PATRIOT NATIONAL BANCORP INC
Form 10-Q
May 16, 2016

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, 2016

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, 3,956,207 shares outstanding as of the close of business May 13, 2016.

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PART I- FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2016	December 31, 2015
	(in thousands, except shares and per share amounts)	
ASSETS		
Cash and due from banks:		
Noninterest bearing deposits and cash	$2,931	$2,588
Interest bearing deposits	64,075	82,812
Total cash and cash equivalents	67,006	85,400
Securities:		
Available for sale securities, at fair value (Note 2)	28,735	29,377
Other Investments	4,450	4,450
Federal Reserve Bank stock, at cost	2,099	2,075
Federal Home Loan Bank stock, at cost	6,570	6,570
Total securities	41,854	42,472
Loans receivable (net of allowance for loan losses: 2016: $5,247 2015: $5,242) (Note 3)	479,936	479,127
Accrued interest and dividends receivable	2,075	2,010
Premises and equipment, net	29,790	29,421
Deferred tax asset (Note 6)	13,354	13,763
Other assets	1,740	1,338
Total assets	$635,755	$653,531
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (Note 4):		
Noninterest bearing deposits	$79,483	$85,065
Interest bearing deposits	346,154	361,982
Total deposits	425,637	447,047
Federal Home Loan Bank borrowings (Note 8)	134,900	132,000
Junior subordinated debt owed to unconsolidated trust (Note 8)	8,248	8,248
Note Payable (Note 8)	1,893	1,939
Accrued expenses and other liabilities	2,771	2,833
Total liabilities	573,449	592,067
Shareholders' equity (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; 2016: 3,957,377 shares issued; 3,956,207 shares outstanding. 2015 : 3,957,377 shares issued; 3,956,207 shares outstanding	40	40
Additional paid-in capital	106,722	106,568
Accumulated deficit	(44,179)	(44,832)
Less: Treasury stock, at cost: 2016 and 2015, 1,170 shares	(160)	(160)
Accumulated other comprehensive loss	(117)	(152)
Total shareholders' equity	62,306	61,464
Total liabilities and shareholders' equity	$635,755	$653,531

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share amounts)	
Interest and Dividend Income		
Interest and fees on loans	$5,840	$5,546
Interest on investment securities	142	116
Dividends on investment securities	86	57
Other interest income	41	29
Total interest and dividend income	**6,109**	**5,748**
Interest Expense		
Interest on deposits	473	529
Interest on Federal Home Loan Bank borrowings	121	71
Interest on subordinated debt	82	71
Interest on other borrowings	8	-
Total interest expense	**684**	**671**
Net interest income	**5,425**	**5,077**
Provision for Loan Losses	-	250
Net interest income after provision for loan losses	**5,425**	**4,827**
Non-Interest Income		
Loan application, inspection & processing fees	67	50
Fees and service charges	151	174
Rental Income	103	88
Other income	89	82
Total non-interest income	**410**	**394**
Non-Interest Expense		
Salaries and benefits	2,550	2,344
Occupancy and equipment expense	780	955
Data processing expense	285	250
Advertising and promotional expenses	117	50
Professional and other outside services	409	569
Loan administration and processing expenses	8	22
Regulatory assessments	147	154
Insurance expense	55	81
Material and communications	93	81
Other operating expenses	320	225

Total non-interest expense	**4,764**	**4,731**
Income before income taxes	**1,071**	**490**
Expense for income taxes	418	201
Net income	**$653**	**$289**
Basic income per share	$0.17	$0.07
Diluted income per share	$0.16	$0.07

See Accompanying Notes to Consolidated Financial Statements.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
	(in thousands)	
Net income	$653	$289
Other comprehensive income :		
Unrealized holding gains on securities, net of taxes of $21 and $104 respectively:	35	163
Total Other comprehensive income	35	163
Total comprehensive income	**$688**	**$452**

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

(in thousands, except shares)	Number of Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Three months ended March 31, 2016							
Balance at December 31, 2015	3,956,207	$ 40	$ 106,568	$ (44,832)	$ (160)	$ (152)	$ 61,464
Net income	-	-	-	653	-	-	653
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	35	35
Total comprehensive income		-	-	-	-	-	688
Share-based compensation expense	-	-	154	-	-	-	154
Issuance of restricted stock	-	-	-	-	-	-	-
Balance, March 31, 2016	3,956,207	$ 40	$ 106,722	$ (44,179)	$ (160)	$ (117)	$ 62,306
Three months ended March 31, 2015							
Balance at December 31, 2014	3,924,192	$ 39	$ 106,108	$ (46,975)	$ (160)	$ (277)	$ 58,735
Net Income	-	-	-	289	-	-	289
Unrealized holding gain on available for sale securities, net of taxes	-	-	-	-	-	163	163
Total comprehensive income		-	-	-	-		452
Share-based compensation expense	-	-	114	-	-	-	114
Issuance of restricted stock	2,940	-	-	-	-	-	-
Balance, March 31, 2015	3,927,132	$ 39	$ 106,222	$ (46,686)	$ (160)	$ (114)	$ 59,301

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31, 2016				
				2015	
	(in thousands)				
Cash Flows from Operating Activities:					
Net income	$	653		$	289
Adjustments to reconcile net income to net cash provided by operating activities:					
Amortization of investment premiums		32			58
Amortization and accretion of purchase loan premiums and discounts, net		28			127
Provision for loan losses		-			250
Depreciation and amortization		299			246
Share-based compensation		154			114
Deferred income taxes		387			201
Changes in assets and liabilities:					
(Increase) decrease in net deferred loan costs		(10	)		139
Increase in accrued interest and dividends receivable		(65	)		(56)
Increase in other assets		(402	)		(132)
Decrease in accrued expenses and other liabilities		(62	)		(158)

Net cash provided by operating activities		**1,014**		**1,078**
Cash Flows from Investing Activities:				
Principal repayments on available for sale securities		666		1,153
(Purchases) redemptions of Federal Reserve Bank stock		(24)		38
Increase in loans		(827)		(22,698)
Purchase of bank premises and equipment, net		(667)		(945)
Net cash used in investing activities		**(852)**		**(22,452)**
Cash Flows from Financing Activities:				
Net (decrease) increase in deposits		(21,410)		14,074
Increase in FHLB borrowings		2,900		-
Repayment of Note Payable		(46)		-
Net cash used in financing activities		**(18,556)**		**14,074**
Net decrease in cash and cash equivalents		**(18,394)**		**(7,300)**
Cash and Cash Equivalents:				
Beginning		85,400		73,258
Ending	$	67,006	$	65,958
Supplemental Disclosures of Cash Flow Information				
Interest paid	$	630	$	586
Income taxes paid	$	-	$	3

See Accompanying Notes to Consolidated Financial Statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Financial Statement Presentation

The Consolidated Balance Sheet at December 31, 2015 has been derived from the audited financial statements of Patriot National Bancorp, Inc. (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.

Effective March 31, 2016 the Company has reclassified loans secured by 1-4 Family Non-owner occupied real estate to “Residential” from the “Commercial and Industrial” classification. Amounts presented for prior periods have been reclassified for consistency with the current period. See Note 3: Loans Receivable and Allowance for Loan Losses for additional information.

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 the Company and notes thereto for the year ended December 31, 2015.

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, 2016 are not necessarily indicative of the results of operations that may be expected for the remainder of 2016.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 2: Investment Securities

The amortized cost, gross unrealized gains and losses and approximate fair values of available-for-sale securities at March 31, 2016 and December 31, 2015 are as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016:				
U.S. Government agency bonds	$ 5,000	$ -	$ (11)	$4,989
U. S. Government agency mortgage-backed securities	12,927	-	(78)	12,849
Corporate bonds	9,000	-	(103)	8,897
Subordinated Notes	2,000	-	-	2,000
	$ 28,927	$ -	$ (192)	$28,735
December 31, 2015:				
U. S. Government agency bonds	$ 5,000	$ -	$ (46)	$4,954
U. S. Government agency mortgage-backed securities	13,625	-	(212)	13,413
Corporate bonds	9,000	71	(61)	9,010
Subordinated Notes	2,000	-	-	2,000
	$ 29,625	$ 71	$ (319)	$29,377

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table presents the gross unrealized loss and fair value of the Company's available-for-sale securities, aggregated by the length of time the individual securities have been in a continuous loss position, at March 31, 2016 and December 31, 2015:

	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, 2016:						
U.S. Government agency bonds	$4,989	$ (11)	$-	$ -	$4,989	$ (11)
U. S. Government agency mortgage - backed securities	2,698	(7)	10,151	(71)	12,849	(78)
Corporate bonds	-	-	8,897	(103)	8,897	(103)
Totals	$7,687	$ (18)	$19,048	$ (174)	$26,735	$ (192)
December 31, 2015:						
U. S. Government agency bonds	$4,954	$ (46)	$-	$ -	$4,954	$ (46)
U. S. Government agency mortgage - backed securities	2,863	(42)	10,550	(170)	13,413	(212)
Corporate bonds	-	-	5,939	(61)	5,939	(61)
Totals	$7,817	$ (88)	$16,489	$ (231)	$24,306	$ (319)

At March 31, 2016, ten of eleven available-for-sale securities had unrealized losses of 0.7% from the total amortized cost. At December 31, 2015, ten out of eleven available-for-sale securities had unrealized losses of 1.3% from the total amortized cost.

