PATRIOT NATIONAL BANCORP INC
Form 10-Q
May 12, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 2015

Commission file number 000-29599

PATRIOT NATIONAL BANCORP, INC.

(Exact name of registrant as specified in its charter)

Connecticut	06-1559137
(State of incorporation)	(I.R.S. Employer Identification Number)

900 Bedford Street, Stamford, Connecticut 06901

(Address of principal executive offices)

(203) 324-7500

(Registrant's telephone number)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes __X__ No_____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No_____

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

Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer ____ Smaller Reporting Company __X__

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes _____ No __X__

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date.

Common stock, $0.01 par value per share, 3,953,949 shares outstanding as of the close of business April 30, 2015.

Table of Contents

PART I- FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2015	December 31, 2014
ASSETS	*(in thousands, except shares and per share amounts)*	
Cash and due from banks:		
Noninterest bearing deposits and cash	$2,080	$2,095
Interest bearing deposits	63,878	71,163
Total cash and cash equivalents	65,958	73,258
Securities:		
Available for sale securities, at fair value (Note 2)	32,738	33,682
Other Investments	4,450	4,450
Federal Reserve Bank stock, at cost	2,020	2,058
Federal Home Loan Bank stock, at cost	6,628	6,628
Total securities	45,836	46,818
Loans receivable (net of allowance for loan losses: 2015: $5,193 2014: $4,924) (Note 3)	494,166	471,984
Accrued interest and dividends receivable	1,974	1,918
Premises and equipment, net	23,056	22,357
Deferred tax asset (Note 6)	14,621	14,926
Other assets	1,495	1,363
Total assets	$647,106	$632,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$70,331	$63,398
Interest bearing deposits	386,776	379,635
Total deposits	457,107	443,033
Federal Home Loan Bank borrowings	120,000	120,000
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	2,450	2,608
Total liabilities	587,805	573,889

Commitments and Contingencies (Note 9)

Shareholders' equity (1) (Note 7)		
Preferred stock, no par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value, 100,000,000 shares authorized; 2015: 3,955,119 shares issued; 3,953,949 shares outstanding. 2014 : 3,952,179 shares issued; 3,951,009 shares outstanding	396	395
Additional paid-in capital (Note 5)	105,865	105,752
Accumulated deficit	(46,686)	(46,975)
Less: Treasury stock, at cost: 2015 and 2014, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss (Note 8)	(114)	(277)
Total shareholders' equity	59,301	58,735
Total liabilities and shareholders' equity	$647,106	$632,624

See Accompanying Notes to Consolidated Financial Statements.

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

1

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands, except per share amounts)	
Interest and Dividend Income		
Interest and fees on loans	$5,546	$4,691
Interest on investment securities	116	135
Dividends on investment securities	57	41
Other interest income	29	12
Total interest and dividend income	**5,748**	**4,879**
Interest Expense		
Interest on deposits	529	637
Interest on Federal Home Loan Bank borrowings	71	33
Interest on subordinated debt	71	200
Total interest expense	**671**	**870**
Net interest income	**5,077**	**4,009**
Provision for Loan Losses	250	-
Net interest income after provision for loan losses	**4,827**	**4,009**
Non-Interest Income		
Loan application, inspection & processing fees	50	66
Fees and service charges	174	219
Earnings on cash surrender value of life insurance	-	121
Other income	170	187
Total non-interest income	**394**	**593**
Non-Interest Expense		
Salaries and benefits	2,344	1,971
Occupancy and equipment expense	955	922
Data processing expense	250	250
Advertising and promotional expenses	50	51
Professional and other outside services	569	471
Loan administration and processing expenses	22	17
Regulatory assessments	154	230
Insurance expense	81	97

Other real estate operations	-	16
Material and communications	81	93
Other operating expenses	225	165
Total non-interest expense	**4,731**	**4,283**
Income before income taxes	**490**	**319**
Provision for income taxes	201	-
Net income	**$289**	**$319**
Basic and diluted income per share (1)	$0.07	$0.08

See Accompanying Notes to Consolidated Financial Statements.

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Net income	$289	$319
Other comprehensive income:		
Unrealized holding gains on available for sale securities arising during the period, net of taxes	163	393
Total comprehensive income	**$452**	**$712**

See Accompanying Notes to Consolidated Financial Statements.

