounts are determined. As part of the acquisition, the Bank acquired $7,500,000 of due from bank accounts, $1,200,000 of other assets and $12,800,000 of accrued expenses and other liabilities.

GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Other intangible assets

On May 31, 2017, Plimoth Investment Advisors acquired the Trust and Asset Management division of Savings Institute Bank & Trust ("SI"). No assets were acquired or liabilities assumed in the transaction. The acquisition resulted in Plimoth adding $74,329,000 of assets under management. Management determined that the entire purchase price of $645,000 was attributable to the value of the customer relationships and, as a result, has recorded the entire purchase price as an intangible asset to be amortized over the estimated lives of the related relationships.

Information pertaining to intangible assets is as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(In thousands)	
December 31, 2017:			
SI customer lists, acquired May 31, 2017	$ 645	$ 38	$ 607
Insurance agency customer lists, acquired 2003 through 2012	835	589	246
BOFR core deposits, acquired January 1, 2011	1,662	1,454	208
	$ 3,142	$ 2,081	$ 1,061
December 31, 2016:			
Insurance agency customer lists, acquired 2003 through 2012	$ 1,635	$ 1,226	$ 409
BOFR core deposits, acquired January 1, 2011	1,662	1,246	416
	$ 3,297	$ 2,472	$ 825

GOODWILL AND OTHER INTANGIBLE ASSETS (concluded)

Other intangible assets (concluded)

At December 31, 2017, estimated amortization expense for identifiable intangible assets for the next five years and thereafter is as follows (in thousands):

Year Ending December 31,	
2018	$ 330
2019	114
2020	114
2021	114
2022	102
Thereafter	287
	$ 1,061

Amortization expense for the years ended December 31, 2017 and 2016 amounted to $409,000 and $389,000, respectively.

8. DEPOSITS

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

	December 31, 2017	December 31, 2016
	(In thousands)	
Demand deposits	$ 225,048	$ 190,403
NOW	192,273	179,704
Regular and other savings	206,149	185,289
Money market deposits	207,096	194,191
Total non-certificate accounts	830,566	749,587
Term certificates less than $250,000	235,026	194,665
Term certificates of $250,000 or more	53,132	47,249
Total certificate accounts	288,158	241,914
Total deposits	$ 1,118,724	$ 991,501

A summary of term certificate accounts by maturity is as follows:

	December 31, 2017		December 31, 2016	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 165,610	1.05%	$ 128,994	0.72%
Over 1 year to 2 years	76,212	1.51	67,184	1.14
Over 2 years to 3 years	26,660	1.95	25,467	1.96
Over 3 years to 4 years	14,808	1.90	15,405	1.88
Over 4 years to 5 years	4,868	2.03	4,864	1.92
	$ 288,158	1.31%	$ 241,914	1.06%

9. BORROWINGS

Fixed-rate advances from the FHLB of Boston are as follows:

Maturing	Amount 2017	Amount 2016	Weighted Average Rate 2017	Weighted Average Rate 2016
	(In thousands)			
Within 1 year	$ 28,250	$ 16,500	1.16%	3.84%
Over 1 year to 2 years	25,000	20,000	1.45	1.16
Over 2 years to 3 years	25,000	20,000	1.61	1.36
Over 3 years to 4 years	25,000	20,000	2.14	1.52
Over 4 years to 5 years	20,000	20,000	2.22	2.12
Over 5 years	20,000	40,000	2.75	2.48
Amortizing advances maturing 2022-2033	14,087	1,140	2.11	3.48
	$ 157,337	$ 137,640	1.86%	2.11%

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. At December 31, 2017 and 2016, borrowings under the line were limited to $6,996,000. There were no advances outstanding on the line as of December 31, 2017 and 2016. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property. See Note 4.

The Bank also has $24,000,000 in available unsecured lines of credit with correspondent banks at interest rates that adjust daily. At December 31, 2017 and 2016, no advances were outstanding under these lines of credit.

10. SUBORDINATED DEBT

On November 28, 2017, the Company issued subordinated debt (the "2017 Debt") in a private placement offering in the principal amount of $25,000,000. In connection with the issuance of the 2017 Debt, the Company incurred $734,000 in issuance costs that were recorded as a discount to the 2017 Debt and are amortized, using the straight line method, over the life of the 2017 Debt. During the year ended December 31, 2017, the Company recorded interest expense of $147,000, which included $12,000 in non-cash interest expense related to amortization of issuance costs.