The Company 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 will not 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, 2016.

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, 2016 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. The actual maturities will also differ from contractual maturities because issuers of certain securities retain early call or prepayment rights.

(in thousands)

	Amortized Cost	Fair Value
Maturity:		
Due after five years through ten years	$ 16,000	$ 15,886
U.S. Government agency mortgage-backed securities	12,927	12,849
Total	$ 28,927	$ 28,735

At March 31, 2016 and December 31, 2015, securities of $5.2 million and $5.5 million respectively, were pledged with the Federal Reserve Bank of New York primarily to secure municipal deposits.

There were no sales of available-for-sale securities in either the three months ended March 31, 2016 or the three months ended March 31, 2015.

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, 2016 and December 31, 2015 is as follows:

(in thousands)	March 31, 2016	December 31, 2015
Commercial and Industrial	$61,027	$59,752
Commercial Real Estate	243,823	245,828
Construction	21,748	15,551
Construction to permanent- CRE	3,638	4,880
Residential	108,111	110,837
Consumer/Other	46,836	47,521
Total Loans	485,183	484,369
Allowance for loan losses	(5,247)	(5,242)
Loans receivable, net	$479,936	$479,127

Amounts presented for December 31, 2015 include $28.2 million of loans secured by 1-4 Family Non-owner Occupied real estate in the Residential category, reclassified from commercial and Industrial for consistency with the March 31, 2016 presentation.

The Company's lending activities are conducted principally in Fairfield and New Haven Counties in Connecticut and Westchester County in New York, and the five Boroughs of New York City. The Company originates commercial real estate loans, commercial business 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.

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

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, where obtained, as a secondary source. Payments on such loans are often dependent upon the successful operation of the underlying business involved. 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 markets for the borrower’s products or services.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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 the borrower default or 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.

Construction Loans – Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. Included in this category are loans to construct single family homes where no contract of sale exists. These loans are based upon the experience and the financial strength of the builder, the type and location of the property and other factors. 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 decline in general economic conditions.

Construction to Perm-CRE – One time close of a construction facility converting to an amortizing mortgage loan typically upon an event which would include a certificate of occupancy as well as stabilization defined as cash flow sufficient to support a pre-defined minimum debt coverage ratio as well as other conditions and covenants particular to the loan type. The construction facility would typically carry a floating rate then upon conversion to amortization will reset at a predetermined spread over FHLB with a minimum interest rate.

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 decline in general economic conditions.

Consumer/ Other Loans – The Company also offers installment loans, credit cards, consumer overdraft and reserve 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 and ended March 31, 2016. 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, 2016	**Commercial and Industrial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer/ Other**	**Unallocated**	**Total**
Allowance for loan losses:								
Beginning Balance	$ 1,027	$ 1,970	$ 486	$ 123	$ 740	$ 677	$ 219	$ 5,242
Charge-offs	-	-	-	-	(5)	-	-	(5)
Recoveries	9	-	-	-	-	1	-	10
Provision	47	(27)	164	(2)	(111)	(69)	(2)	-
Ending Balance	$ 1,083	$ 1,943	$ 650	$ 121	$ 624	$ 609	$ 217	$ 5,247
Ending balance: individually evaluated for impairment	$ 737	$ -	$ -	$ -	$ -	$ 2	$ -	$ 739
Ending balance: collectively evaluated for impairment	346	1,943	650	121	624	607	217	4,508
Total Allowance for Loan Losses	$ 1,083	$ 1,943	$ 650	$ 121	$ 624	$ 609	$ 217	$ 5,247
March 31, 2016								
Total Loans ending balance	$ 61,027	$ 243,823	$ 21,748	$ 3,638	$ 108,111	$ 46,836	$ -	$ 485,183
Ending balance: individually evaluated for impairment	$ 2,977	$ 8,521	$ -	$ -	$ 4,535	$ 548	$ -	$ 16,581
Ending balance: collectively evaluated for	$ 58,050	$ 235,302	$ 21,748	$ 3,638	$ 103,576	$ 46,288	$ -	$ 468,602

impairment

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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 and 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 and Industrial**	**Commercial Real Estate**	**Construction**	**Construction to Permanent**	**Residential**	**Consumer/ Other**	**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
December 31, 2015								
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ 3
Ending balance: collectively evaluated for impairment	1,027	1,970	486	123	740	674	219	5,239
Total Allowance for Loan Losses	$ 1,027	$ 1,970	$ 486	$ 123	$ 740	$ 677	$ 219	$ 5,242
Total Loans ending balance	$ 59,752	$ 245,828	$ 15,551	$ 4,880	$ 110,837	$ 47,521	$ -	$ 484,369
Ending balance: individually evaluated for impairment	-	7,745	-	-	4,556	550	-	12,851
Ending balance: collectively evaluated for impairment	$ 59,752	$ 238,083	$ 15,551	$ 4,880	$ 106,281	$ 46,971	$ -	$ 471,518

December 31, 2015 loan classifications have been revised to be consistent with the March 31, 2016 categorizations.

The Company monitors the credit quality of its loans receivable in an ongoing manner. Credit quality is monitored by reviewing certain credit quality indicators, including loan to value ratios, debt service coverage ratios and credit scores.

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 Loan Committee to which the loan is submitted for approval. When the lender learns of important financial developments, the risk rating is reviewed accordingly, and adjusted if necessary. Similarly, the Loan Committee can adjust a risk rating. The Company employs a loan officer whose responsibility is to independently review the ratings annually for all commercial credits over $250,000.

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

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

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 $5.4 million at March 31, 2016 and $1.6 million at December 31, 2015. If non-accrual loans had been performing in accordance with their contractual terms, the Company would have recorded approximately $139,000 of additional income during the quarter ended March 31, 2016 and $4,000 during the quarter ended March 31, 2015.

The following table sets forth the detail, and delinquency status, of non-accrual loans at March 31, 2016 :

(in thousands)	**Non-Accrual Loans**					
2016	**31-60 Days Past Due**	**61-90 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial & Industrial						
Pass	$ -	$ -	$ -	$ -	$ -	$ -
Substandard	-	-	2,977	2,977	-	2,977
Total Commercial & Industrial	$ -	$ -	$ 2,977	$ 2,977	$ -	$ 2,977
Commercial Real Estate						
Substandard	$ -	$ -	$ 840	$ 840	$ -	$ 840
Total Commercial Real Estate	$ -	$ -	$ 840	$ 840	$ -	$ 840
Residential Real Estate						
Substandard	$ -	$ -	$ 1,590	$ 1,590	$ -	$ 1,590
Total Residential Real Estate	$ -	$ -	$ 1,590	$ 1,590	$ -	$ 1,590
Consumer						
Substandard	$ -	$ -	$ 2	$ 2	$ -	$ 2
Total Consumer	$ -	$ -	$ 2	$ 2	$ -	$ 2
Total	$ -	$ -	$ 5,409	$ 5,409	$ -	$ 5,409

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, 2016, 5 loans were on non-accrual status totaling $5.4 million, representing 4 relationships. For these 5 loans a specific reserve of $739,000 has been established.

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 and past due loans at December 31, 2015:

(in thousands)	**Non-Accrual Loans**					
2015	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or More past due**	**Total Past Due**	**Current**	**Total Non-Accrual Loans**
Commercial & Industrial						
Pass	$ -	$ -	$ -	$ -	$ -	$ -
Substandard	-	-	-	-	-	-
Total Commercial & Industrial	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate						
Substandard	$ -	$ -	$ -	$ -	$ -	$ -
Total Commercial Real Estate	$ -	$ -	$ -	$ -	$ -	$ -
Residential Real Estate						
Substandard	$ -	$ -	$ 1,590	$ 1,590	$ -	$ 1,590
Total Residential Real Estate	$ -	$ -	$ 1,590	$ 1,590	$ -	$ 1,590
Consumer/ Other						
Substandard	$ -	$ -	$ 3	$ 3	$ -	$ 3
Total Consumer / Other	$ -	$ -	$ 3	$ 3	$ -	$ 3
Total	$ -	$ -	$ 1,593	$ 1,593	$ -	$ 1,593

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, 2016.