3

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(in thousands, except shares)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Three months ended March 31, 2015						
Balance at December 31, 2014	$ 395	$ 105,752	$ (46,975)	$ (160)	$ (277)	$ 58,735
Net income	-	-	289	-	-	289
Other comprehensive income	-	-	-	-	163	163
Share-based compensation expense	-	114	-	-	-	114
Issuance of restricted stock	1	(1)	-	-	-	-
Balance, March 31, 2015	$ 396	$ 105,865	$ (46,686)	$ (160)	$ (114)	$ 59,301
Three months ended March 31, 2014						
Balance at December 31, 2013	$ 388	$ 105,484	$ (62,684)	$ (160)	$ (1,187)	$ 41,841
Net Income	-	-	319	-	-	319
Other comprehensive income	-	-	-	-	393	393

Share-based compensation expense	-	59	-	-	-	59
Issuance of restricted stock	3	(3)	-	-	-	-
Balance, March 31, 2014	$ 391	$ 105,540	$ (62,365)	$ (160)	$ (794)	$ 42,612

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:	*(in thousands)*	
Net income	$289	$319
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums	58	66
Amortization and accretion of purchase loan premiums and discounts, net	127	18
Provision for loan losses	250	-
Earnings on cash surrender value of life insurance	-	(121)
Depreciation and amortization	246	293
Share-based compensation	114	59
Deferred income taxes	201	-
Changes in assets and liabilities:		
Decrease (increase) in net deferred loan costs	139	(13)
Increase in accrued interest and dividends receivable	(56)	(12)
Increase in other assets	(132)	(58)
Decrease in accrued expenses and other liabilities	(158)	(296)
Net cash provided by operating activities	**1,078**	**255**
Cash Flows from Investing Activities:		
Principal repayments on available for sale securities	1,153	1,213
Redemptions of Federal Reserve Bank stock	38	-
(Increase) decrease in loans	(22,698)	3,020
Purchase of other real estate owned	-	(264)
Purchase of bank premises and equipment, net	(945)	(98)
Net cash (used in) provided by investing activities	**(22,452)**	**3,871**
Cash Flows from Financing Activities:		
Net increase (decrease) in deposits	14,074	(2,235)
Increase in FHLB borrowings	-	23,000
Net cash provided by financing activities	**14,074**	**20,765**
Net (decrease) increase in cash and cash equivalents	**(7,300)**	**24,891**
Cash and Cash Equivalents:		
Beginning	73,258	34,866

Ending	$65,958	$59,757

5

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued (Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Supplemental Disclosures of Cash Flow Information		
Interest paid	$586	$669
Income taxes paid	$3	$-

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2014 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (“Bancorp” or the “Company”) at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The accompanying unaudited financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and related notes should be read in conjunction with the previously filed audited financial statements of Bancorp and notes thereto for the year ended December 31, 2014.

The information furnished reflects, in the opinion of management, all normal recurring adjustments necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results of operations that may be expected for the remainder of 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 2: Investment Securities

The amortized cost, gross unrealized losses and approximate fair values of available-for-sale securities at March 31, 2015 and December 31, 2014 are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
March 31, 2015:			
U.S. Government agency bonds	$ 7,500	$ (4)	$ 7,496
U. S. Government agency mortgage-backed securities	16,424	(148)	16,276
Corporate bonds	9,000	(34)	8,966
	$ 32,924	$ (186)	$ 32,738
December 31, 2014:			
U. S. Government agency bonds	$ 7,500	$ (91)	$ 7,409
U. S. Government agency mortgage-backed securities	17,635	(298)	17,337
Corporate bonds	9,000	(64)	8,936
	$ 34,135	$ (453)	$ 33,682

There were no purchases or sales of available-for-sale securities in 2014 and 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table presents the gross unrealized loss and fair value of Bancorp's available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2015 and December 31, 2014:

	Less Than 12 Months		**12 Months or More**		**Total**	-
(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
March 31, 2015:						
U.S. Government agency bonds	$4,996	$ (4)	$-	$ -	$4,996	$ (4)
U. S. Government agency mortgage - backed securities	3,460	(11)	12,816	(137)	16,276	(148)
Corporate bonds	-	-	8,966	(34)	8,966	(34)
Totals	$8,456	$ (15)	$21,782	$ (171)	$30,238	$ (186)
December 31, 2014:						
U. S. Government agency bonds	$-	$ -	$7,409	$ (91)	$7,409	$ (91)
U. S. Government agency mortgage - backed securities	-	-	17,337	(298)	17,337	(298)
Corporate bonds	-	-	8,936	(64)	8,936	(64)
Totals	$-	$ -	$33,682	$ (453)	$33,682	$ (453)

At March 31, 2015, ten of eleven available-for-sale securities had unrealized holding losses with aggregate depreciation of 0.6% from the amortized cost. At December 31, 2014, all eleven securities had unrealized losses with aggregate depreciation of 1.3% from the amortized cost.