The 2017 Debt accrues interest at 5.875% per annum for the first five years. From and including December 15, 2022, to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 375 basis points. Interest on the 2017 Debt will be payable semi-annually on June 15 and December 15 of each year through December 15, 2022, and quarterly thereafter on March 15, June 15, September 15 and December 15 of each year through the maturity date or early redemption date. The 2017 Debt matures on December 15, 2027, but may be redeemed on any scheduled interest payment date beginning on December 15, 2022 and thereafter by the Company, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2017 Debt to be redeemed plus accrued and unpaid interest to but excluding the date of redemption.

On July 21, 2016, the Company issued subordinated debt (the "2016 Debt") in a private placement offering in the principal amount of $19,750,000. In connection with the issuance of the 2016 Debt, the Company incurred $527,000 in issuance costs that were recorded as a discount to the 2016 Debt and are amortized, using the straight line method, over the life of the 2016 Debt. During the years ended December 31, 2017 and 2016, the Company recorded interest expense of $1,389,000 and $614,000, which included $105,000 and $44,000 in non-cash interest expense related to amortization of issuance costs, respectively.

The 2016 Debt accrues interest at 6.50% per annum for the first five years. From and including July 30, 2021, to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 543.5 basis points. Interest on the 2016 Debt will be payable semi-annually on January 30 and July 30 of each year through July 30, 2021, and quarterly thereafter on January 30, April 30, July 30, and October 30, of each year through the maturity date or early redemption date. The 2016 Debt matures on July 30, 2026, but may be redeemed on any scheduled interest payment date beginning on July 30, 2021 and thereafter by the Company, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2016 Debt to be redeemed plus accrued and unpaid interest to but excluding the date of redemption.

Under the applicable capital rules of the Federal Reserve Bank, the 2017 Debt and 2016 Debt qualify as Tier 2 capital for the Company subject to certain restrictions.

11. INCOME TAXES

Allocation of the federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31, 2017	2016
	(In thousands)	
Current tax provision (benefit):		
Federal	$ 3,933	$ (833)
State	1,178	147
	5,111	(686)
Deferred tax provision:		
Federal	486	1,948
Effect of tax rate change	731	-
State	16	707
	1,233	2,655
Total tax provision	$ 6,344	$ 1,969

The reasons for the differences between the statutory federal income tax provision and the provision for income taxes are summarized as follows:

	Years Ended December 31, 2017	2016
	(In thousands)	
Statutory federal tax amount at 34%	$ 5,482	$ 2,335
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	788	564
Dividends received deduction	(222)	(219)
Tax exempt municipal income and increases in cash surrender value of life insurance	(596)	(466)
Tax exempt gain on donated stock	(105)	-
Tax credits	(93)	(36)
Effect of tax rate change	731	-
Other, net	359	(209)
Provision for income taxes	$ 6,344	$ 1,969

INCOME TAXES (continued)

The components of the net deferred tax asset are as follows:

	December 31,	
	2017	2016
	(In thousands)	
Deferred tax assets:		
Employee benefit plans	$ 1,028	$ 777
Allowance for loan losses	2,094	2,850
Impairment losses on securities available for sale	246	323
Defined benefit pension plan - deferred actuarial losses	3,082	3,545
Depreciation and amortization	617	878
Customer relationship intangible	238	368
Capital loss carryovers	60	-
Charitable contribution carryover	124	369
Alternative minimum tax credit	-	537
Other, net	263	212
	7,752	9,859
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	(2,555)	(2,017)
Purchase accounting adjustments	(71)	(231)
Investment in limited partnerships	(296)	(409)
Deferred gain	(254)	-
Mortgage servicing rights	(739)	(1,049)
Net deferred loan costs	(1,519)	(1,580)
	(5,434)	(5,286)
Net deferred tax asset	$ 2,318	$ 4,573

INCOME TAXES (continued)

A summary of the change in the net deferred tax asset is as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Balance at beginning of year	$ 4,573	$ 8,857
Deferred tax provision	(1,233)	(2,655)
Changes reflected in other comprehensive income (loss):		
Defined benefit pension plan	588	(411)
Securities available for sale	(1,610)	(1,218)
Balance at end of year	$ 2,318	$ 4,573

The federal income tax reserve for loan losses at the Bank's base year amounted to $2,924,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of $822,000 has not been provided.