(in thousands)	**Performing (Accruing) Loans**							
2016	**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 & Industrial								
Pass	$ -	$ -	$ -	$ -	$ 58,045	$ 58,045	$ -	$ 58,045
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	5	5	2,977	2,982
Total Commercial & Industrial	$ -	$ -	$ -	$ -	$ 58,050	$ 58,050	$ 2,977	$ 61,027
Commercial Real Estate								
Pass	$ 5,750	$ -	$ -	$ 5,750	$ 230,306	$ 236,056	$ -	$ 236,056
Special Mention	-	624	-	624	4,658	5,282	-	5,282
Substandard	-	-	-	-	1,645	1,645	840	2,485
Total Commercial Real Estate	$ 5,750	$ 624	$ -	$ 6,374	$ 236,609	$ 242,983	$ 840	$ 243,823
Construction								
Pass	$ -	$ -	$ -	$ -	$ 21,748	$ 21,748	$ -	$ 21,748
Total Construction	$ -	$ -	$ -	$ -	$ 21,748	$ 21,748	$ -	$ 21,748
Construction to Permanent								
Pass	$ -	$ -	$ -	$ -	$ 3,638	$ 3,638	$ -	$ 3,638
Total Construction to Permanent	$ -	$ -	$ -	$ -	$ 3,638	$ 3,638	$ -	$ 3,638
Residential Real Estate								
Pass	$ -	$ -	$ -	$ -	$ 106,521	$ 106,521	$ -	$ 106,521
Substandard	-	-	-	-	-	-	1,590	1,590
Total Residential Real Estate	$ -	$ -	$ -	$ -	$ 106,521	$ 106,521	$ 1,590	$ 108,111
Consumer/ Other								
Pass	$ 3	$ -	$ -	$ 3	$ 46,831	$ 46,834	$ 2	$ 46,836
	$ 3	$ -	$ -	$ 3	$ 46,831	$ 46,834	$ 2	$ 46,836

Total Consumer/ Other								
Total								
Pass	$ 5,753	$ -	$ -	$ 5,753	$ 467,089	$ 472,842	$ 2	$ 472,844
Special Mention	-	624	-	624	4,658	5,282	-	5,282
Substandard	-	-	-	-	1,650	1,650	5,409	7,059
Grand Total	**$ 5,753**	**$ 624**	**$ -**	**$ 6,377**	**$ 473,397**	**$ 479,774**	**$ 5,409**	**$ 485,183**

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, 2015.

(in thousands)	**Performing (Accruing) Loans**							
2015	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or More past due**	**Total Past Due**	**Current**	**Total Performing Loans**	**Total Non-Accrual Loans**	**Total Loans**
Commercial & Industrial								
Pass	$43	$605	$520	$1,168	$55,600	$ 56,768	$ -	$56,768
Special Mention	-	-	-	-	-	-	-	-
Substandard	2,977	-	-	2,977	7	2,984	-	2,984
Total Commercial & Industrial	$3,020	$605	$520	$4,145	$55,607	$ 59,752	$ -	$59,752
Commercial Real Estate								
Pass	$-	$-	$-	$-	$237,996	$ 237,996	$ -	$237,996
Special Mention	-	-	-	-	5,322	5,322	-	5,322
Substandard	840	-	-	840	1,670	2,510	-	2,510
Total Commercial Real Estate	$840	$-	$-	$840	$244,988	$ 245,828	$ -	$245,828
Construction								
Pass	$-	$-	$-	$-	$15,551	$ 15,551	$ -	$15,551
Total Construction	$-	$-	$-	$-	$15,551	$ 15,551	$ -	$15,551
Construction to Permanent								
Pass	$-	$-	$-	$-	$4,880	$ 4,880	$ -	$4,880
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Construction to Permanent	$-	$-	$-	$-	$4,880	$ 4,880	$ -	$4,880
Residential Real Estate								
Pass	$154	$87	$1,517	$1,758	$107,489	$ 109,247	$ -	$109,247
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	1,590	1,590
Total Residential Real Estate	$154	$87	$1,517	$1,758	$107,489	$ 109,247	$ 1,590	$110,837
Consumer/ Other								
Pass	$309	$2	$9	$320	$47,198	$ 47,518	$ -	$47,518
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	3	3
Total Consumer/ Other	$309	$2	$9	$320	$47,198	$ 47,518	$ 3	$47,521

Total								
Pass	$506	$694	$2,046	$3,246	$468,714	$ 471,960	-	$471,960
Special Mention	-	-	-	-	5,322	5,322	-	5,322
Substandard	3,817	-	-	3,817	1,677	5,494	1,593	7,087
Grand Total	**$4,323**	**$694**	**$2,046**	**$7,063**	**$475,713**	**$ 482,776**	**$ 1,593**	**$484,369**

December 31, 2015 loan balances have been reclassified to be consistent with the March 31, 2016 presentation, (See Note 3.)

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Impaired Loans

Impaired loans consist of non-accrual loans, TDRs, and loans previously classified as TDRs that have been upgraded. The Company's most recent impairment analysis resulted in identification of $16.6 million of impaired loans, for which specific reserves of $739,000 were required at March 31, 2016, compared to $12.9 million of impaired loans at December 31, 2015, for which specific reserves of $3,000 were required. 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.

Troubled Debt Restructurings

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.

For the three months ended March 31, 2016 and 2015, there were no loans modified as a "troubled debt restructuring". At March 31, 2016 and December 31, 2015, there were no commitments to advance additional funds under troubled debt restructured loans.

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.

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PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table summarizes impaired loans by loan portfolio class as of March 31, 2016:

(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial & Industrial	$ -	$ 96	$ -
Commercial Real Estate	8,521	9,027	-
Construction	-	287	-
Residential	4,535	5,538	-
Consumer/ Other	546	632	-
Other	-	-	-
Total:	$ 13,602	$ 15,580	$ -
With an allowance recorded:			
Commercial & Industrial	$ 2,977	$ 2,977	$ 737
Commercial Real Estate	-	-	-
Construction	-	-	-
Residential	-	-	-
Consumer/ Other	2	2	2
Total:	$ 2,979	$ 2,979	$ 739
Commercial & Industrial	$ 2,977	$ 3,073	$ 737
Commercial Real Estate	8,521	9,027	-
Construction	-	287	-
Residential	4,535	5,538	-
Consumer/ Other	548	634	2
Total:	$ 16,581	$ 18,559	$ 739

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, 2015:

(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial & Industrial	$ -	$ 96	$ -
Commercial Real Estate	7,745	8,259	-
Construction	-	287	-
Construction to Permanent	-	-	-
Residential	4,556	5,559	-
Consumer/ Other	547	633	-
Total:	$ 12,848	$ 14,834	$ -
With an allowance recorded:			
Consumer	3	3	3
Total:	$ 3	$ 3	$ 3
Commercial & Industrial	$ -	$ 96	$ -
Commercial Real Estate	7,745	8,259	-
Construction	-	287	-
Residential	4,556	5,559	-
Consumer/ Other	550	636	3
Total:	$ 12,851	$ 14,837	$ 3

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following tables summarize additional information regarding impaired loans for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31			
	2016		2015	
(in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Commercial & Industrial	$ -	$ -	$ 1	$ -
Commercial Real Estate	7,270	91	8,296	95
Residential	4,542	31	3,525	32
Consumer/ Other	546	5	552	4
Total:	$ 12,358	$ 127	$ 12,374	$ 131
With an allowance recorded:				
Commercial & Industrial	$ 2,977	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-
Residential	-	-	-	-
Consumer/ Other	2	-	2	-
Total:	$ 2,979	$ -	$ 2	$ -
Commercial & Industrial	$ 2,977	$ -	$ 1	$ -
Commercial Real Estate	7,270	91	8,296	95
Residential	4,542	31	3,525	32
Consumer/ Other	548	5	554	4
Total:	$ 15,337	$ 127	$ 12,376	$ 131

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 4: Deposits

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

(in thousands)	March 31, 2016	December 31, 2015
Non-interest bearing	$79,483	$85,065
Interest bearing		
NOW	28,913	28,684
Savings	120,051	108,658
Money market	19,007	19,522
Time certificates, less than $250,000	128,490	139,455
Time certificates, $250,000 or more	16,520	17,509
Brokered Deposits	33,173	48,154
Total interest bearing	346,154	361,982
Total Deposits	$425,637	$447,047

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 granting 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, 2016, 2,815,000 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, 2016 and March 31, 2015, the Company recorded $154,000 and $114,000 of total stock-based compensation, respectively. During the three months ended March 31, 2016, the Company issued 5,884 shares of restricted stock to directors and 52,200 shares of restricted stock to employees 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, 2016, and changes therein during the period then ended.