Bancorp performs a quarterly analysis of those securities that are in an unrealized loss position to determine if those losses qualify as other-than-temporary impairments. This analysis considers the following criteria in its determination: the ability of the issuer to meet its obligations, management's plans and ability to maintain its investment in the security, the length of time and the amount by which the security has been in a loss position, the interest rate environment, the general economic environment and prospects or projections for improvement or deterioration.

Management believes that none of the unrealized losses on available-for-sale securities noted above are other than temporary due to the fact that they relate to market interest rate changes on U.S. Government agency debt, corporate debt and mortgage-backed securities issued by U.S. Government agencies. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade and the Company expects to receive all contractual principal and interest related to these investments. Because the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The amortized cost and fair value of available-for-sale debt securities at March 31, 2015 by contractual maturity are presented below. Actual maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the securities may be prepaid without any penalties. Because mortgage-backed securities are not due at a single maturity date, they are not included in the maturity categories in the following summary:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Losses
Maturity:			
Corporate bonds 5 to 10 years	$ 9,000	$ 8,966	$ (34)
U.S. Government agency bonds < 5 years	2,500	2,500	-
U.S. Government agency bonds 5 to 10 years	5,000	4,996	(4)
U.S. Government agency mortgage-backed securities	16,424	16,276	(148)
Total	$ 32,924	$ 32,738	$ (186)

At March 31, 2015 and December 31, 2014, securities of $6.8 million and $7.4 million were pledged with the Federal Reserve Bank of New York to secure municipal deposits.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 3: Loans Receivable and Allowance for Loan Losses

A summary of the Company’s loan portfolio at March 31, 2015 and December 31, 2014 is as follows:

(in thousands)	March 31, 2015	December 31, 2014
Commercial	$ 52,476	$ 53,973
Commercial Real Estate	281,387	254,505
Construction	7,024	3,096
Construction to permanent	9,988	10,627
Residential	102,521	108,543
Consumer	45,963	46,164
Total Loans	499,359	476,908
Allowance for loan losses	(5,193)	(4,924)
Loans receivable, net	$ 494,166	$ 471,984

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York. The Company originates commercial real estate loans, commercial business loans, construction loans and a variety of consumer loans. In addition, the Company previously had originated loans on residential real estate. All residential and commercial mortgage loans are collateralized primarily by first or second mortgages on real estate. The ability and willingness of borrowers to satisfy their loan obligations is dependent to some degree on the status of the regional economy as well as upon the regional real estate market. Accordingly, the ultimate collectability of a substantial portion of the loan portfolio and the recovery of a substantial portion of any resulting real estate acquired is susceptible to changes in market conditions.

The Company has established credit policies applicable to each type of lending activity in which it engages, evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 75% of the market value of the collateral for commercial real estate at the date of the credit extension depending on the Company's evaluation of the borrowers' creditworthiness and type of collateral and up to 80% for multi–family real estate. In the case of construction loans, the maximum loan-to-value is 75% of the "as completed" appraised value. The appraised value of collateral is monitored on an ongoing basis and additional collateral is requested when warranted. Real estate is the primary form of collateral. Other important forms of collateral are accounts receivable, inventory, other business assets, marketable securities and time deposits.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Risk characteristics of the Company’s portfolio classes include the following:

Commercial Real Estate Loans – In underwriting commercial real estate loans, the Company evaluates both the prospective borrower’s ability to make timely payments on the loan and the value of the property securing the loans. Repayment of such loans may be negatively impacted should there be a substantial decline in the value of the property securing the loan or decline in general economic conditions. Where the owner occupies the property, the Company also evaluates the business ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied.

Commercial and Industrial Loans – The Company’s commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance accounts receivable, the purchase of inventory or new or used equipment and for other short or long-term working capital purposes. These loans are generally secured by business assets, but are also occasionally offered on an unsecured basis. In granting this type of loan, the Company primarily looks to the borrower’s cash flow as the source of repayment with collateral and personal guarantees when obtained, as a secondary source. Payments on such loans are often dependent upon the successful operation of the underlying business. Repayment of such loans may therefore be negatively impacted by adverse changes in economic conditions, management’s inability to effectively manage the business, claims of others against the borrower’s assets which may take priority over the Company’s claims against assets, death or disability of the borrower or loss of market share for the borrower’s products or services.