At December 31, 2017, the Company has federal and state charitable contribution carryforwards amounting to $429,000 and $476,000, respectively, which expire in varying amounts in the tax years ending on December 31, 2019 and 2020. At December 31, 2017, the Company has a capital loss carryover of $288,000, which will expire on December 31, 2022.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended October 31, 2014 through December 31, 2017. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2014 are open.

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the "Act"). The Act includes a number of changes in existing tax law impacting businesses including, among other things, a reduction in the corporate income tax rate from 34% to 21%, effective on January 1, 2018.

INCOME TAXES (concluded)

As a result of this rate reduction, the Company revalued its net deferred tax asset as of December 22, 2017 resulting in a reduction in the value of the net deferred tax asset of $731,000, which was recorded as additional income tax expense in the Company's consolidated statement of net income in 2017. The Company has developed a reasonable estimate of the other provisions of the Act in determining the current year income tax provision.

The $731,000 additional income tax expense includes a tax benefit of $22,000 relating to the impact of the rate change on deferred tax items originally recorded through other comprehensive income. This accounting treatment effectively stranded $22,000 of deferred tax items in accumulated other comprehensive income ("AOCI"). In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*, which allows for a reclassification from AOCI to retained earnings to eliminate the stranded tax effects resulting from the Act. As permitted, the Company early adopted the ASU and recorded a $22,000 decrease in retained earnings and corresponding increase in AOCI as of December 31, 2017.

12. OTHER COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding commitments which are not reflected in the accompanying consolidated financial statements.

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 and advance funds on outstanding lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of the commitments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

OTHER COMMITMENTS AND CONTINGENCIES (continued)

Loan commitments (concluded)

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2017	2016
	(In thousands)	
Commitments to grant loans	$ 60,503	$ 52,597
Unadvanced funds on construction loans	57,217	60,162
Unadvanced funds on home equity lines of credit	51,508	42,601
Unadvanced funds on commercial loans and lines of credit	72,674	43,739
Standby letters of credit	4,453	2,767

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 credit worthiness on a case-by-case basis. Funds disbursed under commitments to grant loans, construction loans and home equity lines of credit are primarily secured by real estate, and commercial loans and lines of credit are generally secured by business assets.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support borrowing arrangements. Essentially all letters of credit outstanding as of December 31, 2017 and 2016 have expiration dates within two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Standby letters of credit are generally collateralized by real estate and business assets.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

OTHER COMMITMENTS AND CONTINGENCIES (concluded)

Lease commitments

Pursuant to the terms of noncancellable lease agreements in effect at December 31, 2017, future minimum rent commitments for premises are as follows:

Year Ending December 31,	Amount (In thousands)
2018	$ 1,015
2019	975
2020	820
2021	682
2022	603
Thereafter	5,685
	$ 9,780

The leases for premises contain options to extend for periods up to fifteen years, the cost of which are not included above.

Rent expense for the years ended December 31, 2017 and 2016 amounted to $1,036,000 and $995,000, respectively.

Employment agreements

The Company has entered into employment agreements with several employees of Priority Funding and Partners that generally provide for a specified minimum annual compensation and the continuation of benefits from the date of execution of the agreements. The agreements also include a non-compete clause that prevents these employees from competing with Priority Funding and Partners for a period of five years after separation of service. The expiration dates of the Partners agreements are at varying dates through March, 2018. The expiration dates of the Priority Funding agreements are through September, 2022.

Other contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets are being phased in over several years. The required minimum conservation buffer is 1.25% as of December 31, 2017 and will increase to 1.875% on January 1, 2018 and 2.5% on January 1, 2019. Management believes that the Company's capital levels will remain characterized as "well-capitalized" throughout the phase-in periods.

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum capital ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes, as of December 31, 2017 and 2016, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Narragansett Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements (Continued)