	Number of Shares Awarded	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015	55,854	$ 12.83
Granted	58,084	15.25
Non-vested at March 31, 2016	113,938	$ 14.06

Expected future stock award expense related to the non-vested restricted awards as of March 31, 2016, is $1.5 million over an average period of 2.71 years.

The Company had no outstanding stock options at March 31, 2016.

Note 6: Income Taxes

For the three months ended March 31, 2016, the Company recorded income tax expense of $418,000. This compares to income tax expense of $201,000 for the three month ended March 31, 2015. The Company began to recognize income tax expense in the quarter ended December 31, 2014 after the reversal of its deferred tax asset valuation allowance. In the third quarter of fiscal year 2014, the Company released 96.7% of its valuation allowance previously recorded on its net deferred tax assets which resulted in a $16.8 million credit to income tax expense, partially offset by the current income tax expense for the year.

Deferred tax assets decreased $ $408,000 from $13.8 million at December 31, 2015 to $13.4 million at March 31, 2016. This decrease was due to deferred taxes being applied to the tax liability on current year taxable income.

The Company 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 per share and diluted income per share in its consolidated statements of operations. Basic income per share amounts are computed by dividing net income by the weighted average number of common shares outstanding. Diluted income 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 restricted stocks 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 per share.

The Company had no outstanding stock options in 2016 and 2015. The following is information about the computation of income per share for the three months ended March 31, 2016 and 2015:

Three months ended March 31, 2016	**Net Income**	**Weighted Average Common Shares Outstanding**	**Amount**
Basic Earnings Per Share	$653,000	3,956,207	$ 0.17
Effect of Dilutive Securities Non-vested Restricted Stock Grants	N/A	32,479	N/A
Diluted Earnings Per Share	$653,000	3,988,686	$ 0.16

Three months ended March 31, 2015	Net Income	Weighted Average Common Shares	Amount

		Outstanding	
Basic Earnings Per Share	$289,000	3,871,849	$ 0.07
Effect of Dilutive Securities			
Non-vested Restricted Stock Grants	N/A	17,895	N/A
Diluted Earnings Per Share	$289,000	3,889,744	$ 0.07

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 8: Borrowings

Federal Home Loan Bank borrowings

The Company is a member of the Federal Home Loan Bank of Boston ("FHLB"). The Company has the ability to borrow from the FHLB based on a certain percentage of the value of the Company's qualified collateral, as defined in the FHLB Statement of Products Policy, comprised mainly of mortgage-backed securities and loans segregated as collateral for the FHLB.

At March 31, 2016 and December 31, 2015, outstanding advances from the FHLB aggregated $134.9 million and $132.0 million respectively. The advances outstanding at March 31, 2016 had maturities ranging from six days to fifty-nine months with rates ranging from 2 basis points to 47 basis points. The FHLB borrowings collateral is a mixture of real estate loans and securities with a book value of $213.2 million.

Junior subordinated debt owed to unconsolidated trust

The subordinated debentures of $8.2 million are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. These obligations qualify as Tier 1 capital. The subordinated debentures, which bear interest at three-month LIBOR plus 3.15% (3.78% at March 31, 2016), mature on March 26, 2033. Beginning in the second quarter of 2009, the Company deferred quarterly interest payments on the subordinated debentures for 20 consecutive quarters as permitted under the terms of the debentures. Interest is still being accrued and charged to operations. The Company made a payment of approximately $1.6 million in June 2014, and brought the debt current as of that date. Interest payments have subsequently been deferred at the Company's option, however, interest expense continued to be recorded. At March 31, 2016 interest owed for the subordinated debt was $510,000.

Note Payable

In September 2015, the Company executed a $2.0 million Note Payable for the purchase of its Fairfield, CT branch, which had formerly been leased by the Company. The note has a ten-year term and bears interest at a fixed rate of 1.75%. The Company makes interest and principal payments monthly. The note is secured by a first Mortgage Deed and Security Agreement on the property purchased.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 9: Other Comprehensive Income

Other comprehensive income, which is comprised solely of the change in unrealized gains and losses on available-for-sale securities, is as follows:

(in thousands)	Three Months Ended March 31, 2016		
	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gains arising during the period	$56	$ (21)	$ 35

	Three Months Ended March 31, 2015		
	Before Tax Amount	Tax Effect	Net of Tax Amount
Unrealized holding gains arising during the period	$267	$(104)	$ 163

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 10: Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet. The contractual amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The contractual amount of commitments to extend credit and standby letters of credit represent the total amount of potential accounting loss should: the contracts be fully drawn upon; the customers default; and the value of any existing collateral becomes worthless. The Company uses the same credit policies in approving commitments and conditional obligations as it does for on-balance-sheet instruments and evaluates each customer's creditworthiness on a case-by-case basis. Management believes that the Company controls the credit risk of these financial instruments through credit approvals, credit limits, monitoring procedures and the receipt of collateral as deemed necessary.

Financial instruments whose contractual amounts represent credit risk at March 31, 2016 are as follows:

Commitments to extend credit:	*(in thousands)*
Future loan commitments	$ 11,758
Home equity lines of credit	25,671
Unused lines of credit	20,880
Undisbursed construction loans	26,845
Financial standby letters of credit	1,882
	$ 87,036

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 to extend credit generally have fixed expiration dates, or other termination clauses, and may require payment of a fee by the borrower. Since these commitments could expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include residential and commercial property, deposits and securities. The Company has established a reserve of $5,000 as of March 31, 2016 for these commitments which are included in accrued expenses and other liabilities.

Standby letters of credit are written commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Guarantees that are not derivative contracts are recorded on the Company’s consolidated balance sheet at their fair value at inception. Any instruments deemed to be derivatives would be accounted for as a fair value or cash flow hedge as appropriate.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 11: Regulatory and Operational Matters

The Company's and the Bank's capital and capital ratios at March 31, 2016 and December 31, 2015 were:

			Capital Requirements					
	Actual		Minimum		Minimum with Capital Buffer		Well Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2016								
The Company:								
Tier 1 Leverage Capital (to Average Assets)	$60,086	9.80 %	$24,531	4.00 %	N/A	N/A	N/A	N/A
Common Equity Tier 1 Capital (to Risk Weighted Assets)	52,086	10.03 %	23,361	4.50 %	N/A	N/A	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	60,086	11.57 %	31,148	6.00 %	N/A	N/A	N/A	N/A
Total Capital (to Risk Weighted Assets)	65,341	12.59 %	41,531	8.00 %	N/A	N/A	N/A	N/A
The Bank:								
Tier 1 Leverage Capital (to Average Assets)	$61,027	9.95 %	$24,544	4.00 %	N/A	N/A	$30,679	5.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	61,027	11.79 %	23,296	4.50 %	26,531	5.125 %	33,649	6.50 %
Tier 1 Capital (to Risk Weighted Assets)	61,027	11.79 %	31,061	6.00 %	34,296	6.625 %	41,414	8.00 %
Total Capital (to Risk Weighted Assets)	66,282	12.80 %	41,414	8.00 %	44,650	8.625 %	51,768	10.00 %
December 31, 2015								
The Company:								
	$59,595	9.77 %	$24,401	4.00 %	N/A	N/A	N/A	N/A

Total Capital (to Risk Weighted Assets)								
Common Equity Tier 1 Capital (to Risk Weighted Assets)	51,595	10.04 %	23,119	4.50 %	N/A	N/A	N/A	N/A
Tier 1 Capital (to Risk Weighted Assets)	59,595	11.60 %	30,826	6.00 %	N/A	N/A	N/A	N/A
Tier 1 Capital (to Average Assets)	64,845	12.62 %	41,101	8.00 %	N/A	N/A	N/A	N/A
The Bank:								
Total Capital (to Risk Weighted Assets)	$59,958	9.83 %	$24,393	4.00 %	N/A	N/A	$30,491	5.00 %
Common Equity Tier 1 Capital (to Risk Weighted Assets)	59,958	11.72 %	23,029	4.50 %	N/A	N/A	33,265	6.50 %
Tier 1 Capital (to Risk Weighted Assets)	59,958	11.72 %	30,706	6.00 %	N/A	N/A	40,941	8.00 %
Tier 1 Capital (to Average Assets)	65,207	12.74 %	40,941	8.00 %	N/A	N/A	51,177	10.00 %

Under the final capital rules that became effective on January 1, 2015, there was a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement is being phased in over three years beginning in 2016. We have included the 0.625% increase for 2016 in our minimum capital adequacy ratios in the table above. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. Management believes that, as of March 31, 2016, the Company would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if all such requirements were currently in effect.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Note 12: Fair Value and Interest Rate Risk

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. A fair value hierarchy has been established that prioritizes the inputs used to measure fair value, requiring entities to maximize the use of observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs generally require significant management judgment.