Residential Real Estate Loans – Home equity loans secured by real estate properties are offered by the Company. The Company no longer offers residential mortgages, having exited this business in 2013. Repayment of residential real estate loans may be negatively impacted should the borrower have financial difficulties, should there be a significant decline in the value of the property securing the loan or should there be a decline in general economic conditions.

Construction Loans – Construction loans are short-term loans (generally up to 18 months) secured by land for either residential or commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders’ inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by a decline in general economic conditions.

Other/Consumer Loans – The Company also offers installment loans, credit cards, consumer overdraft and home equity lines of credit to individuals. Repayments of such loans are often dependent on the personal income of the borrower which may be negatively impacted by adverse changes in economic conditions. The Company does not place a high emphasis on originating these types of loans.

The Company does not have any lending programs commonly referred to as subprime lending. Subprime lending generally targets borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burdened ratios.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2015. The following table also details the amount of loans receivable that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Three months ended March 31, 2015	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ -	$ 4,924
Charge-offs	-	-	-	-	(3)	(7)	-	(10)
Recoveries	16	-	-	5	-	8	-	29
Provision	(637)	605	159	(29)	(98)	232	18	250
Ending Balance	$ 1,297	$ 2,024	$ 222	$ 191	$ 730	$ 711	$ 18	$ 5,193
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	1,297	2,024	222	191	730	711	18	5,193
Total Allowance for Loan Losses	$ 1,297	$ 2,024	$ 222	$ 191	$ 730	$ 711	$ 18	$ 5,193
March 31, 2015								
Total Loans ending balance	$ 52,476	$ 281,387	$ 7,024	$ 9,988	$ 102,521	$ 45,963	$ -	$ 499,359
Ending balance: individually evaluated for impairment	$ -	$ 8,272	$ -	$ -	$ 3,406	$ 552	$ -	$ 12,230
	$ 52,476	$ 273,115	$ 7,024	$ 9,988	$ 99,115	$ 45,411	$ -	$ 487,129

Ending balance:
collectively evaluated
for impairment

13

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth activity in our allowance for loan losses, by loan type, for the three months ended March 31, 2014. The following table also details the amount of loans receivable that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment.

(in thousands)

Three months ended March 31, 2014	**Commercial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 2,285	$ 1,585	$ 260	$ 25	$ 795	$ 534	$ 197	$ 5,681
Charge-offs	(9)	-	-	-	(178)	(30)	-	(217)
Recoveries	-	-	-	-	15	1	-	16
Provision	95	(265)	-	9	72	34	55	$ -
Ending Balance	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
Ending balance: individually evaluated for impairment	$ 1,500	$ 17	$ 260	$ -	$ 21	$ 2	$ -	$ 1,800
Ending balance: collectively evaluated for impairment	871	1,303	-	34	683	537	252	3,680
Total Allowance for Loan Losses	$ 2,371	$ 1,320	$ 260	$ 34	$ 704	$ 539	$ 252	$ 5,480
March 31, 2014								
Total Loans ending balance	$ 38,838	$ 217,674	$ 260	$ 12,718	$ 103,766	$ 47,347	$ -	$ 420,603
Ending balance: individually evaluated for impairment	$ 6,052	$ 8,855	$ 260	$ -	$ 5,192	$ 588	$ -	$ 20,947
	$ 32,786	$ 208,819	$ -	$ 12,718	$ 98,574	$ 46,759	$ -	$ 399,656

Ending balance:
collectively evaluated
for impairment

14

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table details for the year ended December 31, 2014 the amount of loans receivable that were evaluated individually, and collectively, for impairment, and the related portion of the allowance for the loans losses that was allocated to each loan portfolio segment:

(in thousands)

December 31, 2014	Commercial	Commercial Real Estate	Construction	Construction to Permanent	Residential	Consumer	Total
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 7	$ 7
Ending balance: collectively evaluated for impairment	1,918	1,419	63	215	831	471	4,917
Total Allowance for Loan Losses	$ 1,918	$ 1,419	$ 63	$ 215	$ 831	$ 478	$ 4,924
Total Loans ending balance	$ 53,973	$ 254,505	$ 3,096	$ 10,627	$ 108,543	$ 46,164	$ 476,908
Ending balance: individually evaluated for impairment	2	7,398	-	-	3,764	560	11,724
Ending balance: collectively evaluated for impairment	$ 53,971	$ 247,107	$ 3,096	$ 10,627	$ 104,779	$ 45,604	$ 465,184

The Company monitors the credit quality of its loans receivable in an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators and trends, including but not limited to, loan to value ratios, debt service coverage ratios, debt to worth ratios, profitability ratios, cash flows, and credit scores.