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the following table.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2017:						
Total capital to risk-weighted assets:						
Consolidated	$ 150,175	12.6%	$ 95,311	8.0%	N/A	N/A
Bank	146,960	12.3	95,282	8.0	$ 119,103	10.0%
Common equity tier 1 capital to risk-weighted assets:						
Consolidated	94,963	8.0	53,613	4.5	N/A	N/A
Bank	135,398	11.4	53,596	4.5	77,417	6.5
Tier 1 capital to risk-weighted assets:						
Consolidated	94,963	8.0	71,484	6.0	N/A	N/A
Bank	135,398	11.4	71,462	6.0	95,282	8.0
Tier 1 capital to average assets:						
Consolidated	94,963	6.8	56,139	4.0	N/A	N/A
Bank	135,398	9.7	56,055	4.0	70,069	5.0
December 31, 2016:						
Total capital to risk-weighted assets:						
Consolidated	$ 129,362	13.0%	$ 79,438	8.0%	N/A	N/A
Bank	125,164	12.6	79,334	8.0	$ 99,168	10.0%
Common equity tier 1 capital to risk-weighted assets:						
Consolidated	100,599	10.1	44,684	4.5	N/A	N/A
Bank	115,668	11.7	44,626	4.5	64,459	6.5
Tier 1 capital to risk-weighted assets:						
Consolidated	100,599	10.1	59,578	6.0	N/A	N/A
Bank	115,668	11.7	59,501	6.0	79,334	8.0
Tier 1 capital to average assets:						
Consolidated	100,599	8.1	49,406	4.0	N/A	N/A
Bank	115,668	9.4	49,231	4.0	61,539	5.0

14. EMPLOYEE BENEFIT PLANS

Defined benefit pension plan

The Company provides basic and supplemental pension benefits for eligible employees through a defined benefit pension plan. Each employee reaching the age of 21 and having completed at least 1,000 hours of service in one twelve-month period beginning with such employee's date of employment, or any anniversary thereof, automatically becomes a participant in the retirement plan. All participants with three years of service are fully vested. Information pertaining to the activity in the plan is as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 32,434	$ 29,888
Service cost	1,836	1,728
Interest cost	1,314	1,233
Actuarial loss	4,743	475
Benefits paid	(813)	(890)
Benefit obligation at end of year	39,514	32,434
Change in plan assets:		
Fair value of plan assets at beginning of year	31,719	19,750
Actual return on plan assets	4,314	2,859
Employer contribution	-	10,000
Benefits paid	(813)	(890)
Fair value of plan assets at end of year	35,220	31,719
Funded status and pension liability at end of year	$ 4,294	$ 715
Accumulated benefit obligation	$ 32,762	$ 26,956

Actuarial assumptions used to determine the projected benefit obligation are as follows:

	December 31,	
	2017	2016
Discount rate	3.75%	4.25%
Rate of compensation increase	3.00%	3.00%

EMPLOYEE BENEFIT PLANS (continued)

Defined benefit pension plan (continued)

The components of net periodic pension cost are as follows:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Service cost	$ 1,836	$ 1,728
Interest cost	1,314	1,233
Expected return on plan assets	(2,417)	(2,178)
Recognized net actuarial loss	611	675
	$ 1,344	$ 1,458

Actuarial assumptions used to determine net periodic pension cost are as follows:

	Years Ended December 31,	
	2017	2016
Discount rate	4.25%	4.25%
Expected long-term rate of return on plan assets	8.00	8.00
Annual salary increase	3.00	3.00

The discount rate was selected to reflect the expected long-term rate of return based on prevailing yields on high quality fixed income investments. The expected long-term rate of return on plan assets is based on prevailing yields on high quality fixed income investments increased by a premium of 3% to 5% for equity securities.

The Company, through its Investment Committee, selected Plimoth Investment Advisors as the defined benefit plan's trustee, investment manager and custodian. An Investment Policy Statement was approved which is consistent with the provisions of the Employee Retirement Income Security Act (ERISA). The policy is also consistent with Modern Portfolio Theory practices, which requires sufficient levels of diversification to promote maximum investment return per unit of risk taken. The policy is not only designed to diversify market and security risk, but also inflation risk which can deteriorate the value of capital over time. The policy sets a strategic asset allocation mix between stocks, bonds and other diversifying assets, along with allowable ranges within each asset class. The policy also includes permitted and prohibited asset classes and security types, along with setting minimum asset quality parameters. The target allocation mix for the portfolio calls for an equity based investment

EMPLOYEE BENEFIT PLANS (continued)

Defined benefit pension plan (continued)

deployment range of 45% to 75% of total portfolio assets. The remainder of the portfolio is allocated to fixed income investments from 20% to 40% and other investments from 0% to 10%.

In establishing the above referenced Investment Policy, Plimoth Investment Advisors has worked with the Company to create a level of expectation on behalf of the Company as to the prudent management of plan assets, monitoring of plan assets/holdings, evaluating management of the plan and communicating plan activity.