The three levels within the fair value hierarchy are as follows:

Level 1- Unadjusted quoted market prices for identical assets or liabilities in active markets that the entity has the ability to access at the measurement date (such as active exchange-traded equity securities and certain U.S. and government agency debt securities).

Level 2- Observable inputs other than quoted prices included in Level 1, such as:
quoted prices for similar assets or liabilities in active markets (such as U.S. agency and government sponsored mortgage-backed securities)
quoted prices for identical or similar assets or liabilities in less active markets (such as certain U.S. and government agency debt securities, and corporate and municipal debt securities that trade infrequently)
Other inputs that are observable for substantially the full term of the asset or liability (i.e. interest rates, yield curves, prepayment speeds, default rates, etc.)

Level 3- Valuation techniques that require unobservable inputs that are supported by little or no market activity and are significant to the fair value measurement of the asset or liability (such as pricing and discounted cash flow models that typically reflect management's estimates of the assumptions a market participant would use in pricing the asset or liability).

A description of the valuation methodologies used for assets and liabilities recorded at fair value, and for estimating fair value for financial and non-financial instruments not recorded at fair value, are set forth below.

Cash and due from banks, federal funds sold, short-term investments and accrued interest receivable and payable: The carrying amount is a reasonable estimate of fair value and accordingly these are classified as Level 1. These financial instruments are not recorded at fair value on a recurring basis.

Available-for-Sale Securities: The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Other Investments: The Bank's investment portfolio includes the Solomon Hess SBA Loan Fund totaling $4.5 million. This investment is utilized for the purposes of the Bank satisfying its CRA lending requirements. As this fund operates as a private fund, shares in the Fund are not publicly traded and therefore have no readily determinable market value. An investment in the Fund is reported in the financial statements at cost, as adjusted for income, losses, and cash distributions attributable to the investment.

Loans: For variable rate loans, which reprice frequently and have no significant change in credit risk, carrying values are a reasonable estimate of fair values, adjusted for credit losses inherent in the portfolios. The fair value of fixed rate loans is estimated by discounting the future cash flows using the period end rates, estimated by using local market data, at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for credit losses inherent in the portfolios. As estimates are dependent on management's observations, loans are classified as Level 3. The Company does not record loans at fair value on a recurring basis. However, from time to time, nonrecurring fair value adjustments to collateral-dependent impaired loans are recorded to reflect partial write-downs based on the observable market price or current appraised value of collateral. Fair values estimated in this manner do not fully incorporate an exit-price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Other Real Estate Owned: The fair value of OREO properties the Company may obtain is based on the estimated current property valuations less estimated selling costs. When the fair value is based on current observable appraised values, OREO is classified within Level 2. The Company classifies the OREO within Level 3 when unobservable adjustments are made to appraised values. The Company does not record other real estate owned at fair value on a recurring basis.

Deposits: The fair value of demand deposits, regular savings and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit and other time deposits is estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities, estimated using local market data, to a schedule of aggregated expected maturities on such deposits. The Company does not record deposits at fair value on a recurring basis.

Junior Subordinated Debt: Junior subordinated debt reprices quarterly and as a result the carrying amount is considered a reasonable estimate of fair value. The Company does not record junior subordinated debt at fair value on a recurring basis.

Federal Home Loan Bank Borrowings: The fair value of the advances is estimated using a discounted cash flow calculation that applies current Federal Home Loan Bank interest rates for advances of similar maturity to a schedule of maturities of such advances. The Company does not record these borrowings at fair value on a recurring basis.

Off-balance sheet instruments: Fair values for the Company's off-balance-sheet instruments (lending commitments) are based on interest rate changes and fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The Company does not record its off-balance-sheet instruments at fair value on a recurring basis.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following table details the financial assets measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine fair value:

(in thousands)	**Quoted Prices in Active Markets for Identical Assets**	**Significant Observable Inputs**	**Significant Unobservable Inputs**	**Balance as of**
March 31, 2016	**(Level 1)**	**(Level 2)**	**(Level 3)**	**March 31, 2016**
U.S. Government agency bonds	$ -	$ 4,989	$ -	$4,989
U.S. Government agency mortgage- backed securities	-	12,849	-	12,849
Corporate bonds	-	8,897	-	8,897
Subordinated Notes	-	2,000	-	2,000
Securities available for sale	$ -	$ 28,735	$ -	$28,735

	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	Balance as of
December 31, 2015	(Level 1)	(Level 2)	(Level 3)	December 31, 2015
U.S. Government agency bonds	$ -	$ 4,954	$ -	$ 4,954
U.S. Government agency mortgage- backed securities	-	13,413	-	13,413
Corporate bonds	-	9,010	-	9,010
Subordinated Notes	-	2,000	-	2,000

Securities available for sale	$ -	$ 29,377	$ -	$ 29,377

There were no transfers of assets between levels 1, 2 or 3 as of March 31, 2016 or December 31, 2015. Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The following reflects financial assets measured at fair value on a non-recurring basis as of March 31, 2016 and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized:

(in thousands) **Asset Description**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance**
March 31, 2016				
Impaired loans	**$ -**	**$ -**	**$ 2,240**	**$ 2,240**
December 31, 2015				
Impaired loans	$ -	$ -	$ 363	$ 363

(dollars in thousands) **Asset Description**	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**		
	Quantitative Information about Level 3 Fair Value Measurements					
March 31, 2016						
Impaired loans	**$2,240**	Appriased Value of Collateral (1)	Liquidation Costs (2)	14%- 23%	(16%)	(3)
December 31, 2015						
Impaired loans	$363	Appraised Value of Collateral (1)	Liquidation Costs (2)	8%	(8%)	(3)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.

(2)

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The Company discloses fair value information about financial instruments, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate that value. Certain financial instruments are excluded from disclosure requirements and, accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The estimated fair value amounts have been measured as of March 31, 2016 and December 31, 2015 and have not been reevaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair value of these financial instruments subsequent to the respective reporting dates may be different than amounts reported on those dates.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

The information presented should not be interpreted as an estimate of the fair value of the Company since a fair value calculation is only required for a limited portion of the Company's assets and liabilities. Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other bank holding companies may not be meaningful.

The following is a summary of the carrying amounts and estimated fair values of the Company's financial instruments not measured and not reported at fair value on the consolidated balance sheets at March 31, 2016 and December 31, 2015:

		March 31, 2016		December 31, 2015	
(in thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:					
Cash and noninterest bearing balances due from banks	Level 1	$2,931	$2,931	$2,588	$2,588
Interest-bearing deposits due from banks	Level 1	64,075	64,075	82,812	82,812
Other investments	Level 2	4,450	4,450	4,450	4,450
Federal Reserve Bank stock	Level 2	2,099	2,099	2,075	2,075
Federal Home Loan Bank stock	Level 2	6,570	6,570	6,570	6,570
Loans receivable, net	Level 3	479,936	481,893	479,127	478,160
Accrued interest receivable	Level 2	2,075	2,075	2,010	2,010
Financial Liabilities:					
Demand deposits	Level 2	$79,483	$79,483	$85,065	$85,065
Savings deposits	Level 2	120,051	120,051	108,658	108,658
Money market deposits	Level 2	19,007	19,007	19,522	19,522
NOW accounts	Level 2	28,913	28,913	28,684	28,684
Time deposits	Level 2	145,010	144,775	156,964	156,363
Brokered Deposits	Level 1	33,173	33,177	48,154	48,062
FHLB Borrowings	Level 2	134,900	134,900	132,000	131,903
Subordinated debentures	Level 2	8,248	8,248	8,248	8,248
Note Payable	Level 3	1,893	1,829	1,939	1,904
Accrued interest payable	Level 2	586	586	532	532

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent possible to mitigate interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

Off-balance sheet instruments

Loan commitments on which the committed interest rate is less than the current market rate were insignificant at March 31, 2016 and December 31, 2015. The estimated fair value of fee income on letters of credit at March 31, 2016 and December 31, 2015 was also insignificant.