Appraisals on properties securing non-performing loans and Other Real Estate Owned (“OREO”) are updated annually. We update our impairment analysis monthly based on the most recent appraisal as well as other factors (such as senior lien positions, property taxes, etc.).

The majority of the Company’s impaired loans have been resolved through courses of action other than via liquidations of real estate collateral through OREO. These include normal loan payoffs, the traditional workout process, triggering personal guarantee obligations, and troubled debt restructurings. However, as loan workout efforts progress to a point where the bank’s liquidation of real estate collateral is the likely outcome, the impairment analysis is updated to reflect actual recent experience with bank sales of OREO properties.

A disposition discount is built into our impairment analysis and reflected in our allowance once a property is determined to be a likely OREO (e.g. foreclosure is probable). To determine the discount we compare the average sales prices of our prior OREO properties to the appraised value that was obtained as of the date when we took title to the property. The difference is the bank-owned disposition discount.

The Company has a risk rating system as part of the risk assessment of its loan portfolio. The Company’s lending officers are required to assign a risk rating to each loan in their portfolio at origination, which is ratified or modified by the Committee to which the loan is submitted for approval. When the lender learns of important financial developments, the risk rating is reviewed and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating. The Company employs a system to ensure an independent review of the ratings annually for commercial credits over $250,000.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The Company uses an independent third party loan reviewer who performs quarterly reviews of a sample of loans, validating the Bank's risk ratings assigned to such loans. Any upgrades to classified loans must be approved by the Management Loan Committee.

When assigning a risk rating to a loan, management utilizes the Bank's internal eleven-point risk rating system. An asset is considered "special mention" when it has a potential weakness based on objective evidence, but does not currently expose the Company to sufficient risk to warrant classification in one of the following categories:

An asset is considered "substandard" if it is not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the "distinct possibility" that the Company will sustain "some loss" if the deficiencies are not corrected.

Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

Charge–off generally commences after the loan is classified "doubtful" to reduce the loan to its recoverable balance. If the account is classified as "loss", the full balance is charged off regardless of the potential recovery from the sale of the collateral. That amount is recognized as a recovery after the collateral is sold.

In accordance with FFIEC ("Federal Financial Institutions Examination Council") published policies establishing uniform criteria for the classification of retail credit based on delinquency status, "Open-end" credits are charged-off when 180 days delinquent and "Closed-end" credits are charged-off when 120 days delinquent.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The unpaid principal balances of loans on nonaccrual status and considered impaired were $515,000 at March 31, 2015 and $866,000 at December 31, 2014. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $4,000 of additional income during the quarter ended March 31, 2015 and $33,000 during the quarter ended March 31, 2014.

The following table sets forth the detail, and delinquency status, of non-accrual loans at March 31, 2015 :

(in thousands)	**Non-Accrual Loans**					
2015	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial Real Estate Substandard	$-	$ -	$ -	$-	$ 135	$ 135
Total Commercial Real Estate	$-	$ -	$ -	$-	$ 135	$ 135
Residential Real Estate Substandard	$-	$ -	$ 380	$380	$ -	$ 380
Total Residential Real Estate	$-	$ -	$ 380	$380	$ -	$ 380
Total	$-	$ -	$ 380	$380	$ 135	$ 515

Generally, loans are placed on non-accruing status when they become 90 days or more delinquent, and remain on non-accrual status until they are brought current, have at least six months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

At March 31, 2015, $135,000 or 26% of the non-accruing loan balance of $515,000 was current and being applied to principal.

There was one loan of $1.5 million that was past due ninety days or more and accruing interest at March 31, 2015. This is a residential mortgage loan which had been in non-accrual status from September 2012 until December 31, 2014. The customer has been making regular payments since September 2013, however, the loan is greater than 90 days past due because not all prior payments owed have not been brought current.