Plimoth Investment Advisors, in its role as Investment Manager, provides input as to the appropriate asset allocation, time horizon, and risk profile. Utilizing their investment discipline and security selection processes, Plimoth shall manage the assets in accordance with the Investment Policy Statement and shall report on investment performance and other matters impacting the effective management of plan assets. The overall investment return objective should emphasize both a total return in excess of established benchmarks and lower aggregate portfolio volatility. This shall be conducted in a manner consistent with all parameters of the Investment Policy Statement.

The fair value of the Company's pension plan assets are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
December 31, 2017				
Corporate bonds	$ -	$ 3,575	$ -	$ 3,575
Equity securities	18,278	-	-	18,278
Mutual funds	11,886	-	-	11,886
Other	1,481	-	-	1,481
Total plan assets	$ 31,645	$ 3,575	$ -	$ 35,220
December 31, 2016				
Corporate bonds	$ -	$ 5,184	$ -	$ 5,184
Equity securities	16,663	-	-	16,663
Mutual funds	9,328	-	-	9,328
Other	544	-	-	544
Total plan assets	$ 26,535	$ 5,184	$ -	$ 31,719

EMPLOYEE BENEFIT PLANS (continued)

Defined benefit pension plan (concluded)

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Plan assets 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.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

Plan Year Ending December 31,	Amount (In thousands)
2018	$ 3,377
2019	2,824
2020	2,410
2021	2,760
2022	2,705
2023-2027	10,001

401(k) plan

The Company has a 401(k) savings plan, which provides for voluntary contributions by participating employees as allowed by federal tax laws. Effective January 1, 2017, under the terms of the plan, an employee is eligible for the Bank's Safe Harbor contribution of 3% of the employee's compensation after one year of service and a minimum of 1,000 hours. Prior to 2017, the Company matched 50% of an employee's contribution up to 6% of an employee's compensation. Total 401(k) plan expense for the years ended December 31, 2017 and 2016 amounted to $711,000 and $578,000, respectively.

Supplemental executive retirement plan

The Company has a Supplemental Executive Retirement Plan which provides for certain of the Company's executives to receive monthly benefits upon retirement, subject to certain limitations as set forth in the Plan. The present value of these future benefits is accrued over the executives' terms of employment and the expense for the years ended December 31, 2017 and 2016 amounted to $503,000 and $519,000, respectively.

EMPLOYEE BENEFIT PLANS (concluded)

Supplemental director retirement plan

The Company has adopted an unfunded Supplemental Director Retirement Plan which provides for all of the Company's Directors to receive annual benefits upon retirement, subject to certain limitations set forth in the Plan.

At December 31, 2017 and 2016, the projected benefit obligation and accumulated benefit obligation was $1,382,000 and $1,615,000, respectively.

The discount rates used in determining the projected benefit obligation at December 31, 2017 and 2016 were 3.25% and 3.50%, respectively. The fee inflation assumption used to determine the projected benefit obligation at December 31, 2017 and 2016 was 2.00%.

For the years ended December 31, 2017 and 2016, both employer contributions and benefits paid amounted to $311,000 and $155,000, respectively, and net periodic retirement costs amounted to $223,000 and $210,000, respectively. The discount rate used in determining net periodic pension cost for the years ended December 31, 2017 and 2016 was 3.50% and 3.55%, respectively.

Projected benefit payments, which reflect expected future service, as appropriate, are as follows:

Plan Year Ending December 31,	Amount (In thousands)
2018	$ 106
2019	203
2020	203
2021	203
2022	137
2023-2027	568

In connection with the supplemental retirement plans, the Company has purchased life insurance policies applicable to certain executive officers and directors included in the aforementioned plans. The policies are reflected on the consolidated balance sheets at cash surrender value. Increases in cash surrender value are reflected in other income in the consolidated statements of net income. The Company is the sole owner of these life insurance policies. The Company has entered into agreements with these executives and directors whereby the Company will pay to the executives and directors estates or beneficiaries a portion of the death benefit that the Company will receive as beneficiary of such policies. The cost of these agreements is being accrued over the respective service periods.

15. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of fair value

The Company uses fair value measurements to record fair value adjustments to certain assets. 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 instrument.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial and non-financial instruments measured at fair value on a recurring and non-recurring basis:

Securities available for sale – 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 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. There were no securities measured at fair value in Level 3.