Note 13: Recent Accounting Pronouncements

Recently Issued Accounting Standards Updates

ASU 2014-09: In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40)." The purpose of this guidance is to clarify the principles for recognizing revenue. The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, early adoption of the update will be effective for interim and annual periods beginning after December 15, 2016. For public companies that elect to defer the update, adoption will be effective for interim and annual periods beginning after December 15, 2017. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect a material impact. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with customers (Topic 606): Deferral of the Effective Date*. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations. In March, 2016 the FASB issued ASU 2016-08 *Revenue from contracts with customers (Topic 606): Principle versus Agent Considerations.* The guidance in this update is tended to improve the operability and understandability of the implementation guidance on principle versus agent considerations. This update does not change the effective date. The Company is currently evaluating the impact this ASU will have on its financial condition and results of operations.

ASU 2014-14: In August 2014, the FASB issued ASU 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure - a consensus of the FASB Emerging Issues Task Force." The amendments in this Update address a practice issue related to the classification of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that meet certain conditions to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned (OREO). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The ASU was effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. The Company adopted ASU 2014-14 effective January 1, 2015. The adoption of ASU 2014-14 did not have a material effect on the Company's consolidated financial statements.

PATRIOT NATIONAL BANCORP, INC. AND SUBSIDIARY

Notes to consolidated financial statements (Unaudited)

ASU 2016-01: In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments - Overall.* The guidance in this ASU among other things, (1) requires equity investments with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement for public businesses entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (7) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The guidance in this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

ASU 2016-02: In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases.* From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessees. From the lessor's perspective, the new standard requires a lesser to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessor’s for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

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

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained in the Company’s public statements, including this one, and in particular in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may be forward looking and subject to a variety of risks and uncertainties. These factors include, but are not limited to: (1) changes in prevailing interest rates which would affect the interest earned on the Company’s interest earning assets and the interest paid on its interest bearing liabilities; (2) the timing of repricing of the Company’s interest earning assets and interest bearing liabilities; (3) the effect of changes in governmental monetary policy; (4) the effect of changes in regulations applicable to the Company and the Bank and the conduct of its business; (5) changes in competition among financial service companies, including possible further encroachment of non-banks on services traditionally provided by banks; (6) the ability of competitors that are larger than the Company to provide products and services which it is impracticable for the Company to provide; (7) the state of the economy and real estate values in the Company’s market areas, and the consequent effect on the quality of the Company’s loans; (8) recent governmental initiatives that are expected to have a profound effect on the financial services industry and could dramatically change the competitive environment of the Company; (9) other legislative or regulatory changes, including those related to residential mortgages, changes in accounting standards, and Federal Deposit Insurance Corporation (“FDIC”) premiums that may adversely affect the Company; (10) the application of generally accepted accounting principles, consistently applied; (11) the fact that one period of reported results may not be indicative of future periods; (12) the state of the economy in the greater New York metropolitan area and its particular effect on the Company's customers, vendors and communities and other such factors, including risk factors, as may be described in the Company’s other filings with the SEC.

Although the Company believes that it offers the loan and deposit products and has the resources needed for continued success, future revenues and interest spreads and yields cannot be reliably predicted. These trends may cause the Company to adjust its operations in the future. Because of the foregoing and other factors, recent trends should not be considered reliable indicators of future financial results or stock prices.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates. Management has identified the accounting for the allowance for loan losses, the analysis and valuation of its investment securities and the valuation of deferred tax assets, as the Company’s most critical accounting policies and estimates in that they are important to the portrayal of the Company’s financial condition and results of operations.

They require management's most subjective and complex judgment as a result of the need to make estimates about the effect of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Management's Discussion and Analysis.

Summary

The Company reported net income for the first quarter of 2016 of $653,000 ($0.17 basic and $0.16 diluted income per share) compared to net income of $289,000 ($0.07 basic and diluted income per share) for the quarter ended March 31, 2015. On a pre-tax basis, the Company earned $1.1 million, for the three month period ended March 31, 2016. The pre-tax earnings represent an increase of $581,000, or 119%, over the comparable three month period ended March 31, 2015.

Total assets decreased $17.8 million, or 2.7%, from $653.5 million at December 31, 2015 to $635.8 million at March 31, 2016.

Cash and cash equivalents decreased $18.4 million from $85.4 million at December 31, 2015 to $67.0 million at March 31, 2016.
The net loan portfolio increased $809,000, or 0.2%, from $479.1 million at December 31, 2015 to $479.9 million at March 31, 2016.
Premises and equipment, net increased by $369,000. The increase was primarily due to $253,000 construction in process for two new branches in Westport and Stamford, CT. Equipment increased approximately $134,000 for the purchase of new ITMs –interactive teller machines.

Total liabilities decreased $18.6 million from $592.1 million at December 31, 2015 to $573.5 million at March 31, 2016.

Deposits decreased $21.4 million from $447.0 million at December 31, 2015 to $425.6 million at March 31, 2016.
Following historical first quarter trends, non-interest bearing deposits declined by $5.5 million.
Interest bearing deposits decreased $15.9 million, mostly relating to a broker CD deposit of $15 million that matured in March and was replaced in April.
The Company experienced a downtick in money market by $0.5 million and an uptick in savings by $11.3 million, however CD’s declined by $12.0 million.

Equity increased $842,000 from $61.5 million at December 31, 2015 to $62.3 million at March 31, 2016 due to net income of $653,000, a decrease of $35,000 in net unrealized loss on securities, and equity compensation of $154,000.

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Financial Condition

Cash and Cash Equivalents

Cash and cash equivalents decreased $18.4 million, or 21.5%, to $67.0 million at March 31, 2016 compared to $85.4 million at December 31, 2015. The decrease was primarily due to a decrease in brokered deposits of $15.0 million as well as a decline in total retail deposits of $6.4 million.

Investments

The following table is a summary of the Company's available-for-sale securities portfolio, at fair value, at the dates shown:

(dollars in thousands)	March 31, 2016	December 31, 2015	Inc/ (Dec)	Inc/(Dec) %
U.S. Government Agency bonds	$4,989	$4,954	$35	0.7%
U.S. Government Agency mortgage- backed securities	12,849	13,413	(564)	(4.2)
Corporate bonds	8,897	9,010	(113)	(1.3)
Subordinated Notes	2,000	2,000	-	-
Total Available-for-Sale Securities	$28,735	$29,377	$(642)	(2.2%)

Available-for-sale securities decreased $642,000, or 2.2%, from $29.4 million at December 31, 2015 to $28.7 million at March 31, 2016. This decrease was primarily due to principal pay downs of $666,000 and premium amortization of $32,000 on mortgage backed securities partially offset by an increase of $56,000 in gross unrealized security gains.

Loans

The following table is a summary of the Company's loan portfolio at the dates shown:

(in thousands)	March 31, 2016	December 31, 2015	Inc (Dec)	Inc/(Dec) %
Commercial and Industrial	$61,027	$59,752	$1,275	2.1 %
Commercial Real Estate	243,823	245,828	(2,005)	(0.8%)
Construction	21,748	15,551	6,197	39.8
Construction to permanent- CRE	3,638	4,880	(1,242)	(25.5)
Residential	108,111	110,837	(2,726)	(2.5)
Consumer/Other	46,836	47,521	(685)	(1.4)
Total Loans	485,183	484,369	814	0.2
Allowance for loan losses	(5,247)	(5,242)	(5)	0.1
Loans receivable, net	$479,936	$479,127	$809	0.2 %

The Company's net loan portfolio increased $809,000, or 0.2%, from $479.1 million at December 31, 2015 to $479.9 million at March 31, 2016, as a result of originations in excess of significant loan payoffs. The increase was primarily due to loan originations in commercial and industrial and construction loans, which are offset by a decrease in residential loans. The Company exited the residential mortgage business in 2013 and does not aggressively market consumer loans.

At March 31, 2016, the net loan to deposit ratio was 113% and the net loan to total assets ratio was 75%. At December 31, 2015, these ratios were 107% and 73%, respectively.

Allowance for Loan Losses

The allowance for loan losses increased $5,000, from December 31, 2015 to March 31, 2016 due to net recoveries during the three months ended March 31, 2016 of $5,000.