At December 31, 2014, there were five loans totaling $1.8 million which were past due ninety days or more and accruing interest. One loan of $1.6 million was the residential mortgage loan discussed above. The other four loans were mature lines of credit totaling $279,000, which were in the process of renewal. Three of these loans were renewed, and one paid off.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth the detail, and delinquency status, of non-accrual loans at December 31, 2014:

(in thousands)	**Non-Accrual Loans**					
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial						
Substandard	$ -	$ -	$ 2	$ 2	$ -	$ 2
Total Commercial	$ -	$ -	$ 2	$ 2	$ -	$ 2
Commercial Real Estate						
Substandard	$ -	$ -	$ -	$ -	$ 138	$ 138
Total Commercial Real Estate	$ -	$ -	$ -	$ -	$ 138	$ 138
Residential Real Estate						
Substandard	$ -	$ -	$ 719	$ 719	$ -	$ 719
Total Residential Real Estate	$ -	$ -	$ 719	$ 719	$ -	$ 719
Consumer						
Substandard	$ -	$ -	$ 7	$ 7	$ -	$ 7
Total Consumer	$ -	$ -	$ 7	$ 7	$ -	$ 7
Total	$ -	$ -	$ 728	$ 728	$ 138	$ 866

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at March 31, 2015.

(in thousands)	**Performing (Accruing) Loans**							
2015	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual Loans**	**Total Loans**
Commercial								
Pass	$40	$ -	$ -	$40	$46,732	$ 46,772	$ -	$46,772
Special Mention	-	-	-	-	113	113	-	113
Substandard	-	-	-	-	5,591	5,591	-	5,591
Total Commercial	$40	$ -	$ -	$40	$52,436	$ 52,476	$ -	$52,476
Commercial Real Estate								
Pass	$-	$ -	$ -	$-	$271,956	$ 271,956	$ -	$271,956
Special Mention	1,032	-	-	1,032	5,986	7,018	-	7,018
Substandard	-	-	-	-	2,278	2,278	135	2,413
Total Commercial Real Estate	$1,032	$ -	$ -	$1,032	$280,220	$ 281,252	$ 135	$281,387
Construction								
Pass	$-	$ -	$ -	$-	$7,024	$ 7,024	$ -	$7,024
Total Construction	$-	$ -	$ -	$-	$7,024	$ 7,024	$ -	$7,024
Construction to Permanent								
Pass	$-	$ -	$ -	$-	$9,988	$ 9,988	$ -	$9,988
Total Construction to Permanent	$-	$ -	$ -	$-	$9,988	$ 9,988	$ -	$9,988
Residential Real Estate								
Pass	$30	$ 178	$ 1,537	$1,745	$100,396	$ 102,141	$ -	$102,141
Substandard	-	-	-	-	-	-	380	380
Total Residential Real Estate	$30	$ 178	$ 1,537	$1,745	$100,396	$ 102,141	$ 380	$102,521
Consumer								
Pass	$4	$ 99	$ -	$103	$45,860	$ 45,963	$ -	$45,963
Total Consumer	$4	$ 99	$ -	$103	$45,860	$ 45,963	$ -	$45,963
Total								

Pass	$74	$ 277	$ 1,537	$1,888	$481,956	$ 483,844	$ -	$483,844
Special Mention	1,032	-	-	1,032	6,099	7,131	-	7,131
Substandard	-	-	-	-	7,869	7,869	515	8,384
Grand Total	**$1,106**	**$ 277**	**$ 1,537**	**$2,920**	**$495,924**	**$ 498,844**	**$ 515**	**$499,359**

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table sets forth the detail and delinquency status of loans receivable, by performing and non-performing loans at December 31, 2014.

(in thousands)	**Performing (Accruing) Loans**							
2014	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual Loans**	**Total Loans**
Commercial								
Pass	$1,520	$-	$279	$1,799	$46,279	$ 48,078	$ -	$48,078
Special Mention	-	-	-	-	121	121	-	121
Substandard	-	-	-	-	5,772	5,772	2	5,774
Total Commercial	$1,520	$-	$279	$1,799	$52,172	$ 53,971	$ 2	$53,973
Commercial Real Estate								
Pass	$-	$-	$-	$-	$248,132	$ 248,132	$ -	$248,132
Special Mention	1,041	-	-	1,041	2,887	3,928	-	3,928
Substandard	-	815	-	815	1,492	2,307	138	2,445
Total Commercial Real Estate	$1,041	$815	$-	$1,856	$252,511	$ 254,367	$ 138	$254,505
Construction								
Pass	$-	$-	$-	$-	$3,096	$ 3,096	$ -	$3,096
Total Construction	$-	$-	$-	$-	$3,096	$ 3,096	$ -	$3,096
Construction to Permanent								
Pass	$-	$-	$-	$-	$10,627	$ 10,627	$ -	$10,627
Total Construction to Permanent	$-	$-	$-	$-	$10,627	$ 10,627	$ -	$10,627
Residential Real Estate								
Pass	$172	$87	$1,553	$1,812	$106,012	$ 107,824	$ -	$107,824
Substandard	-	-	-	-	-	-	719	719
Total Residential Real Estate	$172	$87	$1,553	$1,812	$106,012	$ 107,824	$ 719	$108,543
Consumer								
Pass	$-	$2	$-	$2	$46,155	$ 46,157	$ -	$46,157
Substandard	-	-	-	-	-	-	7	7
Total Consumer	$-	$2	$-	$2	$46,155	$ 46,157	$ 7	$46,164