Impaired loans – Fair values for collateral dependent loans are based on the appraised value of the underlying collateral considering discounting factors, if deemed appropriate, and adjusted for selling costs. Current appraisals are obtained when it is determined that the Company is considering foreclosure. In instances where a current appraisal is not obtained, the most recent appraisal may be discounted based on management's historical knowledge, expertise or changes in market conditions from time of valuation. Given the significance of management's judgement in discounting the appraisals, these are considered level 3 fair value measurements.

FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis are summarized below:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Securities available for sale:				
Debt securities	$ -	$ 141,756	$ -	$ 141,756
Equity securities	42,434	-	-	42,434
Total	$ 42,434	$ 141,756	$ -	$ 184,190

	December 31, 2016			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Securities available for sale:				
Debt securities	$ -	$ 174,447	$ -	$ 174,447
Equity securities	32,284	-	-	32,284
Total	$ 32,284	$ 174,447	$ -	$ 206,731

There were no liabilities measured at fair value on a recurring basis at December 31, 2017 or 2016.

FAIR VALUE OF ASSETS AND LIABILITIES (concluded)

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 nonrecurring basis in accordance with 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 individual assets as of December 31, 2017 and 2016. Total losses represent the amount of losses recorded during 2017 and 2016 on the assets held at December 31, 2017 and 2016, respectively.

	December 31, 2017			Year Ended December 31, 2017
	Level 1	Level 2	Level 3	Total Losses
		(In thousands)		
Impaired loans	$ -	$ -	$ 1,526	$ 142

	December 31, 2016			Year Ended December 31, 2016
	Level 1	Level 2	Level 3	Total Losses
		(In thousands)		
Impaired loans	$ -	$ -	$ 1,895	$ 564

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

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 22, 2018, which is the date the consolidated financial statements were available to be issued. In February, 2018, the Bank entered into three $15,000,000 pay-fixed interest rate swap agreements (the "Swaps") with a correspondent bank that separately mature in 2021, 2022, and 2023. The purpose of the swaps is to fix the interest rate the Bank pays on short-term FHLB borrowings. The Bank has designated these swaps as cash flow hedges and, as such, will record them at fair value each reporting period with the unrealized gains and losses recorded in other comprehensive income. The Bank will make fixed-rate interest payments on the notional amounts at 2.54%, while receiving variable-rate monthly payments, resetting every quarter, indexed to 3-month Libor.

There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidating Balance Sheet

Assets	BayCoast Mortgage	BayCoast Bank	Other Subsidiaries	Eliminating Entries	Consolidated BayCoast Bank	Narragansett Financial	Eliminating Entries	Consolidated Narragansett Financial
Cash and cash equivalents	$ 591	19,693	33,493	(32,267)	21,510	2,698	(2,698)	21,510
Securities available for sale, at fair value	-	134,178	48,368	-	182,546	1,644	-	184,190
Federal Home Loan Bank stock, at cost	-	8,585	-	-	8,585	-	-	8,585
Loans held for sale	13,178	1,379	490	-	15,047	-	-	15,047
Loans, net	-	1,145,035	-	(12,727)	1,132,308	-	-	1,132,308
Bank-owned life insurance	-	25,090	-	-	25,090	-	-	25,090
Premises and equipment, net	67	31,057	135	-	31,259	-	-	31,259
Accrued interest receivable	-	3,778	208	-	3,986	11	-	3,997
Net deferred tax asset	-	2,514	(197)	-	2,317	1	-	2,318
Goodwill and other intangible assets	-	4,301	21,036	(4,700)	20,637	-	-	20,637
Other assets	352	12,539	1,022	503	14,416	14	-	14,430
Investment in subsidiaries	-	86,553	-	(86,553)	-	155,823	(155,823)	-
	$ 14,188	$ 1,474,702	$ 104,555	$ (135,744)	$1,457,701	$ 160,191	$ (158,521)	$1,459,371
Liabilities and Retained Earnings								
Deposits	$ -	1,145,957	-	(24,535)	1,121,422	-	(2,698)	1,118,724
Federal Home Loan Bank advances	-	157,337	-	-	157,337	-	-	157,337
Subordinated debt	-	-	-	-	-	43,650	-	43,650
Warehouse line of credit	12,727	-	-	(12,727)	-	-	-	-
Other liabilities	236	16,815	19,081	(11,929)	24,203	1,179	-	25,382
Total liabilities	12,963	1,320,109	19,081	(49,191)	1,302,962	44,829	(2,698)	1,345,093
Commitments and contingencies (Notes 5 and 12)								
Retained earnings	1,225	155,823	85,328	(86,553)	155,823	115,366	(155,823)	115,366
Accumulated other comprehensive loss	-	(1,230)	(135)	-	(1,365)	(4)	-	(1,369)
Total retained earnings of Narragansett Financial Corp. and Subsidiary	1,225	154,593	85,193	(86,553)	154,458	115,362	(155,823)	113,997
Non-controlling interest in subsidiary	-	-	281	-	281	-	-	281
	1,225	154,593	85,474	(86,553)	154,739	115,362	(155,823)	114,278
	$ 14,188	$ 1,474,702	$ 104,555	$ (135,744)	$1,457,701	$ 160,191	$ (158,521)	$1,459,371