The changes in the allowance for loan losses for the periods shown are as follows:

(dollars in thousands)	Three months ended March 31, 2016	March 31, 2015
Balance at beginning of period	$5,242	$4,924
Charge-offs	(5)	(10)
Recoveries	10	29
Net Recoveries (Charge-offs)	5	19
Provision for loan losses	-	250
Balance at end of period	$5,247	$5,193
Annualized net charge-offs during the period to average loans outstanding	0.00 %	-0.02 %
Ratio of ALL / Gross Loans	1.08 %	1.04 %
Ratio of ALL / Non-accrual loans	97.0 %	1028.3%

The overall credit quality of the loan portfolio continues to be strong and stable. Based upon the overall assessment and evaluation of the loan portfolio at March 31, 2016, management believes the allowance for loan losses of $5.2 million, which represents 1.08% of gross loans outstanding, is adequate under prevailing economic conditions to absorb existing losses in the loan portfolio.

Non-Accrual, Past Due and Restructured Loans

The following table presents non-accruing loans and loans past due 90 days or more and still accruing:

(dollars in thousands)	March 31, 2016	December 31, 2015
Loans past due over 90 days and still accruing	$-	$ 2,046
Non-accruing loans	5,409	1,593
Total	$5,409	$ 3,639
% of Total Loans	1.11 %	0.75 %

% of Total Assets	0.85 %	0.56 %

The $5.4 million of non-accrual loans at March 31, 2016 is comprised of 4 relationships, for which a specific reserve of $739,000 has been established. The non-accrual increase of $3.8 million from December 31, 2015 is related to two commercial loans with the same borrower and not indicative of a credit quality trend within the portfolio. As this relationship moved to non-accrual status, the loan loss allocation tied to other loans that were no longer considered criticized were then reallocated to this new non-accrual relationship.

The Company has obtained appraisal reports from independent licensed appraisal firms and discounted those values for estimated selling costs to determine estimated impairment.

The $1.6 million of non-accrual loans at December 31, 2015 was comprised of 3 borrowers, for which a specific reserve of $3,000 had been established.

Other Real Estate Owned

There was no real estate owned at March 31, 2016 and December 31, 2015. During the three months ended March 31, 2016 and during the twelve months ended December 31, 2015, there was no OREO activity.

Deferred Taxes

Deferred tax assets decreased $408,000 from $13.8 million at December 31, 2015 to $13.4 million at March 31, 2016. This decrease was primarily due to the utilization of net operating loss carry forwards applied to the tax liability on current year taxable income, in addition to a reduction in the deferred taxes on net unrealized security losses.

The Company 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.

Deposits

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

(dollars in thousands)	March 31, 2016	December 31, 2015	Inc/(Dec)	Inc/(Dec)%
Non-interest bearing	$79,483	$85,065	$(5,582)	(6.6%)
Interest bearing				
NOW	28,913	28,684	229	0.8
Savings	120,051	108,658	11,393	10.5
Money market	19,007	19,522	(515)	(2.6)
Time certificates, less than $250,000	128,490	139,455	(10,965)	(7.9)
Time certificates, $250,000 or more	16,520	17,509	(989)	(5.6)
Brokered Deposits	33,173	48,154	(14,981)	(31.1)
Total interest bearing	346,154	361,982	(15,828)	(4.4)
Total Deposits	$425,637	$447,047	$(21,410)	(4.8%)

Deposits decreased $21.4 million from $447.0 million at December 31, 2015 to $425.6 million at March 31, 2016. This decrease was primarily due to decrease in brokered deposits of $15.0 million, non-interest bearing deposits of $5.5 million and time certificates deposits of $12.0 million offset by an increase in Now and savings deposit balances of $11.6 million. The Company typically experiences a growth in non-interest bearing deposits in the last three months of the year followed by a decline in the same deposit products the following quarter.

Borrowings

Total borrowings were $145.0 million at March 31, 2016 and were comprised of $134.9 million in Federal Home Loan Bank ("FHLB") advances, $8.2 million in junior subordinated debentures and $1.9 million in note payable.

The FHLB advances had a weighted average rate of 0.36%. All had remaining maturities ranging between 6 days to 5 years.

The subordinated debentures of $8.2 million are unsecured obligations of the Company and are subordinate and junior in right of payment to all present and future senior indebtedness of the Company. These obligations qualify as Tier 1 capital. The Company has entered into a guarantee, which together with its obligations under the subordinated debentures and the declaration of trust governing the Trust provides a full and unconditional guarantee of the capital securities. The subordinated debentures, which bear interest at three-month LIBOR plus 3.15% (3.78% at March 31, 2016), mature on March 26, 2033.

The trust has an early redemption feature at the Company's option exercisable on a quarterly basis.

In the third quarter of 2015, the Company entered into note payable in amount of $2.0 million for purchase of its Fairfield, CT. branch which was formally leased. The note has a ten-year term and bears interest at a fixed rate of 1.75%.

Equity

Equity increased $842,000 from $61.5 million at December 31, 2015 to $62.3 million at March 31, 2016 due to net income of $653,000, a decrease of $35,000 in net unrealized loss on securities, and equity compensation of $154,000.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements, which primarily consist of commitments to lend, increased by $0.8 million from $86.2 million at December 31, 2015 to $87.0 million at March 31, 2016.

RESULTS OF OPERATIONS

Net Interest Income

The following table presents average balance sheets (daily averages), interest income, interest expense and the corresponding yields earned and rates paid:

	Three months ended March 31,					
	2016			2015		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Interest earning assets:						
Loans	$485,359	$ 5,840	4.83 %	$491,118	$ 5,546	4.58 %
Investments	42,201	228	2.17 %	46,370	173	1.51 %
Cash Equivalents	51,524	41	0.32 %	52,803	29	0.22 %
Total interest earning assets	579,083	6,109	4.23 %	590,291	5,748	3.95 %
Cash and due from banks	3,027			2,675		
Premises and equipment, net	29,633			22,592		
Allowance for loan losses	(5,245)			(4,932)		
Other assets	17,027			18,293		
Total Assets	$623,525			$628,919		
Interest bearing liabilities:						
Deposits	$358,871	$ 473	0.53 %	$374,850	$ 529	0.57 %
Borrowings	113,823	121	0.43 %	120,000	71	0.24 %
Subordinated debt	8,248	82	3.97 %	8,248	71	3.49 %
Note Payable	1,923	8	1.76 %	-	-	-
Total interest bearing liabilities	482,865	684	0.57 %	503,098	671	0.54 %
Demand deposits	75,471			63,490		
Accrued expenses and other liabilities	2,798			2,988		
Shareholders' equity	62,391			59,343		
Total liabilities and equity	$623,525			$628,919		
Net interest income		$ 5,425			$ 5,077	
Interest margin			3.76 %			3.49 %
Interest spread			3.66 %			3.41 %

The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-bearing assets and interest-bearing liabilities:

	Three months ended March 31,		
	2016 vs 2015 Increase (decrease)		
	due to change in		
(dollars in thousands)	Volume	Rate	Total
Interest earning assets:			
Loans	$(56)	$350	$294
Investments	(16)	71	55
Cash Equivalents	(1)	13	12
Total interest earning assets	(73)	434	361
Interest bearing liabilities:			
Deposits	$(23)	$(33)	$(56)
Borrowings	(11)	61	50
Subordinated debt	-	11	11
Note Payable	8	-	8
Total interest bearing liabilities	(26)	39	13
Net interest income	$(47)	$395	$348

For the quarter ended March 31, 2016, net interest income was $5.4 million, an increase of $348,000 or 6.9% from net interest income of $5.1 million for the quarter ended March 31, 2015. Interest income increased $361,000 between these two periods. Most of this increase was related to achieving a higher rate of return on loans and investments.

The interest expense increase of $13,000 for the quarter ended March 31, 2016 consisted of an increase in FHLB and Note Payable expense of $58,000 and an increase to interest expense on subordinated debt of $11,000. These increases were partially offset by a decrease in interest expense on deposits of $56,000.

The decrease in interest expense on deposits was primarily due to maturity and roll off of higher rate time deposits and replacement of these with lower rate deposit products. The total quarterly cost of deposits decreased from 0.57% in the quarter ended March 31 2015 to 0.53% in quarter ended March 31, 2016.

Interest expense on FHLB borrowings increased due to an increase in the average rate of borrowings. The increase was partially offset by a $6.2 million decrease of average FHLB borrowings, outstanding.

The Company entered into a note payable for the purchase of its Fairfield CT property during the third quarter of 2015, generating additional interest expense of $8,000 in the quarter ended March 31, 2016.