Total								
Pass	$1,692	$89	$1,832	$3,613	$460,301	$463,914	$ -	$463,914
Special Mention	1,041	-	-	1,041	3,008	4,049	-	4,049
Substandard	-	815	-	815	7,264	8,079	866	8,945
Grand Total	**$2,733**	**$904**	**$1,832**	**$5,469**	**$470,573**	**$476,042**	**$ 866**	**$476,908**

20

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Impaired loans consist of non-accrual loans, TDRs, and loans previously classified as TDRs that have been upgraded. The recorded investment of impaired loans at March 31, 2015 and December 31, 2014 was $12.2 million and $11.7 million, with related allowances of $0 and $7,000 respectively.

The following table summarizes impaired loans by loan portfolio class as of March 31, 2015

(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$ -	$ 101	$ -
Commercial Real Estate	8,272	9,113	-
Construction	-	287	-
Residential	3,406	3,433	-
Consumer	552	639	-
Total:	$ 12,230	$ 13,573	$ -
With an allowance recorded:			
Commercial	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Construction	-	-	-
Residential	-	-	-
Consumer	-	-	-
Total:	$ -	$ -	$ -
Commercial	$ -	$ 101	$ -
Commercial Real Estate	8,272	9,113	-
Construction	-	287	-
Residential	3,406	3,433	-
Consumer	552	639	-
Total:	$ 12,230	$ 13,573	$ -

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table summarizes impaired loans by loan portfolio class as of December 31, 2014

(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial	$ 2	$ 104	$ -
Commercial Real Estate	7,398	8,249	-
Construction	-	732	-
Residential	3,764	3,793	-
Consumer	553	633	-
Total:	$ 11,717	$ 13,511	$ -
With an allowance recorded:			
Commercial	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Construction	-	-	-
Residential	-	-	-
Consumer	7	7	7
Total:	$ 7	$ 7	$ 7
Commercial	$ 2	$ 104	$ -
Commercial Real Estate	7,398	8,249	-
Construction	-	732	-
Residential	3,764	3,793	-
Consumer	560	640	7
Total:	$ 11,724	$ 13,518	$ 7

Included in the tables above at March 31, 2015 and December 31, 2014 are loans with carrying balances of $12.2 million and $11.7 million that required no specific reserves in our allowance for loan losses. Loans that did not require specific reserves have sufficient collateral values, less costs to sell, supporting the carrying balances of the loans. In some cases, there may be no specific reserves because the Company already charged-off the specific impairment. Once a borrower is in default, the Company is under no obligation to advance additional funds on unused commitments.

On a case-by-case basis, the Company may agree to modify the contractual terms of a borrower’s loan to assist customers who may be experiencing financial difficulty. If the borrower is experiencing financial difficulties and a concession has been made, the loan is classified as a troubled debt restructured loan.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table summarizes additional information regarding impaired loans for three months ended March 31, 2015 and 2014.

	Three Months Ended March 31			
	2015		2014	
(in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Commercial	$1	$ -	$2	86
Commercial Real Estate	8,296	95	7,941	72
Construction	-	-	-	-
Construction to Permanent	-	-	788	-
Residential	3,525	32	4,821	32
Consumer	552	4	588	9
Total:	$12,374	$ 131	$14,140	$ 199
With an allowance recorded:				
Commercial	$-	$ -	$6,078	$ -
Commercial Real Estate	-	-	158	-
Construction	-	-	260	-
Residential	-	-	662	-
Consumer	2	-	2	-
Total:	$2	$ -	$7,160	
Commercial	$1	$ -	$6,080	$ 86
Commercial Real Estate	8,296	95	8,099	72
Construction	-	-	260	-
Residential	3,525	32	5,483	32
Consumer	554	4	590	9
Total:	$12,376	$ 131	$21,300	$ 199

No loans were modified in troubled debt restructurings during the three months ended March 31, 2015.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Substantially all of our troubled debt restructured loan modifications involve lowering the monthly payments on such loans through either a reduction in interest rate below market rate, an extension of the term of the loan, or a combination of these two methods. These modifications rarely result in the forgiveness of principal or accrued interest. In addition, we frequently obtain additional collateral or guarantor support when modifying commercial loans. If the borrower had demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible. All troubled debt restructurings are classified as impaired loans, which are individually evaluated for impairment.