Narragansett Financial Corp. and Subsidiary

Consolidating Statement of Operations

	BayCoast Mortgage	BayCoast Bank	Other Subsidiaries	Eliminating Entries	Consolidated BayCoast Bank	Narragansett Financial	Eliminating Entries	Consolidated Narragansett Financial
Interest and dividend income:								
Interest and fees on loans	$ 279	$ 43,481	$ 6	$ (174)	$ 43,592	$ -	$ -	$ 43,592
Interest on debt securities	-	2,234	1,109	-	3,343	677	(642)	3,378
Dividend income	-	1,436	45	-	1,481	-	-	1,481
Interest on cash equivalents	-	33	46	(46)	33	7	(7)	33
Total interest and dividend income	279	47,184	1,206	(220)	48,449	684	(649)	48,484
Interest expense:								
Interest on deposits	-	4,145	-	(46)	4,099	-	(7)	4,092
Interest on borrowed funds	174	-	-	(174)	-	-	-	-
Interest on Federal Home Loan Bank advances	-	3,611	12	-	3,623	-	-	3,623
Interest on subordinated debt	-	-	-	-	-	1,536	-	1,536
Total interest expense	174	7,756	12	(220)	7,722	1,536	(7)	9,251
Net interest income	105	39,428	1,194	-	40,727	(852)	(642)	39,233
Provision for loan losses	-	880	-	-	880	-	-	880
Net interest income, after provision for loan losses	105	38,548	1,194	-	39,847	(852)	(642)	38,353
Other income:								
Customer service fees	-	5,072	-	-	5,072	-	-	5,072
Trust department fees	-	-	4,081	-	4,081	-	-	4,081
Insurance and brokerage commissions	-	679	4,368	-	5,047	-	-	5,047
Gain on securities available for sale, net	-	865	(155)	-	710	-	-	710
Gain on restricted investment	-	-	11,297	-	11,297	-	-	11,297
Gain on sales of loans, net	2,661	388	904	-	3,953	-	-	3,953
BOLI income	-	589	-	-	589	-	-	589
Miscellaneous	3	206	12	-	221	-	-	221
Total other income	2,664	7,799	20,507	-	30,970	-	-	30,970
Operating expenses:								
Salaries and employee benefits	1,944	23,913	6,608	-	32,465	47	-	32,512
Occupancy and equipment	213	6,847	712	-	7,772	-	-	7,772
Professional fees	940	515	520	-	1,975	4	-	1,979
Data processing	-	2,340	-	-	2,340	-	-	2,340
Advertising costs	31	793	94	-	918	-	-	918
Deposit insurance	-	695	-	-	695	-	-	695
Amortization of intangible assets	-	170	239	-	409	-	-	409
Other general and administrative	109	5,968	496	-	6,573	-	-	6,573
Total operating expenses	3,237	41,241	8,669	-	53,147	51	-	53,198
Income (loss) before income taxes	(468)	5,106	13,032	-	17,670	(903)	(642)	16,125
Provision (benefit) for income taxes	-	2,412	4,468	-	6,880	(536)	-	6,344
Net income (loss)	(468)	2,694	8,564	-	10,790	(367)	(642)	9,781
Net loss attributed to non-controlling interest in subsidiary	-	-	(19)	-	(19)	-	-	(19)
Net income (loss) attributed to Narragansett Financial Corp. and Subsidiary	$ (468)	$ 2,694	$ 8,583	$ -	$ 10,809	$ (367)	$ (642)	$ 9,800