Net interest margin for the quarter ended March 31, 2016 was 3.76% as compared to 3.49% for the quarter ended March 31, 2015. The increase in margin was primarily due to increased asset yields.

Provision for Loan Losses

No addition to the allowance for loan losses was recorded in the quarter ended March 31, 2016. Provision for loan losses of $250,000 was recorded in the quarter ended March 31, 2015, based on management's evaluation of the adequacy of the allowance for loan losses. Throughout 2015, loan originations were partially offset by loan payoffs. Overall, the credit quality of the loan portfolio is strong as the overall risk rating for the portfolio has improved which has enabled the Company to maintain its loan loss reserve level with no additional provision requirements for the three months ended March 31, 2016 and remainder of 2015. An analysis of the changes in the allowance for loan losses is presented under "Allowance for Loan Losses."

Non-interest income

Non-interest income increased $16,000 from $394,000 for the quarter ended March 31, 2015 to $410,000 for the quarter ended March 31, 2016. Loan application, inspection and processing fees increased by $17,000 and rental income increased by $15,000. This was offset by a $23,000 decrease to deposit fees.

Non-interest expense

Non-interest expense increased $33,000 or 0.7%, from $4.7 million for the quarter ended March 31, 2015 to $4.8 million for the quarter ended March 31, 2016. The increase was primarily due to higher compensation expense. Total compensation increased $206,000 primarily due to personnel increases to support the Company's continued growth. This increase was offset by a reduction in occupancy and equipment expense of $175,000 primarily due to reduced operating lease expense as compared to the first quarter of 2015. This is due to the termination of leases and replacement of leased branches and office space with purchased property.

Expense reduction initiatives were also evident in professional services as $160,000 in cost savings benefited the first quarter of 2016 due to contract renegotiation and new service providers.

Liquidity

The Company’s liquidity ratio was 14.22% at March 31, 2016 compared to 16.4% at December 31, 2015. The liquidity ratio is defined as the percentage of liquid assets to total assets. The following categories of assets, as described in the accompanying consolidated balance sheets, are considered liquid assets: cash and due from banks, federal funds sold, short-term investments and unpledged available-for-sale securities. Liquidity is a measure of the Company’s ability to generate adequate cash to meet financial obligations. The principal cash requirements of a financial institution are to cover downward fluctuations in deposit accounts and increases in its loan portfolio. Management believes the Company’s short-term assets provide sufficient liquidity to satisfy loan demand, cover potential fluctuations in deposit accounts and to meet other anticipated and unanticipated cash requirements.

Capital

The following table illustrates the Company’s regulatory capital ratios at March 31, 2016 and December 31, 2015 respectively:

Patriot Bank, N.A

	March 31, 2016		December 31, 2015	
Tier 1 Leverage Capital	9.80	%	9.77	%
Common Equity Tier 1 Capital	10.03	%	10.04	%
Tier 1 Risk-based Capital	11.57	%	11.60	%
Total Risk-based Capital	12.59	%	12.62	%

The following table illustrates the Bank’s regulatory capital ratios at March 31, 2016 and December 31, 2015 respectively:

Patriot Bank, N.A

	March 31, 2016		December 31, 2015	
Tier 1 Leverage Capital	9.95	%	9.83	%
Common Equity Tier 1 Capital	11.79	%	11.72	%
Tier 1 Risk-based Capital	11.79	%	11.72	%
Total Risk-based Capital	12.80	%	12.74	%

The implementation of the Basel III final framework commenced on January 1, 2015, for both the Company and the Bank. The new regulations have changed the ratio calculations, resulting in an initial decline upon adoption. Amongst other provisions, Basel III increased some asset risk weightings, introduced a new capital measure “Common Equity Tier 1” and will increase capital ratio requirements during a phase in period from January 1, 2015 to January 1, 2019. Under the final capital rules, there was a requirement for a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. The minimum required ratios per Basel III for 2015 and 2019 are:

	January 01, 2015	January 01, 2019
Tier 1 Leverage Capital	5.00 %	5.00 %
Common Equity Tier 1 Capital	6.50 %	7.00 %
Tier 1 Risk-based Capital	8.00 %	8.50 %
Total Risk-based Capital	10.00 %	10.50 %

Both the Company's and the Bank's current capital ratios exceed the fully phased in minimum capital ratios of Basel III.

IMPACT OF INFLATION AND CHANGING PRICES

The Company’s consolidated financial statements have been prepared in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution’s performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the prices of goods and services. Notwithstanding this, inflation can directly affect the value of loan collateral, in particular, real estate. Inflation, deflation or disinflation could significantly affect the Company’s earnings in future periods.

MANAGEMENT CHANGES

Appointment of Executive Officer

On January 5, 2016, Neil M. McDonnell was appointed as Chief Financial Officer of the Company and Patriot Bank, National Association, a wholly owned subsidiary of the Company (the “Bank” and together with the Company, “Patriot”) Mr. McDonnell, had been serving as Executive Vice President, Finance of Patriot since December 9, 2015, and was a consultant to Patriot from October 5, 2015 through December 8, 2015.

Resignation of Executive Officer

On January 5, 2016, Christina L. Maier resigned from Patriot National Bancorp, Inc. (the “Company”) for personal reasons, as Chief Financial Officer of the Company and Patriot Bank, National Association, a wholly owned subsidiary of the Company (the “Bank” and together with the Company, “Patriot”). Ms. Maier resigned, also for personal reasons, as of April 30, 2016, from her position as Executive Vice President of Patriot.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the sensitivity of income to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices and other market-driven rates or prices. The Company’s market risk is primarily limited to interest rate risk.

The Company’s goal is to maximize long term profitability while minimizing its exposure to interest rate fluctuations. The first priority is to structure and price the Company’s assets and liabilities to maintain an acceptable interest rate spread while reducing the net effect of changes in interest rates. In order to accomplish this, the focus is on maintaining a proper balance between the timing and volume of assets and liabilities re-pricing. One method of achieving this balance is to originate variable rate loans for the portfolio and purchase short-term investments to offset the increasing short term re-pricing of the liability side of the balance sheet. In fact, a number of the interest-bearing deposit products have no contractual maturity. Therefore, deposit balances may run off unexpectedly due to changing market conditions. Additionally, loans and investments with longer term rate adjustment frequencies can be matched against longer term deposits and borrowings to lock in a desirable spread.

The exposure to interest rate risk is monitored by the Management Asset and Liability Committee consisting of senior management personnel. The Committee reviews the interrelationships within the balance sheet to maximize net interest income within acceptable levels of risk. This Committee reports to the Board of Directors. In addition to the Management Asset and Liability Committee, there is a Board Asset and Liability Committee (“ALCO”), which meets at least quarterly. ALCO monitors the interest rate risk analyses, reviews investment transactions during the period and determines compliance with the Company, ALCO and Liquidity policies.

Management analyzes the Company's interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation and GAP analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest sensitive." An asset or liability is said to be interest sensitive within a specific time period if it will mature or reprice within that time period.

Management's goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to ALCO. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. Changes to these assumptions can significantly affect the results of the simulations. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates.

Simulation analysis is only an estimate of the Company's interest rate risk exposure at a particular point in time. Management regularly reviews the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth examples of changes in estimated net interest income and the estimated net portfolio value based on projected scenarios of interest rate increases and decreases. The analyses indicate the rate risk embedded in the Company's portfolio at the dates indicated should all interest rates instantaneously rise or fall. The results of these changes are added to or subtracted from the base case; however, there are certain limitations to these types of analyses. Rate changes are rarely instantaneous and these analyses may therefore overstate the impact of short-term repricings. As a result of the historically low interest rate environment, the calculated effects of the 100 and 200 basis point downward shocks cannot absolutely reflect the risk to earnings and equity since the interest rates on certain balance sheet items have approached their minimums and therefore, it is not possible for the analyses to fully measure the true impact of these downward shocks.

Net Interest Income and Economic Value
Summary Performance
(dollars in thousands)

	March 31, 2016					
	Net Interest Income			Net Portfolio Value		
Projected Interest Rate Scenario	Estimated Value	$ Change from Base	% Change from Base	Estimated Value	$ Change from Base	% Change from Base
+ 200	21,133	39	0.2 %	89,664	(1,913)	-2.1 %
+ 100	21,234	141	0.7 %	90,551	(1,026)	-1.1 %
BASE	21,094	-	-	91,577	-	-
- 100	20,887	(207)	-1.0 %	93,180	1,603	1.7 %
- 200	20,822	(272)	-1.3 %	96,231	4,654	5.1 %