Note 4: Deposits

The following table is a summary of the Company’s deposits at:

(in thousands)	March 31, 2015		December 31, 2014	
Non-interest bearing	$	70,331	$	63,398
Interest bearing				
NOW		26,673		26,269
Savings		96,846		93,790
Money market		23,824		24,650
Time certificates, less than $100,000		99,691		106,340
Time certificates, $100,000 or more		91,533		97,876
Brokered Deposits		48,209		30,710
Total interest bearing		386,776		379,635
Total Deposits	$	457,107	$	443,033

Note 5: Share-Based Compensation

The Company maintains the Patriot National Bancorp, Inc. 2012 Stock Plan to provide an incentive to directors and employees of the Company by the grant of options, restricted stock awards or phantom stock units. The Plan provides for the issuance of up to 3,000,000 shares of the Company’s common stock subject to certain Plan limitations. As of March 31, 2015, 2,878,805 shares of stock remain available for issuance under the Plan. The vesting of restricted stock awards and options may be accelerated in accordance with terms of the plan. The Compensation Committee shall determine the vesting of restricted stock awards and stock options. Restricted stock grants are available to directors and employees and generally vest in annual installments over a three, four or five year period from the date of grant. The Company is expensing the grant date fair value of all share-based compensation over the requisite vesting periods on a prorated straight-line basis.

During the three months ended March 31, 2015 and March 31, 2014, the Company recorded $114,000 and $59,000 of total stock-based compensation, respectively. During the three months ended March 31, 2015, there were 2,940 shares granted under the 2012 Stock Plan.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following is a summary of the status of the Company's restricted shares as of March 31, 2015, and changes therein during the period then ended.

	Number of Shares Awarded (1)	Weighted Average Grant Date Fair Value (1)
Non-vested at December 31, 2014	79,208	$ 12.79
Granted	2,940	17.00
Vested	(225)	17.25
Non-vested at March 31, 2015	81,923	$ 12.93

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.

Expected future stock award expense related to the non-vested restricted awards as of March 31, 2015, is $988,000 over an average period of 2.66 years.

The Company had no outstanding stock options at March 31, 2015.

Note 6: Income Taxes

For the three month period ended March 31, 2015, the bank recorded income tax expense of approximately $201,000. This compares to no income tax benefit or expense for the three month period ended March 31, 2014. Bancorp began to recognize income tax expense in the quarter ended December 31, 2014 after the reversal of $16.8 million of its deferred tax asset valuation allowance in the third quarter of 2014.

Deferred tax assets decreased $0.3 million from $14.9 million at December 31, 2014 to $14.6 million at March 31, 2015. This decrease was primarily due to deferred taxes being applied to the tax liability on current year taxable income, in addition to a reduction due to unrealized security gains.

The Bank will continue to evaluate its ability to realize its net deferred tax asset. If future evidence suggests that it is more likely than not that a portion of the deferred tax asset will not be realized, the valuation allowance may be increased.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 7: Income per share

The Company is required to present basic income (loss) per share and diluted income (loss) per share in its consolidated statements of operations. Basic income (loss) per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted income (loss) per share reflects additional common shares that would have been outstanding if potentially dilutive common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and would be determined using the treasury stock method. The Company is also required to provide a reconciliation of the numerator and denominator used in the computation of both basic and diluted income (loss) per share.

Non-vested restricted stock awards did not have an impact on the diluted earnings per share and the Company had no outstanding stock options. The following is information about the computation of income per share for the three months ended March 31, 2015 and 2014:

Three months ended March 31, 2015	**Net Income**	**Weighted Average Common Shares Outstanding (1)**	**Amount (1)**
Basic Earnings Per Share	$289,000	3,871,849	$ 0.07
Effect of Dilutive Securities			
Non-vested Restricted Stock Grants	N/A	81,923	N/A
Diluted Earnings Per Share	$289,000	3,953,772	$ 0.07

Three months ended March 31, 2014	Net Income	Weighted Average Common Shares Outstanding (1)	Amount (1)
Basic Earnings Per Share	$319,000	3,849,318	$ 0.08
Effect of Dilutive Securities			
Non-vested Restricted Stock Grants	N/A	62,488	N/A
Diluted Earnings Per Share	$319,000	3,911,806	$ 0.08

(1) All common stock data has been restated for a 1-for-10 reverse stock split which took effect on March 4, 2015.